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Here we go. We went a whole two FOMC meetings without the media labeling them something like, "the most important Fed meeting ever". That was a whole 12 week respite. But fear not, there is widespread labeling today that there has never been a more important FOMC meeting than the one ending today at 2:00 pm. Before I begin to unpack today and what lies ahead, I want to extend a thank you for the support I have received since my accident. I feel great and I am healing way ahead of schedule. It's been nothing short of miraculous. I am one lucky guy.

Model for the Day

As with every Fed statement day, 90% of the time stocks stay in a plus or minus .50% range until 2pm before the fireworks take place. I fully expect that to be the case today. Besides that, there is also a strong trend for stocks to close the day higher. Finally, the other strong trend is to see stocks surge between 2 pm and 4 pm. Given the strong rally in stocks over the last 5 and 10 days, the trends should be somewhat muted.

No Rate Hike Today. July on the Table

The FOMC is not cutting interest rates today. I know the media has played up the possibility, but the market has only priced in a 20% chance of a cut and few are really expecting any action. Shockingly, at least to me, the market has priced in an 80% chance of a rate cut at the end of July. Right now, I don't see it.

While the Fed supposedly doesn't use the stock market as an interest rate guide, the stock market is now just about 1% from all-time highs, certainly not in need of rescue like it did in December. Economic data has been mixed. The most recent employment report was weak, but retail sales have had a bit of a resurgence. Housing continues its struggle from what was (no longer) higher mortgage rates and the capping of state and local tax (SALT). However, consumer sentiment and confidence has rallied yet again. The demise of the consumer seems to have been greatly exaggerated, at least so far.

Adding all of the preceding up, I find it very hard to argue for lower interest rates. Now, we all know there is more than just what I mentioned. The FOMC had been raising rates as GDP strengthened. GDP is now tailing off a bit. The FOMC had been concerned about inflation that hasn't materialized at all in over 10 years. There is no present worry about inflation, either at the core or including "volatile" food and energy.

Europe's economy is weakening to the point of needing stimulus from the European Central Bank. China's economy has been severely hurt by U.S. tariffs. Some will argue that the U.S. economy can't continue as an oasis in an otherwise recessionary desert. If the Fed moves to rate cut alert, it would be doing so purely as insurance and not based on their Congressional mandate of maximum employment and price stability.

What to Expect in the Statement

Overall, it is widely expected that the message from Powell & Co. will be dovish. In other words, the Fed should move the message towards an interest rate cut without actually doing one. As with every FOMC meeting, pundits and the computer algorithms will quickly parse Jay Powell's statement for material changes from the last meeting. It is widely expected that the FOMC will remove the word "patience" from its statement. Yes, I know. It's hard to believe that the markets will hang in the balance for the removal of a single word in the statement. Analysts will also quickly turn to the "dot plot", an anonymous forecast, FOMC member by FOMC member, of where they forecast the Federal Funds Rate to be in the future.

And Then There's Trump

Everyone knows that this presidency has been different and unique from all others. Regarding the Fed, President Trump has certainly tossed aside all historical norms. Until Trump, the President did not comment about the Fed, its chair or its policies out of respect for its independence and for fear of rattling the global markets. We now know the latter has been debunked. Donald Trump has been a very vocal critic of Jay Powell and the Fed's policies, even though the President chose Powell to lead the Fed. Frankly, I find it very uncomfortable that the President criticizes Powell and the Fed or even speaks about them at all. I don't think that's healthy. But I don't get a vote in that regard.

Some have wrongly speculated that the last rate hike in 2018 was some sort of payback by Powell and the Fed to Trump. I find that to be absolute nonsense. Why would the body responsible for the economy do intentional harm? They wouldn't. Lately, there has been talk of Powell being demoted or terminated as chair. I rate that as very unlikely.

The Fed also has to deal with what I have affectionately referred as the Trump Tariff Tantrum. As I have written since day one, no one wins a trade war. Some just lose less. The on again, off again tariff war with mainly China has put the Fed in a difficult position. If all threatened tariffs proceed ahead, then you can certainly make the argument that an insurance rate cut or even two makes perfect sense. If a deal is reached with China, then the economy should see a small bump higher.

Mild Recession Coming by the Election

Whatever happens, one thing is almost a certainly. The Fed will not forecast the next recession.

WHY?

Because in the history of the Federal Reserve, the Fed has never, ever accurately predicted the next recession. They are perfectly in their incompetence! You could also argue that secretly they really do see problems coming down the road, but could never telegraph that publicly for fear of upsetting the markets. This is the argument I fall on the floor laughing my head off.

The Fed is almost always late. 1995 was the exception and they threaded the needle. For years, I have criticized them for raising rates and selling assets. I thought it would fertilize the landscape for recession. The tax cuts forestalled that, but the next recession is coming, but to be fair, it's always coming. I continue to believe that a mild recession will begin before the election. For sure, it will be interesting to see if the Fed begins a rate cut cycle and that somehow pushes recession out for years. I don't have strong confidence, but I will certainly root for that to be the case.

Housing remains very challenging with what was higher mortgage rates, millennial behavior changes and the capping of state and local taxes at $10,000 from the 2017 tax cuts. Credit card and auto delinquencies remain elevated in the face of the good economy. The tariffs are the big question mark. A full-fledged tariff war with a teetering economy could tip us over. The next 17 months into the election are going to be interesting and full of "fun".

Stocks Set to Burst to New Highs Before Declining

Since the last Fed meeting, the stock market has gone essentially nowhere. In between, we saw a 7% decline and roughly the same rally. Both seem to have been strongly influenced by the Fed and the tariffs to a lesser degree. My long-term message remains unchanged. The bull market is alive and reasonably well. Dow 27,000 should be seen sooner than later with a chance at 30,000 by Q1 2020. Higher stock prices will make it more challenging for the Fed to cut rates.

Over the intermediate-term, I have a small but growing list of concerns that is causing me to shift from buying the dip to selling the rally. Stocks are positioned to see one more burst higher to new highs on the Dow and S&P 500. The NASDAQ 100 may also follow suit, but I doubt the S&P 400 and Russell 2000 will. If we do see that surge to new highs, I think it happens right here. The worst thing for stocks would be a quick push higher post 2 pm today and then a decline with a close near the lows for the day. That could set stocks up for another single digit pullback.

Semiconductors are not leading. Neither are transports. Banks continue to look very appealing to me, but they are not leading yet. Only consumer discretionary is in a leadership position from my key group. High yield bonds are acting well, but they could be stronger, especially of late. Very importantly for the sustainability of the bull market, the New York Stock Exchange Advance/Decline Line which you can see in the second chart below, continues to make new high after new high. Bull markets do not end with behavior like this. There is widespread participation in the rally, even though it's not perfect, or at least not yet.

With stocks rallying sharply into the FOMC meeting, there is certainly a chance of selling the news or disappointing. There is also a chance that stocks surge and then fall. The only scenario which seems unlikely right here is for stocks to blast off, unabated. That path would definitely catch me off guard. After today concludes, it's also one road I will need to do work on to figure out how to best navigate.

To Your Financial Success,

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