Rodney's Take

August 29, 2022

What Do You Want for Nothing—a Rubber Biscuit?

Okay, that's from a 1956 doo-wop song by The Chips (remade by the Blues Brothers in 1978), but it fits. Fed Chair Powell's statement on Friday was, as expected, a nothingburger, just not the one that the markets wanted. He gave the markets about the only message he could: *We're not sure we broke the economy, and we can't really fix it. The Fed doesn't control oil prices set by oligarchs on the other side of the planet and can't make the supply chains jump back in line, but we have to keep up this charade of power, so the brain trust will raise rates to do…* What? Who knows.

Yes, the Fed will squeeze the pipeline for borrowed money a bit, which will put pressure on residential housing, but anyone looking for a rental these days will tell you that the tenant market isn't the place to wait out high prices. And what about those interest rates? Bank of America still pays 0.10% on deposits to the peasants and 0.40% to preferred members. With inflation at 8.5%, excuse us if we don't take them seriously. The Fed ruined price discovery in 2008 when it started paying interest on excess reserves (which means that now the banks don't need our money) and never looked back. That genie is not going back in the bottle.

Now is the time to get anxious. The Fed wants to slow the economy, but there's no real "rampant demand" market to target. Housing is ahead of itself, but pandemic-fueled buying coupled with COVID cash and a 3.5-million-unit shortage will do that. They don't have a plan, beyond demand destruction. If you live paycheck to paycheck or close to it, this is going to hurt.

Next month, the central bankers will ramp up their balance sheet reduction program from $47.5 billion per month to $95 billion per month. I'd take more notice if they weren't pushing $2.3 trillion out the door in reverse repos that pay banks and other institutions to do nothing more than sit on cash. You can't seriously think that wiping away $95 billion in demand from maturing bonds at the Fed will put a dent in a money scheme that lets people lever up trillions when they feel like it. This is the best casino in town. If you have enough cash, you always win.

But, back to equities. As I've mentioned, it's hurricane season. In fact, we're just two weeks from peak season and scanning the horizon for the fourth named storm. Remember, it only takes one. With oil under the control of OPEC+, natural gas under the thumb of Putin, and the U.S. economy wondering what the Fed wants to control and how, we could be in for a very bumpy ride in equities.

Buckle up.

Rodney

Got a question or comment? You can contact us at info@hsdent.com