UNBOUNDED WEALTH

Buy the Rumor Sell the News

There's now a 100% probability that the Federal Reserve will cut short-term interest rates in September.

We are in a 'buy the rumor, sell the news' situation. The market is near all-time highs and has had a significant rally since the tariff surge earlier this year. It's been a great run.

What next?

If the Federal Reserve cuts short-term rates by 0.25%, they might be accused of being "behind the curve." If they cut 0.50% — and there's a 10% probability of such a cut — they might get a signal that the economy is weaker than we all think.

Damned if you do. Damned if you don’t.

The good news is that 10-year rates have plummeted. This is a more critical rate than Fed Funds rates, and it's moving in the right direction.

LATEST ON U.S. 10 YEAR TREASURY

Mortgage rates have started to fall. The thing is, does it even matter?

Some people claim there's a housing shortage even though the stock is about 10% higher than the number of households. Birth rates are falling. There's a housing shortage in areas where people want to live. You know, safe neighborhoods with good schools.

I'm skeptical that 6.25% mortgage rates will move the market. My idea is to transfer your loan balance at your locked-in rate to a new property. That would allow tens of millions of people sitting on ultra-low mortgage rates to relocate. Right now, they can't afford to.

In addition, housing costs are sucking up a massive portion of people's income. When my folks divorced over 40 years ago, my Dad ceded the cash proceeds of the marital home to my Mom. Mortgage rates were over 12% back then! Mom bought an $80,000 house with a $50,000 down payment, and her annual income was roughly $30,000.

Today, a house costs $500,000, while incomes haven't kept pace, and because most people are struggling financially, they don't have $100,000 for the down payment. The average American is getting squeezed, and the American Dream is increasingly out of reach.

And here's the thing: whether the Federal Reserve cuts or not, inflation isn't going anywhere.

If the labor statistics are fudged, you can bet your ass the inflation numbers are super duper fudged (highly technical term)!

Rates for all types of insurance are surging. Education costs are surging. Utilities are surging. Local property taxes in many areas are on the rise. There's a massive underfunded pension liability across the country.

Again, folks are getting squeezed.

The other day I went to a fancy restaurant to celebrate a family birthday. As I perused the menu, I concluded that in the next recession, over 50% of restaurants will be wiped out and never reopen.

We are approaching the point where a steak will cost $200. Is that tolerable? Even now, I don't order steak out. I started to substitute with fish. Even the fish prices are absurd. Fortunately, we enjoy cooking at home!

Wine prices are bonkers. Yet, the wine market is in the tank. California production is down 17-20%. France is subsidizing its own producers. The markup in the restaurant was as much as 400% but no one is drinking. That's where the restaurant makes its margin.

I had a non-alcoholic beer, and it cost as much as an alcoholic beer! The food was excellent, and the service was impeccable, but it's simply not sustainable.

When I lived in Dallas, TX, I was often the guest of Wall Streeters who hosted lavish steak dinners. Those days are over as expense accounts get cut.

The one way out of this is growth. We will see if that happens. Tax cuts and tariffs could be inflationary. Or not. Fewer regulations should help. It would be nice to pay down some debt. I'm skeptical.

Therefore, after a big rally and being stuck at the fork in the road, I continue to think about what's next.

I don't see an edge either way. The trends are up. But valuations are at nosebleed levels. Goldman Sachs has just issued a $5,000 price target on gold, indicating that they're also uncertain about the next move, as this is likely the reason gold could rally another 30%. Despite the rally, the market isn't overbought. The sentiment is bullish, but not overly so.

With no edge, I’m sitting on my hands waiting. I’m not allocating any fresh capital to investments and will wait until the market tells me how I should react.

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