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Macro Market Insights

August 2nd, 2019

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Confusion, Contradiction, and Chaos

The financial press was referring to this week as the most important week for investors in all of 2019. At the center of it was the US Federal Reserve. Particularly, the interest rate announcement this past Wednesday where the US central bank opted to cut interest rates for the first time since 2008. It might go down in history as one of the best telegraphed rate decisions from the US fed, juxtaposed by confusion as to why they were shifting policy.

The month leading into the announcement, the debate ranged on one side from why the Fed would be cutting interest rates in the first place given the strength in consumer spending data and US labour market to overly dovish expectations of a new easing cycle beginning with a 50 basis point cut.

Given the market reaction into the end of the week, however, its not only safe to say that investors expectations for a renewed period of fed accommodation were not met, but also heightened confusion around the lack of clarity in the messaging from the US Fed Chair, Jay Powell.

Previous heads of the US Fed have used their opportunities to speak publicly to deliver a clear consistent message as it relates to their current policy approach. Ben Bernanke is associated with the attention he brought to the Jackson Hole Economic Symposium to preview the feds upcoming aggressive monetary policy in the heart of the financial crisis. Janet Yellen always seemed well scripted; albeit, concise and direct in her press conferences discussing normalizing interest rate policy and remaining data dependent. The current chair lacks that same level of clarity and direction in his messaging as his predecessors.

For this reason, focus may shift to what message he plans to deliver at their annual meeting in Jackson Hole at the end of this month. It is an opportunity for him to clarify the Fed's stance regarding their outlook over the near term. Unfortunately, it seems he doesn't have the luxury of everyone waiting patiently for his remarks.

It was very evident the US President was one of the people left most disappointed from the Fed announcement Wednesday. So much so, that when Jay Powell hinted that their outlook may improve because tensions between the US and China have eased, it was contradicted the next day with the announcement of new tariffs on Chinese imports for the beginning of September. Given previous interference from President Trump and attempting to influence the US Fed, it seems logical that this tactical announcement Thursday may have simply been attempting to force the Fed's hand.

In these choppy investment markets, its sometimes easier to think about a thesis or investment approach and then step aside instead of trying to time every directional change. This next month should be no different. As the takeaway from the Fed Announcement was a lack of clarity, it seems they'll be using their FOMC members to broadcast their policy approach into the latter half of this year. This could be sealed from a scripted speech from Jay Powell at the end of this month in Jackson Hole. The question, given the feds initial shift earlier this year that was questionably influenced by the sitting US president, is what level of interference he may play over the next month.

We're still expecting a follow up rate cut; the question is how quickly?