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Market Outlook:

Cut the noise....not interest rates

With the stock market seemingly floundering "at the top" investors have turned their focus to another easy target, the US Federal Reserve. The Fed has been on a two year quixotic journey first of raising interest rates at the tail end of the economic recovery to address concerns that the decade-old surge had been igniting inflation, overspending, and borrowing; then lowering interest rates in response even when political (and economic) pressures imposed a *"nope, that's not what 's really going on"* reality upon them.

So, just as with the volatility we have seen in equities, the bond market began a schizophrenic ping -pong match with itself over which data and opinions were real (or sell-able to the public) and which were not.

But, curiously, the indecisiveness has actually fed into its own narrative and created a real problem for financial markets overall. There actually isn't the type of liquidity (money) to go around that many experts think, nor is there an appetite right now to be a heavy borrower no matter how attractive rates might be. Just recently the Fed again "cut" interest rates (the rate at which banks borrow from each other over the short term).

But does that rate cut really affect the lending experience or possibilities for the average investor?

The answer depends largely upon other things well outside the span of Chairman Powell's jurisdiction.

Your wealth, not theirs

For one, the real economic output of the global economy isn't as strong as the experts would have you believe. For example, nearly 2 percent GDP in the US is not catastrophic, but it pales in comparison to earlier economic predictions or where the economy *should* be in an environment of low interest rates, full employment, and a record-setting stock market.

Many, including me, expect the data to continue to improve. But the exogenous political pressures to manufacture low interest rates and expansive borrowing is an exercise in pointlessness. Are politicians and monetarists pounding the table for what they see, or what they *hope* to see?

At a time when interest rates are historically low, the *real rate of return* on fixed income assets is precarious. The 30 year US Government bond rate has been rising for more than two years. So as the integer value of rates is going higher the valuation of fixed income securities is falling. The bond market is going through a mini-crisis. The Fed's influence is not enough to quell market forces that are worried about bubbles, growth, and a dearth of borrowing.

In fact, the short term activities of the Fed did produce a yield curve "inversion" late this past summer....that is when short term rates exceed the rate on longer term bonds. But that inversion quickly self-corrected back to historically syncopated levels we see now.

With all the political influences upon global central banks it is difficult to manufacture a cohesive strategy which encompasses economics, geopolitics, financial markets and consumer sentiment, thus putting more strain upon the activities of government and business, not to mention Wall Street's speculators and longer term investors.

If the messengers could just quiet the hyperbolic rhetoric for a while, the dust would settle nicely in our favor.

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