Hello Everyone,

With President Trump here in the great State of NM today, it seemed appropriate to feature him in today's KKOB segment. And since money and markets are our beat, it also seemed appropriate to toss in Federal Reserve Board Chairman, Jerome Powell.

In case you haven't noticed, there is some--- uhhhh----friction between the two as we head toward the 2020 election.

I hope today's missive gives a different (and possibly deeper) understanding of what is going on…and what is at stake.

Signed, Your I'm-Happy-Fall-Is-Here Financial Advisor,

Greg

KKOB 09.16.2019 Trump vs. The Fed

Bob: So, Greg, over the last several months there has been a lot of jawboning between the President and the Federal Reserve. In a nutshell, what's going on?

Greg: Well, a lot. Let me set the stage. Last week the European Central Bank cuts rates even further into negative (!) territory and re-launched their version of Quantitative Easing.

Translation. *We know negative rates distort markets and haven't stimulated the economy, but we're going lower anyway. Oh, and even though we know printing money doesn't work, we are doing that as well. And , yes, we know this adds perhaps trillions to already un-payable debts.*

Bob: I know. It's mind-boggling. Although I think I've finally wrapped my head around negative rates. But it's so unreal. I mean if you can get a home mortgage, the bank will pay you interest?! Or, the other way. If I invest in a CD, I pay the bank interest?! Crazy.

Greg: Right. What it is telling you is Europe is reaching a point of debt saturation. If you can't even afford to pay interest on your debts, then you've likely hit the debt-wall. And, if you're counting on printed money to stimulate your economy, you're grasping at straws.

All of which leads me to the American response.

First, it's no secret President Trump wants the economy humming heading into the election. And lowering interest rates can help.

So, knowing the European plan, the President had the green light to tweet the following:

The USA should always be paying the lowest rate. No Inflation! It is only the naïveté of Jay Powell and the Federal Reserve that doesn't allow us to do what other countries are already doing. A once in a lifetime opportunity that we are missing because of "Boneheads."

Bob: So, the President called the Federal Reserve members Boneheads?! That's kind of funny. It does make me wonder though, if the Fed pushes back, couldn't he just fire Fed Chair Powell?

Greg: That's a great question. Section 10 of the Federal Reserve Act says the President can remove a Fed member "for cause." Now, what constitutes "cause" is debatable.

But here are the two bigger issues in my mind.

First, there is a growing edginess that markets are losing faith in Central Banks. Central Bank policies aren't working…anywhere. And, Bob, faith and confidence can be fragile things. Once confidence in currencies is lost, bad things happen.

So, the confidence thing is squarely on the Fed and other Central Banks.

Bob: Of course, it is. I mean isn't that really their sole charge?---ensure currencies retain their value---and align interest rates with economic conditions?

Greg: Yes. And, and on both counts, Central Bank track records aren't exactly stellar.

Meanwhile, my second concern is this. Let's say President Trump gets his way and the Fed lowers rates to zero--- or even goes negative. That means every currency in the world will likely be in negative territory.

That's scary. In my mind (and I'm not alone in this thinking) the only reason negative rates overseas haven't brought calamity is (pause)…US rates are positive and have offered a counterbalance. Lose that counterbalance and things could unravel. If that happens, that will be on President Trump.

Bob: So, what should investors do? I mean, right now, this all seems to be pointing toward inflation. But, while prices are rising, we haven't seen wheel-barrows-full-of-money-to-buy-a-loaf-of-bread stuff.

Greg: You're right. Inflation is higher than the official statistics, but lower than you'd expect for all the money printing that has gone on.

My take is this----governments will always follow the path of least resistance. They will lower interest rates and print until the currencies break. Then they will blame everyone except themselves.

So, the logical step is to invest in low-tech, boring, basics. And yes, you can invest in food, water, metals, timber, cotton, and soybeans….things that can't be printed. Low tech will beat high tech.

Bob: I always learn something. Have a great week and how do people reach you?

Greg: My number is 508-5550, 508-triple 5 zero.   Or go to my website at zanettifinancial.com.