Here Are the Facts About the Fed's Rate Hike

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LONDON - "Nothing but bad news in the paper," a colleague saves us the trouble of reading it ourselves.

"A building caught fire here in London. Dozens dead. A guy opened fire on Republicans at a baseball field. He shot a fe
them. The Fed raised rates. "

The only one of these things is the last one.

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The Reflation Trade Is a Flop

We are on record: The Fed will never raise money in any serious way. Nor will it ever willingly "normalize" its balance s

So what's going on?

Our friend may have missed the most interesting news. Among the flotsam and jetsam in the press floated a few items
scooping out of the water and examining more closely.

For one thing, inflation is coming in below the Fed's 2% target. In fact, the latest numbers are lower than those when Do
Trump was elected.

Inflation expectations, as measured by the bond market's "breakeven rate," have been going generally downward for th
years. Last year, the trend seemed to come to an end when yields and inflation both bottomed out before Trump's elect

Since then, they've ed down again.

Currently, the market is predicting an inflation rate of just 1.72% over the next 10 years. Which means three things…

First, so far, the "reflation trade" has turned out to be a flop. Instead of going up, inflation has gone down.

Second, it also means that instead of heating up… the economy has cooled off.

And third, the "real" interest rate, even after another rate increase from the Fed, is still negative.

…which makes you wonder. How come stocks are still near an all-time high so late in the economic cycle?

Expansions don't go on forever. They need to take a rest from time to time. We don't know when the next recession wil
up, but we know this: It is getting closer every day.

We don't know when the next bear market will come, either. But we know this: Bull markets don't last forever, either. Ar longer it takes to arrive, the hungrier it will be when it gets here.

And one more thing: As long as “real” rates remain negative… the Fed will not lead a return to “normalcy.” It is not mast
trend, but a prisoner of it… dragged around the city like the limp of Hector behind Achilles’ chariot.

10-Plus Years of “Ice Age”

Years ago, we put forward an unappealing idea: that the U.S. economy followed Japan… but with a 10-year lag. Japan
stocks crashed in ’89. The U.S. Nasdaq fell in ’99.

This hypothesis soon looked weak… if not silly.

Japan – despite outrageous “stimulus” efforts – was never able to revive its economy or return its stock market to the gl
of the late ’80s. It was on-again, off-again deflation… with stocks still down 50–80%… for the next quarter of a century.

The U.S., meanwhile, was scarcely bothered. The Fed lowered rates. The mortgage industry responded.

What followed was the real estate/finance bubble of ’05–’07… the crisis of ’08–’09… and then the big boom of ’09–’16…
followed by the reflation bubble of ’17.

But these bubbles may have hidden the more important trend. For while the Fed was blowing up housing, finance, and
the long-term trend in the economy was down.

Growth rates fell. And bonds, in the U.S. as in Japan, remained in the same downward trend, with a 10-year lag betwee
and the U.S.

In other words, despite the fireworks in the parking lot, the real economy was growing quiet.

The shoppers were running out of money. Autos were remaining on the lots. Real wages were stagnant. Corporate prof
least domestically) were falling.

Albert Edwards, Strategist at Societe Generale, announced his "Ice Age" hypothesis in 1996. He believes the US econo
the grip of a long-term cooling. People are getting older. Growth is stalling. Debt slows everything down.

As we have seen, central banks can stimulate financial markets with more debt, but not the underlying economy; It grows weaker.

In the next crisis, Edwards thinks (as we do) that central banks will be forced to react with even more delayed policies. The Fed - like Japan's central bank - will buy more and more bonds, driving the interest rate cycle to even lower yields.

This "Ice Age" will last for years to come, he says. Good for bonds. Bad for stocks. At least for the next 10 years, stocks will probably provide investors little safety and gains.

Regards,