Will the Fed Stab Investors in the Back?

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BUENOS AIRES, ARGENTINA – First, a news update.

The Washington Post:

> The Republican Party has largely abandoned its platform of fiscal restraint, pivoting sharply in a way that could add trillions of dollars in federal debt over the next decade.
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> Cutting spending to balance the budget was almost religion to the Republican Party for much of the past eight years all year long, despite their control of the White House and Congress, Republicans have not taken steps to balance t budget, to overhaul entitlement programs such as Medicare and Medicaid, or to arrest the growth of the country's $ trillion in debt.

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Off the Rails

No kidding! Here's the short version of what will happen…

Neither Republicans nor Democrats will show any interest in fiscal restraint; deficit spending will increase; the Deep Sta it.

The Fed won't force restraint; instead, it will facilitate more deficit spending; the Deep State needs it.

This train is going to be running wide open until it flies off the rails; the Deep State deserves it.

Which brings us to… the "Warsh Call Option."

Our speech in London described how Team Trump had failed to slow win-lose deals both at home and abroad… and w will continue to expand until the bubble pops.

Win-lose deals proliferate because the insiders who control government – aka the Deep State – want them to continue.

These insiders aren't going to raise taxes on themselves… nor are they going to cut their privileges and benefits. This l them dependent on cheap credit from the Fed.

But why can't it just go on, as it has for the last 30 years?

Real money – gold – survives market crashes and depressions. Because it represents real wealth.

But this system runs on credit money, not real money.

It’s like the difference between owning a stock outright… and owning a stock “on margin” (with funds borrowed from you broker).

You still own the former, even after a crash. But the latter can get “called away” from you.

So, too, is credit money called back home when the cycle turns down. From nothing it came; to nothing it returns. Halle

Real money deservedly takes its place on the right side of the balance sheet. It is an asset. It represents goods and ser Real wealth.

But credit-based money should be on the left side of the balance sheet, the sinister side.

It is a liability. It represents a claim on work that has not been done, products that have not been produced, wages that been earned, and profits that have not been booked.

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Hell to Pay

“The real problem,” we tried to explain in the Q%26A after our talk in London, “is that today’s debt and obligations depe growth – future output – that is not going to happen.

“Looked at over the long term, economic growth rates are going down, not up. There are more old people to support. Technology is not improving productivity, as promised. And debt can’t increase forever.

“At some point, people realize that the money they have… and the promises of money in the future… are not as good a thought.”

Interest rates have been going down, more or less, for the last 37 years.

The debt burden has been going up. When interest rates start to go up, it will be a whole new ball game.

Credit money ebbs and it flows. And unless the feds have found some way to stop the tides of credit… there will be Hel the next time it ebbs.

We have said many times that the Fed would never willingly let this happen. But it might unwittingly cause it to happen.

It has already begun a tightening cycle. Last week, the first $10 billion of bonds rolled off its balance sheet.

By this time next year, the Fed is supposed to be reducing its balance sheet – and the world’s monetary footing – by $6 a year.

And at the of the Fed is likely to be Kevin Warsh, a former Wall Street lawyer and President G.W. Bush’s appointee to t Board of Governors.

He’s the front-runner to replace Janet Yellen next year as Fed chair when her term expires.

And from the reports we’ve read, he’s more “hawkish” than the last three Fed chiefs.

Dead Man’s Curve

Warsh – who resigned as Fed governor in 2011 – says he’d like to get the Fed in position to fight the next downturn… by raising rates now.

He’d also like to get the Fed out of the business of propping up stock prices.

Warsh says the Fed has become a “slave to the S%26P 500.” He’ll break the chains by unwinding QE and raising interest rates.

Instead of having investors’ backs… ready to buy assets when markets turn down… under Warsh, the Fed may become investors’ worst enemy.

For the next four years, it is supposed to be selling bonds, not buying them. The Greenspan… Bernanke… Yellen “put” will become the Warsh “call.”

We doubt that Warsh or anyone else has the toughness to keep at it after stocks crash. But the Fed has the knife in its hand. It is aimed at investors’ backs.

It might just use it.

No runaway train ever survives the dead man’s curve. And no fake-money, credit-driven boom ever survives a bust.

Stay tuned…

Regards,