The subject of today's video is about the FED pivot and its potential impact on the stock markets, which many individuals seem to be misunderstand. I will be sharing my knowledge on the matter by discussing what actions the Federal Reserve intends to take during their upcoming May meeting, their plans regarding interest rates over the next 6-12 months, when we can expect the FED pivot to result in a significant surge in the stock markets, as well as a potentially lucrative investment opportunity.

Let me give you a quick update. The graph I'm showing you displays the Federal Reserve's interest rate over the course of one year, but let's switch to a two-year chart. The Federal Reserve had maintained a zero percent interest rate until inflation began to rise, and they soon realized that the increase was not temporary. In March of 2022, they began to raise interest rates by 0.25 percent, followed by a 0.5 percent increase in May. However, with inflation continuing to accelerate in June, they became anxious and raised the rate by 0.75 percent. This same increase was implemented again in July, September, and November. In December, they slowed down the pace of the rate hike but still increased it to 0.50 percent. On February 1st, they raised it by 0.25 percent, and during their recent FOMC meeting, they increased it again by 0.25 percent. All of this information is accessible to the public on the Federal Reserve's website, you can have a look at it.

The Federal Reserve's recent rate hikes have led to an interest rate of 5.0%, a significant increase from their previous zero percent rate. This sudden climb is the reason behind the surge in mortgage interest rates, which have jumped from three percent at the beginning of the last year to seven percent currently, ultimately resulting in the decline of the stock and crypto markets, as well as the surge in inverted yields in the bond market. While quantitative tightening has also played a role, we will delve into that aspect later on. The Federal Reserve has already indicated their game plan, which involves a three-step sequence known as the fed Pivot.

Step One of the Pivot involves the Federal Reserve slowing down their interest rate increases, meaning they will implement smaller increases. This process has already begun, with the previous interest rate hikes ranging from 0.75% to 0.25%. Step Two involves the Fed pausing their interest rate increases entirely, and in Step Three, they will start to lower the interest rates again. It is essential to understand this three-step sequence in detail and how it will impact the stock market since many people are misunderstanding the situation. The Federal Reserve has already made progress in this direction by reducing the pace of their interest rate hike after four consecutive increases of 0.75 percent.

At some point, the Federal Reserve will need to decelerate their rate hikes. Their goal is to reach an interest rate of around 5.25 percent, and currently, we stand at 5.0 percent. The next two scheduled meetings are on May 3rd and June 14th. It is anticipated that the Fed will increase interest rates by 0.25 percent in May, followed by a potential interest rate pause in June, bringing us closer to the desired number of 5.25 percent.

The CME Group predicts a 65 percent chance of the Federal Reserve increasing interest rates by 0.25 percent in May, which reflects the market's expectation. In my view, this expectation is reasonable because in the recent Fed minutes released last week, the Fed stated their intent to continue with rate hikes, despite the Consumer Price Index (CPI) dropping to 5%. Although some anticipate a pause in interest rates, Jerome Powell was clear that he plans to proceed with rate hikes. As a result, anticipate a 0.25 percent hike during the upcoming FOMC meeting.

Regarding inflation, it was at 9.1 percent in June, fell to 7.7 percent in October, and reached 5 percent in March. While it is uncertain if inflation peaked in June, I believe it was the highest point in this economic cycle.

When the Federal Reserve increases interest rates, it takes time for the full impact to be felt by the economy due to a lag effect. Even if they were to stop raising rates now, the economy would continue to suffer. As a result, people are not spending money as freely as before, and inflation is not expected to surge beyond June levels. This is especially true given the anticipation that the economy will worsen. While energy prices are expected to increase, it may not be significant enough to cause a surge in inflation. However, if inflation were to increase at a higher rate, then the Federal Reserve would need to continue raising rates by 0.25 percent increments.

Nevertheless, that is not the current situation as the inflation report for March shows that we are at 5%. The Federal Reserve meeting is scheduled to end on May 3rd, and I believe that they will be comfortable in increasing the interest rate by another 0.25 percent.

Therefore, the Federal Reserve has already started the first phase of their pivot.

Let's discuss the rest of 2023. When the Fed initiated step one of their pivot, it didn't trigger a sustainable stock market rally. Although there were a few dead cat bounces, they didn't last long. It's difficult to predict whether the Fed will raise interest rates by 0.25 or 0 percent in their June meeting, but if they do raise rates by 0.25%, expect a stock market crash. The market is anticipating a rate pause in May, not in June but in May. Just imagine if the Fed raises rates in June, it will be disastrous. It's likely that the Fed is aware of this. The main takeaway is that after the final rate increase, there will be a pause, which marks phase two of the Fed pivot.

The Federal Reserve plans to maintain high interest rates for an indefinite period, and it's uncertain how long they will keep the rates at restrictive levels. The Fed has not provided clear indications on this matter, and their statements have been vague. Although they claim to be data-dependent, it's difficult to determine the length of time they will maintain these rates. The Fed's forecast is that inflation will decrease to three percent by the end of this year, and by 2024 they anticipate reaching their target goal of two percent inflation.

The road to achieving the target goals is predicted to be challenging. Jerome Powell expressed skepticism regarding the possibility of a soft landing, which means that a crash landing is likely to occur. The economy is expected to deteriorate, with the Conference Board predicting a 96% chance of a recession, Ned Davis Research predicting a 98% chance, and the Bloomberg model predicting a 100% chance. Even CEOs are expecting a recession at an 85% rate.

During a recession, companies in the stock market will experience a decline in profits, resulting in stocks being revalued at lower prices. As for the upcoming months, I have already informed you about what to expect in the May meeting; now, let me tell you about what to anticipate for the remainder of the year.

In addition to a recession and declining corporate profits, you should anticipate further quantitative tightening by the Federal Reserve, which involves removing money from the economy. They printed an excessive amount of money, and now they're taking it back. If you're interested in learning more about the Fed's quantitative tightening, I am creating a detailed video that explains how much money the Fed removes every month, which I update monthly starting from September. I have recently updated the video until March 2023, so please check out my channel and subscribe if you want to stay informed. This is crucial information for investors.

If you are new to the channel here’s a quick recap

So, for the month of September, they removed $32.7 billion

For the month of October, they removed $113.7 billion

For the month of November, the fed removed $112.8 billion

for the month of December, the fed has removed a total of $34.1 billion

for the month of January, the fed a total of $80.7 billion

for the month of February, the fed has removed a total of $66.3 billion

for the month of march the fed a total of $63.7 billion

The Federal Reserve is becoming more serious about tightening, which is a better alternative than printing trillions of dollars, but this is not favorable for the stock markets. The stock market thrives on easy money, and it's not likely to happen in the first half of 2023.

The reason I am presenting data from September onwards is because that's when the maximum allowable tightening was raised from 47.5 billion to 95 billion, so I am not selectively choosing data. Therefore, it appears that 2023 is not going to be a favorable year for the stock markets. Interest rates are expected to remain high, the recession will worsen, unemployment rates will rise, corporate profits will decrease, and quantitative tightening by the Federal Reserve will result in less money available. In addition to these negative factors, there are other issues such as rising energy prices, a worldwide recession, Europe experiencing severe economic impact, and food shortages in parts of the Middle East and Africa. It's difficult to identify any positive catalysts for the stock market in 2023.

If you're hoping for a rally based on a Federal Reserve pivot, be cautious and don't be fooled. The Fed pivot has three steps, and the rally that may occur during the first or second step will likely be a dead cat bounce, meaning it won't be sustainable in the long run.

The reasons I mentioned earlier for 2023 explain why step two of the FED pivot, when they pause raising interest rates altogether, will lead to an unsustainable rally. At best, we can expect to trade sideways. You may think that step three of the FED pivot, when they start cutting interest rates and printing money, will cause the stock market to skyrocket. However, you need to exercise caution and be very careful.

It's important to note that a sustainable stock market rally will happen after step three of the FED pivot, but it won't be immediate. History shows that it's not like they will announce an interest rate cut and the market will immediately take off.

Following the Federal Reserve's decision to cut interest rates and engage in quantitative easing, there is typically a further downturn in the stock market. This is because such a move is only taken when there is a major issue that needs to be addressed, such as the Great Financial Crisis or the pandemic. Therefore, when the FED goes dovish, there is a delay before the market starts to recover.

Essentially, the Federal Reserve reacts when something goes wrong, but the stock market may continue to suffer due to the underlying issue that caused the reaction. This means that it's important to be cautious when entering the stock market, whether you're a trader or an investor. The optimal time to enter may be after phase three of the pivot. In fact, a good strategy could be to wait until there's a lot of panic and selling, which is known as disaster capitalism. In such times, commodities tend to perform well.

Currently, the strong US dollar is negatively impacting Commodities. However, when the FED completes step three of their pivot, there will be a significant surge in Commodities, especially silver. Why silver, you may ask? It's because of the perfect storm that's brewing. Silver will receive a boost from quantitative easing and a weakened dollar. Moreover, silver is a vital component of the Green Revolution. It's required for electric vehicles, solar panels, smart chips, and many other applications. Unfortunately, the easily accessible silver has already been depleted, creating significant supply and demand imbalances going forward.

That’s it for today and I hope that's helpful please subscribe. Thanks for watching. Until next time.