Congratulations Chairman Powell

Welcome Jay Powell to your first week as Chair of the Federal Reserve!

Equity markets around the globe continued to suffer large losses last week. The one positive was the markets showed a rebound on Friday. The reason we feel good about this is it appears that investors didn't want to spend the weekend short, or investors were starting to bottom fish. Having said that, the markets did suffer another big down week. The Dow fell 5.21%, the S&P 500 -5.16%, and NASDAQ -5.06%. We have written two pieces about the market's fall in less than a week so there is not too much more we can write. We haven't changed our minds, but two points come to mind. This weekend I received an email from my former associate and excellent copywriter and editor of this piece, Pat Kalinowski, asking an excellent question, 'what role may Ms. Yellen's leaving the Fed have in the market collapse?' My immediate thought was some, but not a whole lot. But thinking about it for a while, I think I was wrong. Yes, the financial community appears to have faith in Mr. Powell but a new Fed Chair, along with other Fed changes, adds another point of uncertainty, and markets abhor uncertainty. So yes, her leaving combined with other Fed changes does have an impact on confidence that, along with other unfortunate stimuli, has forced a reduction of investor confidence.

As we wrote at the start, our view has not changed. We believe we are in a correction and not a bear market. We do, however, see some more serious problems in 2019 and beyond. We are pleased that Congress and the White House came to an agreement about the budget. We don't agree with what we believe to be the optimistic but somewhat delusional conclusion that this budget will lead to long term GDP growth of 3% or better. Almost all independent analysts find this implausible. That leads us to much higher budget deficits and a growing debt obligation. We now await the Infrastructure Bill. We are in agreement that the U.S. needs a massive amount of infrastructure work; the question is, how to pay for it. It is unlikely that cash starved municipalities will come up with sufficient capital to fund their share and the private sector has never been too keen on investing in infrastructure. So if there is going to be a large infrastructure expenditure, it will be by the Congress and the White House putting this together. With an already large and growing deficit and a presumed Fed tightening, it is a great concern. An important caveat to our concern is about the cost of an infrastructure program. Spending on infrastructure can and should be a positive for the economy. To state the obvious, the program, to be effective under conditions of financial stress, must have a pay-off. This is certainly possible and we would be very much in favor of a large program, if it was structured in a way that makes the country more productive. But in our view, that is unlikely.

To be very clear, none of this should move the market this year or perhaps not even in 2019, and also an infrastructure bill might not even pass. Investors should be paying close attention to what happens in Congress.

-Michael Olin Clark
moclark@1919ic.com

The Week Ahead:

- **MONDAY:** US Monthly Budget Statement expected at $51.0b; Japan PPI m/m expected at 0.30%
- **TUESDAY:** UK CPI m/m expected at 2.90%; UK PPI Output NSA m/m expected at 0.20%; US NFIB Small Business Optimism expected at 105.7
- **WEDNESDAY:** US CPI Ex Food and Energy m/m expected at 0.20%; US Retail Sales Ex Auto m/m expected at 0.50%; EC Industrial Production SA m/m expected at 0.10%
- **THURSDAY:** US PPI Ex Food and Energy m/m expected at 0.20%; US Industrial Production m/m expected at 0.20%
- **FRIDAY:** US Import Price Index m/m expected at 0.60%; US Housing Starts expected at 1231k; U. of Michigan Sentiment expected at 95.5