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Greetings,

The Federal Reserve has done a complete about face as far as its interest rate policy, referred to as a "pivot". I believe that business schools in their future curriculum will be teaching about this historic, unprecedented, sudden change. Just 4-5 months ago, the market was fearing that similar to other Fed's, this one would continue to raise rates continuously (without taking into consideration the economic environment), thus putting the economy at risk of falling into a recession. While history tends to repeat itself, I did not share the markets concerns. One reason is that the members that make up the Federal Reserve, including the chairmen (Jerome Powell, already a controversial figure) are not the same people who messed up in the past. A second reason is that I tend to give intelligent people the benefit of the doubt. Unlike so many market participants who prefer to shoot first and ask questions later, my preference is not to be trigger happy and wait until I see the whites of their eyes. Despite his lack of communications skills, Jerome Powell really seems to know what he is doing. Those who shot first and asked questions later sold out during that horrific month of December and missed out on the best start to a year in the market in over 20 years.

The market was not justified in its reaction to the Fed last year because Jerome Powell was making it clear all along that similar to his well-liked predecessor Janet Yelen, he was going to make interest rate decisions based on economic data. The problem was that the market was so hung up on past mistakes of the Federal Reserve as well as not liking his communications skills. Mr. Powell has now made it clear that in all likelihood, there will be no more rate increases this year and possibly next year. Some people even think that the next move will be a rate cut. I certainly hope not.

For the Fed to lower rates, economic conditions will be deteriorating. This economy is supposedly doing well and strong economies do not need the Federal Reserve to cut interest rates. It would also be unprecedented for the Federal Reserve to be cutting rates in this type of economy. If anything, I prefer that rates (especially long term rates) go higher because higher, more normalized interest rates are a sign of a healthy economy. I remember ten years ago when prices at the pump were $2 a gallon (about 25-35% less than now) and you could get a mortgage at a 3% interest rate. The problem was that the economy was in a severe recession. The yield on the 10 year Treasury bond is now 2.5%, much lower than the recent high of 3.25% in November. While there are benefits to the economy (support to the stock market and a fragile real estate market) to having low interest rates, it is not good to be too low. The reason being if rates get too low, it will raise fears of a recession. The yield curve is flat. A "flat" yield curve is when the yield on the short term Treasury bond is the same or similar to the long term Treasury bond. Am I concerned that the flat yield curve is an indication of an impending recession? Not at this point in time. If the yield curve stays flat or inverts (an inverted yield curve is when the short term Treasury rates are higher than the long term Treasury rates) throughout the year, then it could be a cause for concern. I would be more concerned about an inverted yield curve for a pro longed time. What I find most important is the reason for the flat yield curve. Now that Boeing is no longer being talked about constantly on CNBC, the chatter is about interest rates, the reasons for the flat yield curve as well as the direction of interest rates. What is important to me is the reason for the flat yield curve. From what I have heard from the continuous chatter is that much of the reason is technical, similar to the fact that technicians caused the stock market downturn last December. Two other reasons for the drop in long term yields are simple confusion from bond market traders and concerns about the slowdown in global economic growth. While it is inevitable that there will be a recession one of these years, I simply don't see it on the near term horizon. Certainly not this year and unlikely for next year. You don't have recessions in a tight labor market with a 3.8% unemployment rate that also has a labor participation rate that is improving. I also find it interesting that the Fed no longer has any concerns about inflation with such a tight labor market.

The China trade tensions that were a black cloud hovering over the market has turned to grey. Negotiations are progressing so President Trump has extended the deadline to increase the tariffs. I believe that a deal will be made in the foreseeable future. Both China and the US badly need a deal. China's economy has been hurt by the tariffs, most likely more than we realize. With election season under way, President Trump needs to deliver a political win. A deal with China will also benefit our economy, how much will depend on how good the deal is. If the President gets a good deal, he will be able to claim that he accomplished something significant that his predecessors could not. There is some concern that he will sign a deal that is not good, just to claim victory. I hope that will not be the case. The deal will be scrutinized. I am sure some people will not like it no matter what it is for political reasons. Without knowing any details at this point in time, my gut feeling is that it will help the stock market more than the economy. That has been shown by the markets remarkable start to the year.