TJT CAPITAL GROUP
REGISTERED INVESTMENT ADVISOR

On Our Radar Highlights: When It Mattered Most

December 1, 2021:

Of greater concern is whether the Fed is making another mistake. We have been critical of the Fed because both the 2000 and 2008 bear markets in stocks had the Fed's fingerprints all over them.

the Fed has been denying that inflation was becoming a problem by disregarding evidence to the contrary. That goes directly to their credibility.

Yet when it comes to inflation, the Fed seems to have ignored facts and data and relied on theory which has little relevance to today's COVID-related issues.

any perceived mistake by the Fed could result in a significant reduction in risk assets.

January 3, 2022:

What investors should be aware of is that QE4 (4th round of quantitative easing) is ending regardless of how the Fed frames it.

We have written extensively over the years about how the Fed is prone to mistakes when they ignore reality for the sake of defending a theory. For example, in March 2000, literally days before the peak in the NASDAQ followed by a roughly 75 percent drop, Fed Chairman Alan Greenspan said regarding "lofty equity values…I see nothing to suggest that these opportunities will peter out anytime soon."

In late March 2007 in front of Congress, Fed Chairman Ben Bernanke said "the problems in the subprime market seem likely to be contained." This was literally days before New Century Financial, the largest subprime mortgage company in the U.S., filed for bankruptcy.

In late December 2018, Chairman Jerome Powell said "we don't see…the balance sheet runoff as creating significant problems." In December 2018, the S&P 500 fell more than 9 percent.

When the Fed adopted a new monetary policy framework in August 2020, Powell said "of course, if excessive inflationary pressures were to build or inflation expectations were to rachet up above levels consistent with our goal, we would not hesitate to act." Well, the Fed hesitated to act.

We would also note that S&P operating profits for the third quarter (they still are not final) are expected to be $52.02, which would be flat with the second quarter. The estimates for S&P 500 fourth quarter earnings are currently $50.45, which would be a 3 percent quarter-over-quarter decline. Higher inflation and lower earnings tend to lead to lower price/earnings (P/E) ratios.

February 1, 2022

A couple of months following the 2020 policy change, Fed Governor Lael Brainard…revealed that the new strategy would eliminate **"the rationale for removing [monetary] accommodation preemptively,"** and that it was important for the Federal Open Market Committee (FOMC) to "stay the course resolutely" and let inflation run.

in her October 2020 speech, Lael Brainard said “my baseline forecast for inflation over the medium term is for it to remain short of 2 percent over the next few years.”

Also, regarding policy, in a recent speech to the World Economic Forum (Davos), U.S. Treasury Secretary and former Fed Chair Janet Yellen spoke of “modern supply side economics,” which seeks to reduce “inequality and environmental change.” To our knowledge this is the first time that Ms. Yellen articulated the U.S. Treasury’s “new approach” with the focus being on inequality.

When you combine what Lael Brainard said along with Janet Yellen’s “new approach,” it would seem that the Fed and the U.S. Treasury were essentially conducting a social experiment that may have backfired, causing pain and hardship through substantially higher inflation…while putting the economy and the stock and bond markets at risk.

When you inject trillions of dollars into the economy, in addition to several rounds of fiscal stimulus, which in some cases paid people more not to work than to work, you are helping to overwhelm the supply chain. To be clear, the supply chain even at full strength could not have handled that amount of stimulus-created demand.

When prices drop quickly, financial accidents can happen as leveraged hedge funds sell what they can, not necessarily sell what they want to.

March 1, 2022

This is happening at a time when **inflation has been increasing for more than a year while the Federal Reserve has failed to act. We consider this reckless behavior**. As recently as January 26, 2022, Federal Reserve Chairman Jerome Powell referred to “the relatively high-class problems” that come with the economic recovery, including “high inflation.” Inflation is running at a 40-year high, and real hourly earnings (meaning adjusted for inflation) have declined for 10 consecutive months.

Inflation is running at a 40-year high and the Federal Reserve’s official target rate for federal funds is zero to one-quarter percent. Moreover, the Federal Reserve continued to purchase bonds in February. **Fed policy is unhinged from reality.**

Reality is setting in. Confidence in our leaders and our institutions is collapsing. Soundbites are no longer working as credibility is shot. Volatility is spiking across various markets and a lack of a clear strategy on several critical fronts is adding to uncertainty and instability. As such, investors should focus on exposure and expect a wider range of outcomes.

November 2, 2022

Nevertheless, while volatility is likely to remain high, it is important to keep in mind **that since 1950, the S&P 500 has not been down from November during the midterm election through the next 6 months** over the past 18 mid-term election cycles.