

## One And Done? Look Out Below !

A few weeks back, we talked about how capital markets weren't fully convinced of a "mid-cycle adjustment" as it related to the first 25 basis point (bps) rate cut. This is a position we not only continue to hold, but was further strengthened by recent comments by former New York Fed President Bill Dudley in a [Bloomberg op-ed](#). He not only urged the Fed not to cut rates any further, which would buttress President Trump's trade negotiations with the Chinese, but also suggested that additional rate cuts would bolster President Trump's re-election.

*"Central bank officials face a choice: enable the Trump administration to continue down a disastrous path of trade war escalation, or send a clear signal that if the administration does so, the president, not the Fed, will bear the risks – including the risk of losing the next election..."*

*"...After all, Trump's reelection arguably presents a threat to the U.S. and global economy, to the Fed's independence and its ability to achieve its employment and inflation objectives..."*

As we have noted before, we do not condone any bias or politicization by/of the Fed or any of its members (past or present). But in our opinion, these comments play right into the hands of the President. Further, together with the strength of the US\$ and a depressed 10yr, this provides the Fed all the impetus it needs to cut, cut, cut.

First off, for a former Federal Reserve President to make such a strong political statement almost forces the Fed's hand to raise at least another 25bps in mid-September, so as to not seem beholden to any entity. Second, as long as rates in the US remain well below other developed economies and our economy remains the cleanest dirty shirt across the globe, there will be a bid for US equities and the US 10yr, which will continue to support the US dollar. And as a result, as long as the US\$ holds its strength, the Fed will have no problem in cutting rates in order to avert any further/future economic weakness.

But the rub as we see it, is that if we continue down this path (regardless of the clear and present global economic slowdown), one of two things will happen: 1) the Fed will soon enact some variation of Quantitative Easing (QE), or 2) the US will also exhibit negative nominal rates. In the former case, we feel QE4 will be met with less than a positive reaction from equity markets. And in the latter, for the reserve currency of the world to exhibit negative borrowing rates opens yet another rabbit hole, to which the consequences are uncertain.

As a result, we continue to look for new strategies to help investors prepare and protect for the unknown unknowns. We are starting to look at Treasury Inflation-Protected Securities (TIPs), not for their hedge against inflation prospects here and now, but rather their low correlation to other fixed-income asset classes, and the more important hedge against negative real interest rates. But we must be mindful that if the Fed is successful in re-igniting inflation prospects here in the US, that TIPs will also provide investors potential upside as well. Give us a call to learn more about our thinking.



Disclosure: The information in this publication and references to specific securities, asset classes and financial markets are provided for illustrative purposes and do not constitute an offer to sell, or solicitation of an offer to purchase, any securities, nor does they constitute an endorsement with respect to any investment area or vehicle. This material serves to provide general information to clients and is not meant to be legal or tax advice for any particular investor, which can only be provided by qualified tax and legal counsel. Certain information contained herein is based on outside sources believed to be reliable, but its accuracy is not guaranteed. Investment products (other than deposit products) referenced in this material are not insured by the FDIC (or any other state or federal agency), are not deposits of or guaranteed by Northeast Private Client Group, and are subject to investment risk, including the loss of principal amount invested. Portfolios are subject to investment risks, including possible loss of the principal amount invested. In addition, foreign investments may be less liquid, more volatile and less subject to governmental supervision than in the United States. The values of foreign securities can be affected by changes in currency rates, application of foreign tax laws, changes in governmental administration and economic and monetary policy. Investors should consider the investment objectives, risks, charges, and expenses of ETFs carefully before investing. This and other information are contained in the fund's prospectus, which may be obtained from your investment professional. Please read it before you invest. Investments in ETFs are subject to risk, including possible loss of the principal amount invested. This information is being provided to current Northeast Private Client Group clients and should not be further distributed without Northeast Private Client Group's approval. S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market. Dow Jones Industrial Average is a widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials, but also includes financial, leisure and other service-oriented firms. Russell 2000 Index measures the performance of the smallest 2,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization. NASDAQ Composite Index is a market value-weighted index that measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ stock market. Each company's security affects the index in proportion to its market value. This commentary contains forward-looking statements and projections. Actual results may differ from current expectations based on a number of factors including but not limited to changing market conditions, leverage and underlying asset performance. Northeast Private Client Group makes no representation or warranty, express or implied that this information shall be relied upon as a promise or representation regarding past or future performance. This material contains the current opinions of the author but not necessarily those of Guardian or its subsidiaries and such opinions are subject to change without notice. Past performance is not a guarantee of future results. Indices are unmanaged, and one cannot invest directly in an index. Data and rates used were indicative of market conditions as of the date shown. Opinions, estimates, forecasts, and statements of financial market trends are based on current market conditions and are subject to change without notice. Securities products and advisory services offered through Park Avenue Securities LLC (PAS), member FINRA, SIPC. OSJ: [200 Broadhollow Road Suite 405, Melville, NY 11747](#), 631-589-5400. PAS is an indirect, wholly-owned subsidiary of The Guardian Life Insurance Company of America® (Guardian), New York, NY. Northeast Private Client Group is not an affiliate or subsidiary of PAS or Guardian. [2019-85337](#) Exp. 11/19