THE National Investor

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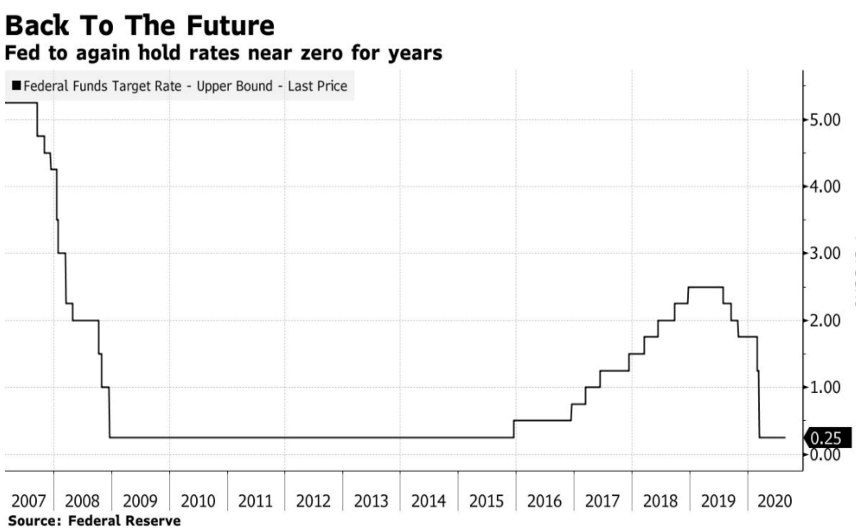
WILL THE FED'S BUBBLE BLOWING PREVENT A NASTIER CORRECTION?



One thing is for sure: to the extent such a thing will be a deciding factor in the upcoming November election, *nobody* can say that the Federal Reserve is *any* kind of hindrance to President Trump's chances for re-election!

That is, of course, unless it has already gone SO nuts in printing money and goosing markets that an ugly unraveling—even a transient one—occurs *at the wrong time*, as Americans go to the polls.

As you already know, the Fed—via Chairman "Cargo Plane Jay" Powell's widely-covered recent speech, anchoring this year's virtual version of the Fed's summer-ending picnic—has made more clear than ever that ***any* tightening of monetary policy has been pushed *years* into the future**. Now, (as I pointed out in the immediate aftermath of his talk; links to a couple of my podcasts are at the end of these short comments) it wasn't that Powell told us all that much that we didn't already know.

Yet his formalizing the central bank's intentions to push harder to cause "inflation" to run a bit hotter—ostensibly, something that will help the economy and America's citizens—added even more to the recent propensity of traders to play even more cheerfully in the Fed's "water park" I've spoken of.

Powell did say, in part—in a seeming *yet hollow* nod to those suggesting that the Fed is becoming *too* reckless—". . .Of course, if excessive inflationary pressures were to build or inflation expectations were to ratchet above levels consistent with our goal, we would not hesitate to act." *If you believe that, I* *have ocean front property to sell you up here in northern Wisconsin (where I am through mid-September or so)…cheap!*

Nobody truly believes that the Fed is in anything but that full-on "Inflate or Die" mode. Though some major help from "the fical side"—and some luck—will be needed along with all the money-printing to bring about the Fed's desired inflation outcome, many are confident it will do so; *but slowly and perceptibly.* Thus, said environment of modest inflation with the expected strong recovery in growth to most folks favors equities; especially cyclical and undervalued sectors of the market.

And it's why, as I explained last week, gold will not necessary keep moving notably higher (at least for a while.)

What we will see as we go forward are occasional—*perhaps regular*—repeats of the kinds of sudden volatility and meaningful hits to stocks that came almost out of nowhere this past week. That is, at least until a regimen is in place to channel all this money printing/credit creation into the "organic" economy via infrastructure and related initiatives.

NO HELP—AGAIN—FROM "LAW MAKERS"

Though the Fed is again doing *more* than its part in things—even co-opting a more aggressive than ever push to reduce unemployment anew, which is more Congress' job—**its success will be limited because the "fiscal authorities" are again of no help**. It's bad enough the Fed has to be pushing on that proverbial string to try to reinvigorate an economy, much of which *remains* dead in the water.

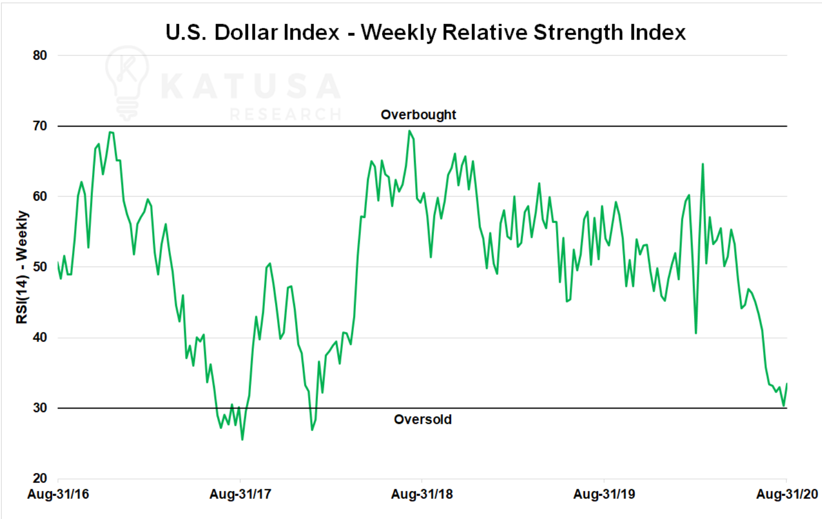
But *even if it uses a bulldozer* to push on that string, little will happen when most people and businesses remain so stressed that they are not about to borrow money, hire workers, spend, etc. **no matter what the Fed does**.

"**We can add *this many* zeroes to the last Q.E. program**"

Happily (or ominously??) it's sounding as if the Fed isn't going to sit around and wait for elected officials to do something meaningful (unlikely, as I suggested earlier today, until next year) before **doing even more *itself***. Powell himself—though not yet offering concrete details—has told us more "tools" will be unveiled. This past week, Fed Governor Lael Brainard and Chicago Fed President Charles Evans (left) both intimated that **more Fed stimulus is coming**; perhaps—some seemed to interpret from

Evans' comments especially—via a new round of so-called quantitative easing that could be announced as early as this month's upcoming regular F.O.M.C. meeting (15th-16th). *That, of course, is a stretch NOW; but would be increasingly possible if the stock market were unraveling between now and then at the kind of rate it was yesterday.*

MARKETS WILL BE DRIVEN BY DOLLAR MOVES EVEN MORE



It has been a net positive for risk assets of most all kinds that **the Fed has clearly re-embraced its role as the de facto central bank *of the world***. Though it will pretty much never come out and admit such a thing, that it has (for now) broken the back of a two year or so up-trend in the U.S. Dollar Index is a major—and important—accomplishment.

This has helped reinflate markets, including for commodities. . .taken *some* of the pressure off emerging markets. . .and overall pushed back *deflation* pressures.

Yet you can have too much of a good thing. As I (and a few others) have been warning in recent days, **everyone had pretty much "moved to the same side of the boat" in currency markets.** And with the euro surging, officials at the E.C.B. finally had to cry "Uncle!" and express their displeasure.

All told, the odds of a meaningful rebound in the U.S. Dollar Index are palpable, as oversold as it is. If its R.S.I. even moves back mid-range in the coming days/weeks (see the above chart), that would keep the nosebleed-high rally for stocks in check, if not add to the downside correction, AND take some of the steam back out of recently-rebounding commodities.

And **for gold** almost any scenario I see immediately ahead of us confirms my initial reaction following Powell's speech: that is—contrary to what most of the Pied Pipers of the Gold Bug Echo Chamber are excitedly predicting—it's *more likely* now that the recent high of a bit under $2,100/ounce will be THE high for quite a while (and, as I warned anew today, an especially sharp dollar rally would open the door for a further correction in the gold price back down to the $1,775/ounce or so area.)

A FEW RECENT RELEVANT PODCASTS AND INTERVIEWS:

I'll be providing more detailed commentary on stocks and gold in particular ahead of next week's shortened trading week (as both Canada and the U.S. prepare for the last "summer" 3-day weekend and prepare to move into a Fall pretty much GUARANTEED to continue the epic twists and turns of this already-ZANY year.)

For now, I encourage you to listen to – or listen anew to – the following:

One set of comments on the *K.E. Report* from last Thursday, 8/27, following Powell's speech:

http://www.kereport.com/2020/08/27/recapping-powells-comments-and-the-wild-market-reactions/

Corollary (and some more detailed) comments on Powell—posted last Friday, 8/28, in a discussion with Trevor Hall at *Mining Stocks Daily*:

https://www.podbean.com/media/share/dir-w8vz8-a45adba?utm_campaign=w_share_ep&utm_medium=dlink&utm_source=w_share

Today's (Friday the 4th) comments on the abrupt interruption of the recent Fed-induced mania:

http://www.kereport.com/2020/09/04/strong-us-jobs-data-and-the-market-reaction/

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