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June 10, 2019	Payne's Perspective Wow…What a Difference a Week Makes

The biggest difference a week makes is the continued evolution of the Federal Reserve, which seems to be prepping investors and Main Street to a new role. In the past, the Fed hiked rates too soon, too often, and too high, triggering most modern-day recessions.

A review of rate cycles (below) since Alan Greenspan took the helm in August 1987, shows a progressive trend of rate cuts that happened too late. Hence, the big basis point course change on rates and the number of subsequent cuts needed to reverse broad economic trends.

The Federal Reserve hiked rates 25 basis points on January 31, 2006, in order to slow the sizzling housing market amid a spike in homeowner defaults. Then 20 months later; September 18, 2007, the Fed cut rates 50 basis points because the housing market crumbled too much.

The Great Recession would begin just three months later.

The Powell Fed was using the same old playbook when they hiked rates on December 19, 2018, then saw the stock market crater on Christmas Eve. I think Powell spent that Christmas smiling on the outside with family and friends, pondering his mistake, as he paused to drink his eggnog.

Hike Cycles		Cut Cycles	
25 bps	Dec 17, 2015 0.25 to 0.50 9 hikes	50 bps	Sep 18, 2007 4.75 9 cuts to zero
25 bps	Jun 30, 2004 1.25 17 hikes	50 bps	Jan 3, 2001 6.00 13 cuts
25 bps	Jun 30, 1999 5.00 6 hikes	25 bps	Sep 29, 1998 5.25 3 times
25 bps	Mar 25, 1997 5.50 1 hike	50 bps	Jul 6, 1995 6.00 3 times
25 bps	Feb 4, 1994 3.25 7 hikes	150 bps	Dec 1989 8.25 19 times
25 bps	Mar 29, 1988 7.50 3 times	50 bps	Oct 19, 1987 6.75 2 hikes

Signs of Evolution

I read somewhere that horses were once a fraction of their current size and had paws instead of hooves. Evolution and adaptation are a hallmark of surviving, and it must happen in all facets of life across all long-term endeavors. We are watching a major pivot that I'm sure members of the Powell Fed see as an evolution in how they approach their mandates (official and unofficial).

There are recent signs this Fed is ready to make sure that they never have to save an imploding economy:

Richard Clarida

Vice Chairman of Federal Reserve

May 30, 2019

Let me be very clear, that we're attuned to potential risks to the outlook…If we saw a downside risk to the outlook, then that would be a factor that could call for a more accommodative policy. So that's definitely something in the risk-management area that we would think about.

Jerome "Jay" Powell
Chairman of Federal Reserve
June 4, 2019

Let me turn to the specifics of the review, which is focused on three questions:

1. Can the Federal Reserve best meet its statutory objectives with its existing monetary policy strategy, or should it consider strategies that aim to reverse past misses of the inflation objective?
2. Are the existing monetary policy tools adequate to achieve and maintain maximum employment and price stability, or should the toolkit be expanded?
3. How can the Federal Open Market Committee (FOMC's) communication of its policy framework and implementation be improved?

Perhaps it is time to retire the term "unconventional" when referring to tools that were used in the crisis. We know that tools like these are likely to be needed in some form for future Effective Lower Bound (ELB) spells, of which we hope will be rare. We now have a significant body of evidence regarding the effectiveness, costs, and risks of these tools, including those used by the FOMC and others tried elsewhere. Our plans must take advantage of this growing understanding as assessments are refined.

Fed Williams
New York Fed President
June 7, 2019

There was lots of noise, including non-stop scuttlebutt about whether tariffs would be levied or delayed. But reports of delay put a spark into the market that saw the Dow Jones Industrial Average rocket to 25,800 +261 points before settling down to 25,720 at the closing bell.

Lost in the action were comments from New York Federal Reserve President John Williams that dovetailed with recent comments from other Fed officials. It also dovetails with my theory, where the Powell-led Fed is determined to prevent a recession. It's a lofty goal, which alters the approach to policy and makes the Federal Open Market Committee (FOMC) more like police officers than firefighters.

It's essential that the Fed is ready to on a greater role in helping the economy grow rather than saving the economy after its tanked.

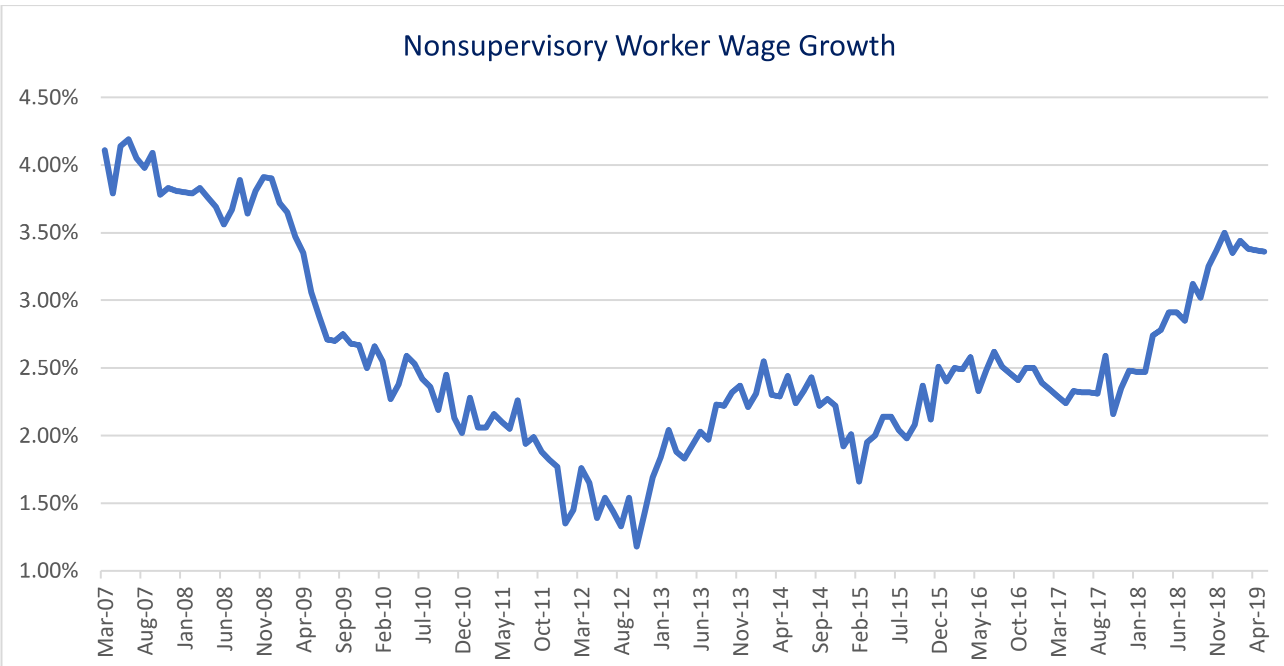
Topic	Thoughts
Inverted Yield Curve	***"Not an Oracle"***
Low Inflation	***"Pressing problem"***
Low Neutral Rates	***"Here and they're here to stay"***

Conclusion

The Powell Fed is ready to pounce, although it may not happen in June. While it doesn't have to happen three times this year, investors should understand the Fed wants the economy to avoid a recession. The Fed is your friend because Jay Powell knows the Fed saved the economy during the Great Recession, and he is determined not to let that change under his watch.

This is very bullish for investors.

In many ways, this is better news for Main Street, where wage increases will be allowed to continue, and I think it will edge toward a 4.0% year-to-year improvement in 2020. In May, nonsupervisory worker wages once again grew faster than the overall wage growth, climbing 3.36%.



The Message of the Market

It's obvious the market is thrilled to have the Fed on its side, but this market was oversold based on an avalanche of negative headlines and speculation. By the end of the week, the weakest sector was Communication Services, whereas Facebook (FB) and Google (GOOGL) and others are being weighed down by threats of government intervention from massive fines to breaking companies up.

I don't think that will happen. If it ever does, there will be an opportunity. For now, these stocks, while more volatile, look attractive as long-term buys.

S&P 500 Index	+4.41%
Communication Services (XLC)	+1.02%
Consumer Discretionary (XLY)	+4.36%
Consumer Staples (XLP)	+5.43%
Energy (XLE)	+4.25%
Financials (XLF)	+4.27%
Health Care (XLV)	+4.27%
Industrials (XLI)	+5.09%
Materials (XLB)	+9.06%
Real Estate (XLRE)	+2.63%
Technology (XLK)	+5.98%
Utilities (XLU)	+3.11%

Investing Lesson & Watch List

Do you remember when Wall Street wrote off Campbell Soup (CPB) as a stodgy old company a couple of years ago, not ready for a modern-day world that was moving away from canned foods? I remember.

The stock peaked at $67.00 back in July 2016, and the shares finished 2018 changing hands at $32.84 a share. Last week, it was the best performing name in Consumer Staples, which trailed two other sectors. In fact, shares of Campbell Soup are up 30.6% this year.

This turn has been coming on for some time, as the stock was hammered on five straight earnings releases from August 31, 2017, to August 30, 2018, even though management beat consensus in the last three of those quarters.

The move in the stock underscores a couple of my investment thesis.

One-hundred-year-old companies usually find ways to adjust, even if it’s not always as fast as Wall Street demands.

Earnings adjustments happen undercover and should be monitored for longer-term buy signals.

Right now, the stock has a potential of $50.00 just from technical observation, but continued adjustments by management could see this stock up another 15% this year.

Broad Market Hurdles

With news of the United States and Mexico coming to a deal on stemming the flow of migrants from Central America, the market has one less headline risk, and it will shift its focus to China’s negotiations and additional economic data.

Key Support and possible rally points for major indices:

Dow Jones Industrial Average

- Breakout: 26,000
- Potential: 26,504

S&P 500

- Breakout: 2,876
- Potential: 2,945

NASDAQ

- Breakout: 7,785
- Potential: 7,914

NASDAQ

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