Fed adopts new strategy to allow higher inflation and welcome strong labor markets

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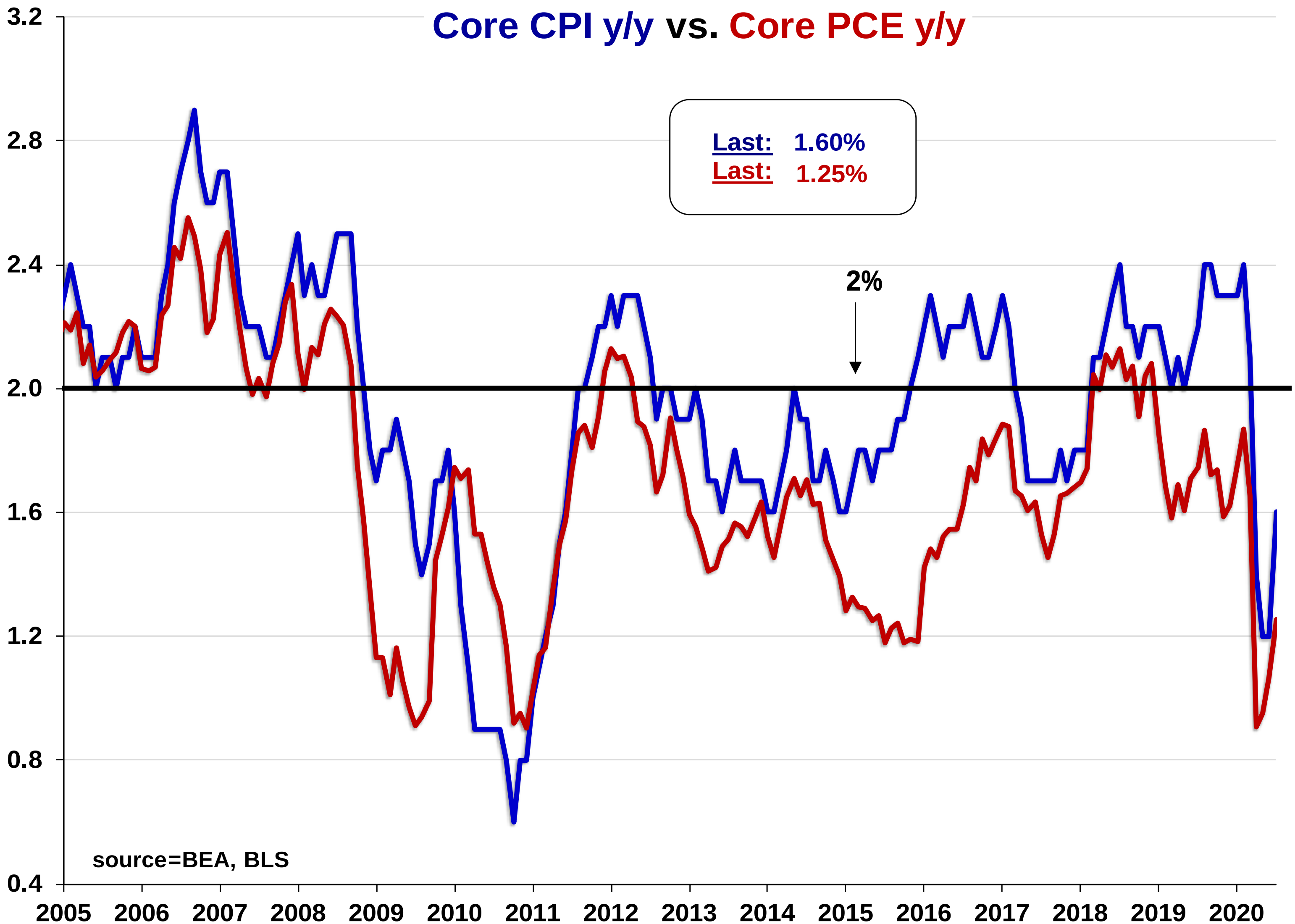
The big news of the week of course was Fed Chair Powell's Jackson Hole speech in which he said the Fed would effectively raise its inflation target (or 'average inflation targeting', allowing for a period of above 2% PCE) in an effort to support economic expansion. As noted in several of our reports, the 2% PCE target would no doubt be elusive for some time…and we suggested the Fed would have to raise their inflation target as a result. And so they did.

4.8 Macro Weekly - *CPI data sure to tumble next few readings, supporting the idea that the Fed will maintain not just 'lower for longer' policy stance…but 'lower forever' especially as Core PCE has not managed more than a few months in 2%+ territory since the recession. Make no mistake, inflation is coming and* ***the Fed will adjust their 2% target higher moving forward as they proceed with their goal of weakening the Dollar by whatever means necessary****.*

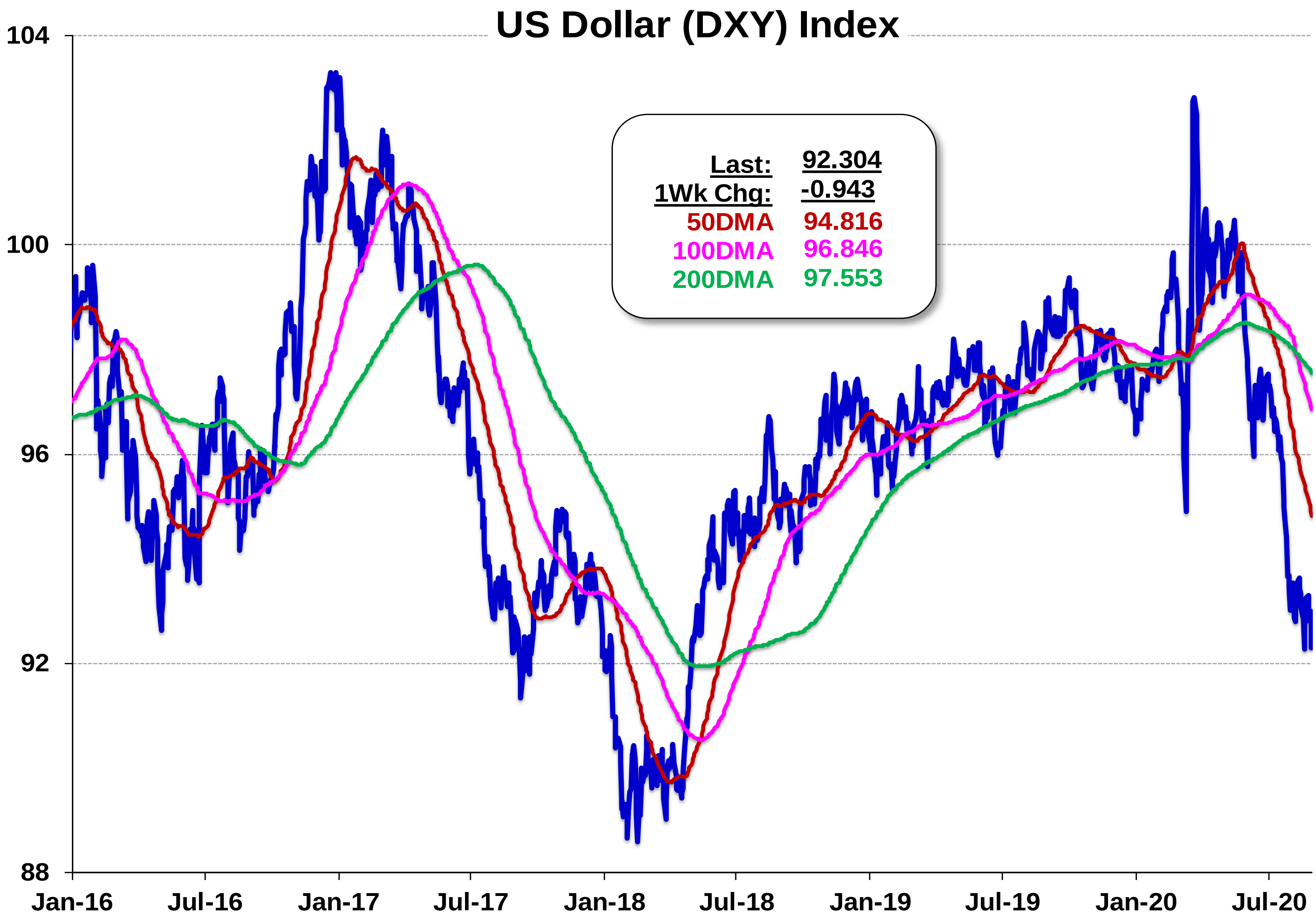
5.6 Macro Weekly - *In case you missed our 'charts of the day' last week: Fed and fiscal policy will likely have to provide far more support to get money flowing through the economy. Chart: Q1 Velocity of Money hits record low as Deb/GDP spikes to record high. Talk about zero bang for your buck! The chart illustrates the massive misallocation of capital since the financial crisis (see: buybacks), and now the Fed is almost certain to maintain zero lower bound policy for years to come…* ***and continue to raise their PCE target until the white's of inflation's eyes are seen****. Buckle up folks, Mr. Toad's Wild Ride is just getting started.*

5.13 Macro Weekly - *As expected, Core CPI tumbled in April…with Core PCE sure to follow. It's going to take bigger and bigger Fed and fiscal bazookas to get the consumer back in the game and achieve a sustained 2% PCE rate.* ***Getting back to 2% just for the first time (outside the expected 1-2 month snap-back 'noise' data we will see once economic activity rebounds a bit) could be a long wait. As noted in our last report, Core PCE was 2%+ for 51 of 69 months from '03-'08, yet hit 2%+ reading only 11 of 123 months since 2010. It will be even more elusive this time.***

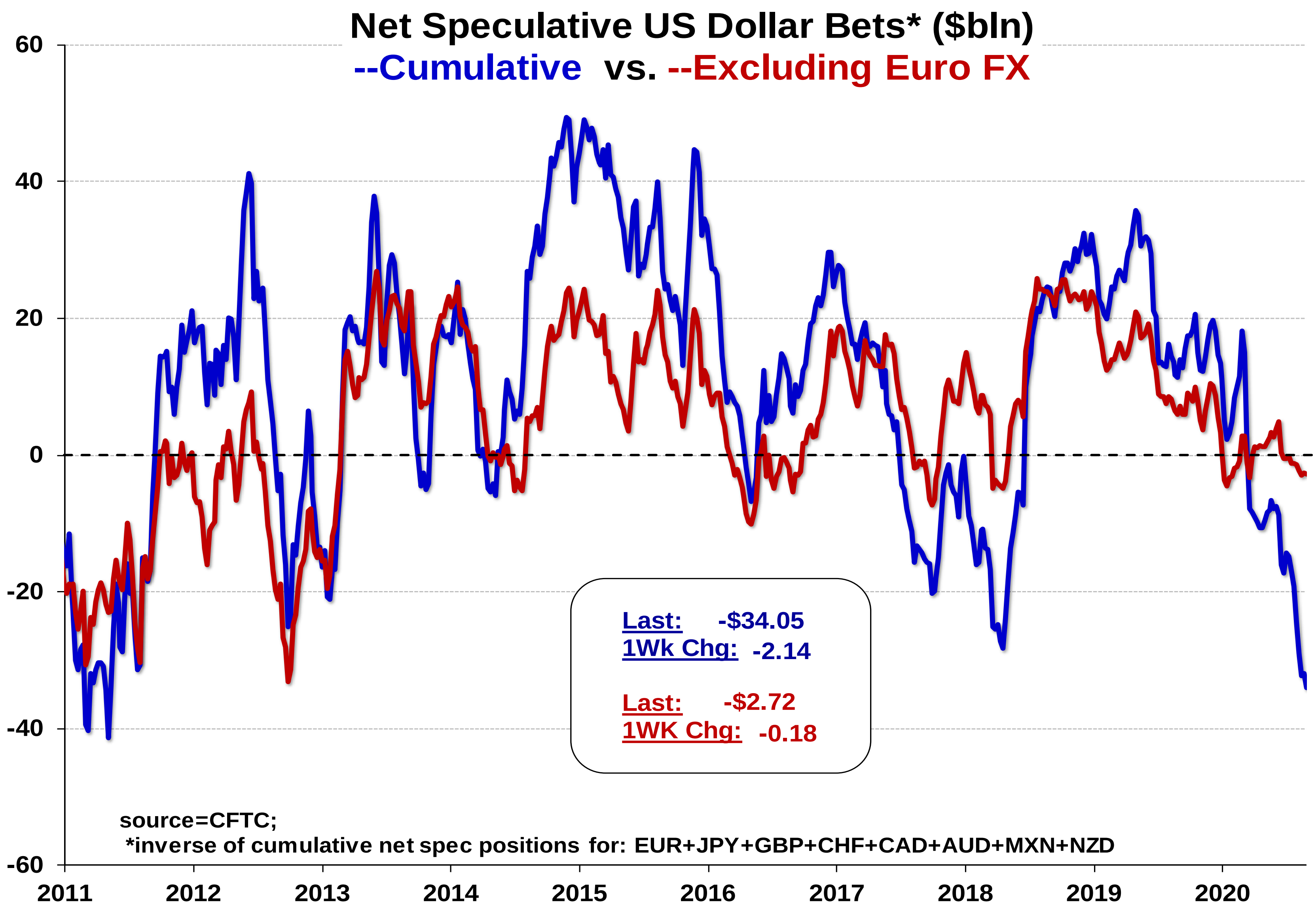
Core PCE was 2%+ for 51 of 69 months from ‘03-’08, yet hit 2%+ reading only 11 of 123 months since 2010. Given we’ve just experienced the biggest growth contraction on record, the Fed’s 2% ‘average inflation target’ goal (and a sustained one at that) will take quite some time to achieve.



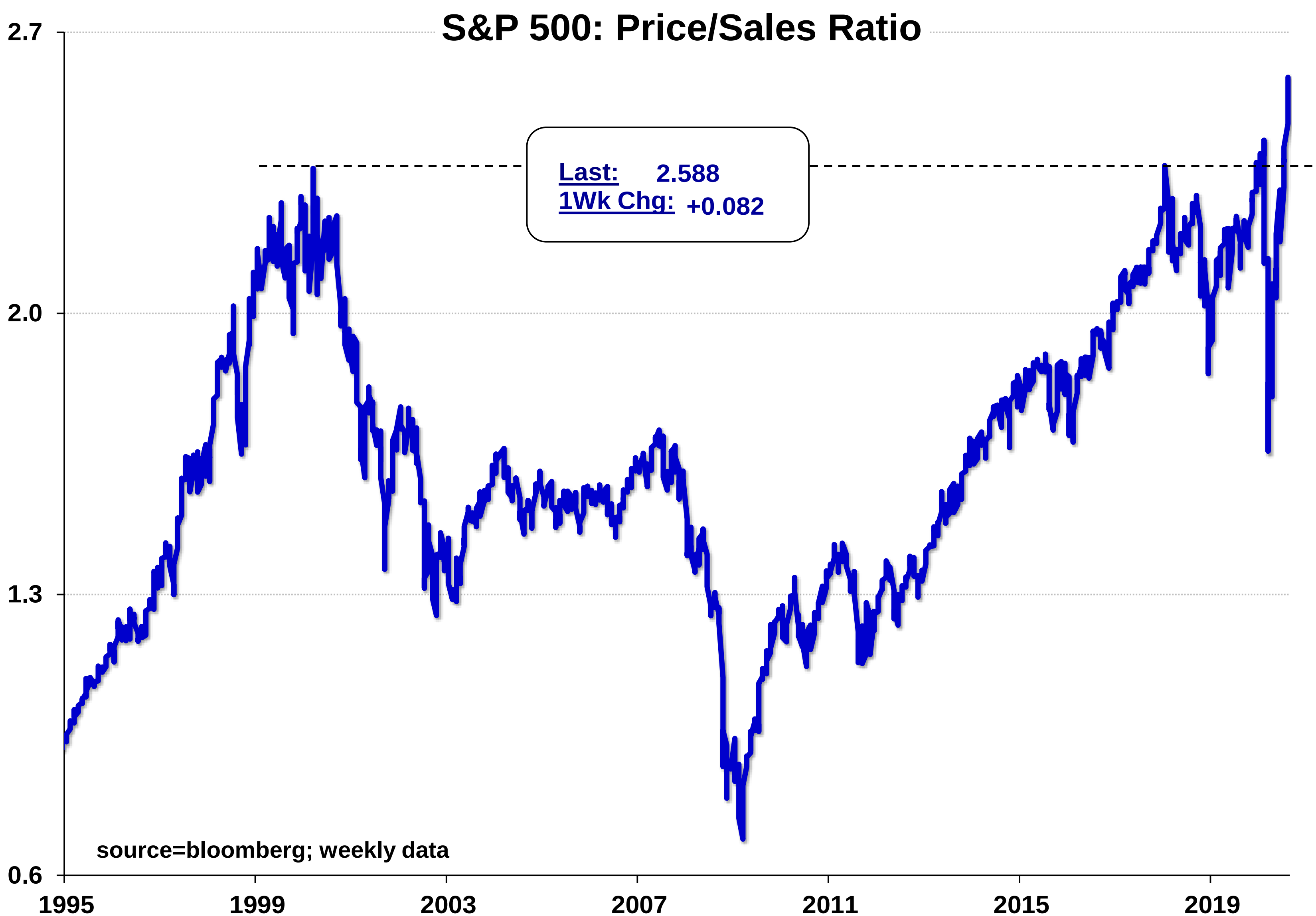
Post Powell Speech: Dollar finishes the week at lowest since April 2018…



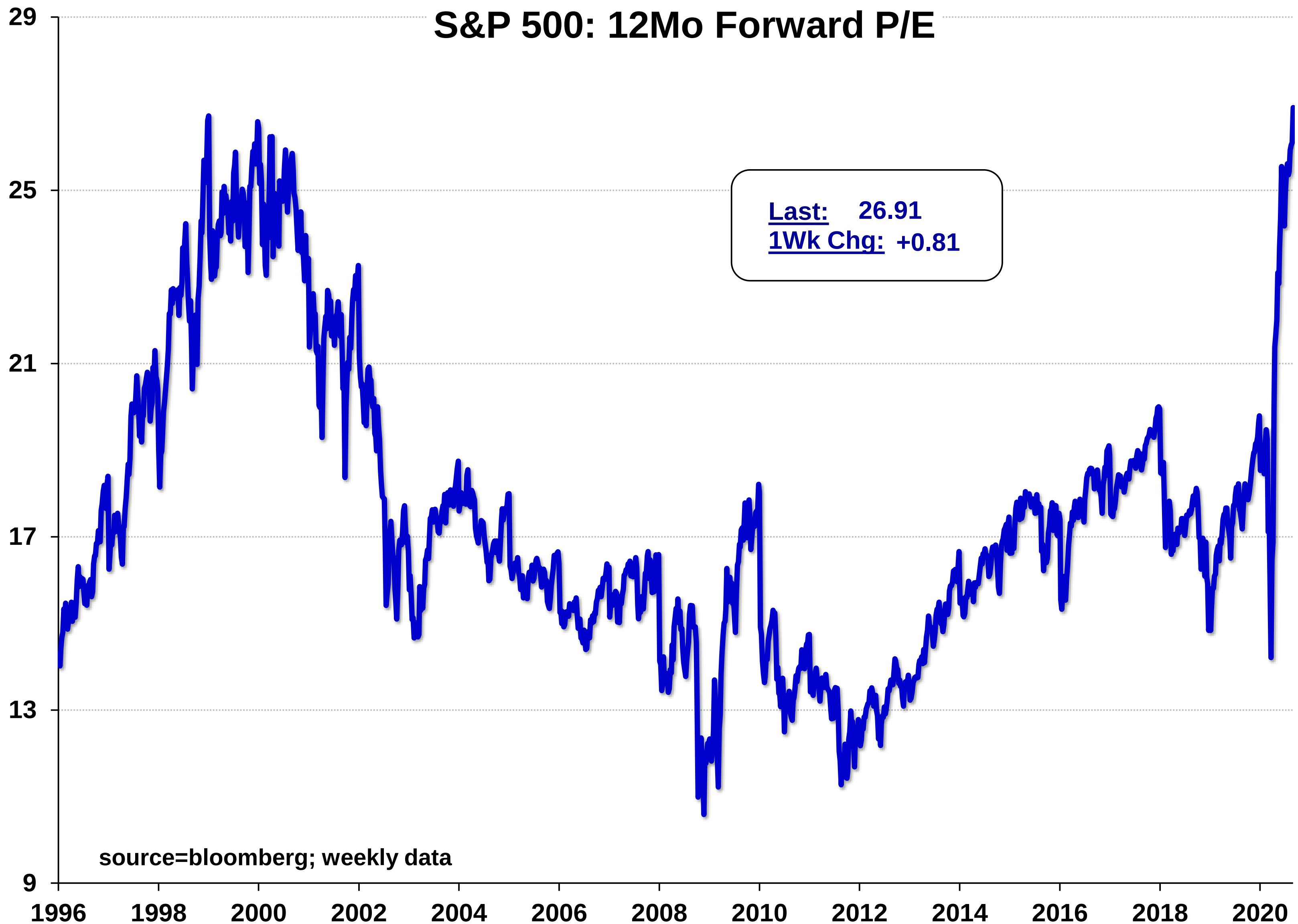
…with latest COT data showing biggest Dollar net short in 9 years.



Unsustainable Runaway Markets: stocks rise to record highs, devoid of even a casual relationship to economic fundamentals. Chart: S&P Price/Sales Ratio spikes to record high



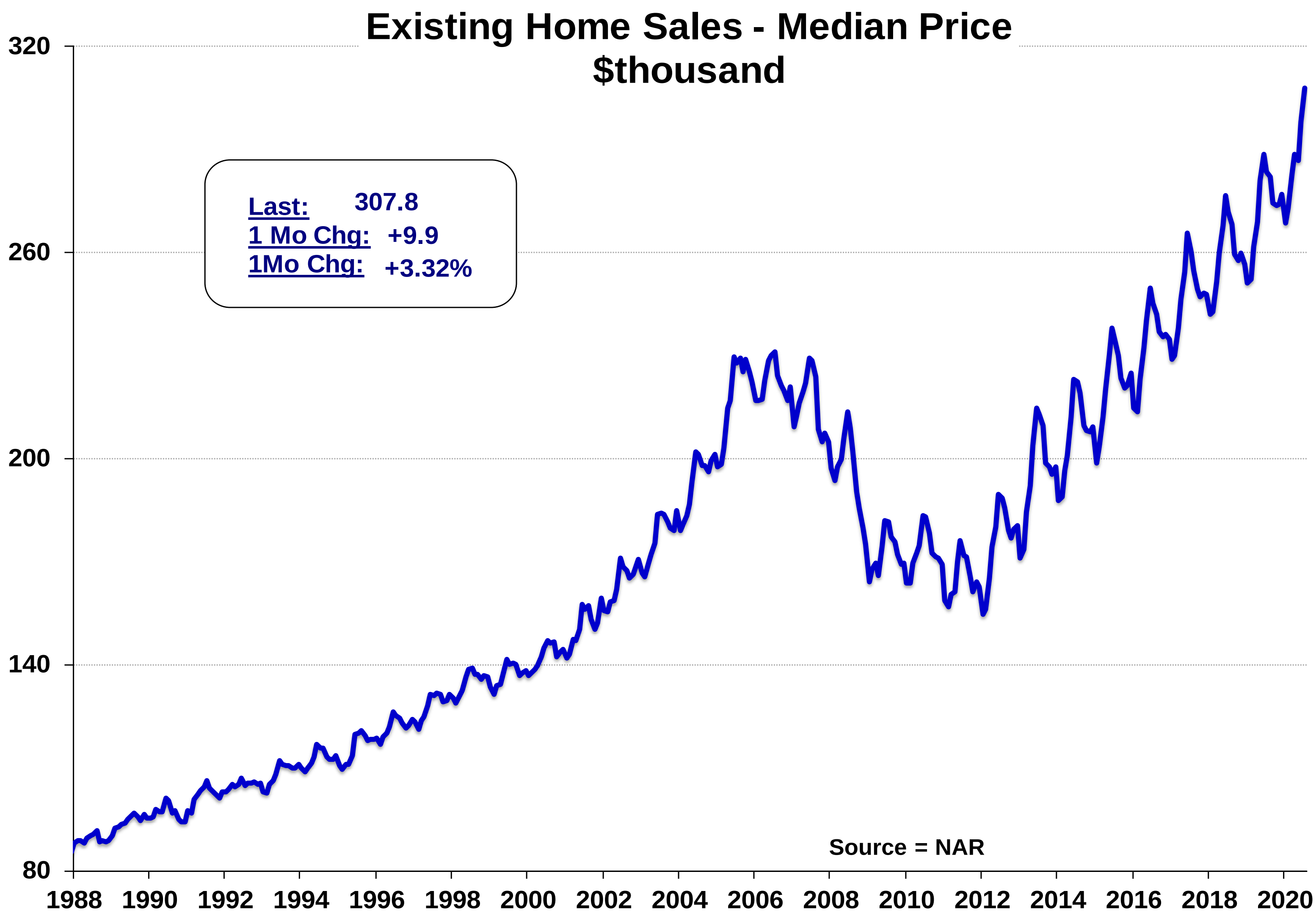
Forward P/E: record high



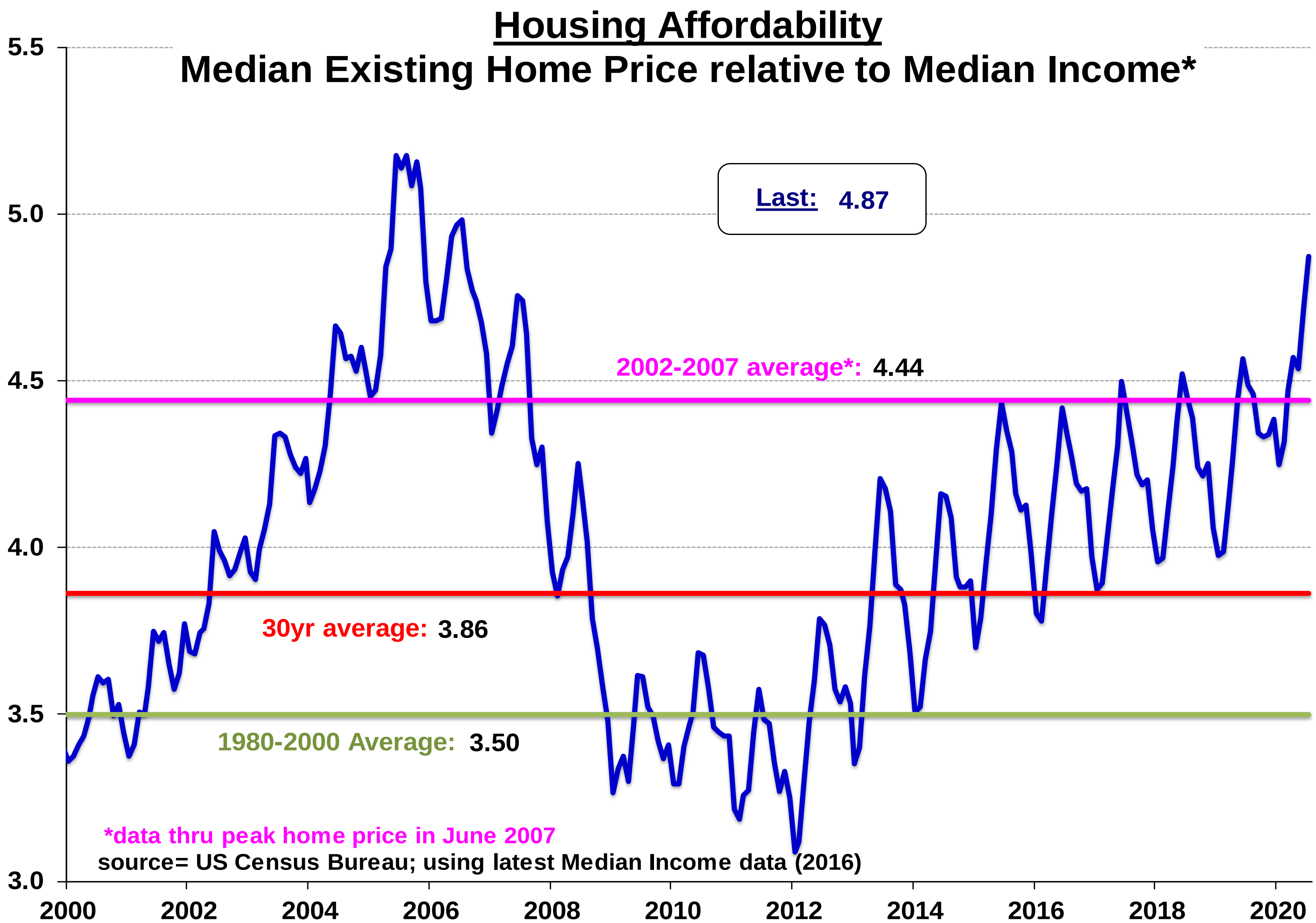
Record growth-value gap as a handful of names continue into unsustainable nose-bleed territory

Housing data continues to defy expectations: July New & Existing Home Sales surge; New Home Sales jump 13.9% vs. expectations of +1.8%, Existing Home Sales jump 24.7% vs. expectations of +14.6%.

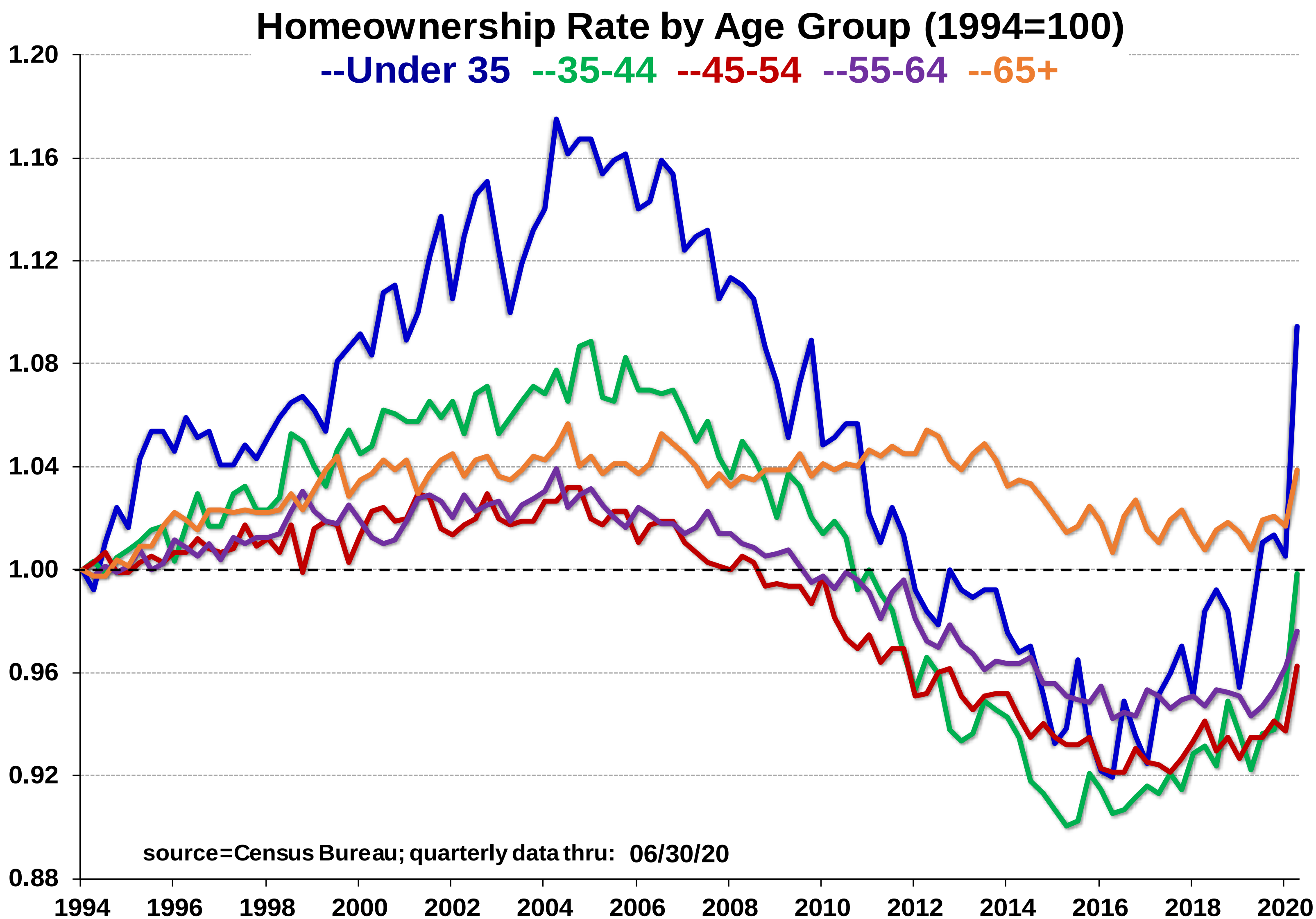
Chart: Existing Home Median Price rises 3.3% to record high $307.8k



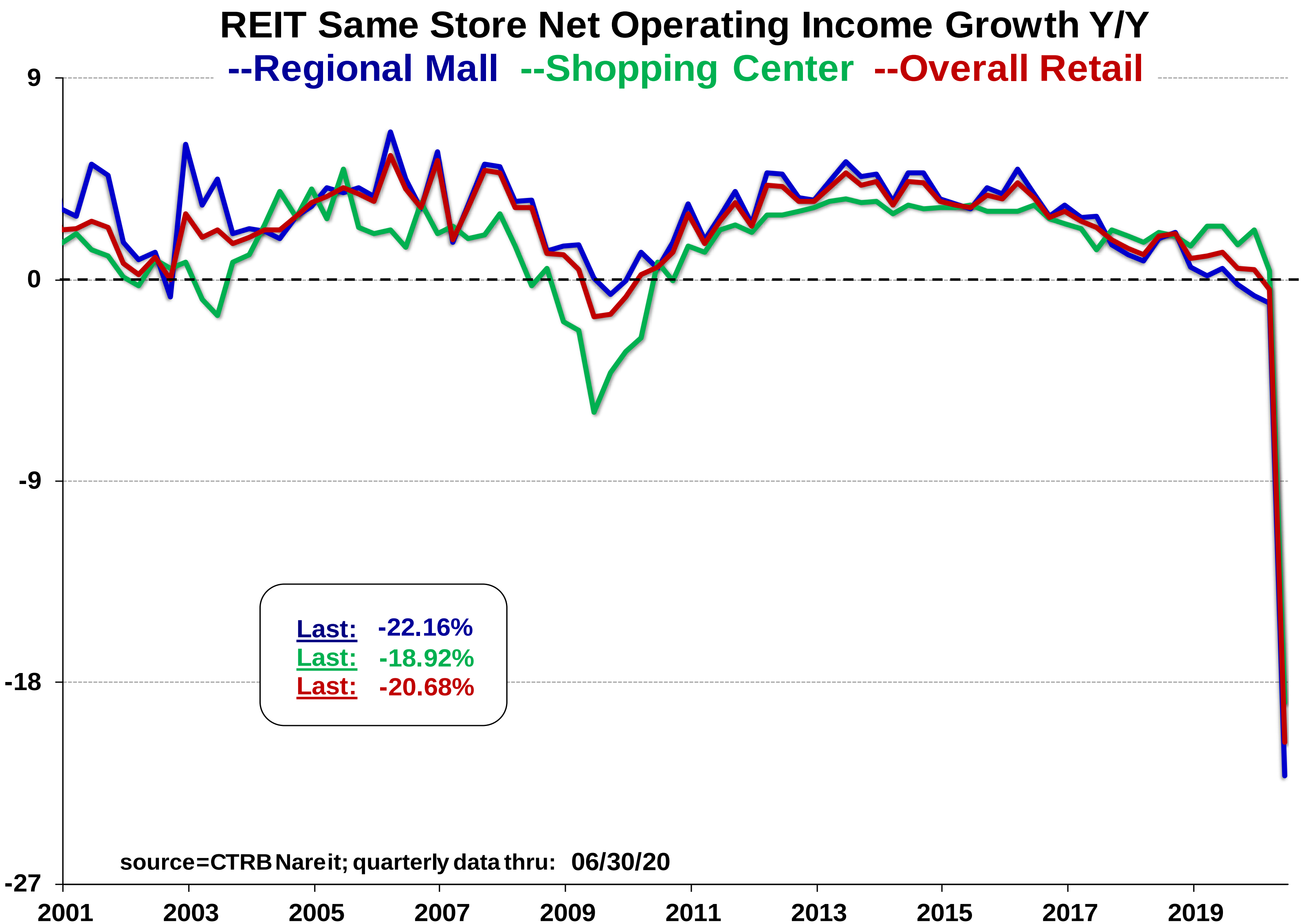
The downside: homes now least affordable since housing bubble peak.



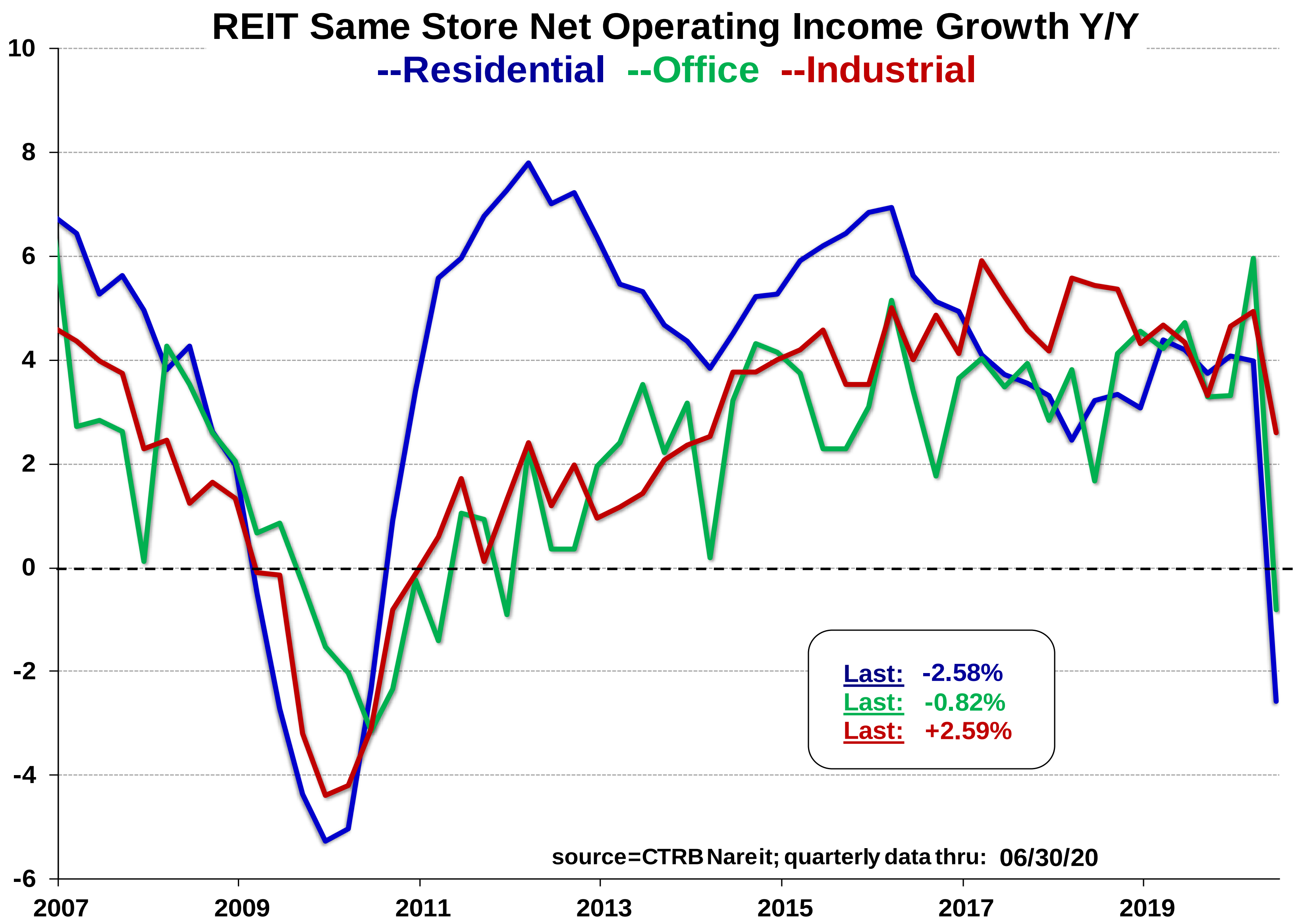
US Homeownership Rate rises to highest since Q3, 2008 led by under-35 age group.



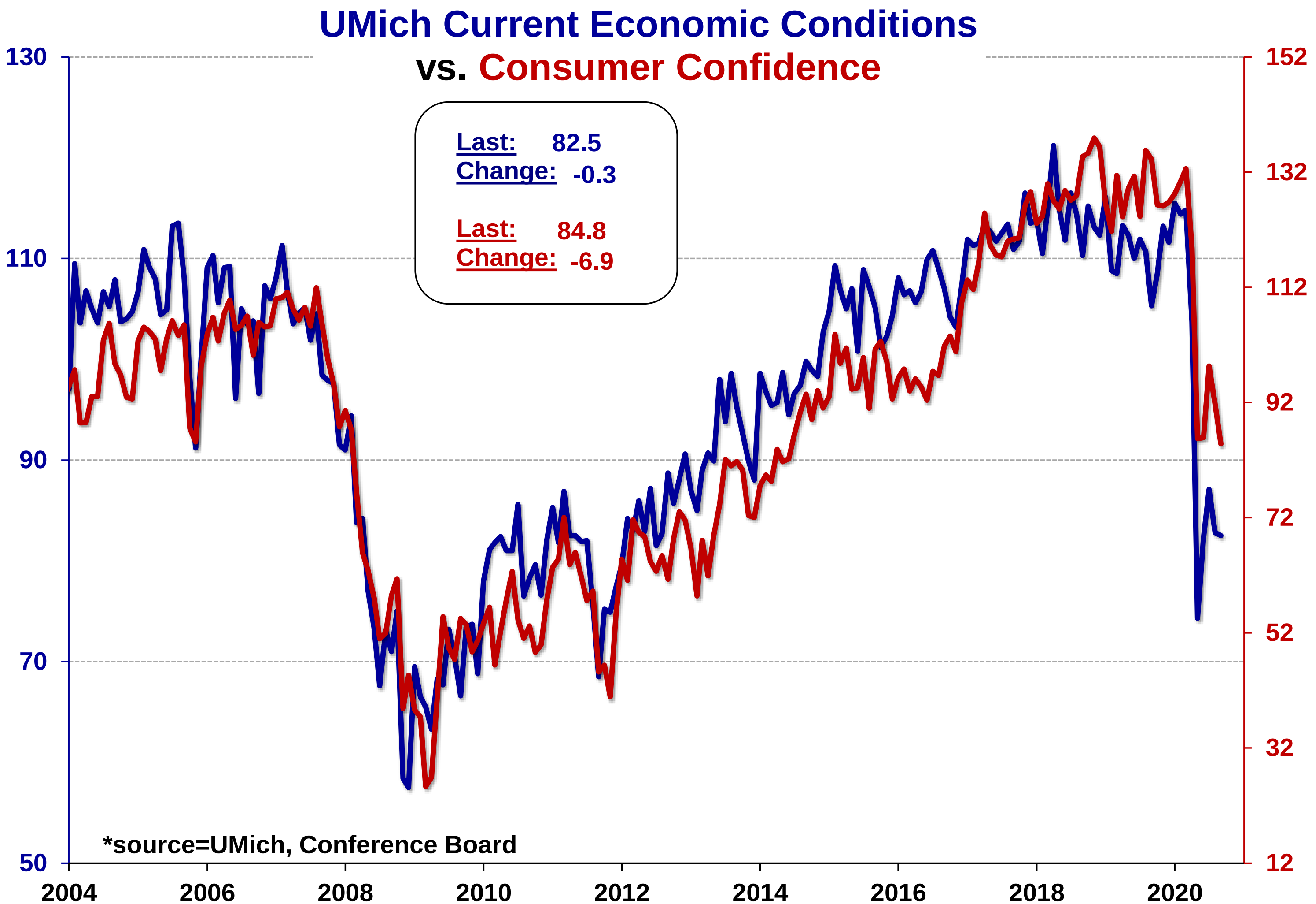
REIT Same Store Net Operating Income Growth (regional mall, shopping center, overall retail) all see biggest y/y declines on record in Q2.



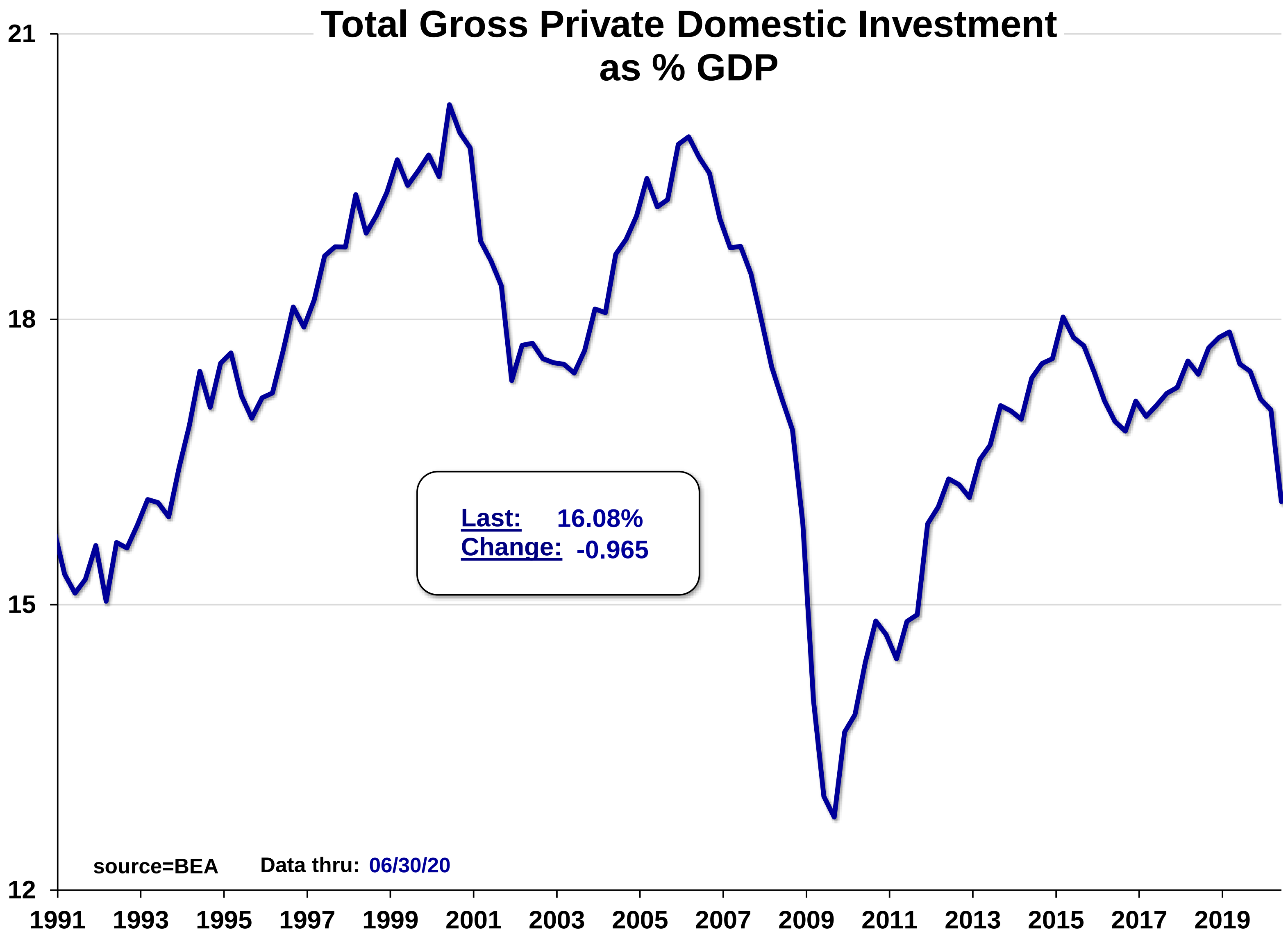
Net Operating Income Growth (residential, office) see biggest y/y declines since the recession



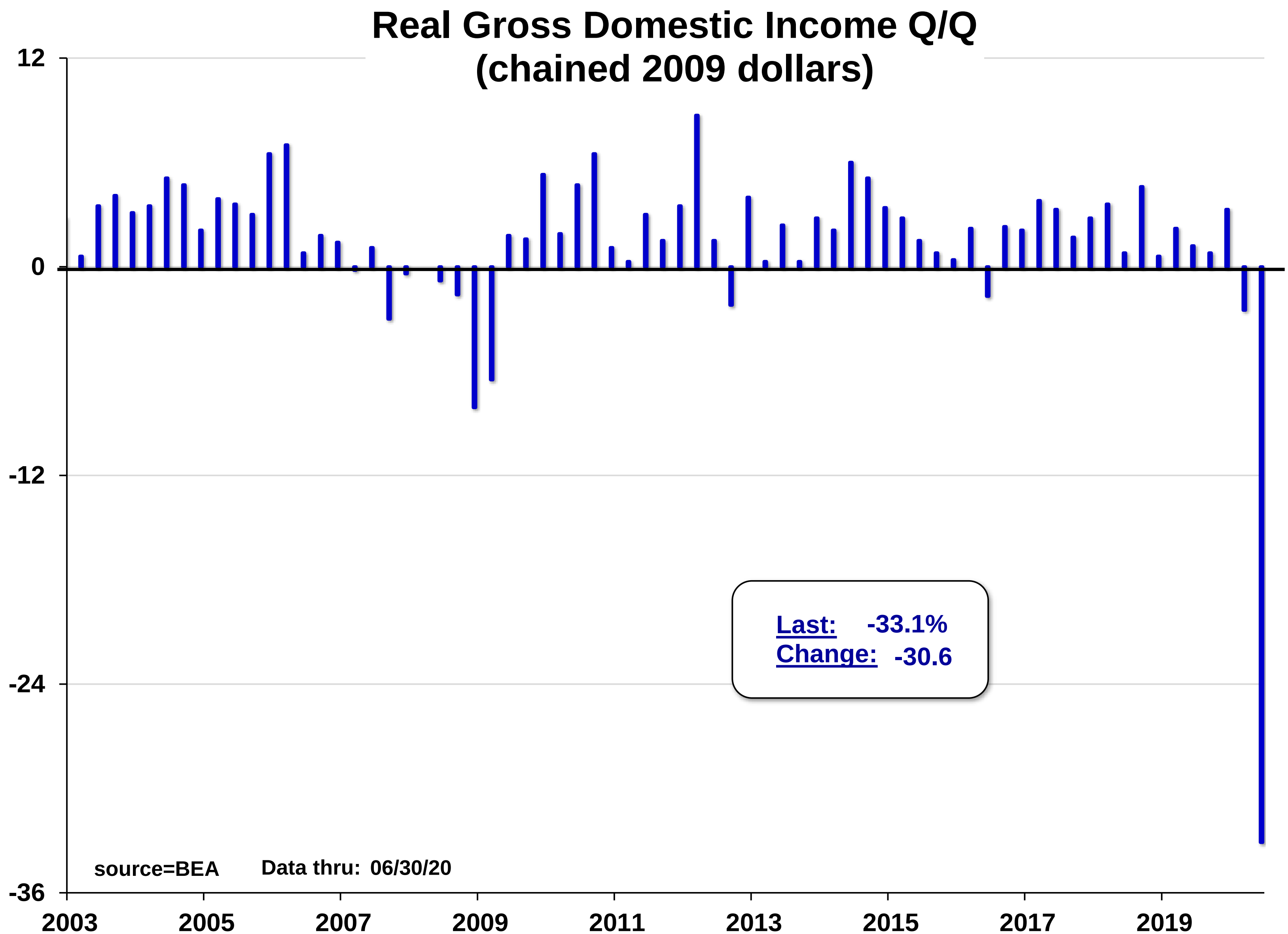
After Brief Rebound, Consumer Confidence Reverses: From our August 16 Macro Weekly: *UMich Current Economic Conditions index actually fell -0.3pts to 82.5, also an 8-year low****…suggesting August Consumer Confidence to drop for 2nd straight month vs. expectations of a rise to 93.2****..* And so it did: August Consumer Confidence drops to lowest since May 2014. This is a troubling reversal, no question about it. Consumers remain uneasy about job security and economic conditions.



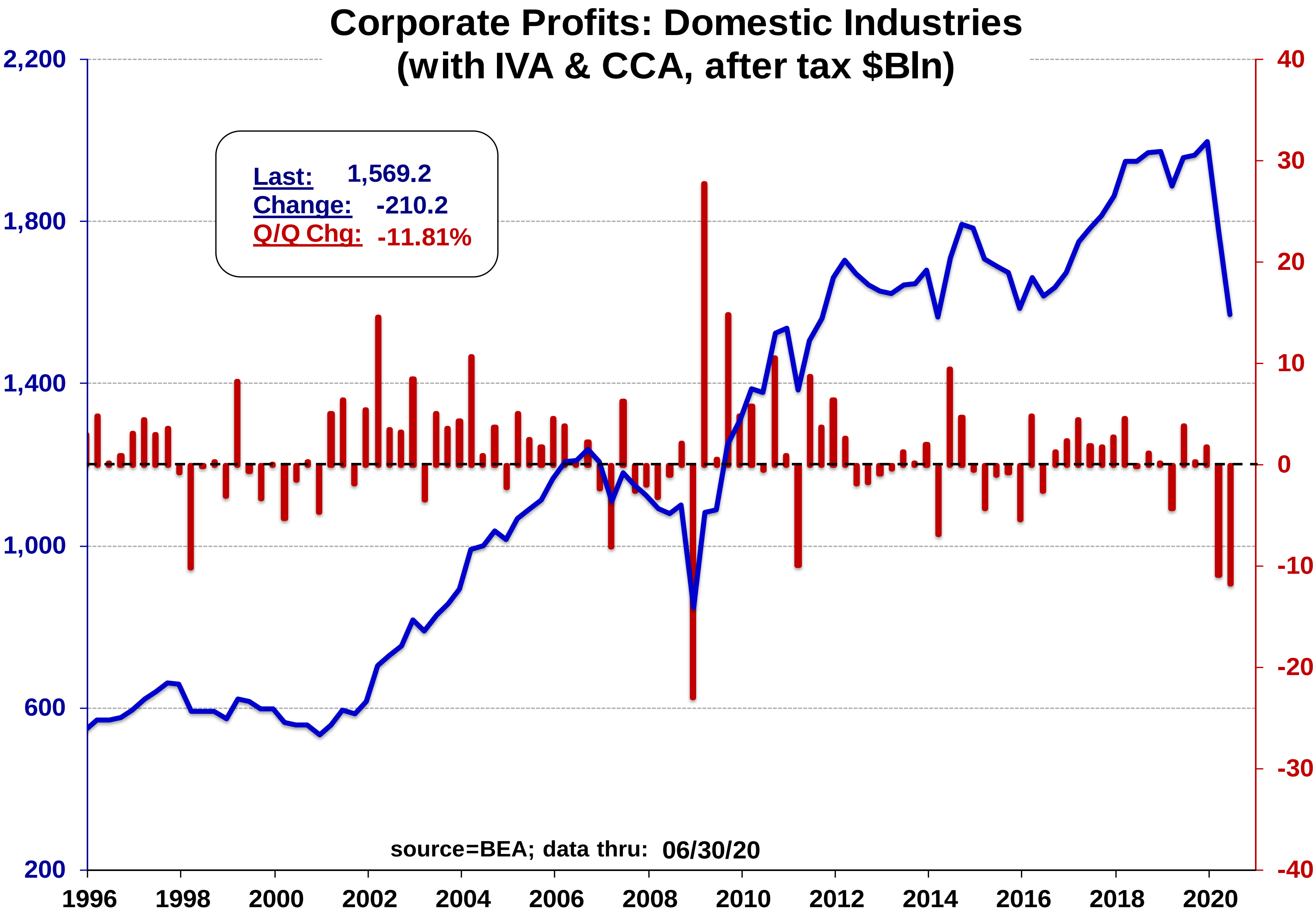
First revision of Q2 GDP shows small improvement, however the odds of a sharp rebound from here are unlikely.
Chart: GPDI as % GDP slides further to 8yr low (recession level).



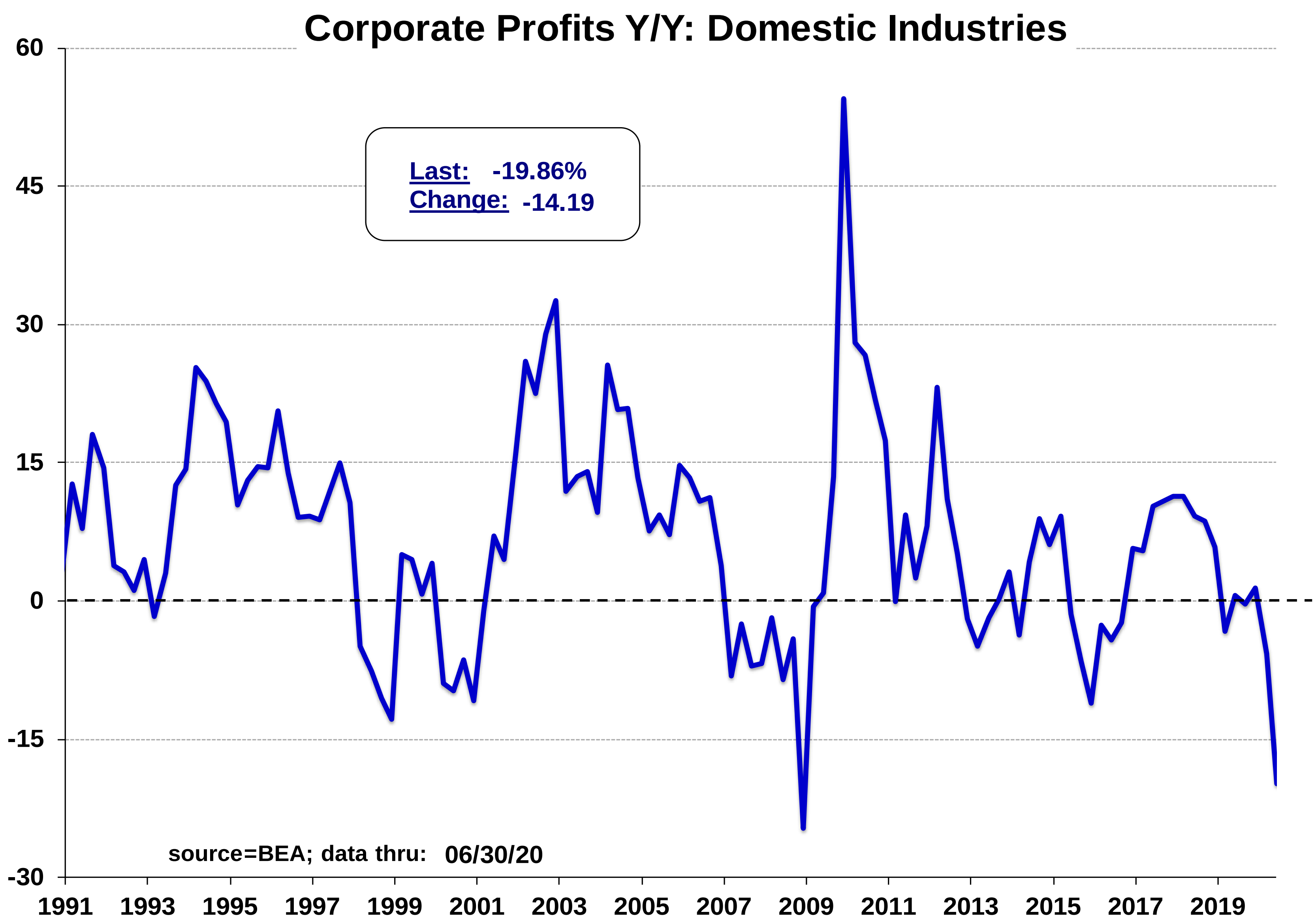
Real Domestic Income: biggest contraction on record



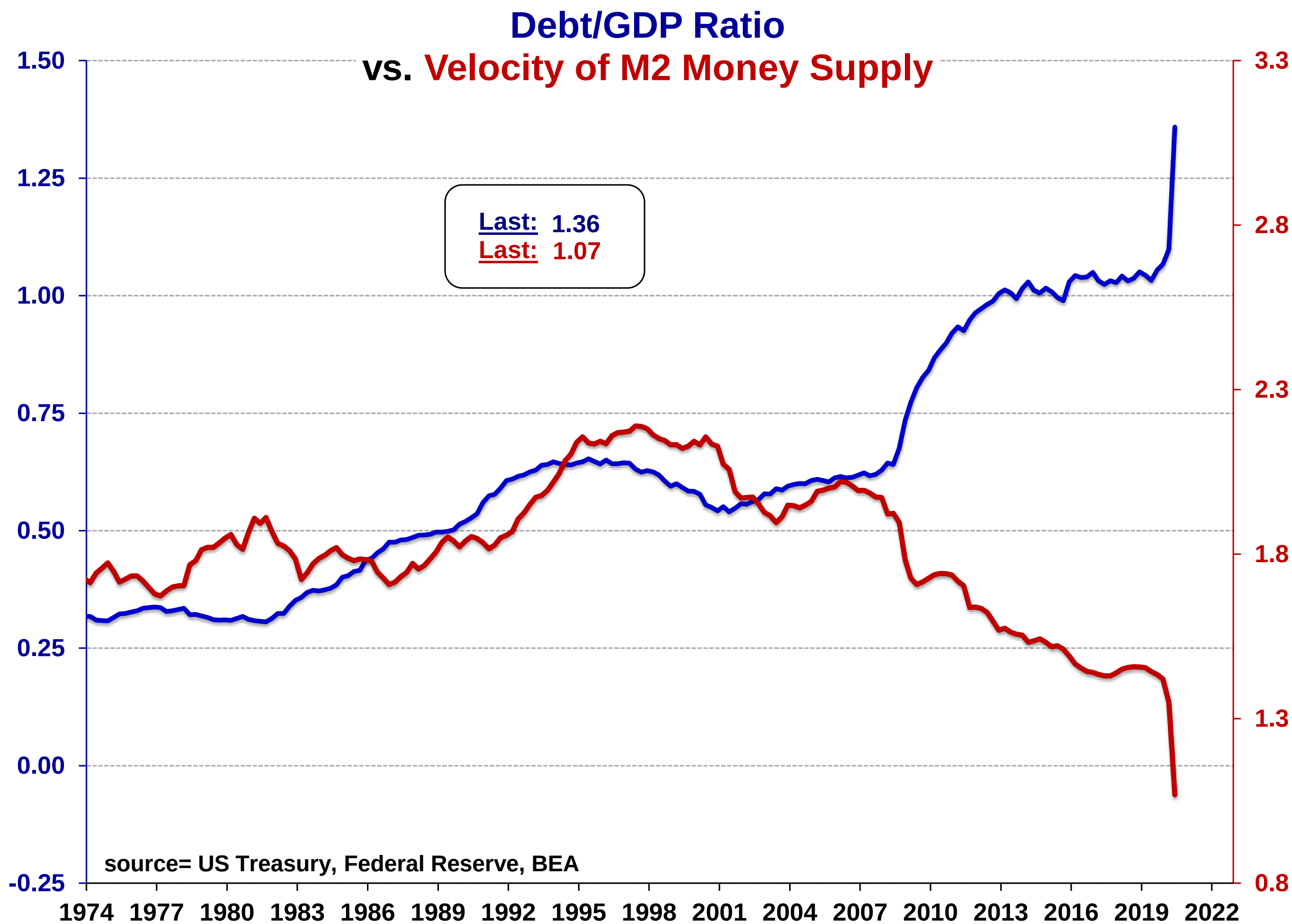
Corporate Profits see 2nd quarter in a row of double-digit declines: -11.8% in Q2, biggest drop since the recession



Corporate Profits see biggest y/y decline since the recession: -20%



The Elephant In The Room: debt is exploding yet flow of money through the economy (Velocity of M2) is cratering. This is no doubt one of (if not THE) reason the Fed has raised their inflation target. It's all hands on deck to revive the consumer and the economy by whatever means necessary. In short: when the Fed says they may allow inflation to run above 2% for "*some period of time*" they likely mean for an EXTENDED period. As well, the more elusive the initial 2% PCE reading, the more accommodative Fed & fiscal policies will be (see: lower yields and weaker Dollar ahead).



A Market On Steroids And Rampant Speculation: Stock Market Cap. spikes to record high relative to GDP

GDP Consumer Composite sees biggest Q/Q and Y/Y drop on record. This will surely turn around, however given the magnitude of devastation to the Service sector (and the almost certain spike in permanent job losses to come), we will likely see a more muted consumer contribution to growth for some years to come.