

Ignore the Central Banks

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How many times does Chicken Little have to wrongly squawk before investors get it? Yes, payrolls increased just 38,000 in May, and yes, British voters opted for political independence from the European Union. And, yes, Stock markets swooned. But, they will likely hit new highs this week. Just another head fake, brought to you by the bad news bears.

The financial press doesn't help. They jump on any, and every, story-line that can be spun negatively, even if they can't really explain it. And, the Fed seems just as jumpy as the press. Before the May jobs report (released June 3rd), most thought the Fed would hike rates by July. But after the May jobs data, and even though Janet Yellen went out of her way to emphasize that the Fed doesn't put too much weight on any one economic report, the market knew a July rate hike was off.

Some are spinning the July 287,000 jobs report as a "relief" to the Fed, but this only makes sense if somehow the Fed were thinking of cutting rates, but chose to ignore the weaker than expected May jobs data thinking things would get better. In other words, the Fed's indecision and wobbly-knees are creating uncertainty and an environment of fear.

We think it's time to start ignoring central banks. The pretense of global central banks the past several years is that without their decisive action, the crisis of 2008-09 would have turned into a global depression. All it took was a combination of massive quantitative easing, zero percent rates, and now negative interest rates to prop up growth.

This, we think, is nonsense. Quantitative easing just piled banks a mile high with reserves that they didn't lend. And, if

QE really did create economic growth, it would have also generated higher inflation and a weaker dollar, but inflation remains low by historical standards and the dollar isn't weak.

The same goes for negative rates. Central banks have always thought lower short-term rates create more stimulus. So, what's to stop them from going the next step and believing that negative rates must be even better! What this theory misses is that negative rates are, in effect, a tax on the financial system, which is supposed to be the conveyor belt for monetary policy. That's why countries adopting negative rates haven't yet generated the economic improvement those rates are supposed to yield. Quit waiting, it's not going to happen. In fact, negative interest rates lead to slower money growth.

But, it's not central banks that create wealth, it's entrepreneurial vigor – new ideas that make consumers' lives better, and engineering improvements that are freeing the US from unstable foreign energy supplies. Government spending and regulation stifle growth, and for the most part that's been getting worse in recent years. But, guess what? In some ways, things are getting better. For example, American oil producers are exporting crude oil for the first time since the 1970s.

The Fed has never written an App. It may use the Cloud, but it didn't build it. Remember this the next time the financial press obsesses about the next move, or lack thereof, by the Fed, the European Central Bank, Bank of England, or Bank of Japan. It hardly matters at all. And, besides, it's time wasted that's better spent analyzing companies. That's what "investors" do.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-13 / 7:30 am	Import Prices – Jun	+0.6%	+1.0%		+1.4%
7:30 am	Export Prices – Jun	+0.4%	+0.4%		+1.1%
7-14 / 7:30 am	Initial Claims – July 9	265K	267K		254K
7:30 am	PPI – Jun	+0.3%	+0.2%		+0.4%
7:30 am	"Core" PPI – Jun	+0.1%	+0.2%		+0.3%
7-15 / 7:30 am	Retail Sales – Jun	+0.1%	+0.2%		+0.5%
7:30 am	Retail Sales Ex-Auto – Jun	+0.4%	+0.3%		+0.4%
7:30 am	CPI – Jun	+0.3%	+0.3%		+0.2%
7:30 am	"Core" CPI – Jun	+0.2%	+0.2%		+0.2%
7:30 am	Empire State Mfg Survey – Jul	5.0	6.0		6.0
8:15 am	Industrial Production – Jun	+0.2%	+0.1%		-0.4%
8:15 am	Capacity Utilization – Jun	75.1%	74.9%		74.9%
9:00 am	Business Inventories – May	+0.1%	+0.1%		+0.1%
9:00 am	U. Mich Consumer Sentiment- Jul	93.0	93.5		93.5