July 2, 2019

Dear Clients and Friends:

After a relatively strong start, the current Chairman of the Federal Reserve has devolved into a timid, timorous and tremulous bowl of goo, a man seemingly without conviction being buffeted by the markets on one side and the President on the other. Long gone is the confident executive who just last fall declared that we were far from neutral with respect to interest rates and that the reduction of the balance sheet was on autopilot. Instead he has lapsed into the pattern of those who came before him, beginning with the still living yet increasingly cadaverous Alan Greenspan. Paying lip service to the dual mandate of stable inflation and maximum employment, while instead pursuing the shadow mandate of ever-increasing equity prices. How else to explain the contortions and convoluted logic behind the sudden reversal early this year? Once again using the specter of an inflation rate that is too low at 1.6% rather than 2%, we are told policy is clearly too tight and will be relaxed in due course. The dot plot created by the best and brightest, which purports to predict interest rates in the near and not so near future, is discarded like yesterday's trash. As the dot has never been more useful than yesterday's trash, this is not a problem but rather a source of amusement. Never mind the fact that the S&P 500 declined by nearly 20% in the 4th quarter of 2018; that had nothing to do with the change in tone.

At the midpoint in the year, we now find that equity markets are back at record highs, while interest rates continue their decline and several rate cuts are anticipated in the near future. In case you were interested, the dot plots that forecasted several increases at the beginning of the year concur, so that should make us all feel better. The Chairman of the Fed assures us that he will respond to any economic weakness and defend the 2% inflation rate with all tools available. That they seem to have no idea about what creates inflation or that the Federal Reserve policy can do nothing to create economic growth is apparently irrelevant. What they can do, and have continued to do, is pursue policies that foment asset bubbles and promote excessive risk taking. The reason for this is the massive global debt bubble that continues to metastasize day by day and year by year. The cure for this economic cancer is not difficult to discern, but the treatment will be as pleasant as chemotherapy. Given that the societal appetite for unpleasant remedies is minimal, we expect the current Federal Reserve to continue the course of the last 25 years - extend and pretend, as in extend the game and pretend you care about inflation and economic growth.

There has been some talk recently from the administration about replacing the current Chair of the Fed. While we are of the opinion that this is neither wise nor legal, we thought given the actions of an increasingly irrational central bank that we would make a suggestion for the next chair and that is Oscar Zoroaster Phadrig Isaac Norman Henkle Emmannuel Ambroise Diggs. Not a household name I know, but you may know him by his more famous moniker, The

Wizard of Oz. As the head of the Federal Reserve is thought to be great and powerful but in reality seems to be neither, I can think of no more appropriate individual for the job.

Sincerely,

Mark M. Egan, CFA
Managing Director