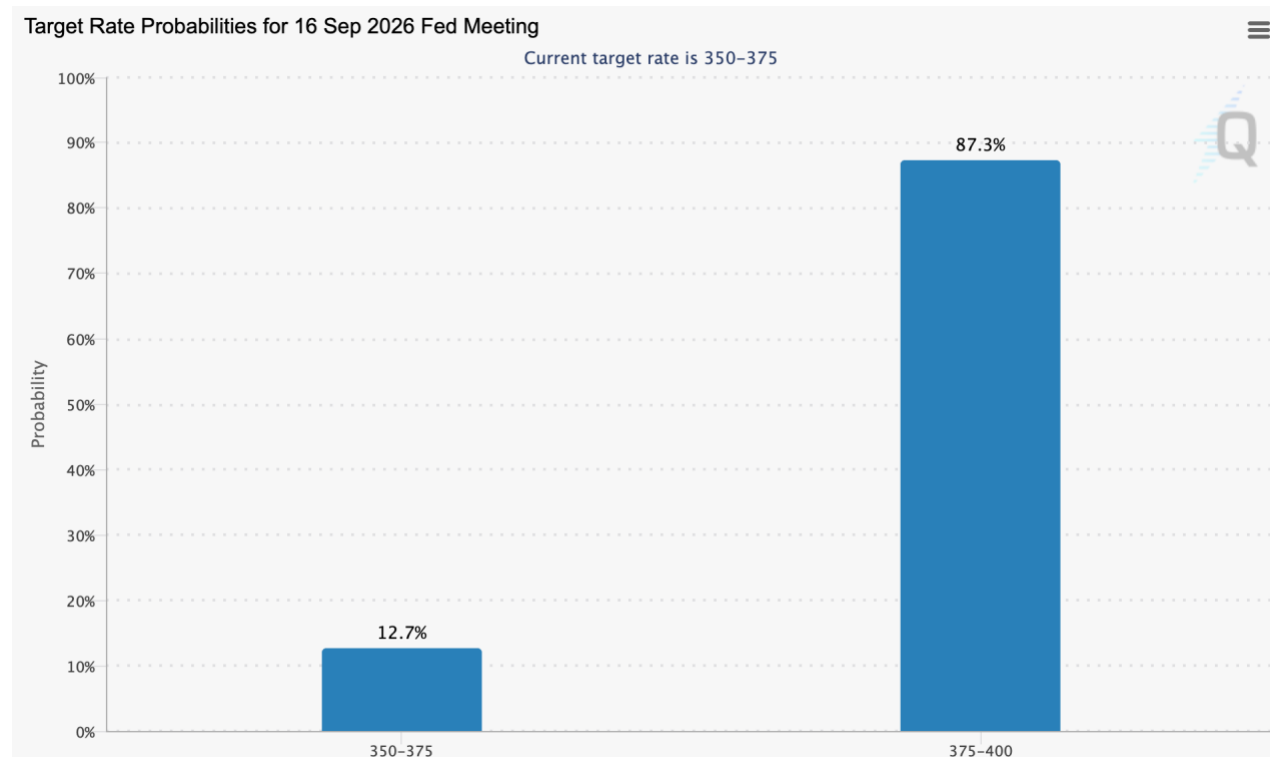


FCM Weekly Market Notes

The Choiceless Fed

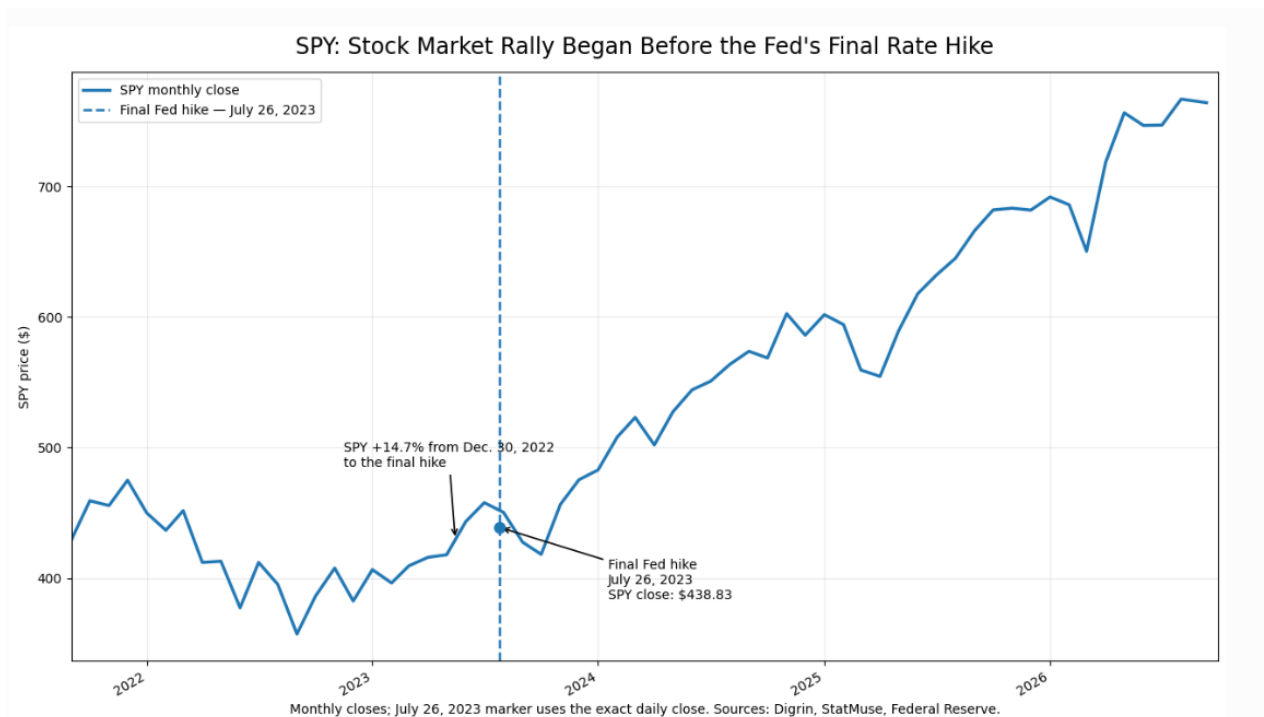
The market recognizes that the Fed has virtually no choice other than a rate hike this week. To preserve liquidity conditions as abundant, Fed chair Warsh is going to have to position this as “one or two and done” or investors are likely to rethink their risk appetite.

Despite Warsh’s preference for obfuscating how the Fed is leaning, market pricing has collapsed towards an almost certain hike this week. Every Fed chair recognizes that if the market is this strongly oriented towards a rate movement, not following through would invite market chaos.

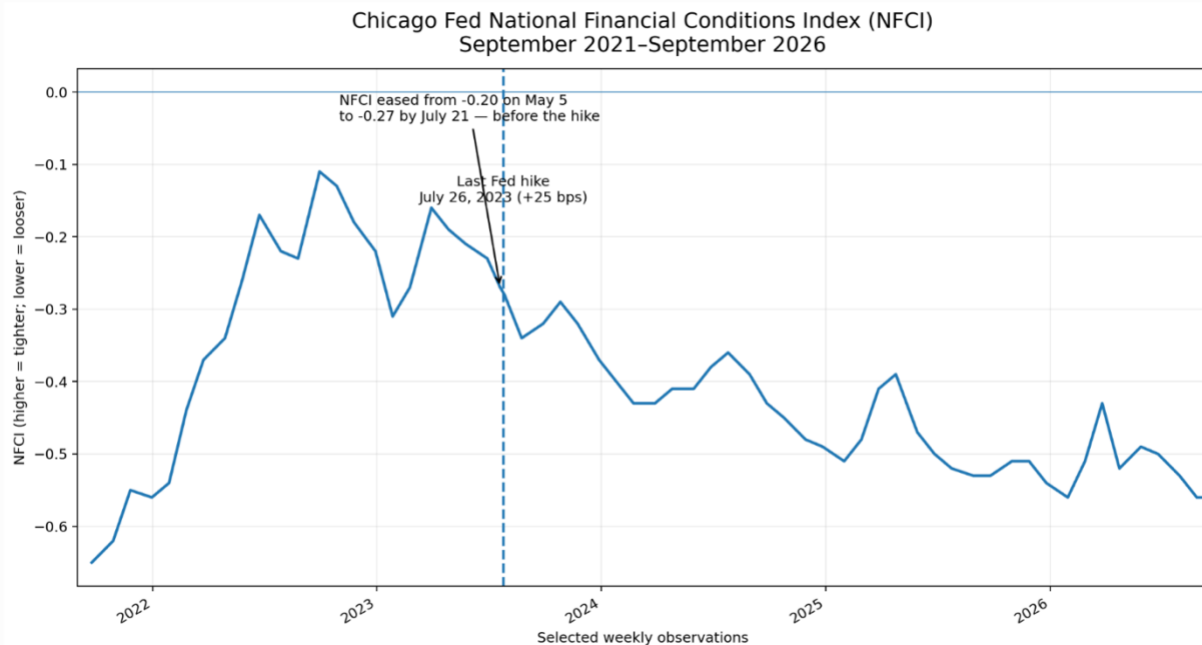


With the outcome of the meeting (presumably) foretold, Warsh's body language on additional hikes will be the focus. Why is this important? The hike is taking place after an extended bull market that kicked off as the market realized the last hiking cycle was nearing completion. However much Warsh disdains forward guidance, markets remain future discounting machines.

The final hike of the cycle that started in 2022 as inflation spiked was in July of 2023. Equities were firmly off their lows before the last hike, and after that hike the S&P has returned a tidy 68% and the Nasdaq 89%.



Warsh will be mindful of not killing the golden goose of abundant liquidity that enabled that rally. Liquidity conditions even earlier anticipated the end of the hiking cycle and began to ease (lower is looser).



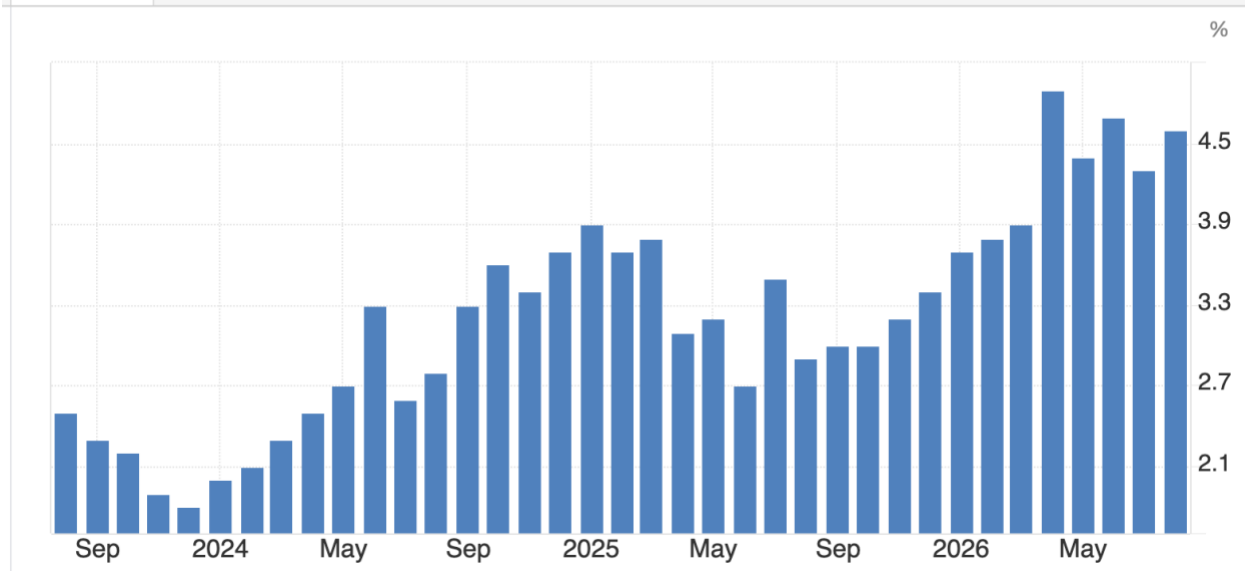
We conclude that as long as the market believes this has the potential to be a “one and done” or at worst a “two and done” generous liquidity conditions need not contract significantly. If they do begin to retreat from their current extremely accommodative levels, we would become extremely cautious with risk assets.

The problem for Warsh is that forward inflation conditions are not making a positive market narrative on rates easy. With the deterioration of conditions in the Middle East, oil prices have spiked and diesel prices—which impact most of the goods transportation sector—are at all-time highs.

Additionally, copper prices are up 41% YOY, soybeans 22%, wheat 35%, and aluminum 20%. Core producer prices are not signaling the probability of an easing of consumer prices anytime soon.

United States Producer Prices Final Demand Less Foods and Energy YoY

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While the S&P is up 1.37% since the start of June, the Nasdaq is down nearly 4%. So, we enter this Fed meeting with clearly waning market momentum, which further makes the Fed's perceived future stance beyond one hike for liquidity conditions and risk appetite extremely important.

For investment implications, as always, we are alert more to price movements than our own ability to read the future, and they are encouraging a more circumspect risk positioning.

We have been clear for months that the outlook for bond investors is far more fraught. The underlying inflation outlook gives little reason to hope for relief even if we get a short-term rally from an oversold market. Add in the fiscal worries, structural de-globalization, and massive new issuance from tech giants, and investors clearly need to consider other income avenues.



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