

Rate Cuts on Backburner

If you expect Kevin Warsh to quickly take the helm at the Fed and start cutting rates, you need to adjust your expectations.

For one thing, the timing for Warsh getting confirmed as the new Chairman at the Federal Reserve is murky, at best. The Senate hearing for Warsh has been delayed and yet to be rescheduled. One issue is that retiring North Carolina Republican Senator Tom Tillis has said he will refuse to vote for Warsh unless and until the Trump Administration makes it clear it will not try to prosecute current Chairman Jerome Powell, for alleged cost overruns on Fed-related construction projects or otherwise.

Another reason why rate cuts are on the backburner is that even if Warsh gets confirmed in time for the June meeting he may not have the votes for rate cuts from other board members and Fed bank presidents. The consumer price index jumped 0.9% in March on the back of soaring gas prices due to the Iran War. These prices are now up 3.3% from a year ago, well above the Fed's 2.0% target.

Yes, core consumer prices, which exclude food and energy, were up only 0.2% in March – but they are still up 2.6% from a year ago. Even Powell's COVID-era invention of "SuperCore" inflation, which excludes not only food and energy but also other goods and rent, so that it focuses narrowly on services is up 3.1% on a year-ago comparison basis. In other words, no matter how it's viewed, inflation remains uncomfortably high.

Hopefully the Iran War will end soon and on favorable terms, which could quickly send oil prices back down to

February levels. And if it does then that may give enough Fed officials the confidence for some modest rate cuts.

But the end of the Iran War and its economic implications don't seem imminent. As we write this it appears that President Trump is willing to double-down on a closure of the Strait of Hormuz, which in the near-term means higher oil prices, less revenue flow for the Iranian government, and less access to oil globally. It's tough to read Trump's mind, but we are guessing that he thinks a closure would get more NATO members, many of whom are dependent on Middle East oil, more involved and supportive of the US effort.

There are also reports that both Israel and Saudi Arabia (and perhaps others) are fully committed to regime change in Tehran, seeing this as the best opportunity to bring that about and if it doesn't happen soon – via either a popular revolt or a coup – it might not happen for many years.

In the past, military conflict has not necessarily been bad for stocks. Think 2003, when stocks did very well the same year that Gulf War II began under President George W. Bush. But back then stocks were undervalued after getting crushed the prior three years, with the S&P 500 down more than 40% from the high in March 2000.

By contrast, we believe stocks are still overvalued in spite of robust profit growth in the fourth quarter. Unless profits soar from current levels or, in the alternative, we get much lower long-term interest rates without a recession, it's going to be hard for US equities to generate the robust returns of the last couple of years. We continue to urge investors to be cautious.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-13 / 9:00 am	Existing Home Sales – Mar	4.05 Mil	4.07 Mil	3.98 Mil	4.13 Mil
4-14 / 7:30 am	PPI – Mar	+1.1%	+1.1%		+0.7%
7:30 am	“Core” PPI – Mar	+0.4%	+0.5%		+0.5%
4-15 / 7:30 am	Empire State Mfg Survey – Apr	0.0	5.4		-0.2
7:30 am	Import Prices – Mar	+2.2%	+1.8%		+1.3%
7:30 am	Export Prices – Mar	+1.7%	+1.2%		+1.5%
4-16 / 7:30 am	Initial Claims – Apr 11	213K	214K		219K
7:30 am	Philly Fed Survey – Apr	10.4	4.8		18.1
8:15 am	Industrial Production – Mar	+0.1%	0.0%		+0.2%
8:15 am	Capacity Utilization – Mar	76.3%	76.2		76.3%