Written by **Bob Adelmann** on January 3, 2019

As Economy Slows, Bond Investors Say Fed Won't Raise Rates

A month ago, bond investors were predicting that the Fed would be raising interest rates several times in 2019. As the economy is now clearly slowing, those same investors are predicting the Fed has now done its job and won't be raising rates in the New Year. Said the *Wall Street Journal*:

> Fed-funds futures, which investors use to bet on the direction of Fed policy, on Wednesday showed a 91% probability that the central bank's policy makers will finish the year [2019] with interest rates at or below their current levels.
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> That is a reversal from early November, when futures prices indicated a 90% probability that rates would end 2019 higher than they are now.

The latest report from the Institute of Supply Management merely confirmed that slowing economy, with its manufacturing survey published on Thursday coming in below forecasters' expectations (which were below October's).

The New American has been tracking and noting the slowing of the U.S. economy that has been established policy at the Fed for many months now. In November we noted that homebuilders were already feeling the pinch of higher interest rates, which the Fed had imposed on the economy earlier in the year. The NAHB (National Association of Home Builders) monthly confidence index dropped a staggering eight points from October, providing an "early warning signal on the direction of the economy" and running the risk that the Fed "might just be steering the economy off the highway and into the weeds."

A few days later *The New American* reported that our position that the Fed's intervention was intentional and deliberate was confirmed by Jeremy Siegel, professor of finance at the Wharton School of Finance. He told CNBC's *Closing Bell* on November 21 that "the market is saying that the pace [of the Fed's interest rate hikes] is a little too fast.... The market is clearly worried about over-tightening by the Fed." We noted remarks by Fed Chairman Jerome Powell made in October that the Fed was "a long way from 'neutral,'" implying that more rate hikes were in the plan in order to slow the economy.

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In December *The New American* warned its readers not to be fooled into focusing only on the proposed interest-rate hikes the Fed was using to slow the economy but to also focus on the "runoff" of billions of dollars of bonds it was holding as they matured. At the time we said:

> Since September 2014, the Federal Reserve has been intentionally and deliberately shrinking the money supply — the capital that a capitalist system needs to thrive and prosper — from $4.15 trillion to $3.5 trillion as of November 21, 2018. That's 15-percent shrinkage in the "oxygen supply"

> the capitalist system needs.
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> But it's worse than that: Most of that shrinkage has taken place since last September. Since then the Fed has reduced the money supply (its "Adjusted Monetary Base" numbers are available from the St. Louis Fed's website) from $4.0 trillion to $3.5 trillion, a reduction of 12.5 percent.
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> That money-supply shrinkage is now showing up in the various places pundits are looking to place the blame, i.e., anything that affects the financial well-being of the economy. As interest rates rise and the money supply shrinks (the two most powerful tools the Fed is using to slow the economy), housing starts slow, car sales dwindle, credit card payments increase, profit margins decline, and capital expenditure projects are taken off the board as they are no longer profitable enough to be justified….
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> It's the Fed that stands athwart the economy's startling growth trajectory.

A week later, we noted a reversal by bond investors who saw a slowing economy and changed its mind about the Fed's continuing efforts to slow it further: "The Fed was expected to continue raising rates well into 2019 but now futures traders (those who bet real money and not just ink on Bloomberg's website) are backing off. They are betting that the Fed might raise interest rates one more time next year (instead of the three to four times experts were predicting just a month ago) and some are putting large sums down on the bet that — ready? — the Fed will reduce interest rates by one notch next year instead."

Two days after Christmas, *The New American* quoted an investment strategist with Navellier and Associates who noted the Fed's attempt to slow the economy was not due so much to its raising interest rates but due to its policy of selling off billions of dollars of bonds from its immense portfolio, thus sucking capital out of the economy. Said Ivan Martchev:

> I think the present volatility of the stock market is not due to the hiking of the fed funds rate alone, but also to the more disruptive overall quantitative tightening, which demonstrates itself via the rising Fed balance sheet runoff rate, which went from $20 billion in January to the present $50 billion/month rate.
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> Letting bonds mature (and not reinvesting the proceeds) … sucks excess reserves out of the financial system. Sucking electronic cash out of the financial system may be the simplest possible explanation as to why the stock market is doing what it is doing.

A day later we noted that Wall Street likely jumped massively on news that the White House was attempting to set up a meeting between the president and Powell. That 850-point jump in the last 90 minutes of trading that day caught many by surprise, including Mark Skousen, a veteran investment advisor and economist, who blamed the excessive market volatility on the Fed: "The Fed announced last week that it was raising short-term rates to 2.5% … the central bankers attitude is, "damn the torpedoes, full speed ahead", even if it means … a potential recession."

That, unfortunately, is exactly what the Fed intends. Back in November, Goldman Sachs, perhaps the most prominent and influential bank with ties to the Deep State, said in a note to its clients: "The FOMC [the Federal Open Market Committee] will likely be reluctant to stop [raising interest rates] until it is confident that the unemployment rate is no longer on a downward trajectory, a point we expect to reach in early 2020." We added: "No longer on a downward trajectory? Say it right: the Fed is determined, in the opinion of the insider investment banking firm, to keep raising rates until the economy is so weak that unemployment starts to increase!"

Readers still skeptical of this scenario need only read what Powell said the day he announced that his bank was raising interest rates back on December 19. He was asked a question about the continuing liquidation (aka "balance sheet normalization" or "runoff") of bonds from its balance sheet by Heather Long of the *Washington Post*: "I'm wondering if the Fed has had any discussion of altering the course of the balance sheet normalization and if you could give us any thoughts on what might lead the FOMC to alter that balance sheet normalization in 2019?"

Responded Powell: "We thought carefully about this, on how to normalize policy, and came to the view that we would effectively have the balance sheet runoff [remain] on automatic pilot…. I think the runoff of the balance sheet has been smooth and has served its purpose."

If, as we have surmised repeatedly, the Fed's purpose is to slow and then eventually stop the Trump economic juggernaut just in time for the 2020 presidential election, then it is working. Goldman Sachs has just reduced its growth outlook for the first half of 2019 from 2.4 percent to two percent, and the bank expects growth to slow further in the second half of the year to 1.8 percent.

Morgan Stanley, another insider bank, expects the economy, thanks to the Fed's interest-rate hikes and its continuing "autopilot" liquidation of its bonds, to slow to 1.7 percent this year, with quarterly growth declining to just one percent in the July to September quarter.

It's helpful to remember that the Fed is the brainchild of the international banking establishment as so carefully revealed by G. Edward Griffin in his tome *The Creature from Jekyll Island*. As part of the Deep State, why would they not direct Powell to slow Trump's economic recovery and stall it just in time for his reelection campaign?

Image: traveler1116 via iStock / Getty Images Plus

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