First Trust
Monday Morning OUTLOOK
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December 3, 2018

Scapegoating Powell

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New Narrative Alert: Fed Chief Jerome Powell is to blame for the volatility in stocks. Back on October 3rd, with stock markets near their record highs, Powell said "we're a long way from neutral." That was not long after the Fed had moved the federal funds rate to a range of 2.00% to 2.25%, so the implication was that the Federal Reserve was going to maintain a pace of rate hikes in 2019 similar to 2018.

Then came the correction – which, by the way, seems to have ended the day after Thanksgiving - just a few trading days before Powell adjusted his language and said short-term interest rates set by the Fed are "just below" neutral.

Conventional wisdom says it's all about the Fed. This thinking began back in 2008/09 when many pundits, analysts and investors decided it was QE and zero percent interest rates that saved the markets during the Great Recession. Forget about entrepreneurship, forget about profits, forget about tax rates and regulation. Just read the Fed tea leaves or listen to those who read them for you.

Count us skeptical. No matter how bullish we've been the past several years, we've always told investors that it's about entrepreneurship, profits, and policy, not the Fed. If printing money and low rates were really the answer, European stock markets wouldn't have under-performed the US by so much in the past decade. And no one can consistently predict corrections. Investors could save a lot of headache (and a lot of money) simply by focusing on fundamentals rather than trying to time the market.

After a correction happens, plenty of people come out of the woodwork to tell us what caused it, even though they never predicted the correction in the first place. There's always some explanation – after the fact - that seems to fit the limited data available. So, it's not surprising some analysts are blaming Powell. Heck, the pouting pundits have been predicting near constant doom and gloom since 2009, and they'll take any chance they can (no matter how temporary) to pop champagne and gloat.

Regardless, neither of Powell's statements were out of line. Back in September the "median dot" suggested a neutral rate of 3.0% for federal funds, which is about four rate hikes away or a "long way from neutral." But the range for neutral extends from 2.5% to 3.5%, possibly only one or two more rate hikes away, consistent with "just below."

We think the news that really drove the market higher last week was the report that economy-wide pre-tax corporate profits were up 10.3% from a year ago (and up 19.4% after taxes – thank you tax cuts!). Focus on fundamentals, not post-event explanations. The former tell us the trend, the latter are little more than a distraction.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
12-3 / 9:00 am	ISM Index – Nov	57.5	**57.7**	59.3	57.7
9:00 am	Construction Spending – Oct	+0.4%	**+0.3%**	-0.1%	-0.1%
Afternoon	Total Car/Truck Sales – Nov	17.2 Mil	**17.2 Mil**		17.5 Mil
Afternoon	Domestic Car/Truck Sales – Nov	13.4 Mil	**13.2 Mil**		13.6 Mil
12-5 / 7:30 am	Q3 Non-Farm Productivity	+2.3%	**+2.8%**		+2.2%
7:30 am	Q3 Unit Labor Costs	+1.0%	**+0.8%**		+1.2%
12-6 / 7:30 am	Int'l Trade Balance – Oct	-$55.0 Bil	**-$55.2 Bil**		-$54.0 Bil
7:30 am	Initial Claims – Dec 1	225K	**225K**		234K
9:00 am	ISM Non Mfg Index – Nov	59.0	**59.3**		60.3
9:00 am	Factory Orders – Oct	-2.0%	**-2.1%**		+0.7%
12-7 / 7:30 am	Non-Farm Payrolls – Nov	198K	**197K**		250K
7:30 am	Private Payrolls – Nov	200K	**190K**		246K
7:30 am	Manufacturing Payrolls – Nov	18K	**20K**		32K
7:30 am	Unemployment Rate – Nov	3.7%	**3.7%**		3.7%
7:30 am	Average Hourly Earnings – Nov	+0.3%	**+0.2%**		+0.2%
7:30 am	Average Weekly Hours – Nov	34.5	**34.5**		34.5
9:00 am	U. Mich Consumer Sentiment- Dec	97.0	**98.0**		97.5
2:00 pm	Consumer Credit– Oct	$15.0 Bil	**$15.6 Bil**		$10.9 Bil