



Zanetti Monday Missive 2022.04.25 A Steep Fall

“It’s absolutely essential to restore price stability... Economies don’t work without price stability.”

~ Jerome Powell (Thursday, March 21, 2022)

“My eyes rolled so far back in my head that I could see myself think.”

~ Janet Evanovich

Today’s quotes are a bit tongue in cheek.

Jerome Powell, the Federal Reserve Chairman, was quoted saying this - this past Thursday. The Federal Reserve is going to get "serious" about taming inflation. Even suggesting a ½ percentage point increase in the Fed Funds Rate. The Fed Funds rate is the tool the Fed uses to fight inflation. They set this rate, then banks borrow and lend to each other at this rate.

When he said this, my eyes rolled so far back into my head that, well... I

could see myself think. And what did I think about? I thought about Jerome Powell testifying before a House hearing back in June of 2021, when he said “the recent rise in inflation is ‘transitory’.”

TRANSITORY!

What a word! I think that word is going to irritate me for the rest of my life.

We all knew it, right? We all knew Powell was full of Malarky. But we just had to watch all of the Washington Big Wigs pat each other on the back and blow off financial concerns for the future.

Well, now here we are. Inflation, as we all know, is here for the long-run. And the Federal Reserve is now tasked with reigning it in. Now, Powell is hearkening back to Paul Volker who was “The Man” in terms of fighting inflation.

So, what’s the Fed to do? Well, the only thing they can do, really. Raise interest rates. So, what just happened this past week?

The Fed said they might... that’s right, “might” raise rates by half a percentage point in May.

HALF A PERCENTAGE POINT!

MIGHT!

And what did that “might” do? The mere hint of raising interest rates sent the stock market into a nose dive!

And what will half a percentage point do to inflation? Not much! They're going to have to keep cranking it up. But back to the stock market...

On Friday, the stock market had the worst fall since October 28, 2020.

Why?

Well, people hear the Fed's going to raise rates, which will make it harder for corporations to borrow money, which will make it harder for corporations to post profits, and their shares will decline in value. So investors start to sell now in a panic. (Then they'll start buying again once the panic dissipates.)

So, the Dow and the S&P both fell 2.8% in one day. ONE DAY! That's a Spicy Meatball!

Here's a chart of the S&P for the week...

A losing week

S&P 500 on track for weekly decline

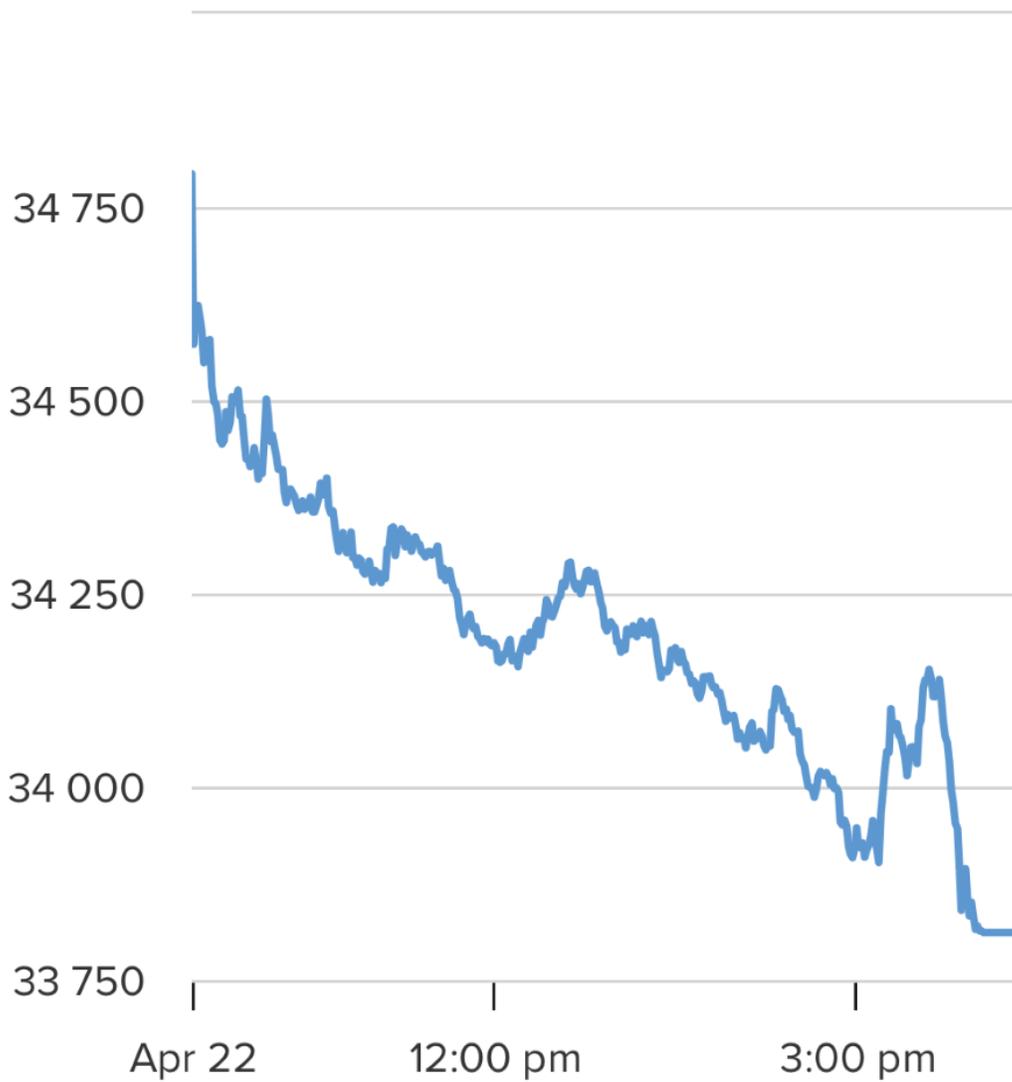
S&P 500 Index



Source: FactSet

AND the Dow for Friday ...

Dow plunges more than 900 points worst day since 2020



cnbc.com



And what did that do to commodities? Well, very similar to what happened to the lifeboats in the water when the Titanic sank. Everything got sucked back a bit.



Gold is my barometer when it comes to inflation and even it got pulled back down (which some of you may have noticed) by 0.7%. Now that's not nearly as bad as what happened to any of your friends who were in the stock market (2.8% ONE DAY LOSS - OUCH!), but it still hurts to watch a balance drop like that.

Oh, and to assuage any of your curiosities that Bitcoin has become the new "digital gold." As I've said before, it's not. It fell worse than any of the stock market benchmarks. Bitcoin fell 4.5% on Friday. UGH! That makes the stock market plunge seem calm, right? Talk about nausea inducing!

But, just like the survivors in the lifeboats while the Titanic was sinking, the best thing we can do is to remember where we are (not on the Titanic) and keep rowing with our eyes on the horizon.

I believe this is only the beginning for where the stock market is headed and, yes, it's going to be a rocky ride. Right now, the safest place we can put our money is in hard assets like commodities. And that's for reasons of inflation as well as a massive market correction that looks to be oncoming.

Your Maybe-Disney-World-Will-Change-It's-Name-To-DeSantis-World
Financial Advisor,

Walt

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