Zanetti Monday Missive 2023.03.20
Last Week Was Golden

“The Chinese use two brush strokes to write the word ‘crisis.’ One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger – but recognize the opportunity.”
~ John F. Kennedy

Happy Monday Everyone!

Well, we saw more confusion in the markets this week with mixed messages coming from Janet Yellen, the Treasury Secretary, and Jerome Powell, the Federal Reserve Board Chair.


(Above: Janet Yellen)


(Above: Jerome Powell)

On Thursday, the Wall Street Journal reported that Powell said all was well in the financial sector (banking) – though oversight was still needed.

Powell Calls Financial Sector Sound but Stresses Oversight

I think we can all agree that if Jerome Powell tells us not to worry, it must mean everything is okie-dokie. *wink* *wink* *nudge* *nudge*

Powell also stated that rate hikes might no longer be needed as the banking industry might be tightening up on lending and therefore slow down inflation.

Meanwhile, Janet Yellen failed to answer the question that was on everybody's mind: Will Washington back all US Bank deposits after sudden outflows contributed to the collapse of several U.S. Banks?

At her latest Congressional hearing last Wednesday, Yellen stated, "I have not considered or discussed anything having to do with blanket insurance or guarantees of deposits."

Meanwhile, on the same day, Powell said, "I think depositors should assume that their deposits are safe."

What did this double-speak do for the price of Gold as a safe haven asset? It shot up to $2,006.10/ounce on Thursday. That's up from $1,814 earlier this month.

Yes, gold is doing what it has always done. Finding itself as a store of wealth as people transfer their cash into gold to keep it safe during times of uncertainty.

Not since 2008 have we seen a global banking crisis of this magnitude. In the space of 10 short days, we saw several banks collapse: including Silicon Valley Bank and Signature Bank of New York. Concurrently, Switzerland's second largest bank, Credit Suisse, collapsed and was acquired by UBS (Note: it's worth remembering that UBS itself was rescued during the banking crisis of 2008).

Do we expect gold's prices to remain this high? I guess you could say… no, but yes.

First, just like anything, we'll see ups, then downs. But, then, yes, more ups.

So, gold might drop a bit – which we like, because that's just a sign that it's back on sale… a buying opportunity. That's just a correction after a rally.

But, here's the thing, the bond market is the best predictor of the fed (a better predictor than what the Fed actually says).

The bond market is signaling that the Fed will start to cut rates in the relatively near future. While it's yet to be seen whether or not that would be favorable for the US economy, it would be favorable to gold. Falling rates would make the dollar weaker, compared to current levels, and the strong dollar has stifled the price of gold thus far.

It looks like the banking crisis may be doing the work for the fed and there could be a credit crunch coming.

Even if rates come down, with the banking crunch, it will be harder for people to borrow money. That is going to slow things down. Banks will get tighter and fussier about lending money out, which means the Fed could slow down it’s interest rate hikes.

That will slow the economy down – to a recession. But as long as inflation is still above 2% (their stated goal), we’ll still be in an inflationary environment. When you get a recession during a time of high inflation, that’s what they called “Stagflation” in the 1970’s.

The economy will be hurting if Stagflation comes, but that doesn’t mean your investments have to be.

Your Next-Maybe-They'll-Insure-Auto-Accidents-For-People-Who-Don’t-Want-To-Insure-Their-Cars Financial Advisor,

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