

Hello Everyone,

We are continuing with our “no gridlock” theme. Our reasoning pivots off the premise that outside forces will force government action...not that government initiatives will do so.

Oh, and, today’s missive will stray a little from our Wall Street beat and focus on real estate, politics, and the Fed.

I hope you find it helpful in your understanding of what is going on out there.

Signed, Your Did-You-Know-50-Million-Apartments-In-China-Now-Sit-Empty? Financial Advisor,

Greg

KKOB 11.12.2018 Gridlock...Not So Fast Part 2

Bob: So, Greg, on Friday you went counter to most Wall Street analysts and said you didn’t think gridlock was coming. Then, you went down the foreign affairs path and said you saw all kinds of potential disruptors that would force a US response. So, today, you want to stay on the same theme of “no gridlock”, but this time look domestically. Right?

Greg: Right. I believe government has far less control of things, than they want us to believe. Most of the time, government is reacting and not initiating. So, pivoting off that premise, what events could force government to break gridlock and be forced to “do something!”?

Let’s look at one scenario...starting with real estate.

Bob, last week, mortgage applications hit an 18-year low. Home prices are rolling over in “hot markets” like San Francisco, New York, and Seattle. Interest rates are rising, which makes it tougher to buy a home. And, home affordability, (meaning, do you have enough income to buy a house?) is near 2007-08 levels...just before Lehman.

Meanwhile, everyday prices are rising--- and rent rates are going up as well.

So, Bob, imagine you were just voted into Congress, and your constituents start coming to you and saying, “I can’t afford a house or rent!” Or, “I’m about to foreclosed on!” Or, “My landlord is tossing me

rent!” Or, “I’m about to foreclosed on!” Or, “My landlord is tossing me out. I’ll be homeless!” What do you do newly elected Congressman Bob?

Bob: I don’t know! I want to win in 2020, so I need to show I care. If I’m liberal, I guess I might propose legislation making it harder to foreclose or evict. Or, I might propose some housing subsidy or rent control. Or, I might try to get the Fed to stop hiking rates.

Greg: Wow. That was good...and it’s all plausible.

OK. So, let’s focus on the Fed part. The Fed comes back and says, “But, Congressman, the Trump economy is heating up. Jobs are plentiful. The tax cuts boosted GDP growth. Still, our data shows inflation pressures mounting. We must hike rates, so inflation doesn’t soar. Inflation would hurt all your constituents!”

So, Congressman Bob, what does that portend?

Bob: Well, if they keep hiking rates, then interest payments on the government’s debt will rise, so the deficits will expand. So, I may not be able to afford paying housing subsidies. In fact, wouldn’t that limit how much in new spending I could commit to for just about anything?

Greg: In the past, I would have said yes, but spending limits don’t mean much anymore, so I suspect, Congressman Bob, you will blow right past being fiscally prudent!

Plus, you’d better not forget healthcare. That was a big issue in 2018, and you don’t want it clobbering you in ’20. So, that translates to more spending there. Oh, and remember, you promised a strong national defense, so you’d better deliver.

So, what does this new spending mean to ----the dollar?

Bob: I would think it would go down. But, if it goes down, doesn’t that usually mean prices go up, because dollars buy less? So, we’re back to inflation, which means the Fed will want to hike rates more to stop inflation, but that will hurt real estate, which is where we started this segment.

Greg: Welcome to Congress...and, Bob, does any of that sound like gridlock?

Bob: No. And we haven't even gotten to immigration, trade, the investigations, and all that other stuff.

Greg: And, do markets also react to all the things you just threw out there?

Bob: Sure. We saw it all through the last election cycle. The markets were like a yo-yo.

Greg: So, there you go. Lots of smart guys have made their case for gridlock. You and I just made a short case for the opposite. We'll see how it all plays out.

Bob: Good report----and I hereby announce I am not running for reelection. Congressman Bob resigns. How do people reach you?

Greg: But, I was hoping you'd give me a big fat government contract. My number is 508-5550, 508-triple-5-zero. Or, go to my website at zanettifinancial.com.

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