



Tightening Phase 2, More QT?

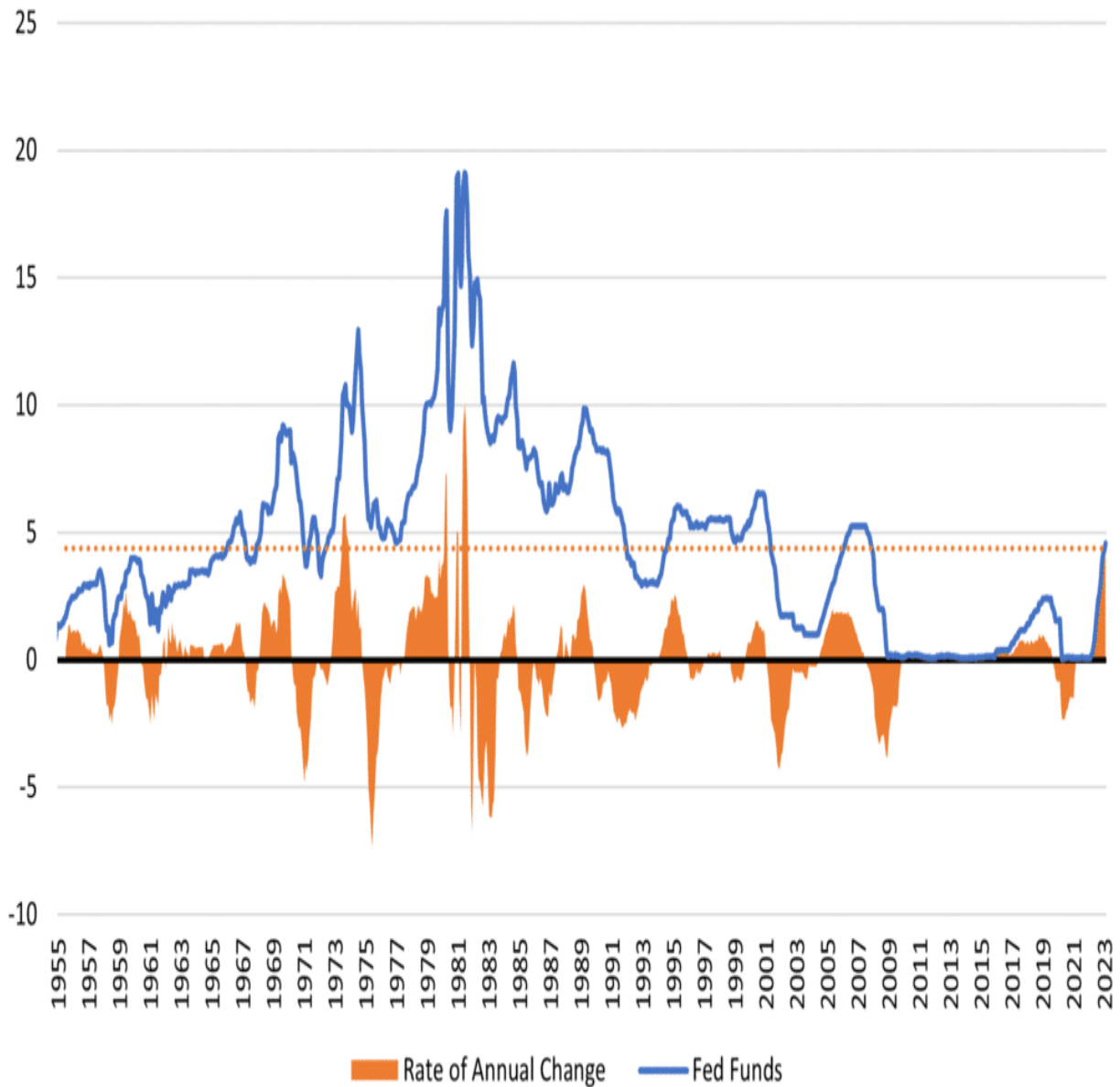
Over the last twelve months, the Fed has been tightening policy at its most aggressive pace in over 40 years. The Fed's tightening actions include raising the Fed Funds rate by 4.50% in twelve months and performing \$95 billion monthly QT. As the graph below shows, the increase in Fed Funds occurred at nearly double the rate of those in the last forty years. Despite the Fed's aggressiveness, inflation is still high, and economic activity is brisk. To slay inflation, Powell and the Fed will need to do more.

We advise Jerome Powell in our latest, [Speak Loudly Because You Carry a Small Stick](#). The gist of the article is the Fed risks creating massive financial turmoil if it continues to raise rates at such an aggressive pace. Therefore, the Fed should speak more hawkishly to tighten financial conditions. As an afterthought to the article, supplementing a slower pace of rate tightening with more significant amounts of QT is another option. Currently, the \$95 billion of monthly QT is offset by the Fed's reverse repurchase program and the drawdown of the Treasury's General Account. Boosting QT beyond the offsets would reduce liquidity in the system helping the Fed's cause while lessening the risk of pushing the Fed Funds rate too high.

Fed Funds and Rate of Change



Real Investment Advice



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What To Watch Today

Economy

Time	Event	Impact	Actual	Dev	Consensus	Previous
THURSDAY, MARCH 9						
12:30	USD Challenger Job Cuts(Feb)	<div><div></div></div>	-	-	- 102.943K	
13:30	USD Continuing Jobless Claims(Feb 24)	<div><div></div></div>	-	-	1.659M 1.655M	
13:30	USD Initial Jobless Claims(Mar 3)	<div><div></div></div>	-	-	195K 190K	
13:30	USD Initial Jobless Claims 4-week average(Mar 3)	<div><div></div></div>	-	-	- 193K	
15:30	USD EIA Natural Gas Storage Change(Mar 3)	<div><div></div></div>	-	-	- -81B	
16:30	USD 4-Week Bill Auction	<div><div></div></div>	-	-	- 4.59%	
18:00	USD 30-Year Bond Auction	<div><div></div></div>	-	-	- 3.686%	
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Earnings

Company		Time	Estimate		<div> Growth Show only confirmed?</div>	Surprise		
✓ JD	JD.com, Inc.	5:15 AM ET	\$0.51	\$43.05 B	-0.6%	<div>+ = -</div>		
✓ BJ	BJ's Wholesale Club, ...	6:45 AM ET	\$0.86	\$4.81 B	10.4%	<div>+ = -</div>		
✓ TTC	Toro Company	8:30 AM ET	\$0.91	\$1.15 B	23.3%	<div>+ = -</div>		
✓ GCO	Genesco Inc.	6:50 AM ET	\$3.02	\$727.39 M	0.0%	<div>+ = -</div>		
✓ WLY	John Wiley & Sons, Inc.	7:30 AM ET	-	\$519.90 M	0.8%	<div>+ = -</div>		
✓ UP	Wheels Up Experienc...	BMO	(\$0.39)	\$400.68 M	16.1%	<div>+ = -</div>		
✓ MEI	Methode Electronics, ...	7:00 AM ET	\$0.68	\$292.81 M	0.4%	<div>+ = -</div>		
✓ DLTH	Duluth Holdings Inc.	6:45 AM ET	\$0.20	\$243.26 M	-10.2%	<div>+ = -</div>		
✓ LCUT	Lifetime Brands Inc	7:00 AM ET	\$0.19	\$201.86 M	-21.1%	<div>+ = -</div>		
✓ ARHS	Arhaus, Inc.	6:30 AM ET	\$0.20	\$348.25 M	46.2%	<div>+ = -</div>		
✓ GBLI	Global Indemnity plc	8:00 AM ET	\$0.60	\$143.00 M	-24.4%	<div>+ = -</div>		
✓ HMPT	Home Point Capital Inc.	6:30 AM ET	(\$0.18)	\$52.36 M	-71.0%	<div>+ = -</div>		
✓ HLLY	Holley Inc	BMO	(\$0.09)	\$156.64 M	-12.9%	<div>+ = -</div>		
✓ DTC	Solo Brands, Inc.	6:50 AM ET	\$0.17	\$156.14 M	-11.5%	<div>+ = -</div>		
✓ CEPU	Central Puerto S.A.	BMO	-	-	-	<div>+ = -</div>		
✓ BBW	Build-A-Bear Worksh...	6:45 AM ET	\$1.12	\$137.54 M	5.8%	<div>+ = -</div>		
✓ CMAX	CareMax, Inc.	6:55 AM ET	(\$0.03)	\$149.38 M	26.3%	<div>+ = -</div>		
✓ TSQ	Townsquare Media, Inc.	6:00 AM ET	\$0.52	\$117.83 M	6.6%	<div>+ = -</div>		
✓ VITL	Vital Farms	7:20 AM ET	\$0.05	\$98.08 M	26.7%	<div>+ = -</div>		
✓ KPLT	Katapult Holdings, Inc.	7:00 AM ET	-	\$47.93 M	-34.6%	<div>+ = -</div>		
✓ VFF	Village Farms Interna...	7:00 AM ET	(\$0.06)	\$70.75 M	-2.8%	<div>+ = -</div>		
✓ AMTX	Aemetis	BMO	(\$0.28)	\$71.44 M	11.0%	<div>+ = -</div>		
✓ ANIP	ANI Pharmaceuticals ...	6:50 AM ET	\$0.49	\$86.14 M	41.4%	<div>+ = -</div>		
✓ AKBA	Akebia Therapeutics	BMO	-	\$48.35 M	-18.9%	<div>+ = -</div>		
✓ HUT	Hut 8 Mining Corp.	6:30 AM ET	(\$0.11)	\$19.77 M	-57.0%	<div>+ = -</div>		
✓ EW CZ	European Wax Center	BMO	\$0.05	\$51.07 M	13.2%	<div>+ = -</div>		
✓ PWFL	PowerFleet, Inc.	7:00 AM ET	(\$0.08)	\$34.53 M	0.3%	<div>+ = -</div>		
✓ HBIO	Harvard Bioscience Inc.	BMO	(\$0.02)	\$30.33 M	-8.2%	<div>+ = -</div>		
✓ FC EL	FuelCell Energy, Inc.	7:30 AM ET	(\$0.07)	\$28.11 M	-11.6%	<div>+ = -</div>		

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Market Trading Update

The stock market struggled again yesterday as more hawkish comments from Jerome Powell weighed on investors. The rhetoric of *higher for longer* is finally becoming a reality for the markets as inflationary pressures remain. Powell's two days of testimony have been about as hawkish as we could have imagined, and with the odds of a 0.50% rate hike rising markedly, the sell-off was not surprising.

The good news is that the market continues to hold support at the 200-DMA and bounced off the rising trend line yesterday. The bullish trend remains intact despite the sell-off. Even with more hawkish commentary yesterday, bullish buyers stepped in late in the session. This Friday is the much anticipated February jobs report. A strong report will likely send stocks lower as support for further rate hikes continues. We are overweight cash currently and will remain that way until the market either reaffirms support at the 200-DMA or violates that support confirming the bullish rally from the October lows is over.



TradingView





Jerome Powell Has Tough Choices Ahead

On the first day of testimony to Congress, Jerome Powell stated:

I DON'T THINK WE NEED A SIGNIFICANT INCREASE IN THE UNEMPLOYMENT RATE BUT WILL NEED SOFTENING IN LABOR MARKET TO GET TO 2%. He added: *4.5% UNEMPLOYMENT IS STILL LOWER THAN MOST TIMES IN HISTORY.*

This comment caught the attention of Senator Elizabeth Warren and other Senators. She warned Powell that 2 million people could lose their jobs if the Fed keeps raising rates. To that, Powell replied

?Will working people be better off if we just walk away from our jobs and inflation remains 5%-6%??

The conversation got more heated.

Warren: Since the end of WWII, there have been 12 times unemployment has gone up by 1% within a year. How many of those times did the US avoid a recession?

Powell: Not that black and white.

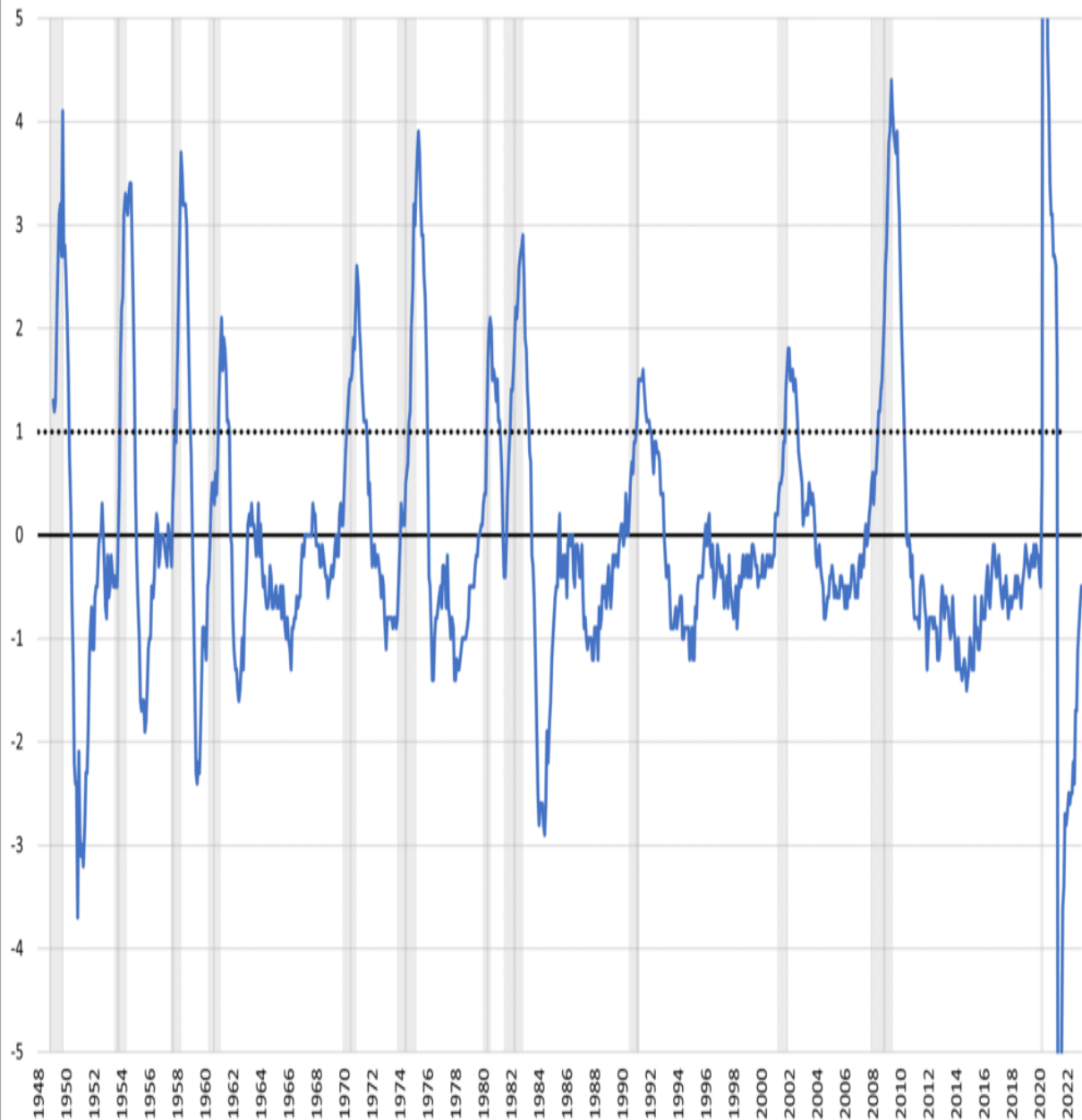
Warren: It is.

Powell: I think the number is zero.

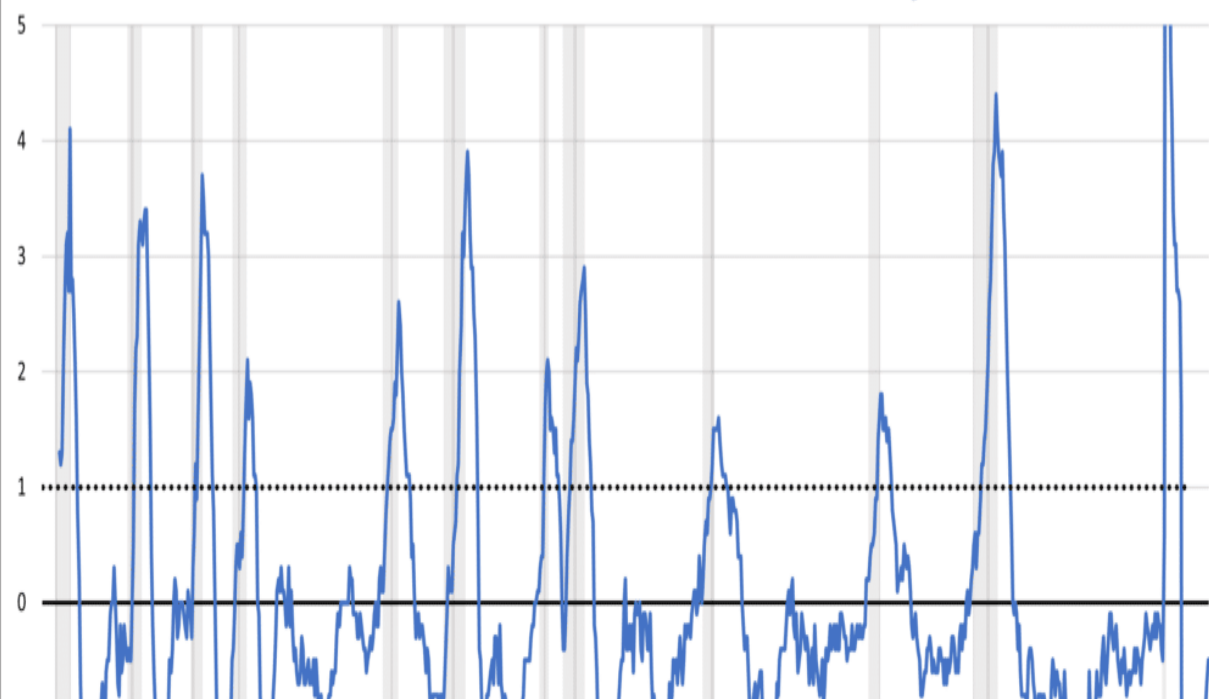
Warren: Exactly right.

As we share below, Warren and Powell are correct. A 1% increase in the unemployment rate has always coincided with a recession. This is the Fed's trap. They need a higher unemployment rate and reduced consumption to bring inflation down. The Fed often counteracts economic weakness and rising unemployment with lower interest rates. This time is different, and the worsening political theater we share above will only worsen if the Fed keeps raising rates. Therefore, as noted in the opening, More QT may be the better Fed option.

12 Month Change Unemployment Rate



12 Month Change Unemployment Rate



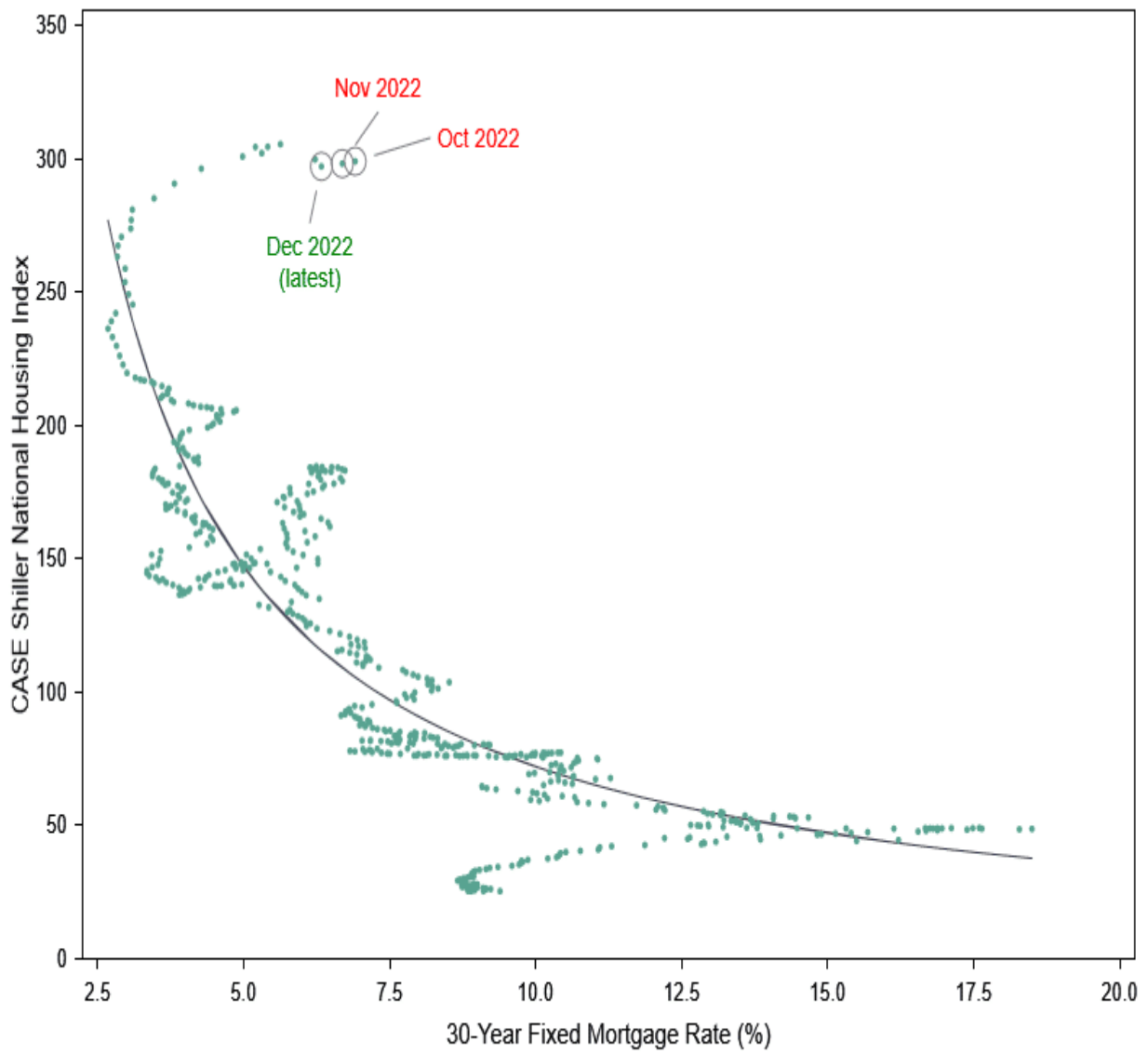
The Housing Market is Broken

In a recent [Commentary](#), we opined on the current standstill in the housing market. Given high prices and mortgage rates, we quantify why buying or selling a house makes little sense for many people.

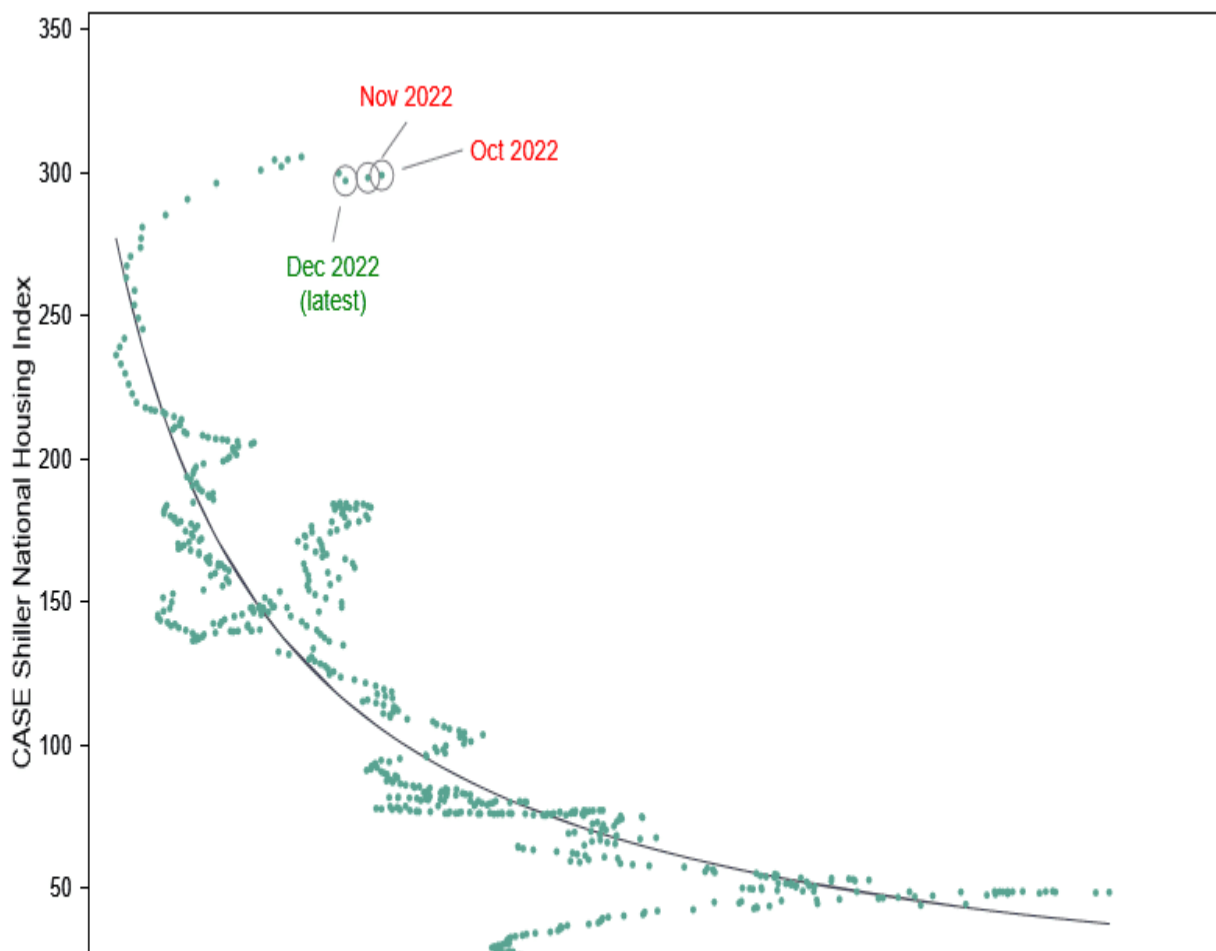
We present the following example to show how high mortgage rates limit supply and demand in the housing market and keep the labor market tighter than it should be.

Assume a homeowner has a 3.50% mortgage on a \$500,000 house. Their monthly payment is \$2,245, excluding taxes and insurance. To incur the same monthly mortgage payment at current mortgage rates, the homeowner can only afford a house worth \$335,000. Even if they put \$100,000 down, making it a \$400,000 mortgage, the monthly payment would still increase by roughly \$400. The demand for housing will weaken as a result. Further, the labor market will remain tight as employees may be unable to move for a new job.

Buying makes little sense for most homeowners or potential homeowners. At the same time, selling for homeowners looking to upsize or downsize also makes little sense. As such, activity in many real estate markets has slowed appreciably. The scatter plot below from Longview Economics diagrams what must change to restart the housing market. The correlation linking mortgage rates and home prices has been relatively strong until the last two years. If we look at the latest dot (Dec 2022), we can calculate what has to happen for some balance in the housing market to return. Either house prices must drop considerably, or mortgage rates plummet. It will likely be a combination of both, primarily if a recession occurs.



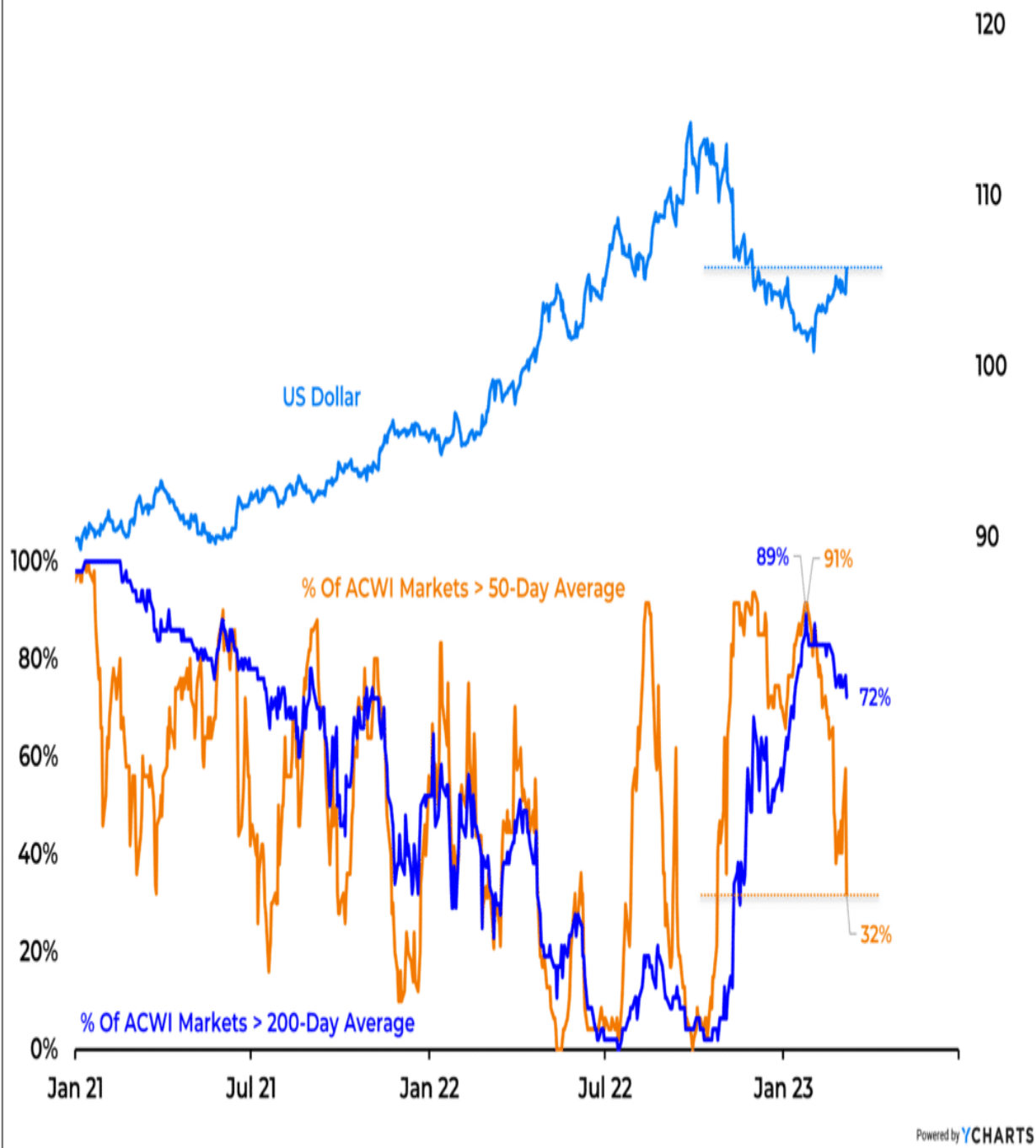
Source: Longview Economics, Macrobond



Foreign Stock Markets Cooling Off

Foreign developed and emerging markets were on a tear late last year and early this year: the culprit a weaker dollar. As we see in the chart below from Y-Charts, the dollar has recouped some recent losses and is back to levels seen late last year. As a result, only 32% of markets are above their respective 50dma compared to 91% at the start of the year. The percentage above their 200dma's is also starting to decline.

Global Breadth and US Dollar



Global Breadth and US Dollar



Tweet of the Day



Sven Henrich ✓
@NorthmanTrader

...

Maybe they think we're stupid.



3:20 AM · Mar 8, 2023 · **81.1K** Views



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