The Moment You Feel the Game Slipping Away from You

Many of us know that moment of despair when, despite all your plans, practice, and work, the game starts slipping away from you. That is the moment when you know whatever you thought was going to happen, is not going to happen. I have had that happen in sports. It has also happened in my professional life (market making CDX indices is about as humbling as anything I have ever done). Finally, it has happened as a fan (try cheering for the Bills in a Super Bowl).

Now, I think that Jay Powell and the Fed are experiencing that moment!

I am wrapping up two weeks of brutal, but amazing travel. I've spent more nights in hotels in the past two months than at home. Academy just finished our third annual Annapolis Geopolitical Summit East. Attendance continues to grow and the interaction between our clients and our Geopolitical Intelligence Group is phenomenal.

Next week starts with General (Ret.) Groen and I speaking at AFP on Monday (if you are going to be there, please attend) and ends with several West Coast client meetings.

So, this will be one of the briefest weekend T-Reports of all-time, but Powell and the rates market made that easy.

Powell spoke this week and he basically acknowledged that the game was slipping away from him. While he doesn't completely understand the economic signals, he realizes that the recent moves in yields have almost nothing to do with the Fed and everything to do with fiscal policy.

The 10-year Treasury didn't push up against 5% because of anything that the Fed said (or intends to do). In addition, it didn't almost breach 5% because the economic or inflation data was "so hot". Finally, it didn't almost break 5% because China isn't buying, convexity hedgers had to sell, or because being long rates is a crowded trade. It almost pierced 5% because no one knows what D.C. is going to do, and what we can surmise is not good!

I talked to 10 people who "should" know exactly where we are with the budget. Not only did many seem not to know, but they didn't seem to care that they didn't know.

My feeling is that the Fed has joined the group of people who now realize that whatever is going on in rates (which in turn is driving equities) is largely a function of D.C. The Fed's game plan is not working, and they have lost control. **I asked on Wednesday if Powell would be the first Fed chair to beg D.C. to stop fiscal stimulus.** See [Has DC Done the Fed's Job for Them.]

The move in rates is overdone, but the fact that the Fed has lost control of the game scares me. I'm still bullish for the reasons listed on Wednesday (predominantly the move is overdone and things like supply take time). Having said that, I keep going back to [Revisiting Maslow, Safe Assets, and Bubbles].

I keep thinking that is a story for next year, or the year after, but I also keep thinking that the Bills will win a Super Bowl. **For now, I'm fully committed to lower yields, which in itself is scary, as how do I buy the dip when I'm all in?**

Will the voting for Speaker of the House be more impactful to rates than the next Fed meeting?

A few weeks ago, I would have said no, but today I'm not so sure.

The Middle East

I stand by Wednesday's decision to Increase the Market Risk Due to the Middle East.

From 3 days in Annapolis, a few things stand out:

- Israel will attempt to eliminate Hamas as a threat to its citizens, but that will create events that will not go over well with those opposed to Israel.
- While the Kingdom of Saudi Arabia may want to push forward with the Abraham Accords, it is not popular with its citizens and this war will test its commitment.
- For those who say that Hezbollah could have acted when Hamas did, our GIG as a whole disagrees. It would have been incredibly difficult to coordinate and keep it a secret. Other proxy groups are likely betting that despite Israel's 360-degree vigilance, gaps might open that create an opportunity in the future. And why escalate at the outset, when escalation as the war drags on may be far harder for Israel to counter?

So, we continue to worry that the market is too complacent about the Middle East.

Bottom Line

The Fed is not in control of rates.

No one is in control of the events in the Middle East.

Whatever game plan we had, there is now a growing sense of unease.

It is not all doom and gloom because markets have likely pushed too far, but we all have to think about the world (and the U.S.) differently as the drivers are shifting rapidly.

For those of you attending AFP, we look forward to seeing you there!

We will have a series of reports detailing what we learned on subjects ranging from geopolitical, to AI, to ESG as we regroup!

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