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THE "YOU MAY NOT KNOW REPORT"

A PUBLICATION OF RETIREMENT LIFESTYLE ADVOCATES

Fed Problems

By Dennis Tubbergen

In 2011, I wrote a book titled, "Economic Consequences". In it I forecast that the 'temporary program of quantitative easing" implemented by the Federal Reserve would turn into permanent policy. Nearly 11 years later, that is exactly what has happened and despite the Fed's talk to the contrary, it will likely remain the policy until it fails despite the growing inflation problem (an explanation for this forecast follows below).

Due to a rapidly worsening inflation picture, on February 14, the Federal Reserve held an emergency meeting. ABC News reported[1]:

> *A worsening inflation picture has touched off a range of opinions from the Federal Reserve's policymakers about just how fast they should raise interest rates beginning at their next meeting in March.*

James Bullard, president of the Federal Reserve Bank of St. Louis, on Monday reiterated his call for the Fed to take the aggressive step of raising its benchmark short-term rate by a full percentage point by July 1. Esther George, president of the Kansas City Fed, expressed support for a more "gradual" approach. And Mary Daly of the San Francisco Fed declined to commit herself to more than a modest rate hike next month.

Their comments follow last week's report that inflation jumped 7.5% in January from a year ago, the fastest increase in four decades. Prices also rose 0.6% from December to January, the same as the previous month, suggesting that price gains still aren't slowing, as many economists and Fed officials have hoped.

The Fed typically responds to high inflation by making borrowing more expensive, which slows spending and the pace of price increases.

Last week's report on consumer inflation prompted a sharp increase in expectations for rate increases by the Fed this year. Some economists now forecast as many as six or seven quarter-point hikes. That's much higher than the Fed's projections in December of just three rate increases for 2022.

In their remarks, Bullard and another policymaker, Thomas Barkin, head of the Richmond Fed, noted how the acceleration of prices has broadened beyond autos and other pandemic-affected industries. Even inflation measures that exclude such categories have shown sharp price rises.

Still, the two officials expressed differing views of how the Fed should respond.

"Inflation is very high," Barkin said in an interview on SiriusXM. "And the more recent readings suggest it's broader and more persistent. I think it's timely to get started and steadily move back toward pre-pandemic levels."

Barkin's use of the term "steadily" suggested that he favors moving at a more measured pace than Bullard, who said last week that the Fed might even decide to raise rates before its next regularly scheduled meeting in mid-March.

In an interview Monday on CNBC, Bullard did not repeat that suggestion. But he said "inflation is broadening and possibly accelerating." And he stood by his call for a full percentage point increase in the Fed's key rate by July 1. An increase that large would mean rate hikes at the Fed's March, May, and June meetings, with one of those hikes amounting to a half-point.

"We need to front-load more" of the rate increases, Bullard said. "We've been surprised to the upside on inflation. ... Our credibility is on the line here."

It's important to note that despite the worst inflation in more than 40 years, the Federal Reserve did not take immediate action to increase interest rates. Instead, they discussed what action they might take in March at their next scheduled meeting.

Seems that the consensus among Fed members is that interest rates need to increase but seems that the increase, which will probably occur, will be modest. More form than substance mirroring what I have long been forecasting.

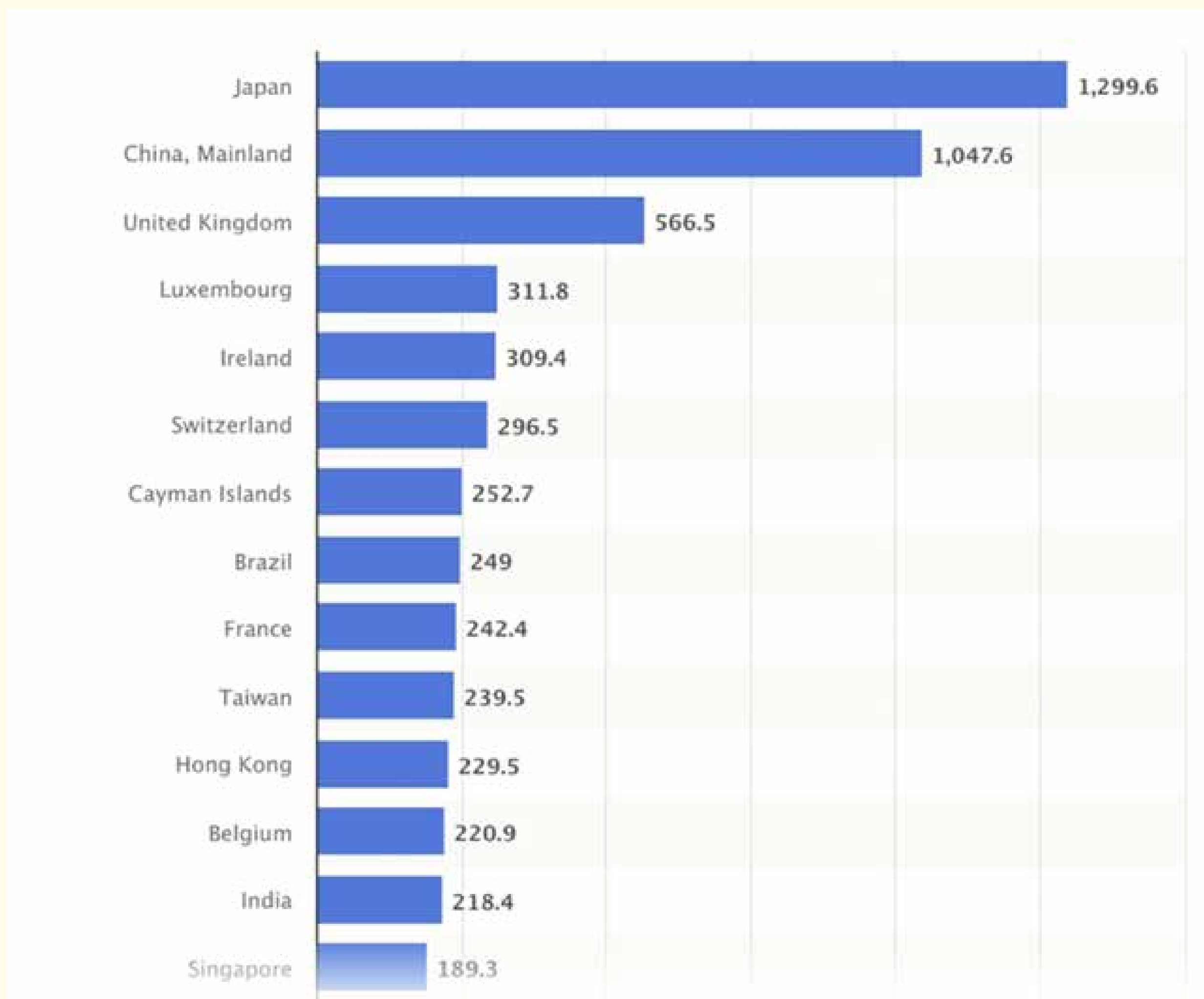
As we have discussed in past issues of the "You May Not Know Report", it will be impossible for the Fed to cease currency creation and keep interest rates without the US Government operating with a balanced budget or at least a significant reduction in deficit spending. For example, two countries that were once ravenous purchasers of US Government debt, Japan and China, are no longer adding to their holdings of US Treasuries (US debt).

This chart[2] published on January 12, 2022, shows that the combined holdings of US Government debt by China and Japan total just over $2.3 trillion.

The US Government currently has an operating deficit of about $3 trillion so the combined debt holdings of China and Japan would fund the US operating deficit for just over 9 months. The total debt held by the top 13 countries holding US debt would not fund the deficit the current level for even 2 years!

It is this basic math exercise that has me concluding the Fed won't be able to make the monetary policy changes that are necessary to get inflation under control.

As an aside, but for an important point of clarification, the Fed does not buy US Government



Major holders of US Treasuries, as of September 2021. Source: Statista

debt directly. The big banks buy the US Government debt and then the Fed buys the debt from the big banks using newly created currency.

I talk to many clients and radio show listeners who ask how much the Fed needs to raise interest rates to get inflation under control. While there is not a universally accepted answer to that question, the answer that is often given is that real interest rates need to be positive.

Here's an example to make the point. Presently, the official inflation rate is 7.84%, which is the non-seasonally adjusted rate as of January[3]. The yield on the 10-year US Treasury as this piece is being written is 2.035%[4]. This means that an investor in a 10-Year US Treasury note experiences a real interest rate that is almost 6% negative!

When calculating the real inflation rate using the inflation calculation formula used in the late 1970's and early 1980's, rather than using the heavily manipulated Consumer Price Index, one concludes that the real inflation rate is about 16%.

In the early 1980's when inflation was at this level, interest rates had to be increased to 20% to get inflation under control. With interest rates at 20%, real interest rates were positive, and inflation was eventually brought under control.

In my view, that is where we now find ourselves. With the real inflation rate at 16%, raising interest rates to 1% or 2% doesn't make much of an impact on inflation. However, it will probably make a huge impact on financial markets. In calendar year 2018, when the Fed increased interest rates to a little over 2%, financial markets reacted very negatively. It's my view they will react similarly again.

Past RLA Radio guest, Peter Schiff, commented recently[5]:

> ***If we still measured inflation the way we did 40 years ago, it would be 15%, not 7.5%. And the rate hikes they've proposed are completely inadequate.*** *In fact, the Fed is intending to pursue an accommodative monetary policy. Even if they raise interest rates to 1 or 2%, that is highly accommodative. That's the same type of interest rates they had when inflation was below 2%. You've got inflation at 7.5%, even the way they measure it – and rising. The only way to put out this fire is to have positive real interest rates. The Fed needs to get above the inflation rate. We're not even going to get close.* ***So, they're going to continue to pour gasoline on the fire. And so, the entire time the Fed is inching up rates, inflation is actually going to be moving higher.*** *Inflation is going to be worse in 2022 than it was in 2021, and real interest rates are going to continue to fall even as the Fed raises nominal rates.*
>
> ***The problem is people still don't recognize the box that the Fed put us in.*** *Because there is no interest rate that the Fed could put to fight inflation that the economy could withstand. If the Fed has to fight inflation, we not only have a massive recession, and a crash in the stock market and in the real estate market, but we have a much worse financial crisis than the one we had in 2008.*

And now that they're no longer pretending inflation is transitory, they're pretending that they're going to fight it when they can't.

There is no way you can fight historically high inflation with 1% interest rates. *One percent interest was the rate Alan Greenspan slashed rates to in 2002 to stimulate the economy after the stock market bubble popped and we had that recession. You can't fight inflation with stimulative monetary policy. You need restrictive monetary policy. And no one is even talking about making money tight. All they're doing is talking about making it less loose. And you can't fight inflation with loose money."*

As inflation continues to intensify, the nominee for the Fed vice-Chair position is facing headwinds. A new Federal Reserve vice-Chair has been nominated after Former Federal Reserve Vice Chair, Richard Clarida, resigned amid a trading scandal. This[6] from "The Washington Times" January 10, 2022:

Federal Reserve Vice Chair Richard Clarida said Monday he will step down on Friday, the third Fed official to resign in the wake of a trading scandal at the central bank.

The announcement followed new revelations around Clarida's trading in a stock fund in February 2020, when the coronavirus threatened to upend the global economy and the Fed was discussing extraordinary measures to counter its impact.

The New York Times last week reported that Clarida amended his financial disclosures to show that he had sold and then repurchased shares in the stock fund in a matter of days that month. The repurchase came a day before Chair Jerome Powell said the Fed was prepared to support markets and the economy.

With the Federal Reserve still sporting a black eye from three resignations for alleged improper trading, the Federal Reserve vice-Chair nominee, Sarah Bloom Raskin is now facing questions over her past business activities. This[7] from "The Wall Street Journal" editorial board:

We've told you about the desire of Sarah Bloom Raskin, President Biden's pick for Federal Reserve bank supervisor, to use regulatory power to choke off capital for fossil fuels. But she has another problem that you'd think even progressives would care about: how she parlayed her past government service into lucrative private work.

Yet Senate Democrats say their Republican colleagues are making too much of Ms. Raskin's curious and remunerative stint at a fintech company. When the subject came up at her confirmation hearing last week, Ms. Raskin bobbed and weaved like Muhammad Ali.

Ms. Raskin was a Fed Governor from 2010-14 and then deputy Treasury secretary through the end of the Obama years. In May 2017, she joined the board of directors of the Reserve Trust Company, a fintech outfit in Colorado. Reserve Trust engages in payment processing and other services for business-to-business payment companies. Its website boasts that in 2018 it "became the first state chartered trust company to obtain a Federal Reserve master account, granting direct access to Federal Reserve clearing, payment, and settlement services."

It also appears to be the only nonbank fintech company to have received access to the Fed payment system. Other fintech applications have been rejected or tabled. Fed Chair Jay Powell last month expressed concern about the "precedential" nature of providing such access. Without Fed accounts, fintech firms must rely on bank partners to transfer funds, which is less efficient.

Wyoming Sen. Cynthia Lummis complained in a Journal op-ed in November that the Kansas City Fed was sitting on applications by two digital asset banks in her state. So how did Reserve Trust get an account? Turns out the Kansas City Fed initially rejected its application in June 2017. Two months later, according to records obtained by the Senate, Ms. Raskin made a phone call to the regional Fed on behalf of her company.

Yet Ms. Raskin told Senate Banking staff on Jan. 28 that she didn't know why Reserve Trust wanted a master account and couldn't remember calling the Kansas City Fed. During her confirmation hearing last week she also repeatedly declined to answer whether she contacted the regional Fed, though she asserted that she didn't do anything improper. But if that's the case, why wasn't she candid?

Senate Republicans also discovered that she received 195,936 shares in Reserve Trust for her board service. She sold the shares in 2020, a year after leaving the company, for $1.4 million. You can bet the executives at Reserve Trust felt that was money well spent, and that's not bad pay for a phone call.

However unseemly, Ms. Raskin's intervention wasn't illegal. Businesses often hire former government officials to lobby and grease regulatory wheels on their behalf. The Kansas City Fed released a statement Monday saying that it "did not deviate from its review process in evaluating" Reserve Trust's request for a master account.

Still, Ms. Raskin's intervention tarnishes the Fed's reputation for independence and reinforces its clubby image. That will be even more true if she gets confirmed now that these facts are widely public.

I look for Fed criticism to grow as their response to the inflation problems we're facing will likely come up short.

Want a Steak? Let Me Get the Key

Inflation changes things. In many ways.

While the experience of walking into a jewelry store and asking the salesperson to unlock the display case to take a closer look at a possible purchase is commonplace, it seems that locking up the merchandise to prevent theft is becoming more common.

With inflation affecting the price of food and personal items dramatically over the past 12-18 months, it seems that now many retailers are locking up toothpaste, deodorant and nice cuts of meat.

Really.

This[7] from Michael Snyder:

> *Has it really come to this? We all knew that shoplifting was getting really bad all over the nation, but does Walmart really need to start locking up the steaks? I was stunned when I first learned that pharmacies in our core urban areas were locking up toothpaste and deodorant, but I didn't think that we were already at a point where supermarkets would start locking up the food. I don't know about you, but to me this is an extremely chilling omen…*
>
> *Walmart has started securing high-priced steaks inside locked metal cages amid rising crime rates across the U.S., a new viral video has revealed.*
>
> *I have never seen anything like this in my entire life.*
>
> *After a man from Florida took a video of this new "packaging" and put it up on TikTok, it quickly accumulated more than four million views…*
>
> *Michael Fromhold, from Florida, was stunned when he noticed that the meat at his local Walmart had been locked up in what appears to be a rather dramatic attempt to prevent people from stealing it.*
>
> *Michael took a video of it and shared it to TikTok where it quickly went viral – gaining more than four million views in a matter of days – and the clip lead some viewers to lament the fact that such measures have become necessary.*
>
> *If you see something like this at your local Walmart, please take a photo or a video of it.*
>
> *At this point, it is not clear if these new "security devices" are being rolled out nationwide or just in high crime areas.*

Single Family Home Rents Rise at Fastest Rate Ever

There is little that currency devaluation doesn't affect, and rents are no exception. Rents on single family homes rose faster than ever before during the month of December, rising 12% year-over-year.

This[8] from "Zero Hedge":

> *New data from CoreLogic Inc. shows rental prices for single-family homes soared to an all-time high in 2021. This comes as on-time rent collections deteriorates as households are pressured by soaring shelter, food, and energy inflation.*
>
> *CoreLogic's new report says rent prices for single-family homes increased by 7.8% in 2021, a record high. In December, rent prices jumped 12% year over year for the month.*
>
> *Soaring rents for single-family homes come as on-time rent collections are rapidly deteriorating.*

> *Only 92% of renter households had made their rent payment for December by the end of December, the lowest percentage since April 2019, down from 93.8% in December 2020, and down from 95.9% in December 2019.*
>
> *What stands out is the downtrend over those 33 months, interrupted by the months when the big stimulus checks poured into household coffers. - Wolf Richter via WolfStreet.com*

Without stimmy checks, as shown above by Richter, increasing rent prices and soaring inflation, in general, will continue to pressure household finances. With inflation climbing at its highest pace in four decades in January, such cost pressures sent consumer sentiment to its lowest level in more than a decade last week.

Housing Update: Mortgage Rates Continue to Rise

I have been warning that the real estate market looked to be topping of late as mortgage rates began to move off their lows. It wasn't long ago that a 30-Year mortgage could be found with a fixed-interest rate of 2.75%. Now, interest rates for the same mortgage have hit 4%. As we will discuss momentarily, that makes a huge difference in payments and in how many buyers will qualify for the mortgage.

This[9] from Kitco News:

> *Mortgage rates are at the highest level since 2020, with the 30-year mortgage at 4%. This is in comparison to last year when the 30 year was down to 2.8%. "The consumer is going to be under pressure, and we already saw mortgage applications go way down in the last few months. That is what is happening in the marketplace," emphasized Ted Oakley, Founder of Oxbow Advisors. "I suspect that the 4% rate on the 30-year mortgage is a breaking point."*
>
> *Oakley discussed mortgages and interest rates, and markets with David Lin, Anchor at Kitco News.*
>
> *Oakley gave an example of a consumer taking out a $400,000 mortgage today. "It will be up 20% from where it was a year ago on the payment. If the payment goes up 20%, and the home rises 20%, all of sudden we get into that territory that you are locked into," he explained. "Then you have a situation where the Fed will probably raise rates into a slowing economy which they always do, because they are always late."*
>
> *The consumer will be impacted significantly, because they will have higher mortgage payments, plus we don't have Fed stimulus like we had last year," Oakley noted. "All the business people that sell houses or cars or anything else, they say payments are what matters to consumers, and those payments are going up," he said.*
>
> *Oakley continued speaking about possible interest rate hikes and inflation. "You can't really believe the Fed, because they are always late to everything they do. When they finally raise rates in a slowing economy, and then all of a sudden oil spikes, that is a tax on the 50-60% of people who live from paycheck to paycheck," Oakley pointed out.*

The monthly payment on a $300,000 mortgage if the interest rate is 2.75% is $1,224.72; at 4% interest, the payment increases to $1,432.25.

As interest rates rise, more potential buyers are getting priced out of the market. When the tipping point is reached, real estate prices will begin to decline.

The Changing Posture of White-Collar Employees

The employment world has changed a lot over the past two years. Labor markets are tight with many employers having open job positions that they cannot fill.

Employees, particularly white-collar employees, have no grown accustomed to working remotely and they like it. A new survey found that 86% of all whit-collar employees want at least a hybrid work week, some in office hours and some remote hours or they will quit their job and seek employment elsewhere.

This[10] from Bloomberg:

> *Just 3% of white collar workers want to return to the office five days a week, according to a poll by management consultancy Advanced Workplace Associates, which warned employees will quit if bosses force them back full-time.*
>
> *A full 86% of employees want to work from home at least two days a week, the consultancy said after surveying nearly 10,000 people around the world across areas including finance, technology and energy. All age groups felt the same way, they added. Workers reported a preference for commuting into cities on Tuesdays, Wednesdays and Thursdays, raising the prospect of empty offices for the rest of the week.*
>
> *Many banks are geared up for flexible working after two years of Covid lockdowns, with the likes of Citigroup Inc., HSBC Holdings Plc and NatWest Group Plc allowing hybrid working for many staff. Some fintech companies like Revolut Ltd. and Eigen Technologies Ltd. are even allowing staff to work entirely remotely.*
>
> *"Employers have to realize that the genie is out of the bottle," Andrew Mawson, managing director of AWA, said in a statement. "Workers have seen that flexibility can work and bosses who are not sensitive to their employees' needs will suffer accordingly."*
>
> *NatWest expects around 87% of its 60,000 staff to split work between home and the office in the longer term. For now about 10,000 of its staff, including traders and employees in branches and data centers, still work entirely in the office, Sam Bowerman, one of the bank's human resources directors, said in an interview earlier this month.*
>
> *"We're keen to avoid mandating X number of days per week. It's customer led," Bowerman said. "So far we've seen no detriment to productivity and the flexibility has produced a lot of goodwill."*

It appears that the remote work trend is here to stay.

March 2022 Special Report

The Case for Precious Metals: A 2022 Guide to Who, What, When and How for Precious Metals

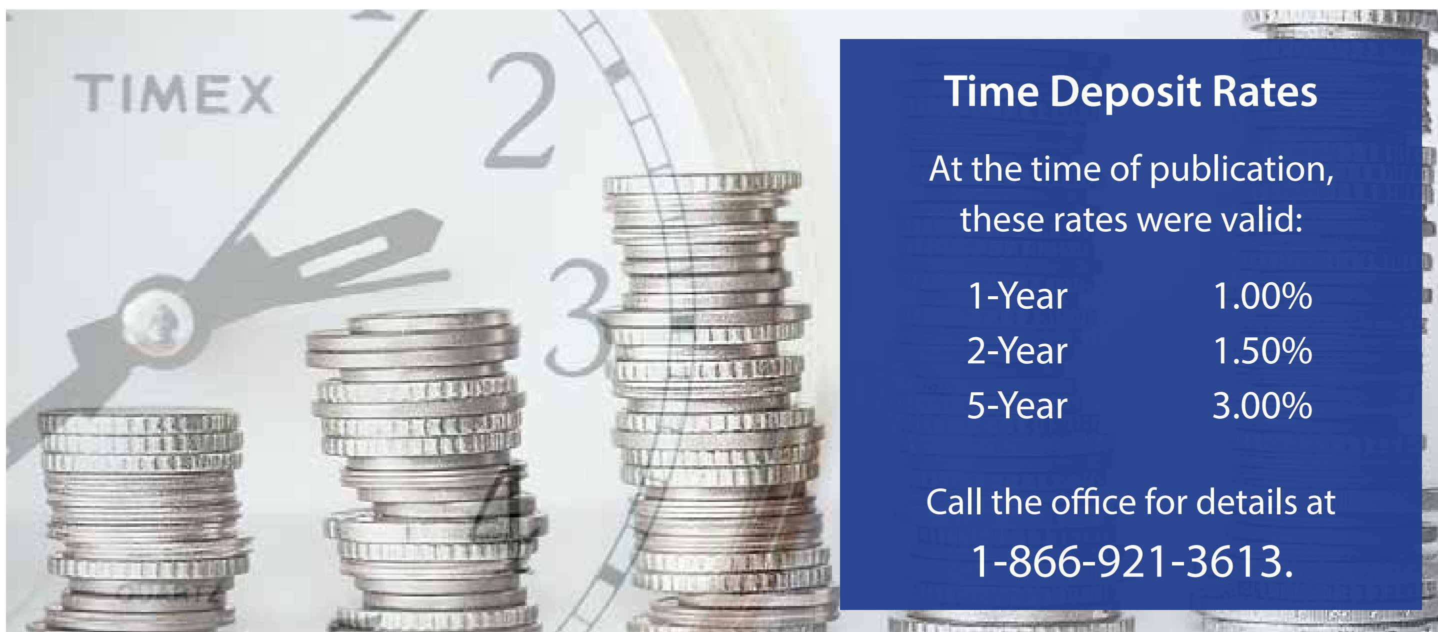
This month only, we are making available a free report titled, “The Case for Precious Metals: a 2022 Guide to Who, What, When and How for Precious Metals”

To request your complimentary copy this month only, return one of the postage-paid reply cards included with this month’s newsletter. You’ll notice that we’ve included three reply cards with this month’s newsletter; we’ve done that so you can request a copy of this report for anyone you know that might find this information helpful.

In this month’s special report, you will discover:

- Who should consider adding precious metals to their portfolio
- What precious metals to consider purchasing and why
- Is there a metal that is best for inflation protection?
- When to consider purchasing metals
- Should you use IRA or Roth funds to purchase precious metals?
- Can I use 401(k) assets for precious metals purchases?
- How should I go about making the precious metals purchase?
- What are my precious metals storage options

This report is available for the month of March only.



Time Deposit Rates

At the time of publication, these rates were valid:

1-Year	1.00%
2-Year	1.50%
5-Year	3.00%

Call the office for details at

1-866-921-3613.

Resources to Help You Stay Informed

All these resources are available at the Retirement Lifestyle Advocates website: www.RetirementLifestyleAdvocates.com.

The weekly "Portfolio Watch" newsletter. Each week, I give you an update as to where we are economically speaking and in the financial markets and where we are going based on my analysis.

The weekly "Headline Roundup" webinar. Replays are available on the website. "Headline Roundup" happens every Monday live at Noon Eastern Time. To get an invite to the live event, give the office a call at **1-866-921-3613.**

The weekly "RLA Radio" show and podcast.

We also have the RLA app available. All these resources are also available on the app.

You can download the YOURRLA app for free by visiting the app store (either Google or Apple) and searching under YOURRLA.

If you have questions when downloading the app or would like assistance, feel free to call the office. Our office phone is answered 8 to 5 Monday through Thursday and 8 to Noon on Friday.

Sources

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