# ASK THE **ADVISERS**

The views and opinions expressed in “Ask the Advisers” are solely those of Keith Singer.


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# FISCAL POLICY WITHDRAWAL

When the economy came to a screeching halt from Covid, the Federal Reserve successfully stimulated the economy by slashing the Fed Funds rate to near zero.

This allowed the businesses to cheaply borrow money to expand. It also allowed consumers to pay less interest on their financed purchases, which allows them to buy more. Additionally, the Fed started massive quantitative easing which increased the supply of money in circulation and further encouraged lending. Finally, the Federal government passed major stimulus packages, enhanced unemployment benefits and student loan deferments all of which provided consumers with even greater liquidity.

If you are wondering how the stock market did so well in 2020 and 2021, while major parts of the economy remained shut down or limited, it was due in large part to all this financial stimulus. Every time the market pulled back a little bit, those who bought the dip were rewarded.

The stock market loves massive fiscal stimulus. That is why the adage “Don’t Fight the Fed” is so true. Unfortunately, one of the side effects of large, prolonged stimulus is inflation. Additionally, the war in Ukraine only served to exacerbate the problem with record fuel prices. Now the stock market is having a hangover.

Not only is the fed done with stimulus, but it is also trying to slow inflation by raising interest rates and reducing money supply by quantitative tightening. With the stock market falling and interest rates increasing, consumer sentiment has decreased, and people will spend less which slows the economy.

A slowing economy typically means lower earnings for stocks. Unlike 2020-2021 when there was a strong tailwind for stocks, now there is a strong headwind. This difficult environment will probably continue until the Fed feels that inflation is under control. Last week the Commerce Department said that inflation rose 6.3% in April from a year earlier, which was less than the 6.6% in March. However, economist Stephen Moore predicts another 18 months of “very high prices.”

Source WSJ

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