Basis Points – June 20, 2019

Above the Fold

A still-opaque crystal ball — The Federal Open Market Committee (FOMC), led by Chairman Jerome Powell, decided to hold interest rates steady Wednesday, but adjusted its language on how it views the current economic situation and near future. The committee removed the word "patient" (from the context of how it is preparing to act) and also downgraded its description of U.S. economic growth to "moderate" from "solid" just last month.

Chairman Powell vowed to "sustain the expansion," but still seemed to downplay the increased likelihood of a rate cut (or two) that many analysts and economists are expecting by the end of 2019. When asked, "Why not just cut now?" Chairman Powell noted minimal support for cutting rates this time around. The FOMC needs to "see more," he said. In other words, recent negative developments in data sets need to be confirmed as trends or dismissed as transitory blips.

His words seemed to walk a fine, cautious line, carefully navigating the seas of investors who want an accommodative policy, but also a healthy economy. Based on commentary, it seemed probable, that barring a major deterioration in data, a cut in 2019 is unlikely. That said, the FOMC is prepared to "use [its] tools to sustain the expansion."

At the end of the day, investors know little more today than they did Tuesday about how the Federal Reserve will behave in the back half of 2019. What we do know is that the FOMC seems to be supportive of the total economic expansion (stock market included), even though its legal mandates are simply to maintain maximum employment, keep prices stable and moderate long-term interest rates.

The markets seemed pleased with the lack of action as a huge rally on Tuesday continued into yesterday afternoon.

What's Ahead

Economic and earnings data are light today and tomorrow. The Organization of the Petroleum Exporting Countries (OPEC) will be meeting next Tuesday and Consumer Board (CB) consumer confidence will be released at 10 a.m. Eastern time. Consumer confidence is coming off a strong reading of 134.1 last month.

Three Things

1. *Facebook's Pound* – Facebook is entering the cryptocurrency market with a blockchain-based, "stable currency" called the "Libra" (pound in Spanish). In an effort to reduce volatility, the currency will be linked to the value of other currencies. Users can access their wallet through the Facebook app, and the currency will be managed by a new Facebook subsidiary called Calibra.
2. *YouTube and Your Kids* – Google parent Alphabet is considering the removal of all kids videos from YouTube. The videos would migrate over to the standalone YouTube Kids app, which would better manage and protect the content children view. Employees at Google and YouTube have also asked the company to disable the "autoplay" feature that automatically starts a related video after one has played. This would help prevent unwanted content from appearing on your child's screen.
3. *No More Barbie?* – After considering a hostile takeover of Mattel, MGA Entertainment CEO Isaac Larian told Yahoo Finance that "Mattel is insolvent," and likely "cannot be salvaged," doomed to "the same destiny as Toys 'R' Us." His statements stand in contrast to over $380 million in cash as of the end of last quarter, and an untapped $1.6 billion credit line. The company is working to turn profit pressures around and yes, the Barbie brand still has value and is likely to stick around a while.

Did You Know?

Thirty-eight years ago this month, the effective Federal Funds Rate, not seasonally adjusted, was the highest ever, at 19.1%. At that time, a three-month CD at your local bank was earning more than 14% interest, a couple months later, 30-year treasury bonds were yielding 15%. Of course, the high savings rates also meant higher mortgage rates — the summer of '81 was a tough one for home borrowers with 30-year mortgage rates topping 18%.

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