

John Williams'
Shadow Government Statistics
Analysis Behind and Beyond Government Economic Reporting

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Some Thoughts on the Stock Market

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Weakening Economy, Driven by Fed Tightening, and FOMC Promises for Even More in 2019, Likely Were Proximal Triggers for the Recent Stock Market Rout

Market Turmoil Likely Has Only Just Begun

Attempts by Fed to Mollify Impact of Recent Tightening Could Trigger Flight from the U.S. Dollar and Even Greater Crises

Some Thoughts on a Dangerously Volatile Stock Market. U.S. Stock Market selling should be far from over. After four days of heavy selling into Christmas Eve, today's (December 26th) activity has been deceptively positive and relatively tranquil, as we go to press about 3 pm Eastern Time. Comments here provide a brief update to the *ShadowStats* outlook, which has not changed. In particular, see [*Commentary No. 979*](#), [*Hyperinflation Watch No. 4 – Special Edition*](#) and [*Consumer Liquidity Watch No. 5 – Special Edition*](#) for recent and still-current comments.

The proximal stock-selling trigger here most likely included investor reaction to a full year of quarterly rate hikes by the Federal Reserve's Federal Open Market Committee (FOMC). Those rate hikes have impaired consumer liquidity, triggering the onset of what appears to be a new recession.

After the FOMC hinted that early signs of a weakening economy could trigger a meaningful pullback in next year's planned rate hikes, the Fed went on to schedule the bulk of those rate hikes anyway.

Those two sets of actions by the Fed were traditional, proximal stock selling triggers. Raise interest rates, and stock prices usually decline.

The Problem is the Fed Not the Fed Chairman Per Se. President Trump expressed understandable frustration with the Fed hiking interest rates recently, so as to slow the economy, particularly where the economy already had been turning down.

The Federal Reserve system was set up as separate entity from the political government, so that that Fed could take politically unpopular actions, such as raising interest rates, without facing political repercussions.

Unlike the U.S. President, the Board of Governors of the Federal Reserve likely could remove the Fed Chairman, if they chose, but they currently are in agreement with the Fed Chair. Yet, the problems and instabilities here for the system appear to be with the Federal Reserve *per se*, not with a particular Fed Chairman.

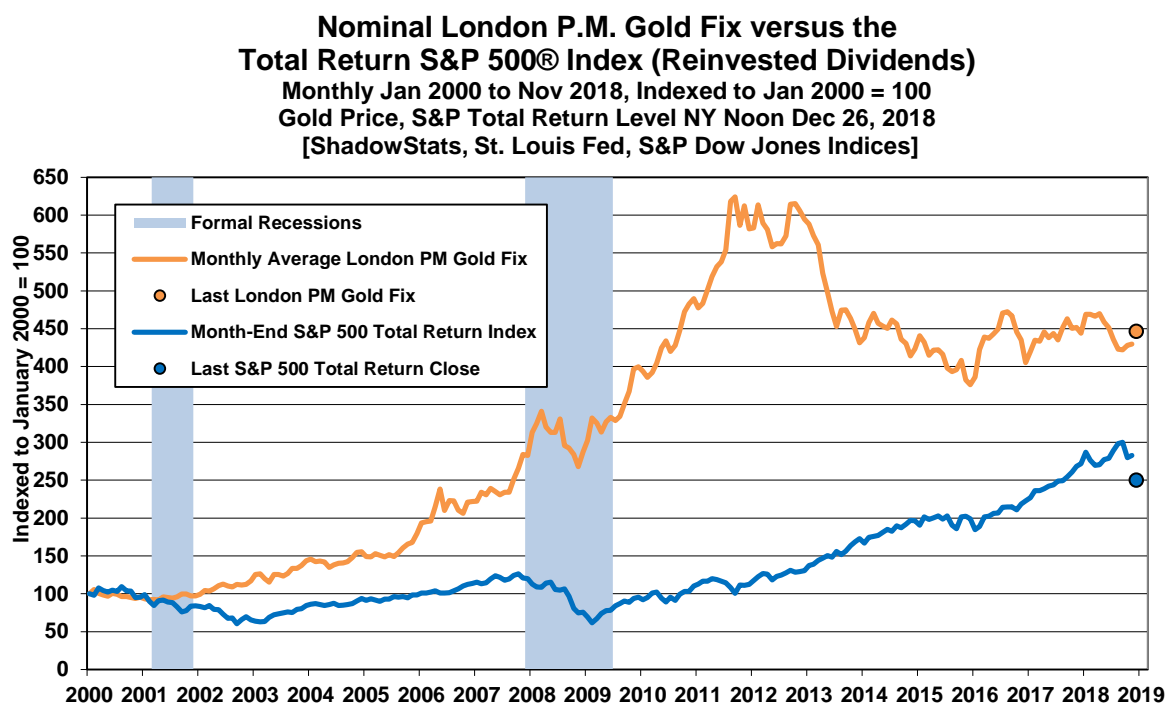
The current big issues facing the economy and financial-system have their roots in the banking-system collapse of 2007/2008, particularly as to (1) why the banking system failed, and as to (2) how the banking system was saved. A special review of that circumstance will follow in our pending *Year-End Commentary*. The ultimate righting of the system might have to come out of an Act of Congress.

Watch the U.S. Dollar and Precious Metal Prices. The weakness seen in stock prices in recent days increasingly was accompanied by U.S. dollar selling and gold buying. The flight from the dollar and to safety continues as major issues for U.S. and global financial stability, again, to be discussed in the *Year-End Commentary*.

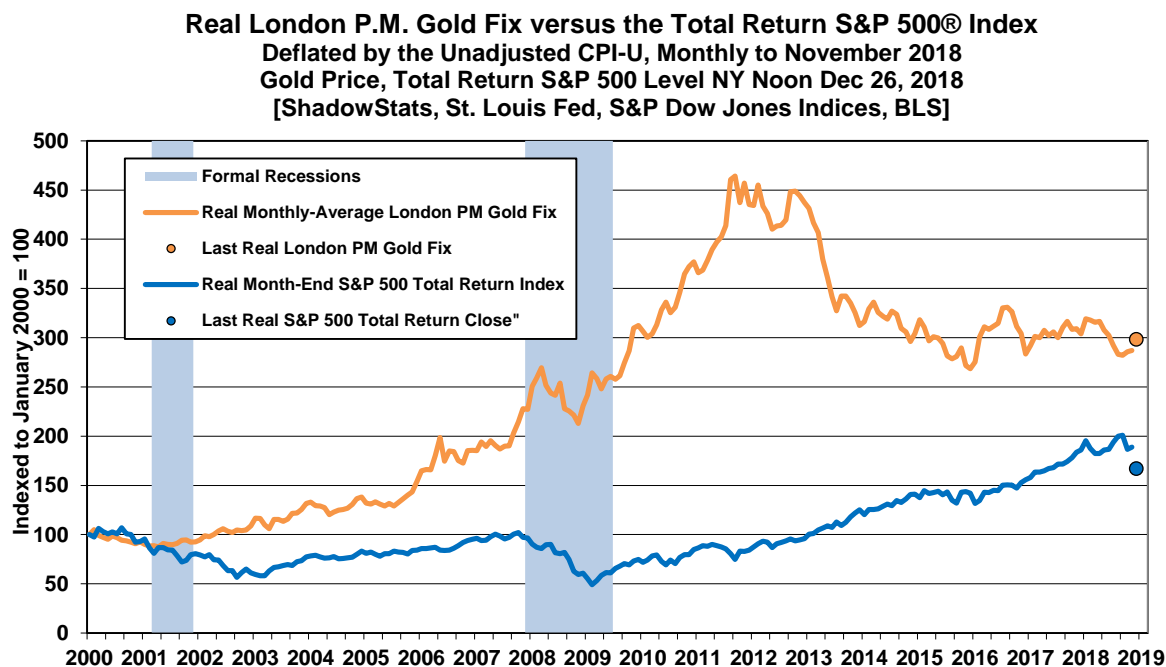
Following *Graphs 1* and *2* reflect the relatively sharp opposite moves seen recently between the prices of gold and of the S&P 500.

[Graphs 1 and 2 follow on the next page.]

Graph 1: S&P 500 Total Return versus Gold Price



Graph 2: Inflation-Adjusted, Real S&P 500 Total Return versus Gold Price



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