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The Week Ahead: The Great Jackson Hole Unwind

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in contributors

Time for Central Bankers to Unwind?

by Jeff Miller, A Dash of Insight

I could not resist the whimsical title. It is time for the annual Fed Symposium at Jackson Hole. This event, sponsored by the Federal Reserve Bank of Kansas City, has historically been the scene for various important hints about policy changes. It is also an occasion for informal, face-to-face meetings among central bankers and economists from around the world.

Follow up:

This provides for a healthy exchange of ideas among academics, government officials, and private sector economists. I am skeptical of reports of discussions during white-water rafting, but I suppose it can happen while hiking the trails or fishing. You could probably learn a lot by hanging around the Blue Heron bar.

I expect that central bankers will be doing more personal unwinding than thinking about reducing their balance sheets! I expect financial media to be asking: ***What is the Fed plan for reducing policy stimulus?***

Prior Theme Recap

In last week's WTWA I expected that the dominant theme would be the various world crises. This was accurate to start and end the week, although the weak retail earnings and data drew a lot of buzz mid-week. As the humanitarian Russian convoy approached Ukraine, there were many nervous stories about a possible Trojan horse. The fear was exacerbated by conflicting reports about a second Russian convoy of military vehicles. Some sources claimed that it was partially destroyed by Ukraine forces. This raised speculation that Putin was seeking an excuse to invade. Markets reacted dramatically to each rumor.

Naturally we would all like to know the direction of the market in advance. Good luck with that! Second best is planning what to look for and how to react. That is the purpose of considering possible themes for the week ahead.

San Francisco Appearance

I have agreed to speak at the San Francisco Money Show on August 23rd. Here is more information. I am working on some special themes. We will have fun and also identify some good investment ideas. I look forward to meeting readers in person. I will probably not be able to write WTWA next weekend.

Congratulations to Charles Kirk

Charles is retiring from full-time trading and moving to Hawaii. His obvious love for teaching and mentoring means that he will continue his work at The Kirk Report, which I have often recommended as a great resource for both traders and investors. He intends to focus a bit more on investors, while still maintaining a daily update and his popular Weekend Chart Show. The modest membership fee goes partly to charity and is quickly earned back by those following his screens and setups. Charles has a concept of retirement that is the equivalent of a full-time job for many. I hope he finds time for some golf!

This Week's Theme

Jackson Hole has been the scene for some big news in the past. Most recently this has included the suggestion of two different rounds of QE (2010 and 2012) and also the Michael Woodford speech about the significance of forward guidance. This year is notable for the change in the guest list — fewer Wall Street economists, including some of the biggest names.

What should we expect from this event? Here is the background from the *WSJ*'s Jon Hilsenrath:

> Why is the job market improving so steadily when output growth is slow and erratic? How low can the unemployment rate go before officials need to worry about wage pressure and inflation? Can the long-term unemployed be drawn back into the workforce in a more vibrant economy? Is workforce productivity waning?

At the risk of oversimplifying the sharp contrast in thinking, I will emphasize two perspectives. I want a neutral name for each group, since I have smart friends within each. I am struggling to do better than the "Traders" and the "Academics."

- **Traders.** The market wants more clarity. Enough of this story about "data dependent" decisions and moving targets for unemployment rates. Many Wall Street types also reject the Fed indicators for inflation. They want a swift end to the era of aggressive Fed stimulus and a return to normal trading. There are many advocates for this concept, including some dissenting FOMC members and famous TV pundits. For once, it seems appropriate to cite an anonymous, aggregate source:

  > The Federal Reserve is already behind the curve, this is obvious as at no time in our history has the economy performed on this level with rates basically being held at 'end of the world' total meltdown levels! Sure Wall Street wants free money from Central Banks, this has been the easiest money making era of their lifetimes; now that rates will rise, they actually have to learn to differentiate between asset classes, companies, and investment strategies. This was what changed this week, these two important data points on GDP and Inflation put the nail in the 'Free Money for Life' coffin, and this sent shivers up the spine of financial markets!

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Jeff Miller writes in A Dash of Insight

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