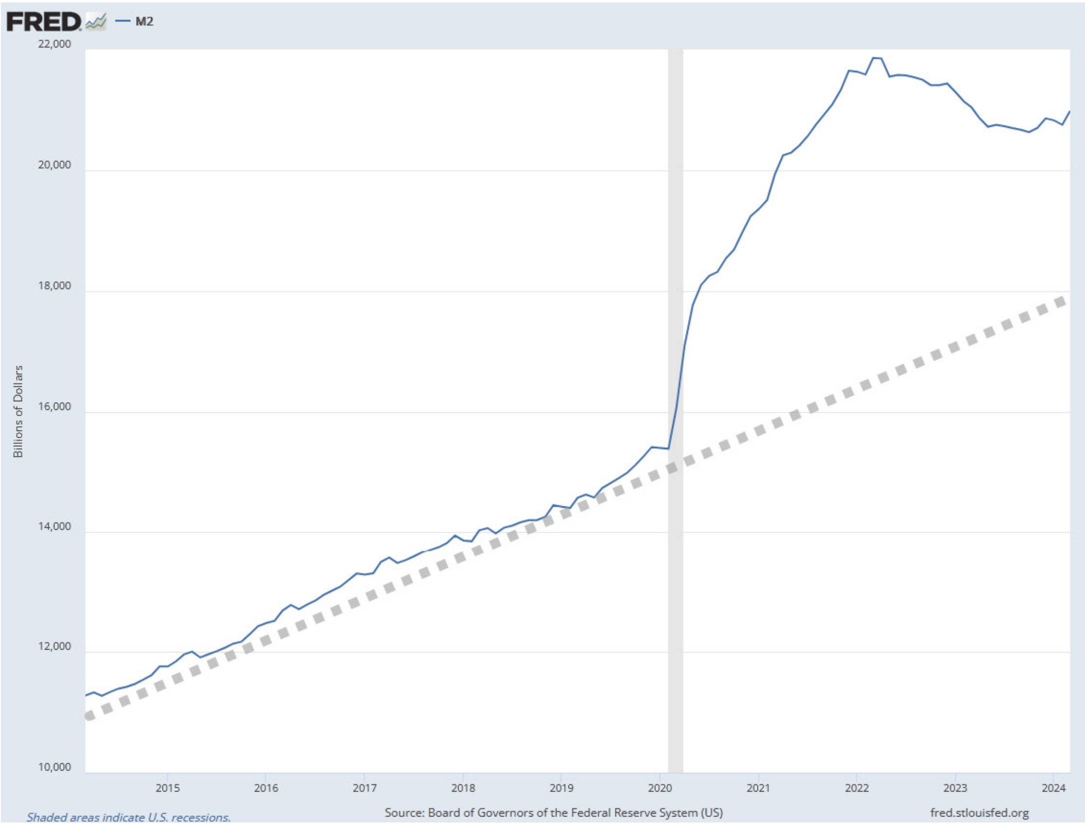
Money Printing

We see many comments that say, in effect, the Fed has been "printing money" and this is causing problems. But is that really happening?

Here is a 10-year chart of the M2 money supply. It was rising in a gentle uptrend ahead of 2020, then zoomed higher in 2021. It peaked in March 2022 which was, not coincidentally, the month the Fed began raising interest rates to staunch inflation. Since then, it has moved generally downward.

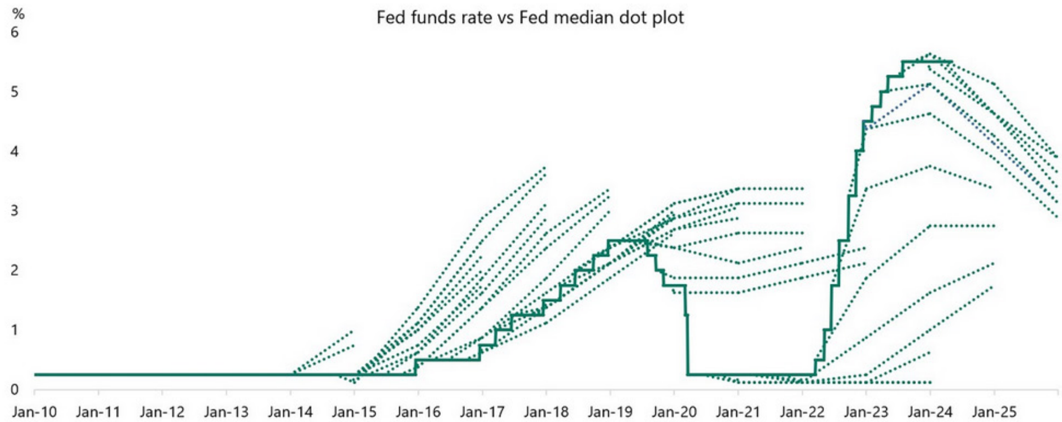


Source: FRED

That doesn't mean nothing happened. The dotted line shows where M2 *would be* now if the 2014-2019 trend had continued. M2 is still quite a bit higher than where it was headed, absent the various COVID-era interventions. But the "money printing" stopped over two years ago. The money supply has been contracting, not expanding.

Strategic Dots

Federal Reserve officials try to avoid surprising the markets. One way they do this is with their quarterly "dot plot" interest rate projections. These show where the decisionmakers think rates are going. This graph shows those as dotted lines, accompanied by a solid line showing where the federal funds rate actually went.



Source: [Torsten Slok]

The first impression here is that Fed officials are terrible predictors of their own decisions. The dots plots are usually wrong.

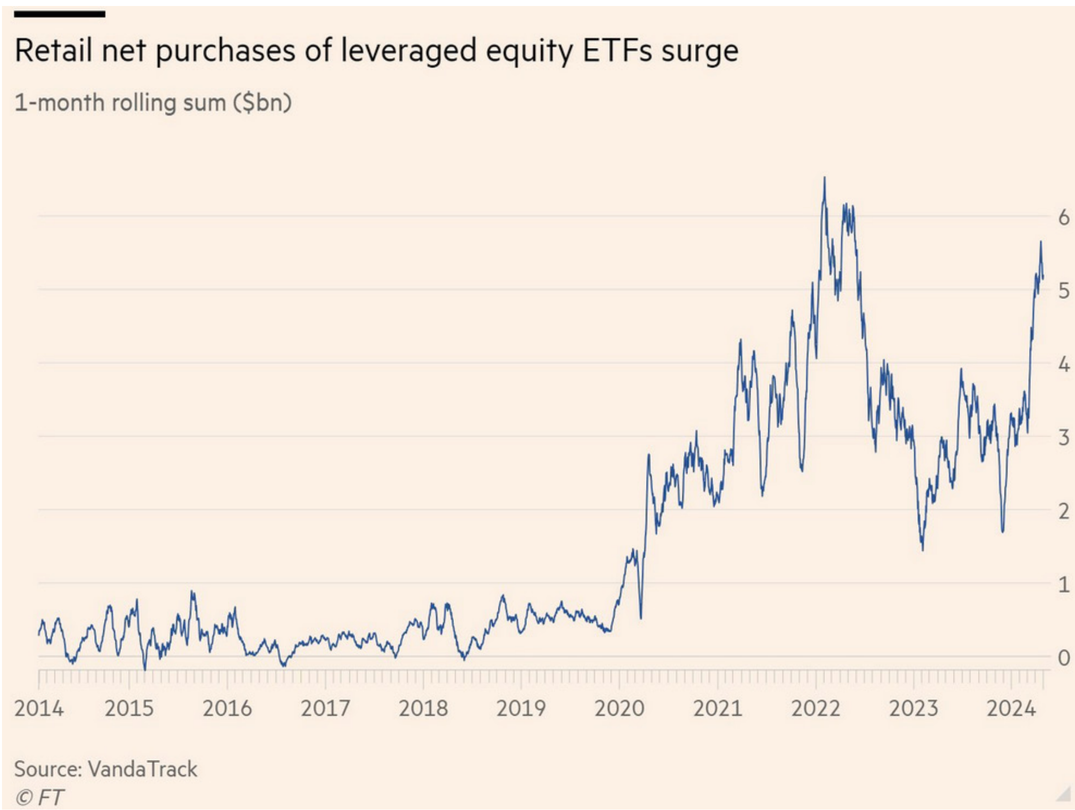
There is a pattern here, though. The dot plots seem to anticipate turning points but usually too soon. Most recently they've been expecting rates to stabilize and then fall, which hasn't yet happened, but the markets think it will.

Producing that belief is the Fed's real goal. It "anchors" market expectations, thereby stabilizing what might otherwise turn into excessive volatility. In other words, we might think of the dot plots not so much as forecasts, but as a communications strategy.

Triple the Risk

Leveraged ETFs are designed to produce some multiple of an underlying index, as much as 3X the daily move. This helps if the day goes as you expect but of course multiplies the risk as well. This makes the popularity of these ETFs a potentially useful sentiment indicator.

The chart shows leveraged ETF purchases moved sideways in the years leading up to COVID, then took off quickly in 2020-2022. Then they fell, largely in line with market weakness.



Source: [Jesse Felder]

More recently we can see another spike in purchases, almost up to the 2022 peak level. This suggests a substantial increase in risk-taking behavior among retail investors. Next we'll see if they were right to take the risk.

Can't Get No Satisfaction

Ask Americans how things are going in the country, and you'll usually get a negative answer. Intuition suggests this has to do with the economy or political disagreements. But in fact, survey data shows most Americans have been dissatisfied for two decades now.

Source: [Jeremy Horpedahl]

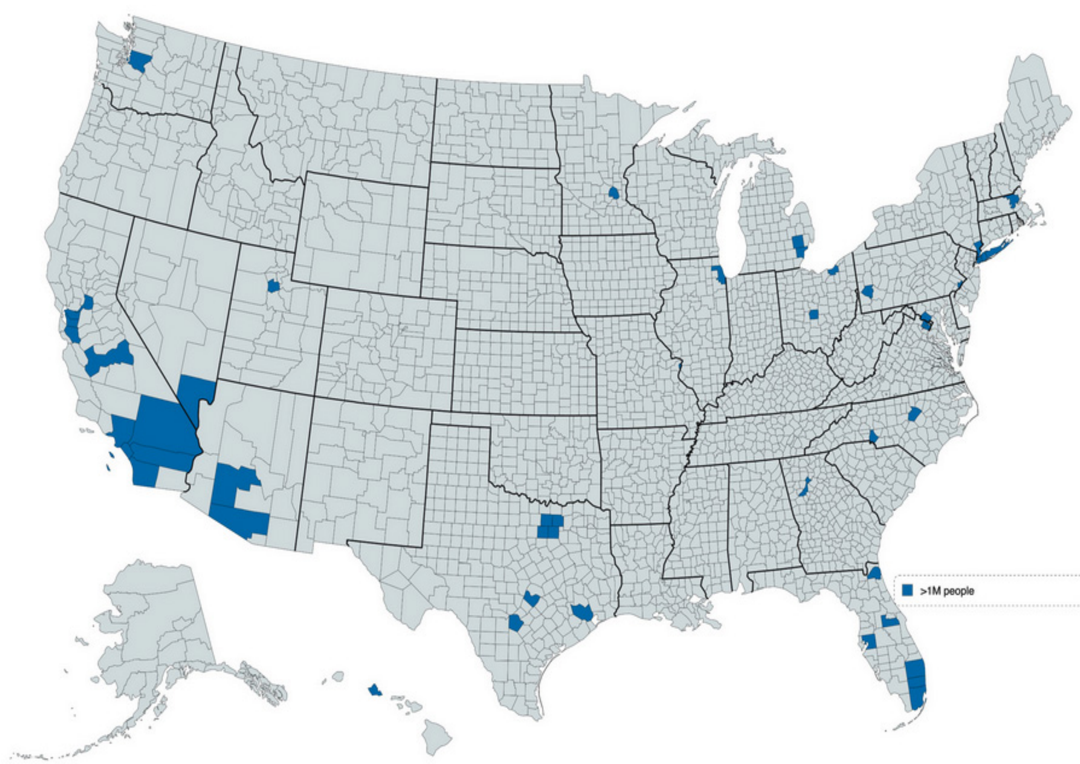
Gallup has been asking the same question in its regular panels since 1980. Their data shows satisfaction levels actually peaked around 70% in the early 2000s. In 2004 they dropped below 50% and have been there ever since.

We don't have a good way to explain this. It seems, though, that whatever produced this negative attitude isn't new.

Packed In

This map shows the US by county. The blue areas are counties with more than 1 million residents according to the 2020 census. Add them all up and these counties represent about 30% of the population. Add the adjacent counties and most of the US is packed into a small area.

However, this was before work-from-home policies allowed many workers to live far from their employers' offices. That may change the pattern by the next census in 2030.



Source: StatisticUrban

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Best regards,

John & Patrick

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