



‘Put on the brakes...’

Top Gun—Maverick, the much anticipated sequel to the iconic classic, *Top Gun*, is set to hit the silver screen next summer. The reason we mention it, beyond the fact we can’t wait, is because during the most recent Federal Reserve meeting, a scene from the original movie came to mind as Jerome Powell, Federal Reserve Chair, addressed Congress.....

In the final scene of the film, “Maverick” (Tom Cruise), along with his wingman “Iceman” (Val Kilmer) are outnumbered 3 to 1 by Russian Mig-28’s. As they ensue in an epic dogfight, a Mig makes its way directly behind Maverick’s F-14A Tomcat. Maverick does all he can to shake him off to no avail. His new RIO (Radar Interceptor Officer) “Merlin” (Tim Robbins) relays to Maverick that the bogey is about to get missile lock on their plane. It’s during this sequence that we drew parallels to the Fed meeting, and perhaps more to the point, the Fed’s decision on the movement of interest rates:

Merlin: (to Maverick) “Why are you slowing down?”

Maverick: “I’m bringing him in closer, Merlin”

Merlin: “You’re gonna do what!?”

*Maverick: “I’m **gonna hit the brakes** and he’ll fly right by”*

“You’re gonna do what!?”,...hit the brakes” is exactly what we thought when Chairman Powell indicated the Federal Reserve would cut rates .25%. The Fed hasn’t ‘felt the need’ to cut rates since the “Great Recession”, which begs to ask the question, why now?



Why the Cut?

In general, and historically, the Federal Reserve lowers or cuts rates with the hope of encouraging growth when the economy has become sluggish or as in the case of the Great Recession, has stalled out completely. The cut essentially makes it cheaper for banks and depositories to lend funds to each other. Rates for credit cards, car loans, mortgages, etc. in turn lower as well, which may encourage consumers to spend. This “spark” will hopefully increase growth within the economy or in dire times like the last time the Fed cut, potentially reverse a downturn or even a recession. The reason for our shock, like that of Merlin’s when Maverick was putting on the brakes, was the fact that in our eyes the U.S. economy is in pretty good shape and access to funds was already pretty inexpensive and easy.....or was it?

“It’s a recession when your neighbor loses his job; it’s a depression when you lose your own.”

-Harry S. Truman

In our view, the recent rate cut has little, if anything, to do with the U.S. economy at all, rather everything to do with the other major economies of the world. Below is a visual of the current interest rate environment for the major central banks of the world.¹

Major Central Banks Overview

Central Banks	Current Interest Rate	Next Meeting	Last Change
Reserve Bank of Australia	1.000 %	9-3-2019 - 04:30	7-2-2019 - 04:30
Federal Reserve	2.250 %	9-18-2019 - 18:00	7-31-2019 - 18:00
Swiss National Bank	-0.750 %	9-19-2019 - 07:30	1-15-2015 - 09:30
European Central Bank	0.000 %	9-12-2019 - 11:45	3-10-2016 - 12:45
Bank of Japan	-0.100 %	9-19-2019 - 02:00	1-29-2016 - 03:00
Reserve Bank of New Zealand	1.000 %	9-24-2019 - 21:00	8-7-2019 - 02:00
Bank of Canada	1.750 %	9-4-2019 - 14:00	10-24-2018 - 14:00
Bank of England	0.750 %	9-19-2019 - 11:00	8-2-2018 - 11:00

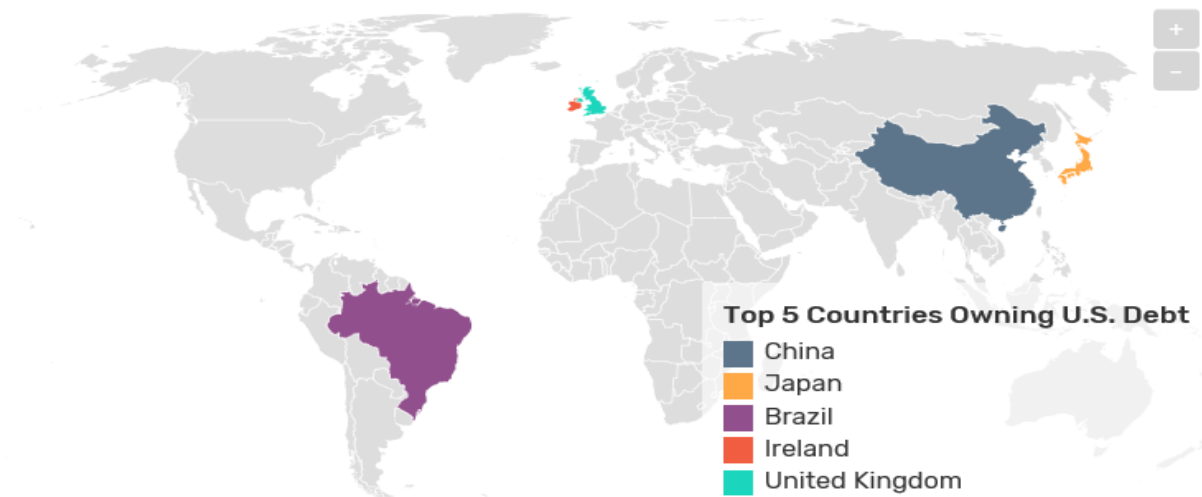
1. www.global-rates.com



As we have become fully aware, the United States is interlocked and interdependent with a number of economies around the world and vice versa. To that end, countries across the globe as well as corporations, utilize those governmental entities when it comes to interest rates, in order to get the best bang for their buck. As illustrated in the previous graphic, many of our trading partners and “neighbors” are experiencing even lower interest rate levels than we are in the U.S. Below is a map, illustrating those countries that own the debt of the U.S.

Foreign Holders Of U.S. Debt

Hover over country to see debt amount in U.S. Dollars



Map: The Balance • Source: [U.S. Department of Treasury](#)

Our belief, is that the Federal Reserve is lowering rates, in the hope that some of these trading partners potentially will slightly reduce their stake in the Treasury. Take China for example, who owns more U.S. Treasuries than any other country. If rates decrease it may make more sense for the Chinese government to take their funds elsewhere to find a better rate of return; other countries as well. If that were to actually happen, it could potentially weaken the value of the dollar. There are positives and negatives to a strong or weak dollar, but let's focus on what we believe the Fed is doing; weakening the dollar. A weak dollar means our currency buys less of a foreign country's goods or services. Prices on imported goods rise, consumers must pay more for imports, and foreign travelers may need to scale back on vacation because it is more expensive when the dollar is weak. However, a weak dollar also means our exports are more competitive in the global market, perhaps saving U.S. jobs in the process. When a large trading partner like China artificially keeps its currency weak, it hurts the balance of payments, meaning its goods



are cheaper than domestically produced products. Through a short-term boon for the consumer, a weak currency of a foreign competitor means U.S. manufacturers have trouble competing.

President Trump has been very vocal (or 'tweetal') about his preference of a weaker dollar. He would very much like to keep the economic run going and as stated above, a weaker dollar could help as it relates to doing business with our many trading partners, including China.

Wingman

As we've mentioned in this update and the many prior, the world has become interdependent today more than ever. Companies, for the most part globally, are much better off if the world is growing as a whole, instead of our country versus theirs. The global consumer, for the first time in history, is agnostic, for the most part, to where there goods and services come from. Sure there is still patriotism on behalf of every consumer to some extent, but it has become very clear that all companies, countries and consumers do better when we work together. We believe the recent rate decrease from the Federal Reserve is case in point to that. The lowering of our rates overall could be good for the U.S. worker, good for trade and the consumer, but ultimately we believe it is just as good for the rest of the world. So as we embark on this continued back and forth with our economic world rivals, we think back to the ending scene of Top Gun:

Iceman: Maverick, you can be my wingman any day.

Maverick: Bull\$#%&, you can be mine.

Have a great end to the summer and here's to a mild fall!

Randy, Trevor and Ashley



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