The Fed's balance sheet peaked at $9 billion in April 2022. Today, after two years of Quantitative Tightening (QT), it has fallen to $7.2 trillion. When the Fed embarked on QT, its goal was to "normalize" its balance sheet. At the time, the St. Louis Fed claimed the purpose of QT was:

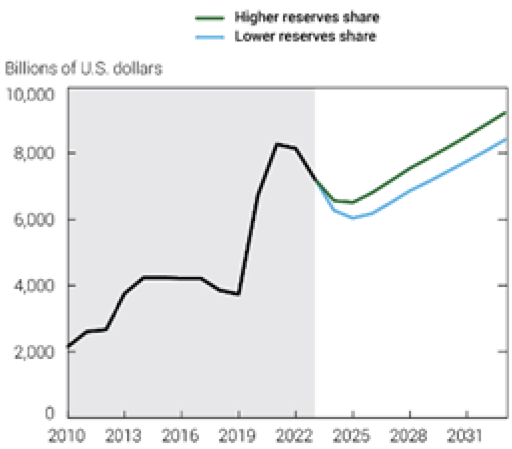
> *"This policy, termed balance sheet "normalization" or "quantitative tightening" (QT), is designed to drain excess liquidity from the banking system. QT is the opposite of quantitative easing (QE)."*

Today, after a healthy dose of QT, the Fed's balance sheet is still far from normalized. It is over $5 trillion larger than in 2008 when Ben Bernanke promised that the initial round of QE was a temporary measure to stabilize the economy and markets.

Might today's and many continued rounds of QT normalize the Fed's balance sheet? We doubt it, and so does the Fed. In our latest article, [Fiscal Dominance Is Here](), we discuss the bind the Fed is in and how they must enact monetary policy with the massive Federal debt load in mind. Powell will never admit that monetary policy is beholden to the nation's debt. However, the Fed does. The graphs below from the Fed project its SOMA account, which holds their bonds, will grow by 8-10% a year starting in 2025. The Fed and Treasury have no choice if deficits continue!

Chart 24

Projected SOMA Domestic Securities Holdings



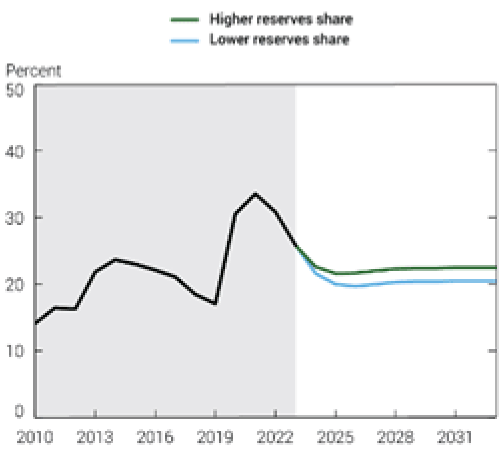
Source: Federal Reserve Bank of New York.

Notes: Higher/lower reserves share scenario refers to the ratio of reserves to nominal GDP consistent with balance sheet reduction slowing at about 12 percent/10 percent and stopping at about 11 percent/9 percent, then growing to maintain ample reserves at about 10 percent/8 percent. Figures are as of year-end and are rounded. Figures for 2010-23 are shaded and represent historical balances.

Projections assumptions are primarily based on publicly available information further detailed in Appendix 4 of this report.

Chart 25

Projected SOMA Domestic Securities Holdings as a Share of NGDP



Source: Federal Reserve Bank of New York.

Notes Higher/lower reserves share scenario refers to the ratio of reserves to nominal GDP consistent with balance sheet reduction slowing at about 12 percent/10 percent and stopping at about 11 percent/9 percent, then growing to maintain ample reserves at about 10 percent/8 percent. Figures are as of year-end and are rounded. Figures for 2010-23 are shaded and represent historical balances.

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What To Watch Today

Earnings

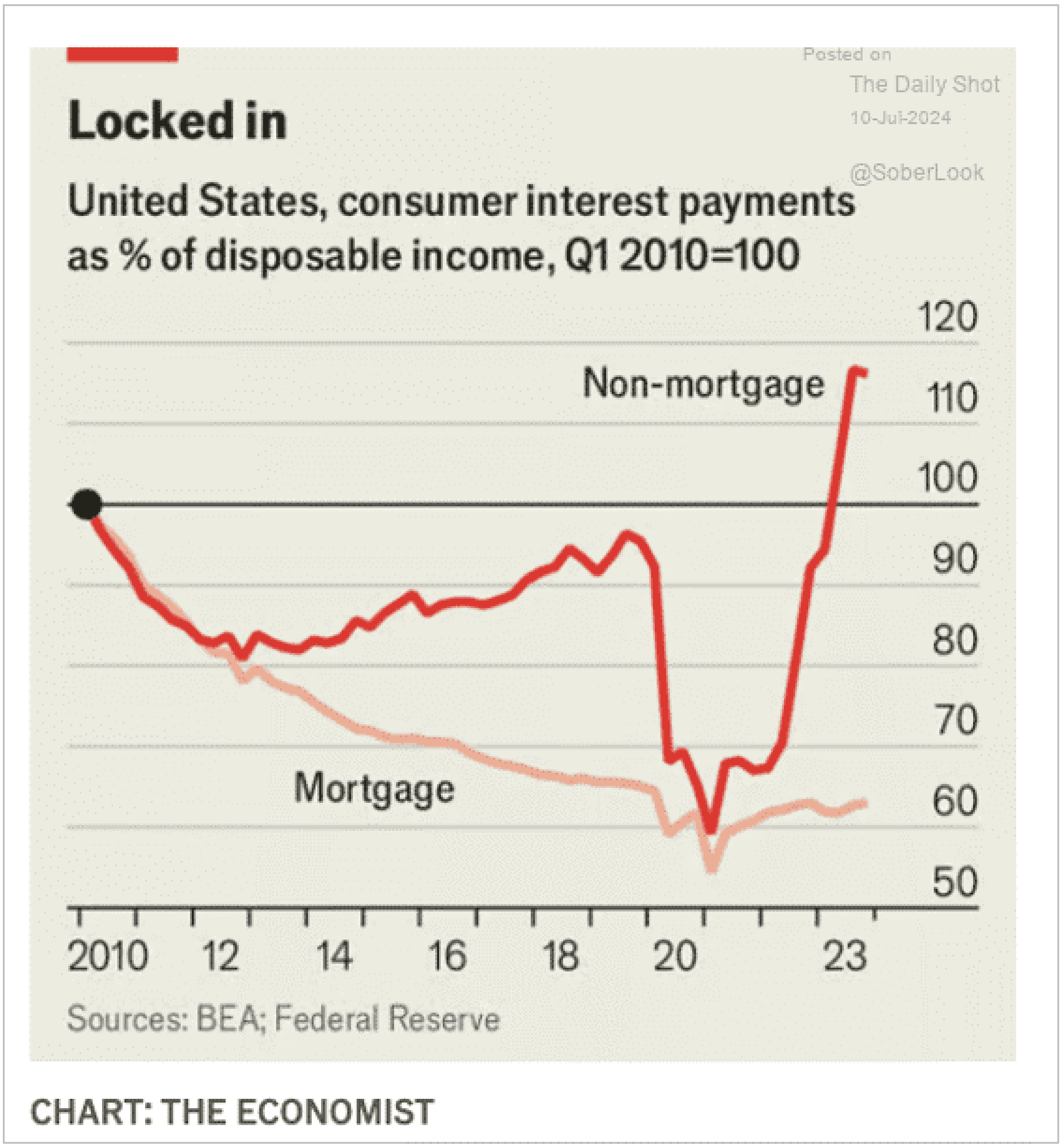
Time	Symbol	Company Name	Market Cap ▾	Fiscal Quarter Ending	Consensus EPS* Forecast	# Of Ests	Last Year's Report Date	Last Year's EPS*
	PEP	Pepsico, Inc.	$222,577,850,162	Jun/2024	$2.15	8	7/13/2023	$2.09
	PGR	Progressive Corporation (The)	$122,697,955,092	Jun/2024	$2.02	11	7/13/2023	$0.50
	WIT	Wipro Limited	$33,336,382,009	Jun/2024	$0.07	2	7/13/2023	$0.06
	DAL	Delta Air Lines, Inc.	$30,258,692,949	Jun/2024	$2.37	9	7/13/2023	$2.68

Economy

Time		Event	Impact	Actual	Consensus	Previous
THURSDAY, JULY 11						
12:30	USD	Consumer Price Index (MoM)(Jun)		-	0.1%	0%
12:30	USD	Consumer Price Index (YoY)(Jun)		-	3.1%	3.3%
12:30	USD	Consumer Price Index ex Food & Energy (MoM)(Jun)		-	0.2%	0.2%
12:30	USD	Consumer Price Index ex Food & Energy (YoY)(Jun)		-	3.4%	3.4%
12:30	USD	Initial Jobless Claims(Jul 5)		-	236K	238K
18:00	USD	Monthly Budget Statement(Jun)		-	$-83B	$-347B

Market Trading Update

The market is poised to move higher again today if the CPI report confirms what the market is expecting ? cooler inflation. With Jerome Powell heading into the FOMC meeting at the end of the month, the recent spat of weaker data has hopes mounting that the Fed could cut rates in July. That hope was recently underpinned by comments from Powell that he doesn?t want to wait too long to cut rates and risk undermining economic growth. That risk is clearly reflected in consumer interest payments (non-mortgage) as a percentage of disposable income, which has risen sharply. The longer high borrowing costs remain, the risk of a recessionary draw down increases.

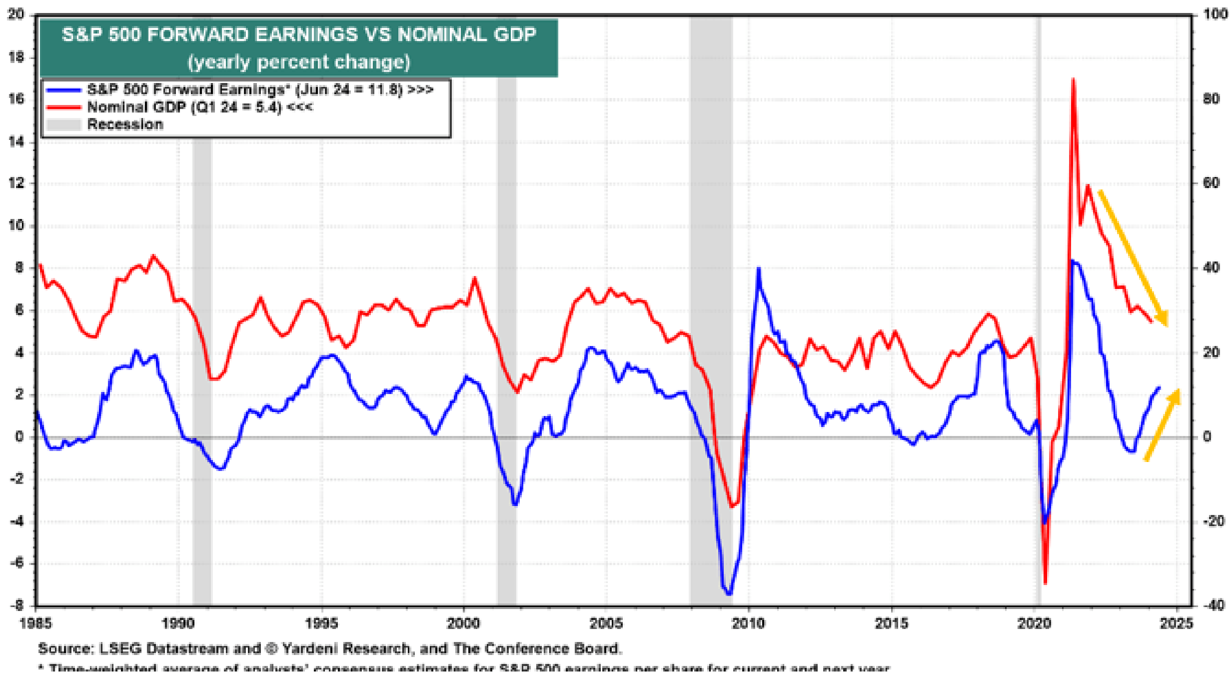


Do not dismiss that risk. When it comes to the financial market, investors are chasing a handful of stocks higher based on expectations of exponential earnings growth in the future. However, a recessionary onset will undermine those expectations as earnings fall and valuations reset. As shown, the last time that the largest 7-stocks outperformed the rest of the market to such a degree was heading into the ?Dot.com? bubble. While this time is indeed different, it is unlikely that it is different enough to create infinite earnings growth.

While we remain long equities in our portfolio currently, as we will discuss in this weekend?s newsletter, we are starting to aggressively research multiple hedging strategies to reduce portfolio risk heading into the end of summer. Such a move certainly seems prudent.

Forward Earnings Projections Appear Optimistic

Corporate earnings tend to be well correlated with economic activity. Also, as the graph below from Yardeni Research shows, forward earnings correlate well with current economic growth. Keep in mind that forward earnings are forecasts, not actual earnings. Recently, as Yardeni highlights with the yellow arrows, forward earnings expectations have been rising while the GDP growth rate has been declining. Therefore we must ask, can earnings expectations continue increasing if the economy slows beyond the natural growth rate? We doubt it, but never rule anything out in this market.



More On Construction Employment

Yesterday's [Commentary](#) touched on the significant jump in construction worker layoffs in the latest Challenger report. We track the sector closely because construction jobs have played a significant role in the robust job market. And as you know, the strong labor market is one reason the Fed is apprehensive about cutting interest rates.

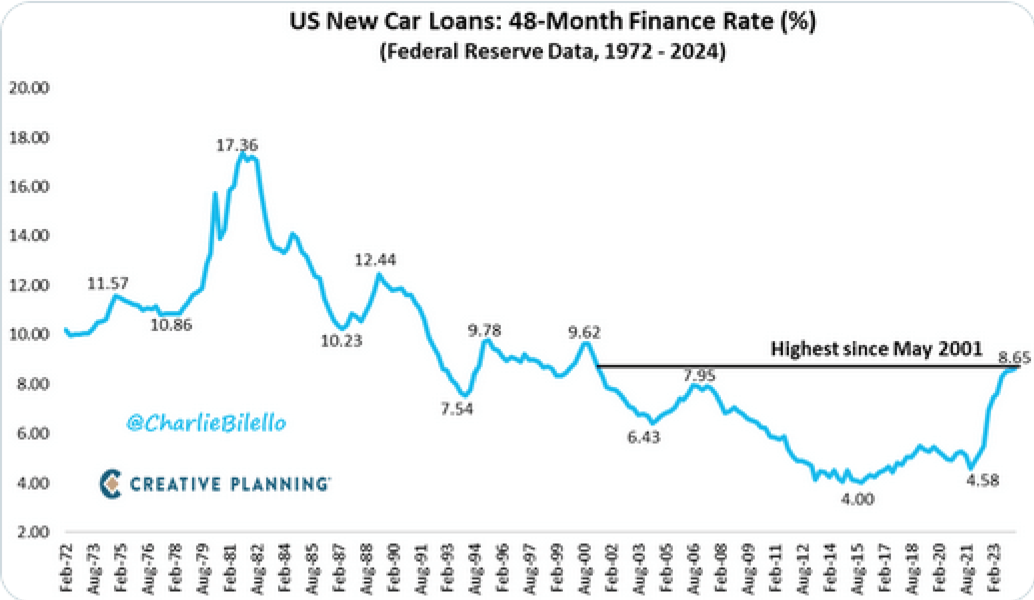
The graph below, courtesy of CoStar, warns that the Challenger warning may not be a one-month anomaly. As measured in square footage, the amount of new commercial projects getting underway has plummeted from over 200 million square feet to just over 50 million. Such is the lowest since the aftermath of the financial crisis.

Tweet of the Day

Charlie Bilello @charliebilello · 19s

The average interest rate on 48-month new car loans in the US has moved up to 8.65%. That's the highest we've seen since 2001.

bilello.blog/newsletter



?Want to achieve better long-term success in managing your portfolio? Here are our [15-trading rules for managing market risks.]?

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