The Fed Was Right to Cut the Interest Rate

While it might be hard for us to understand why interest rates are so low, market forces are a lot smarter than we mere mortals are, and the market has spoken. The Federal Reserve needs to cut.

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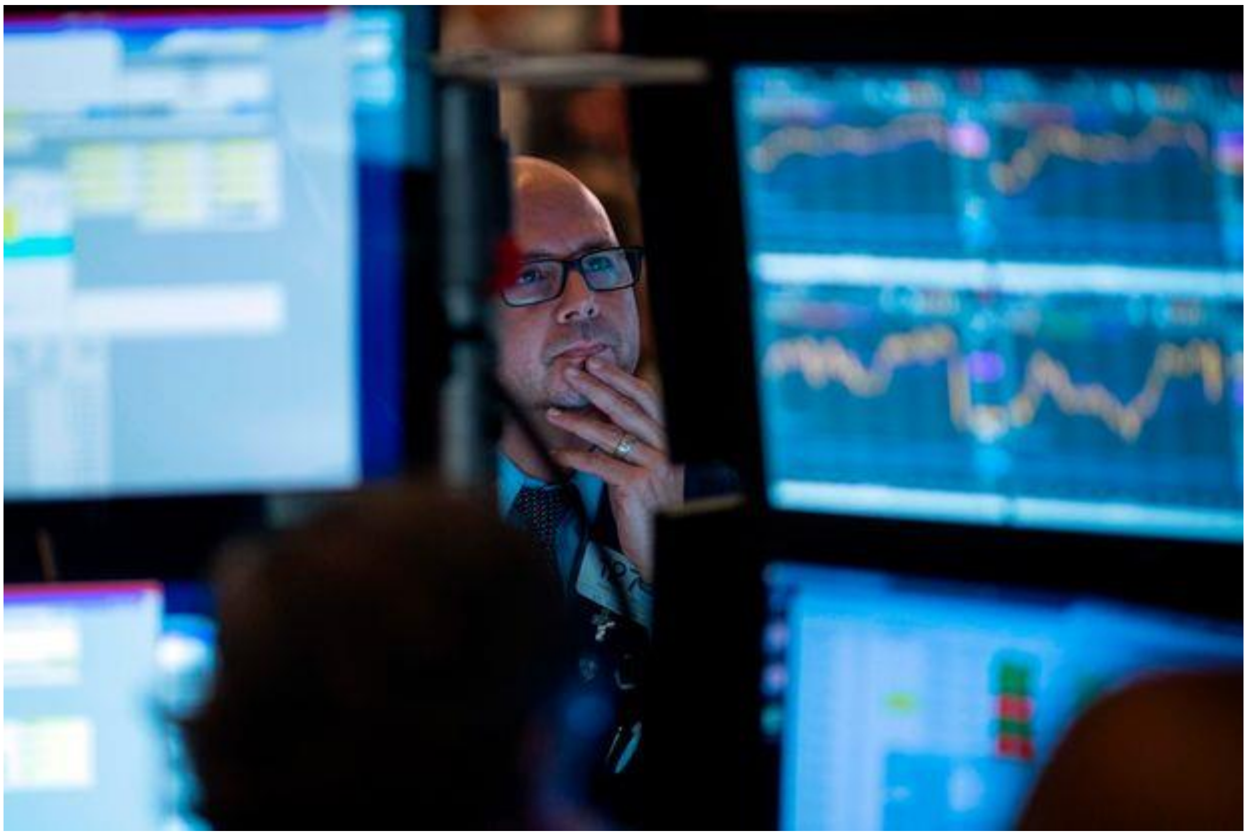

Traders at the New York Stock Exchange (NYSE) on July 29, 2019. PHOTO: JOHANNES EISELE/AGENCE FRANCE-PRESSE/GETTY IMAGES

Your editorial gets it wrong about "The Confusing Federal Reserve" (July 30). You argue that the Fed has no reason to cut rates with "equities at new highs, credit premiums are low, and inflation [showing] signs of a modest comeback." You continue with: "The job market has stayed strong and so has consumer spending." All of this data are irrelevant. The only relevant piece of economic information is the yield on the 10-year U.S. Treasury note, currently below 2%. With the fed-funds rate at approximately 2.40%, the Fed is intentionally inverting the yield curve. The fed-funds rate has historically averaged about 50 basis points below the 10-year yield, not 35 basis points above it. Not only is an inverted yield curve a predictor of recessions, but it has been shown to cause recessions. There is no reason for the Fed to sabotage our economic recovery. While it might be hard for us to understand why interest rates are so low, market forces are a lot smarter than we mere mortals are, and the market has spoken. The Federal Reserve needs to cut.

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