First to Market

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WHY DOES THE FED NEED SPECIAL EXCLUSIONS ANYWAY?

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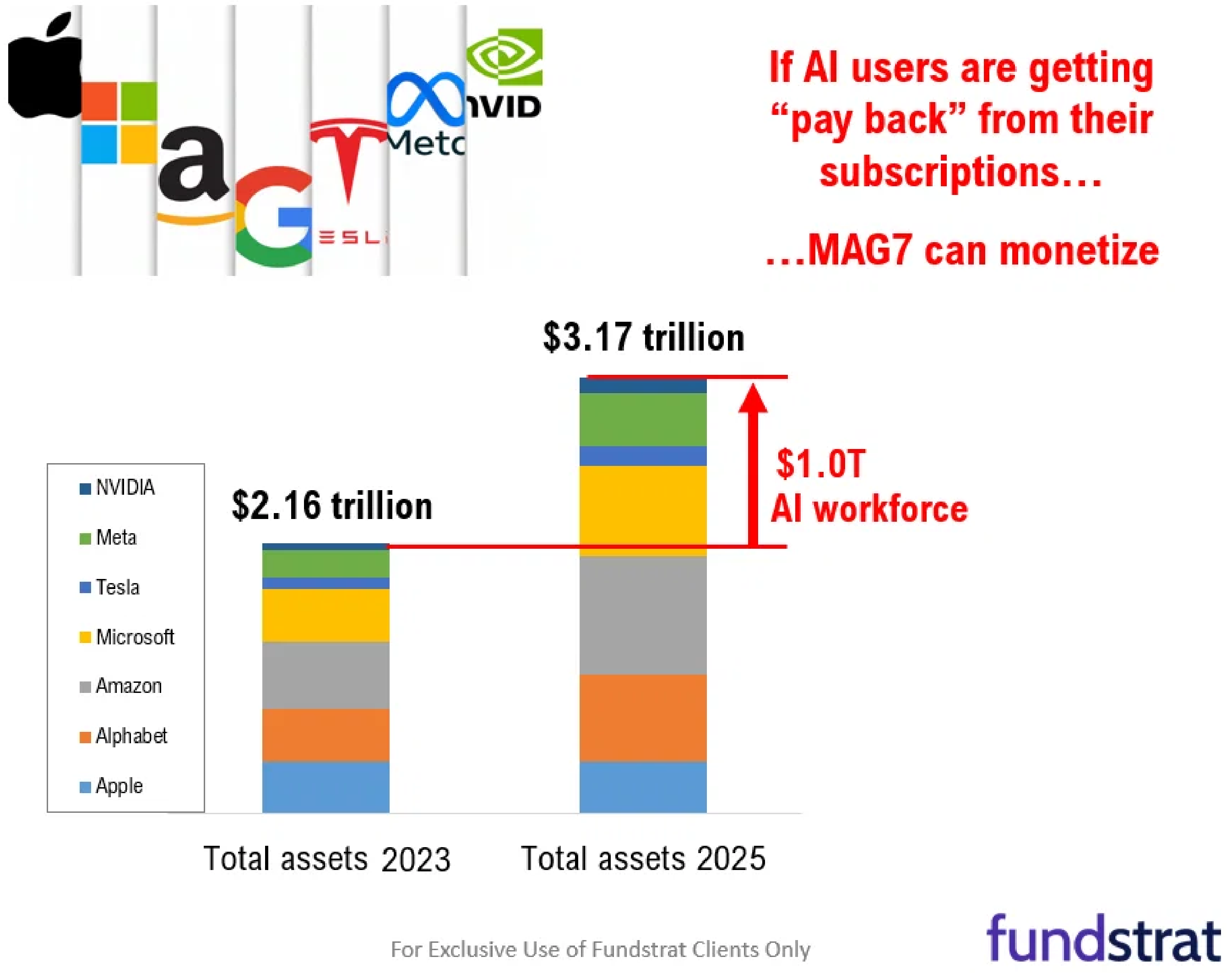
“Had Volcker never pushed through his radical change in policy, the world would be many bond traders and one memoir the poorer.” — Michael Lewis, Liar's Poker

Chart of the Day



Good morning!

The Supreme Court on Monday said that President Trump cannot fire Federal Reserve governor Lisa Cook for now, but didn't extend that same ruling to other independent government agencies, categorizing the Fed as unique.

The ruling was widely expected, and the stock and the bond market appeared indifferent to it.

In a 5-4 decision, the court said that Cook was at the very least entitled to some explanation of the evidence at issue, some avenue for a response, and a deadline by which a response would be due. If the president provides that, it's likely that the battle continues on in the lower courts. The justices, however, gave the president power to fire leaders of other regulatory agencies, as demonstrated with their affirming the permanent ousting of Rebecca Slaughter, a Democratic-appointed commissioner on the Federal Trade Commission.

With the ruling, the justices essentially said that the Fed deserves a special status compared to other agencies because it sets interest rates, which seeps into every fabric of the economy—from the rates borrowers pay on corporate debt to student loans to mortgages. What most of us purchase or feel on a given day is influenced by interest rates, even if many aren't aware of that. That's why the Fed deserves independence from presidential control, to some degree.

This made me wonder, what was the economy like prior to the creation of the Fed in 1913?

Well, as it turns out, the ruling does a great job explaining that.

U.S. currency had rapidly devalued during the Revolutionary War, as the Continental Congress was printing tons of money to finance the war. General Washington wrote to Congress for help for fear of "mutiny" in the ranks, which led to the creation of Bank of North America, considered to be an early prototype of the central bank. It was short-lived, as the national charter lapsed in 1789.

After that came the First Bank in 1791, operating with a similar degree of independence from Congress, but again the charter expired in 1811. Five years later, the War of 1812 led to the Second Bank, but like the previous two times, the charter expired soon after. Then-President Andrew Jackson was being actively lobbied by banks, which didn't appreciate not having full control over the credit supply, so when Congress passed a bill to extend the charter in 1832, Jackson vetoed it.

Without those predecessor central banks, an "era of ruinous financial panics" followed, such as the ones of 1837, 1857, 1873, 1893, and 1907. The banking system back then seemed to be "devised for fair weather, not for storms," according to President McKinley's Secretary of the Treasury, so after that last panic, a bipartisan congressional commission eventually recommended the creation of a central bank.

“Without an independent central bank, there was no way to contain the damage whenever a major institution fell—no lender of last resort that could allow sound banks with good but temporarily illiquid assets to access cash, no elastic currency that could expand to meet demand, and no mechanism to ensure that small banks issued loans only within their means in the first place,” the court’s opinion said yesterday.

My mind struggles to comprehend a world without the Fed. I remember as recently as 2023 when Silicon Valley Bank failed, coming right off the back of some of the fastest interest-rate increases in history. It captivated investors' attention and raised worries about the health of other banks, especially regional banks, for at least a year. Signature Bank and First Republic Bank both failed. But in the grand scheme of things, the contagion was relatively contained and short-lived because the Federal Reserve stepped in.

In fact, some investors believe that the chances of another global financial crisis happening are low precisely because we’ve all grown so accustomed to the Fed and regulatory agencies intervening. It’s up for debate whether that’s healthy, but what is clear is that the Fed occupies a special role in the economy for the stability and success of the U.S. and world economies, a point made by Justice Brett Kavanaugh, as well.

“Even temporary uncertainty about the status of the Federal Reserve could spark political upheaval, including confusion about whether the president could immediately remove multiple [Fed] governors at will, as well as turmoil in the U.S. and world economies,” he wrote.

— *Alex Wang contributed to this.*

Economic data summary: Current conditions softened as production fell to 4.1 from 5.3, new orders dropped to 2.3 from 6.4 and general business activity flatlined. There are three key points that stand out. First, the present/future split is extreme with future general business activity jumping 11.6 points to 25.9 and future capex surging 14.4 points to 27.0, implying firms expect great future recovery in H2. Secondly, the price passthrough is the most important factor in this report: raw materials prices have been positive for 74 consecutive months at 42.4, though they came in unchanged most recently. Finished goods prices received jumped 9.7 pts to 28.6, well above the series average of 9.1. Manufacturers are finally pushing input costs downstream, a leading inflation signal. Third, employment rose to 13.9 from 13.7, while outlook uncertainty dropped 8.3 pts to 10.9. Firms are betting on a second half recovery, if demand disappoints, the inventory build and hiring surges become liabilities. — *Jaime Lee*

Share your thoughts

What did you make of the SCOTUS ruling? Click here to send us your response.

✍Here's what a reader commented ✍

Q: Outside of tech and AI, which sectors do you think are favorable right now?

A: Healthcare is showing signs of life and has productivity improvement prospects from AI. It's been a waiting game to see which sector benefits next in the AI revolution and whether it's upstream or downstream from LLM's. Data centers, chips, infrastructure and energy are upstream. Healthcare is thought to be a major downstream beneficiary, so, when haha?

Catch up with Fundstrat

May Core PCE was mainly driven by ‘financial services’ which means stock market gains drove inflation. Ex-financials, core PCE was 0.22%, which is pretty close to the Fed’s target, and this explains why yields fell sharply.

Technical

Rotation remains the dominant story over the past couple of weeks, though with only minor evidence of true defensiveness so far, and the broader tape stays choppy and trendless.

Crypto

The biggest development today was Strategy's latest 8-K, which, in my view, meaningfully reduced the immediate risks surrounding the preferred complex.

News We're Following

Breaking News

- U.S. and Iran Gear Up for Meetings in Qatar NYT

Markets and economy

- Nasdaq on Track to Wrap Quarter With 20% Gain WSJ
- Why Wall Street Bulls Aren't Worried About Sky-High Stock Prices WSJ
- Small-cap stocks enjoy their best first half in 35 years. Here's what's driving it CNBC
- Gold heads for worst quarter in more than a decade as retail frenzy fades FT

Business

- Warren Buffett Skips Midyear Donation to Gates Foundation as He Awaits Epstein Review WSJ
- Strategy Abandons 'Never Sell Bitcoin' Mantra in Bid to Outlast Crypto Winter WSJ

Politics/U.S.

- Supreme Court Victory for Fed Still Leaves It Vulnerable to Trump NYT
- Trump is losing his fight with the Fed CNN

Overseas

- Japanese yen sinks to 40-year low, keeping intervention risks in focus CNBC
- Putin Faces Increased Pressure as Moscow Is Again Attacked by Drones NYT

Of Interest

- Taylor Swift, Travis Kelce and the Slow-Burn Wedding Reveal NYT

Overnight	
S&P Futures	0 point(s) (0.00%)
overnight range:	-18 ▼ to +17 ▲ point(s)

APAC	
Nikkei	+0.86% ▲
Topix	+0.32% ▲
China SHCOMP	+0.50% ▲
Hang Seng	-0.63% ▼
Korea	+0.97% ▲
Singapore	-0.73% ▼
Australia	-0.51% ▼
India	-0.34% ▼
Taiwan	+2.50% ▲

Europe	
Stoxx	50 +1.07% ▲
Stoxx	600 +0.91% ▲
FTSE	100 +0.87% ▲
DAX	+1.33% ▲
CAC	40 +0.27% ▲
Italy	+0.88% ▲
IBEX	+0.45% ▲

FX

Dollar Index (DXY)	+0.27% ▲ to 101.38
EUR/USD	-0.28% ▼ to 1.1390
GBP/USD	-0.33% ▼ to 1.3214
USD/JPY	-0.34% ▼ to 162.49
USD/CNY	+0.14% ▲ to 6.7866
USD/CNH	+0.10% ▲ to 6.7936
USD/CHF	-0.23% ▼ to 0.8096
USD/CAD	-0.16% ▼ to 1.4234
AUD/USD	-0.04% ▼ to 0.6884

UST Term Structure

2Y-3M Spread narrowed	-3.1bps ▼ to 30.3bps
10Y-2Y Spread narrowed	-0.1bps ▼ to 26.5bps
30Y-10Y Spread narrowed	-0.3bps ▼ to 48.1bps

USD HY OaS

All Sectors	-1.7bps ▼ to 300bps
All Sectors ex-Energy	-8.0bps ▼ 298bps
Cons Disc	-35.6bps ▼ to 443bps
Indu	-16.2bps ▼ to 233bps
Tech	-2.5bps ▼ to 236bps
Comm Srvcs	-1.9bps ▼ to 301bps
Materials	-1.0bps ▼ to 269bps
Energy	-9.5bps ▼ to 273bps

Fin Snr	-2.2bps ▼ to 200bps
Fin Sub	-1.7bps ▼ to 308bps
Cons Staples	-12.0bps ▼ to 460bps
Healthcare	-9.3bps ▼ to 311bps
Utes	-3.8bps ▼ to 213bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
6/30	9:00 AM	Apr S&P Cotality CS 20-City m/m	-0.1	-0.16
6/30	10:00 AM	Jun Conf Board Sentiment	94.4	93.1
6/30	10:00 AM	May JOLTS	7295.5	7618
7/1	9:45 AM	Jun F S&P Manu PMI	55.7	55.7
7/2	8:30 AM	Jun AHE m/m	0.3	0.3
7/2	8:30 AM	Jun Unemployment Rate	4.3	4.3
7/2	8:30 AM	Jun Non-farm Payrolls	110	172
7/2	10:00 AM	May F Durable Gds Orders	-4.5	-4.5
7/6	9:45 AM	Jun F S&P Srvcs PMI	n/a	51.3
7/6	10:00 AM	Jun ISM Srvcs PMI	54.2	54.5
7/7	8:30 AM	May Trade Balance	-78.7	-55.881

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