Change at the Helm of the Fed

President Donald Trump nominated Jerome “Jay” Powell as the next Chairman of the Federal Reserve. If confirmed by the Senate, he will replace Janet Yellen in February of 2018 when her term expires.
What does this mean for investors and why did Trump pick him? Well, in addition to Yellen, Trump’s list of serious contenders included Kevin Warsh, John Taylor and Gary Cohn. But in the end, many economists believe that choosing Powell allowed Trump to put his personal stamp on the Fed while at the same time maintaining the status quo of monetary policy. In addition, Powell has been a Fed governor since 2012 and is not known as being overly hawkish (favoring less stimulus, ie higher rates) or overly dovish (favoring more stimulus, ie lower rates). In short, Trump sees him as the best candidate to continue the dual mandate of the Fed (maximum employment and stabilizing prices) while staying the course at this time of only gradually raising rates. After the announcement was made, both the U.S. Stock and Bond markets gave a thumbs-up at his appointment and ended the day with gains.

As for growth, the global economy is doing quite well. In fact, the IMF (International Monetary Fund) reported in its World Economic Outlook that most major economies are experiencing an uptick in growth, with a 3.6% forecast increase this year and a 3.7% increase next year. The United States in particular has also been experiencing continued growth in employment and manufacturing, along with strong consumer spending. In addition, the BLS (Bureau of Labor Statistics) reported an increase of 261,000 new jobs created in October (the most in over a year), with the unemployment rate falling to 4.1%. Oversees, the BOE (Bank of England) policy makers raised interest rates for the first time in 10 years, despite Brexit concerns. Even the Nikkei 225 (Tokyo’s stock exchange) hit 21 year highs. Overall, there’s been global growth with little inflation.

Where are rates headed? Well, looking ahead, investors are still waiting to see what plays out with Trump’s potential tax reform, which includes lowering the corporate tax rate to 20 percent from 35 percent (among many other changes). Geopolitical factors can also affect U.S. markets, including the North Korea saga, and to a lesser extent the situations that are ongoing in Venezuela and Spain (although the Spanish government appears to be in control of Catalonia now). Also, Trump embarked today on his 11 day Asia trip and we’ll see if any surprises come about. As for Fed Policy, it is highly likely (87% probability according to Fed Funds Futures) that Yellen will come off the sidelines and raise rates by 25 basis points at the next Fed meeting on December 13th. After that, Yellen will be in charge of just one more Fed meeting (January 31, 2018), and then soon after (assuming Senate approval) we will have a new leader at the helm!

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