

What do we know about Jerome Powell?

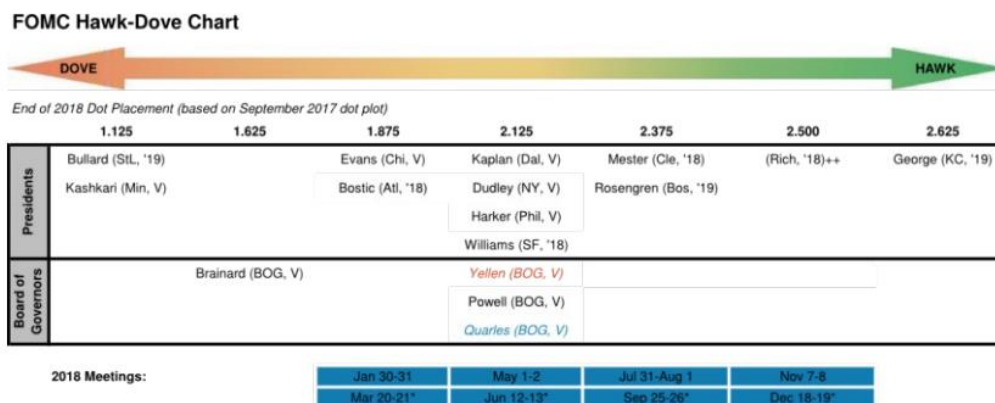
Last week, President Trump nominated Jerome Powell (currently a Fed Governor) as the next Chairman of the Federal Reserve. In general, the street is interpreting the appointment as a sign of relative consistency on a go-forward basis given views similar to Janet Yellen on monetary policy issues. A confirmation hearing is expected to take place in January 2018.

By way of background, Powell was nominated to the Board of Governors by President Obama in 2011, and officially took office in May 2012 (he took the seat vacated by Frederic Mishkin upon his resignation). Powell is a lawyer by training (he will be the first Fed Chair without a Ph.D. in economics in several decades), and worked at the Treasury Department from 1990-1993. From 1997-2005, Powell was a partner at the Carlyle Group, where he focused on buyouts in the industrial space. After leaving the firm, he founded Severn Capital Partners, and later served as a scholar at the Bipartisan Policy Center (Washington-based think tank).

As previously stated, Powell's views on key monetary and economic issues are relatively consistent with Janet Yellen. With regard to the **Labor Market**, Powell has previously stated that he believes the US economy is close to full employment, that wage growth rates are consistent with productivity growth (or lack thereof), and that he sees little risk of overheating in the economy. On **Inflation**, Powell has noted that persistently low levels despite high employment remains a "mysteryⁱ," though explainable by "transitory factorsⁱⁱ," and that the Fed must remain committed to a 2% target. On the topic of **GDP Growth and Productivity**, Powell has referenced the anticipation of an increase in global growth, a US GDP forecast of approximately 2% in the near term, and his disappointment in weakness in productivity (he does not believe that monetary policy can improve productivity growth, but believes it will rise to the bottom range of its long-run average of ~ 1.5% as "cyclical factors and lingering effects of the crisisⁱⁱⁱ" begin to dissipate. With regard to **Monetary Policy**, Powell has previously stated that the Fed should not rely too heavily on quantitative rules (such as the Taylor rule), as such tools "represent only a small part of the analysis needed to assess the appropriate path for policy^{iv}." On the topic of **Financial Stability**, Powell has noted that recessions typically arise from an overheating market, not from the Fed's response to excessive inflation. As such, he acknowledges the Fed may sometimes "face tradeoffs between macroeconomic objectives and financial stability^v." With that said, he currently sees no signs of overheating with regard to market valuations or the growth of credit. Finally, in reference to **Financial Regulations**, Powell is regarded as being a supporter of 'smart' regulation – that is, improving existing rules and making them more efficient, but not necessarily getting rid of regulations altogether. In October of this year, he noted in a speech that "there is certainly a role for regulation, but regulation should always take into account that impact that it has on markets^{vi}..." and that "more regulation is not the best answer to every problem^{vii}."

In general, economists seem to think that Powell's views are quite similar to those of Yellen (note that he has not dissented on any decisions), and expect a high degree of continuity going into 2018. With that said, a potential area of divergence might be on the financial regulation side, with Powell potentially being more disposed to deregulation than Yellen. In looking at market returns on November 2, the S&P 500 Index was essentially flat, while the S&P 500 Financials Index was up ~ 70 bps.

Finally, Morgan Stanley put together a chart of FOMC participants in 2018, and plotted where they thought each stood with regard to the expected FYE 2018 federal funds rate. Note that they place Powell in the center of the Dove / Hawk spectrum, in-line with Yellen.



Notes: "V" indicates a current voter. "BOG" identifies members of the Board of Governors. The New York Fed President is always a voting member. For non-voting members, the next year in which they rotate into voting is provided.

++ The Richmond Fed seat is open. The new president will likely come into place as the seat rotates into a voting seat in 2018.

* We assume Former Vice Chair Fischer was the third dot at 2.375% in the September 2017 dot plot, but we've omitted him from this chart as he is no longer at the Board.

* Randal Quarles was sworn in as Vice Chairman for Supervision on October 13, 2017. We've penciled Quarles into the median camp until we hear more detailed policy views from him.

* We've highlighted Yellen in this chart as her future at the Board is uncertain after Powell takes over as Chair.

Source: Morgan Stanley Research

ⁱ CNBC interview, August 25, 2017; <https://www.cnbc.com/2017/08/25/feds-powell-says-weak-inflation-is-kind-of-a-mystery.html>

ⁱⁱ Jerome Powell, speech at the Economic Club of New York, June 1, 2017; <https://www.federalreserve.gov/newsevents/speech/powell20170601a.htm>

ⁱⁱⁱ Jerome Powell, speech at the Peterson Institute for International Economics, May 26, 2016; <https://www.federalreserve.gov/newsevents/speech/powell20160526a.htm>

^{iv} Jerome Powell, speech at the Forecasters Club of New York Luncheon, February 22, 2017; <https://www.federalreserve.gov/newsevents/speech/powell20170222a.htm>

^v Jerome Powell, speech at the 77th Annual Mtg. of the American Finance Assoc., January 7, 2017; <https://www.federalreserve.gov/newsevents/speech/powell20170107a.htm>

^{vi} Jerome Power, speech at TMPG Best Practices @ 10, October 5, 2017; <https://www.federalreserve.gov/newsevents/speech/powell20171005a.htm>

^{vii} Jerome Power, speech at TMPG Best Practices @ 10, October 5, 2017; <https://www.federalreserve.gov/newsevents/speech/powell20171005a.htm>

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