

WEALTH & INVESTING



INSIGHTS FROM
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The Fed could begin lowering interest rates as soon as July, going by recent statements by Fed officials Christopher Waller and Michelle Bowman. PHOTO: REUTERS

Fed independence tested, but investors shouldn't expect a pivot

Given Fed chair Jerome Powell's characteristically deliberate approach to monetary policy, there is little reason to expect presidential pressure to prompt a dramatic pivot

INVESTORS betting on a near-term plunge in interest rates may be mistaking political theatre for monetary policy reality.

US President Donald Trump's renewed pressure on Federal Reserve chair Jerome Powell has stirred speculation in the bond and futures markets. But history – and Powell's own posture – suggest that such expectations are misplaced. Past confrontations between presidents and Fed chairs rarely produce immediate policy shifts. The lesson: wagers on dramatic rate cuts rest more on wishful thinking than sound economic reasoning.

Trump's variety of moral suasion might strike investors as unconventional. "I call him every name in the book trying to get him to do something," he said of Powell. But history offers several instructive examples of how presidents have tried – and mostly failed – to sway Fed chairs.

In 1965, for example, President Lyndon Johnson had harsh words for William McChesney Martin, who had just pushed through a rate hike: "You've got me in a position where you can run a rapier into me and you've done it. You took advantage of me and I just want you to know that's a despicable thing to do."

Johnson feared the higher rates would undermine his domestic spending programmes and his escalation of the Vietnam War. Yet despite the pressure, Martin stood firm – and did not reverse the rate hike – illustrating how even intense presidential demands often fail to move the Fed.

Why Powell won't play politics

So far, Powell has stood his ground in the face of the president's verbal assaults. "Everyone that I know," he has said, "is forecasting a meaningful increase in inflation in coming months from tar-

iffs because someone has to pay for the tariffs."

There are two important reasons to doubt that the Powell will soon change tracks on interest rate management.

For one thing, he has little to gain and much to lose by deviating from the stance he believes is best supported by current economic data. Nothing suggests that Powell regards the Fed chairmanship as a stepping stone to higher office and might therefore be motivated to play politics.

Two of Powell's predecessors – G William Miller and Janet Yellen – did go on to serve as Secretary of the Treasury after leading the Fed. But their paths offer little reason to believe Powell would view that role as a likely reward.

Miller was appointed to both posts by the same president, Jimmy Carter, so his move wasn't the result of cross-party political calculation. Yellen, meanwhile, was initially appointed

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Fed chair by Barack Obama, then passed over for reappointment by Trump, and later tapped for the Treasury role by Joe Biden – Obama's former vice-president.

In contrast, Powell was appointed to lead the Fed by Trump himself, but has since faced public criticism and even threats of dismissal from the president. While Trump has shown a willingness to include former rivals in his cabinet, it's hard to imagine Powell earning such favour. At best, he might hope Trump refrains from trying to fire him before his term expires in 2026 – a step of questionable legality.

In that light, we can suppose that Powell is concerned with safeguarding his legacy. He probably does not want to be remembered, as Arthur Burns sadly is, for submitting to political pressure and consequently failing to keep a lid on inflation.

Misguided monetary policy also tarnished the reputation of Eugene Meyer. His much later successor Ben Bernanke concurred with economists Milton Friedman and Anna Schwartz in concluding that the Fed's contractionary policy during Meyer's tenure helped transform the economic downturn that began in 1929 into the Great Depression.

The limits of one vote

The second argument against betting big-time on an imminent interest rate plummet is that even if Trump's tactics improbably succeed in changing Powell's mind, they would change only one vote out of 12 on the Federal Open Market Committee (FOMC).

The FOMC's decision at its Jun 17 to 18 meeting to leave the target Fed funds rate at 4.25 to 4.5 per cent, was unanimous. Furthermore, seven of the 19 officials who are eligible for the 12 voting positions predicted there will be no rate cuts for the remainder of 2025, up from four in March.

History suggests the Fed won't fold

Surely, you might say, the FOMC would never go against its chair if he altered his position on rates? If that were to happen it would not be unprecedented. In June 1978, Miller was in the minority as the full FOMC voted to raise rates.

Investors who cling to hopes of a substantial drop in interest rates in the near future may have been heartened by recent statements by Fed officials Christopher Waller and Michelle Bowman. They said the Fed could begin lowering interest rates as soon as July. Note, however, that Waller specifically ruled out an immediate, sharp rate reduction, instead saying the FOMC should "start slow".



US President Donald Trump's renewed pressure on Fed chair Jerome Powell has stirred speculation in the bond and futures markets. PHOTO: BLOOMBERG



Powell (left) was appointed to lead the Fed by Trump himself, but has since faced public criticism and even threats of dismissal from the president. PHOTO: AFP

Powell also rejected Trump's stated rationale for demanding a reduction in interest rates, correctly pointing out that ensuring "cheap financing for the US government" is not part of the Fed's legislative mandate.

After Waller and Bowman's remarks, Powell reaffirmed his previous stance, telling the House Financial Services Committee: "For the time being, we are well positioned to learn more about the likely course of the economy before considering any adjustments to our policy stance."

The futures market's estimate of the probability of a quarter-point rate cut at the Jul 30 FOMC meeting rose from 8 per cent just before Waller's comment to 19 per cent as at Jun 27. Still, the kind of steep, immediate rate cut Trump has called for remains a long shot.

Hope is not a strategy
In summary, given Powell's characteristically deliberate approach to monetary policy, his current stance on interest rates, and his likely focus on legacy during his final year as Fed chair, there is little reason to expect presidential pressure – however forceful – to prompt a dramatic pivot. Tempting as a big market payday might seem, trades based on a sharp, near-term rate cut rest more on hope than on sound analysis.

The writer, a CFA, is an American author who writes about finance. He is the author of **How to be a Billionaire**.

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