

## Jerome Powell - You're hired

President Trump has announced Jerome Powell as the next Fed Chair. Who is he and what are the implications?



Source: Federal Reserve

### Under new leadership

In what has sometimes felt like an episode of the Apprentice, Trump has bucked the trend of Presidents reappointing Fed chairs inherited from their predecessors. Instead, he's opted for Jerome "Jay" Powell, giving him a four-year term as Federal Reserve Chair starting February 2018, subject to confirmation.

In a time when there was greater bi-partisanship 64-year-old Powell was nominated to the Fed's Board of Governors by President Barack Obama, despite being a registered Republican who had worked as Undersecretary of the Treasury for George HW Bush. He took office at the Fed in May 2012, filling an unexpired term. Two years later he was nominated for a full 14 year term.

The new Fed Chair is also a break from convention in that he is not an academic economist. He studied Politics at Princeton and Law at Georgetown and worked as both a lawyer and a banker while also spending time in private equity.

## The sames, but different

As for his time at the Fed, Powell appears to be very similar to Yellen in terms of thinking and voting. So from a monetary policy perspective, the directives from the Fed's leadership are unlikely to alter markedly. He has never dissented at the FOMC meetings and is fully on board with the "gradual" increases in the Fed funds rate and the balance sheet shrinkage strategy.

Where he differs from Yellen is on banking regulation. Here he hints at a more relaxed attitude, suggesting in early October that "there is certainly a role for regulation, but regulation should always take into account the impact that it has on markets--a balance that must be constantly weighed. More regulation is not the best answer to every problem". In September he stated that the Fed's role is "one of oversight, not management".

This appears to chime with President Trump's drive to cut regulation. Trump believes that rules such as the Dodd-Frank Act have stifled bank lending while Treasury Secretary Mnuchin had suggested without such constraints sustainable GDP growth could push above 3%. With Randy Quarles, the new Fed vice-chair for financial supervision, seemingly keen to follow through with looser regulation the new management is likely to embrace slightly more aggressive lending practices.

## Why not Yellen again?

Yellen's reluctance to support Trump's vision is unlikely to have helped her case for reappointment. She had warned against relaxation of post crisis reforms, arguing in August new rules made the financial system "substantially safer", adding that "material adverse effects of capital regulation on broader measures of lending are not readily apparent".

Janet Yellen already had a tough task of getting re-appointed. During his election campaign, President Trump accused her of keeping interest rates low to benefit outgoing President Obama with Trump stating "she is very political and to a certain extent, I think she should be ashamed of herself".

He subsequently warmed to her, saying she "has done a good job", but the notion that the Federal Reserve was "politicised" fuelled a campaign by some Republican lawmakers for change. One faction favoured the adoption of a "rules-based" system for setting monetary policy - a mechanistic response depending on how far inflation and unemployment are from a desired level.

This would have reined in the power and flexibility of the Fed with John Taylor and to a lesser extent, Kevin Warsh, the candidates favoured by many in this camp. It would also have likely led to a faster rate of interest increases given most Taylor models suggest the current Fed funds rate should be closer to 3% rather than 1% right now. Something that would not go down well with an electorate right ahead of next year's mid-term elections.

## What does Powell mean for markets?

Consequently, Powell is seen as the safe choice. He will continue with the Fed's gradual policy tightening and adopt a softer tone to regulation, while also having bi-partisan support. As a result his confirmation hearings are unlikely to be too controversial.

Given the strong economy and jobs market, inflation pressures gradually building and Fed officials

broadening out the reasons behind hiking – such as financial conditions, asset valuations and financial stability issues – we are still sticking to our view of a December rate hike. This is more than 90% priced in by financial markets with the main risk coming from the potential for an economically damaging government shutdown in the absence of agreement to raise the debt ceiling.

Under the leadership of Powell we expect two more 25bp Fed rate hikes in 2018 rather than the three the Fed have currently pencilled in. This is mainly down to the Fed's balance sheet reduction strategy doing some of the heavy lifting to tighten financial conditions, reducing the need for hikes at the short-end of the curve.

## Author

### James Knightley

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).