TRUMP VS POWELL

THE RACE TO FIND THE PERFECT SCAPEGOAT

PORTFOLIO WEALTH GLOBAL

Watching the U.S. President and Chairman of the Federal Reserve go head to head is a highly unusual spectacle in American history. We saw harmony and unity with Obama and Yellen and with Bush and Bernanke and everyone prior to that for generations. To witness a time in history when the President and the Fed Chair don't get along is bizarre because it's so unprecedented.

Actually, it's more than just unprecedented: it's extremely perilous because the national and global economies depend on the government displaying a unified front at the uppermost levels. It's one thing for people to disagree on occasion, but for the President to express open contempt for the Fed Chair is unheard of in modern politics.

It's amazing to think that for Donald Trump's first full year as President of the United States, his Federal Reserve Chairperson was Janet Yellen, and despite their vast differences in opinion and policy, they actually got along fairly well.

In fact, Trump even considered reappointing Yellen to the Fed Chair post, and it was reported that Yellen impressed Trump greatly during an interview. However, the President decided against reappointing Yellen for two reasons: first, because advisors told Trump that he should have his own person in the Fed Chair position, and second, because Trump was concerned that Yellen, at 5'3", wasn't tall enough to be the Fed Chair.

Courtesy: nbclosangeles.com

Powell evidently had the requisite height for the job, as the President nominated him on November 2, 2017. Powell's appointment, which was driven largely by Treasury Secretary Steven Mnuchin, seemed unusual at the time because Jay Powell is not an economist. While Powell had served in a previous Republican White House, he was first selected to serve as a Federal Reserve governor by Barack Obama.

As a Fed governor, Powell was actually viewed as fairly dovish: he seemed to favor the same accommodating, slow, and steady interest rate policy that Yellen had adopted. And while Trump had decried Yellen's Fed for propping up the economy and equity markets with low Treasury interest rates, he undoubtedly expected Jay Powell to continue this accommodating policy.

It was in February of 2018 that Powell took over the post from Yellen, and it wasn't long before the new Fed Chair began to steer interest rate policy in the opposite direction of his predecessor. By the fourth quarter of 2018 – less than a year into his position as Fed Chairman – Jerome Powell had hiked Treasury yields four times.

Not only that, but he was threatening to raise interest rates another four times in 2019. America hadn't seen this level of fervor for tight monetary policy since Paul Volcker (who, incidentally, was 6'7") pushed the 10-year Treasury yield above 15% in the 1980s:

Courtesy: macrotrends.net

No one was expecting Powell to hike interest rates above 15%, but in a market environment addicted to ultra-accommodating Fed policy since the Great Recession, the mere act of pushing 10-year T-note yields to 3% was enough to disrupt the status quo set by Obama and maintained by Trump.

Evidently, hiking interest rates and threatening to continue hiking in 2019 while unwinding the Fed's balance sheet was enough to send the major stock market indices into a hissy fit. In December of 2018, during a seasonally strong month that typically yields a "Santa Claus rally" in the equity markets, volatility made a roaring comeback after a decidedly calm 2017.

Courtesy: barchart.com

The S&P fell 19.8% from its all-time high and the Nasdaq went into bear market territory for the first time since the Great Recession. It was the worst December for the Dow Jones Industrial Average and the S&P 500 since 1931 and the worst December for the Nasdaq on record – 93% of global assets were down for the year and U.S. stocks had their worst performance since 2008.

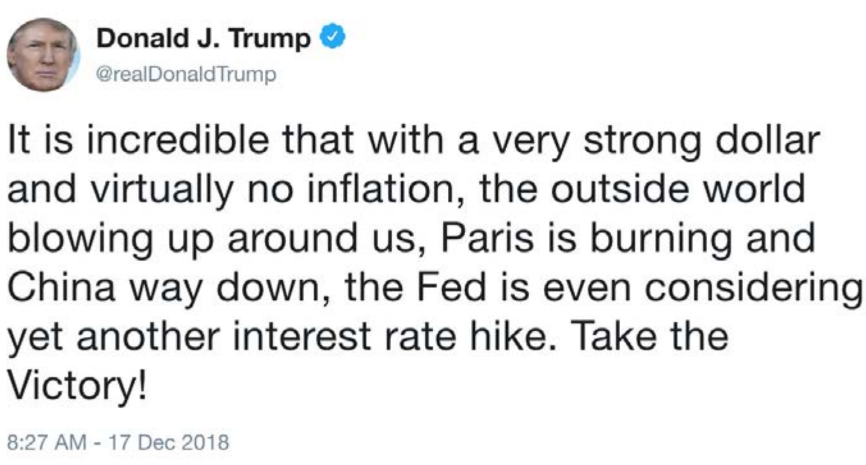
Blue-chip stock market investors were running for the exits and Trump, not wanting to shoulder the blame for a full-on market crash, was outraged. Powell would now be appointed by Trump for a second time – not as the Fed Chair, but as the perfect scapegoat in tumultuous market conditions.

The scapegoating had begun in earnest earlier in Q4 of 2018 when the stock market had started to wobble. In late November, Trump complained about Powell at length to The Washington Post, saying "I'm not happy with the Fed... So far, I'm not even a little bit happy with my selection of Jay. Not even a little bit."

Blaming Powell's policies for everything from GM closing North American plants to stock market volatility, Trump said to The Washington Post "I think the Fed is a much bigger problem than China" and then told The Wall Street Journal "I think the Fed right now is a much bigger problem than China... I don't like what they're doing in terms of interest rates. And they're not being accommodative at all."

While Trump had insisted that he's not worried about a recession, the President made no bones about his misgivings concerning the Fed's rate hike trajectory: "I'm doing deals, and I'm not being accommodated by the Fed... I think that the Fed is way off-base with what they're doing."

Characteristically, the President also took to Twitter to express his frustration, railing against the Fed for considering further interest rate increases amid global political and economic turmoil:



Courtesy: @realDonaldTrump, Twitter

The accusations were coming fast and furiously. At one point, the President reportedly blamed Treasury Secretary Mnuchin for Powell's appointment, while adding "I think the Fed is making a mistake... They are so tight. I think the Fed has gone crazy." Trump even went so far as to tell Fox Business that his "biggest threat is the Fed, because the Fed is raising rates too fast," adding that he's "not happy with what he's doing."

By late December, after the fourth interest rate hike and during a time when the stock market was heading towards bear market levels, Trump blamed the Fed for curtailing economic growth and even went so far as to reportedly threaten to fire Powell. If Trump actually fires the Fed Chairman, it would be a first in U.S. history.

It wouldn't, however, be the first time that Trump has made replacements during his tenure as President: since November, Trump has announced the firings/resignations of Attorney General Jeff Sessions, Chief of Staff John Kelly, Interior Secretary Ryan Zinke, and Defense Secretary James Mattis.

Presidents Lyndon Johnson and Richard Nixon had tangled with their respective Fed Chairs, but the nation has never seen recriminations reach this level of intensity. Powell, for his part, has made it clear that he wouldn't resign if pressured to do so by Trump.

Courtesy: politico.com

Powell has also suggested that the Fed will not be influenced by comments from the President, saying "We are committed to achieving the goals that the law gives us, based on the best thinking... We have a strong culture. It's not a fragile one; it's not subject to being disrupted."

Jerome's comments are a characteristically subtle jab at the President, but a jab nonetheless. Reading between the lines, it's evident that the scapegoating is mutual: with a global economic slowdown afoot and a potential recession on the horizon, the President and the Fed both seek to shift the blame.

It's getting ugly as the scapegoating gets heated and the world watches in confusion and amazement. While the future's uncertain, one thing's for sure: we're in uncharted waters, and the blame game isn't likely to end well.

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