

Jerome Powell Should Be Sacked

The Federal Reserve has a dual mandate: price stability and full employment. Not only has it failed to deliver on this mandate but also Chairman Powell has taken it upon himself to change the mandate. His policies since the outbreak of the pandemic have created inflation and moreover, he has refused to recognise it, palming off the inflationary data as 'transitory'. The very idea of the Fed creating inflation is anathema to the principles of the mandate; 'price stability' means keeping the cost of living at a sustainable level and this is no longer happening.

The fact that the Federal Reserve is still buying bonds when the economy is running so hot does not make any sense. Why is the Fed so slow to reduce asset purchases, let alone raise rates, when both GDP and inflation are growing at north of 5% year on year in Q4 2021? The Federal Reserve has been increasingly politicised over the last few years and the idea of MMT (Modern Monetary Theory) has really taken hold amongst the Progressives in the Democrat Party. The problem with the free money is that it creates inflation, which is good for those own assets, like stocks, but bad for all those who don't – for them the cost of living keeps rising, fanning the flames for more social inequality.

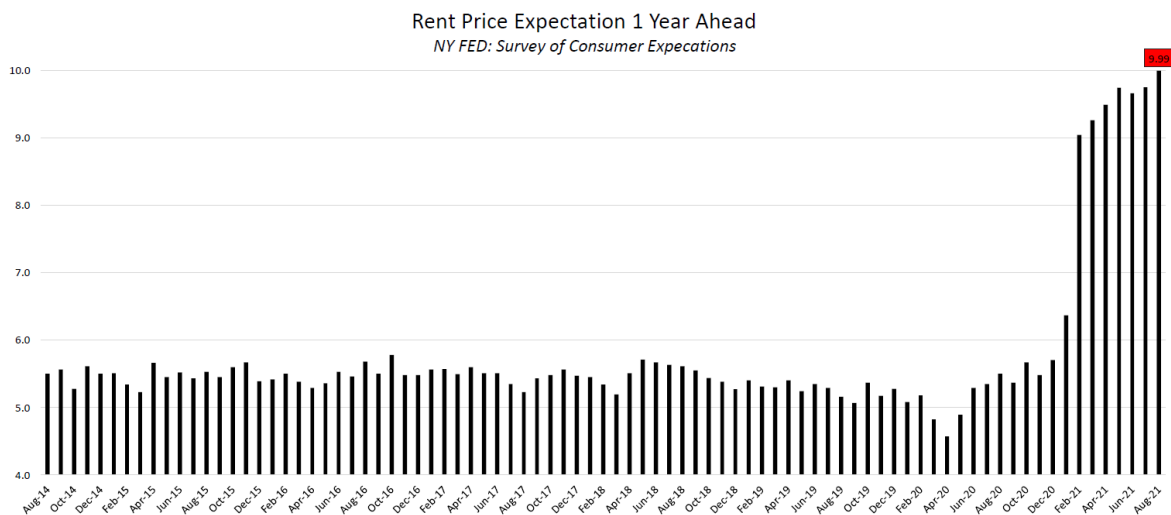
Powell has been disingenuous with his comments about inflation. In calling it transitory he has focused on elements like used car prices. Not only is this not a key component of the cost of living but he was also wrong when he said at Jackson Hole in August that prices had stopped rising, see the red circle below for the timing.

MANHEIM USED VEHICLE VALUE INDEX
Mid-November 2021



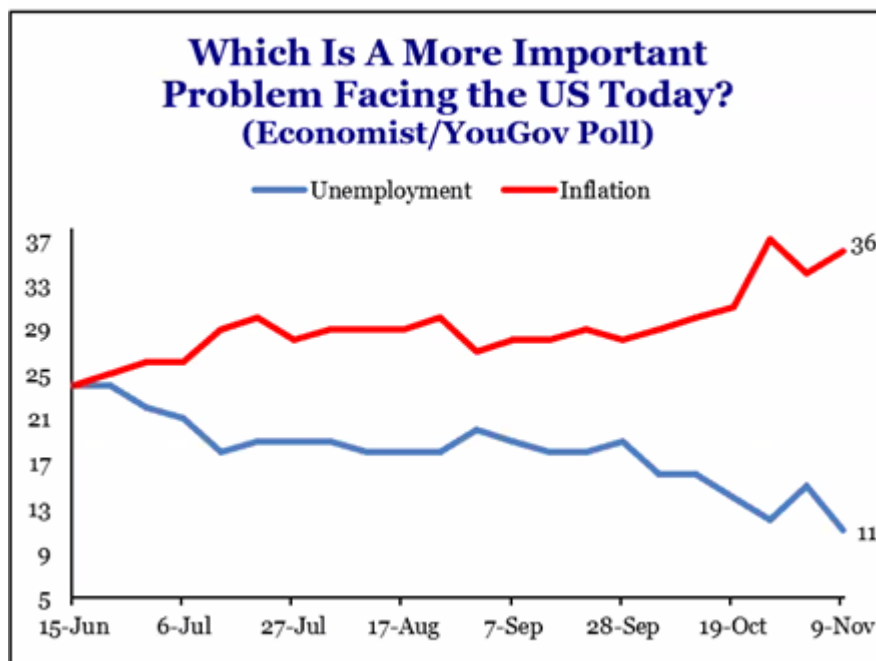
Source: Manheim.com November 2021

A much better gauge of inflation, the type that matters to people, is the cost of shelter, food and of energy and all these are still rising. And consumers expect these to continue rising. The chart below, from the New York Fed, shows consumer expectations of rent prices one year ahead:



Source: Hedgeye November 2021

Joe Biden will do well to consider this as he considers his options for Fed Chair. In a recent Economist/You Gov poll, worries over inflation have superseded unemployment as the primary concern for voters. This hasn't been the case for about 40 years.



Source: Strategas Research Partners November 2021

Felix Wintle, Fund Manager, VT Tyndall North American Fund, 19th November 2021

Data sources: Manheim.com Hedgeye Risk Management LLC. Strategas Research Partners.

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