Fed Cred

We have long subscribed to the Jim Grant adage that the gold price represents the reciprocal of confidence in global central banking. At the same time, we understand why consensus generally ignores the relationship between Fed credibility and gold—correlation is difficult to measure and timing is hard to predict, so why bother? Well, we would suggest there are at least two reasons to do so. From a long-term perspective, we believe gold's two-decade outperformance of traditional assets belies underlying concern about the modern era of unconventional central banking. And from a short-term perspective, the market's Fed obsession towers so far above gold's fringe status that even modest movement towards gold as Fed policy hedge will rock quite a few boats in the precious metal sector.

Looking Back

In prior reports, we have documented the Fed's storied history of faulty analysis, faulty forecasts and faulty policy frameworks. Most recently, after incorrectly assessing inflation to be transitory, Chair Powell flooded the financial system with an absurd $120 billion in monthly QE throughout 2021, despite GDP approaching 7%, CPI over 6% and unemployment under 6%. While ***our*** Fed criticisms are generally taken with a grain of salt, we would think the trademark directness of JP Morgan CEO Jamie Dimon might catch peoples' attention (10/24/23):

> I want to point out that central banks 18 months ago were ***100% dead wrong***…so maybe there should be some humility about financial forecasting.

Once the Powell Fed recognized the scale of their liquidity errors, they reasoned they could correct their mistake by twisting policy levers ***even harder***, jacking rates 525 basis points in 16 months. As we have repeatedly observed, Chair Powell has orchestrated rate hikes ***233%*** the size of Chair Yellen's (ill-fated) tightening cycle in ***44%*** of the time (with U.S. debt 50% higher and the Fed's balance sheet twice as large).

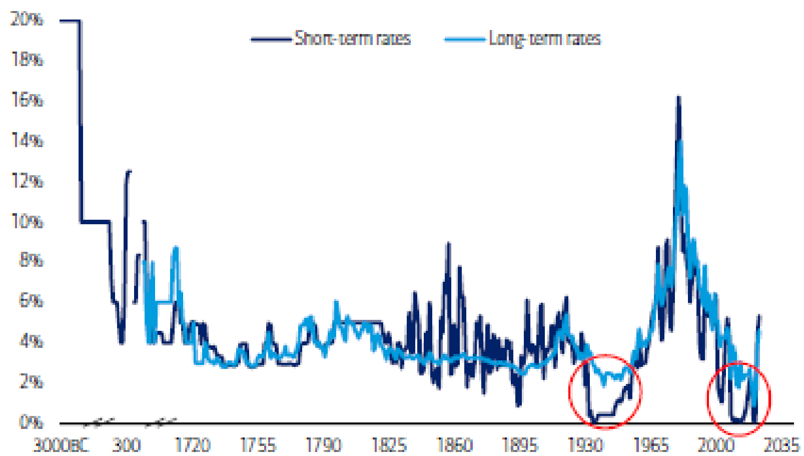

Figure 1: Global Interest Rates From 3000BC Through 2023 [Bank of America, Bank of England, Global Financial Data, A History of Interest Rates (Sydney Homer & Richard Sylla 2005)]

Not only has the Powell Fed implemented the steepest rate hikes in 40 years, but this aggressive tightening has been launched directly ***from the zero bound***, where rates have been repressed throughout the ZIRP era. For a bit of fun perspective (Figure 1, above), in the 5,000-year history of recorded interest rates, no society has ever suppressed rates all the way to zero and held them there for a decade-and-a-half. Ever! After the global economy has spent the past 15 years calibrating to the lowest interest rates in five millennia, does anyone really believe the Fed's steep rate hikes will stand without causing enormous damage to asset prices?

Mission Accomplished?

Everyone from Milton Friedman to Wikipedia knows Fed policy can take 18-24 months to achieve full economic impact. But today, just 12 months after the midpoint of the Fed's steep tightening campaign, Fed messaging has begun to approximate "mission accomplished."

First, the Fed has been downgrading prospects for recession since early summer. By the June '23 FOMC Meeting, ***not a single participant*** was still forecasting negative GDP growth for any year in the Fed's Summary of Economic Projections (SEP). Then, during the July FOMC press conference, Chair Powell confirmed the Fed's base case had evolved to soft landing:

> So, the staff now has a noticeable slowdown in growth starting later this year in the forecast, but given the resilience of the economy recently, ***they are no longer forecasting a recession***.

Taking the cake as always, ex-St. Louis Fed President Jim Bullard even bragged (8/24/23), "I think the committee should take a bit of a ***victory lap***." Simply speaking, the Fed is patting itself on the back for reducing year-over-year CPI from 9.1% to 3.2% while labor markets have remained historically strong, with just 3.9% unemployment. With the modest footnote that some higher for longer tonic may be required to complete their policy gem, the Fed has effectively reduced recession probabilities to zero.

In our September report *(Hard or Soft)*, we conveyed what we believe to be overwhelming probabilities for a 2024 recession employing reliable and time-tested indicators such as collapsing LEI's, steeply inverted yield curves, declining federal tax receipts and negative gross domestic income. Contrary to the Fed's conclusions, we continue to view recession as both inevitable and imminent. In this report, we thought it might be instructive to compare the Fed's soft-landing optimism with perceptions of ***real-life*** economic agents. How do today's most important market participants view recession prospects?

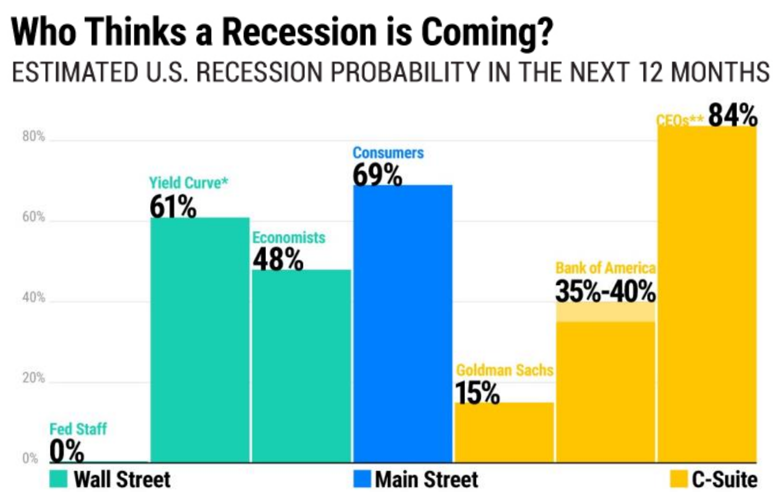

Figure 2: Various Estimates of U.S. Recession Probability During Next 12 Months (10/3/23) [Statista]

In Figure 2, above, Statista employs typically compelling graphics to demonstrate that consumers, economists, corporate CEO's and Wall Street all view recession probabilities in an entirely different ballpark than the Fed. Conceding Statista's methodology involves a bit of apple picking, we would note the surveys and statistics they have selected are of extremely high pedigree.

- On ***Wall Street***, recession probabilities range from ***15%*** (Goldman Sachs) to ***40%*** (Bank of America).
- In a September Wolters Kluwer survey, ***48% of economists*** expect recession over the next 12 months.
- In Conference Board's 9/26/23 Consumer Confidence Survey, ***69% of consumers*** believe a U.S. recession is likely during the next 12 months.
- And in the Conference Board's Q3 CEO Confidence Survey (8/3/23), ***84% of corporate CEO's*** are preparing for either a shallow or deep U.S. recession (Figure 3, following page) during the next 12-18 months.
- Even the New York Fed's proprietary ***yield-curve model*** (10-yr/3-mos inversion) is predicting ***61%*** probability of recession.

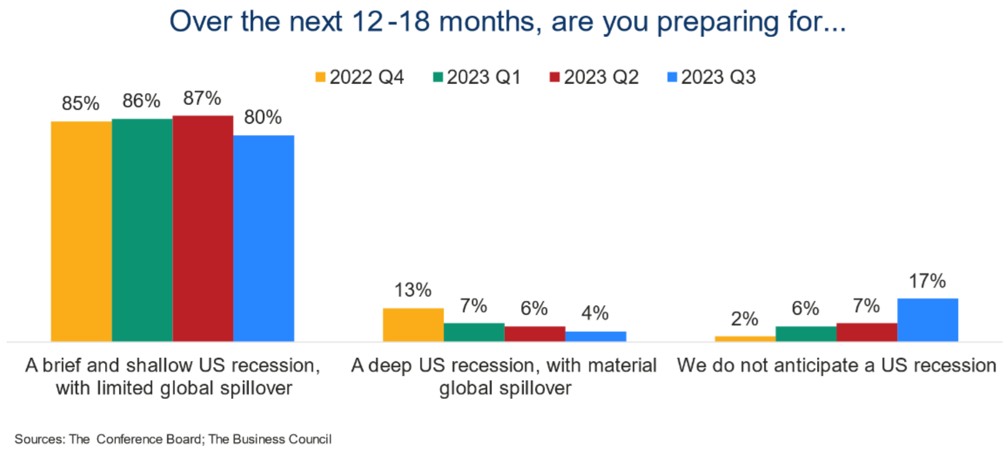

Figure 3: Conference Board Quarterly CEO Survey Results on Recession Expectations (Q4 2022-Q3 2023) [The Conference Board]

Now we recognize corporate CEO's are paid to worry, but an ***84%*** probability of recession seems an awfully long way from the Fed's ***0%***. In context of the Fed's abysmal forecasting record, we find the Statista data sobering.

Positive Spin

We began this report with reference to gold's inverse correlation to confidence in central banking. And after all, what else ***is*** central banking than the ultimate confidence game? Isn't this why the 19 unelected stewards of the world's reserve currency provide daily public updates on their personal views on inflation, labor markets and interest rates?

As long-term observers of what has become the Fed circus, ***our*** confidence is shaken by far more fundamental concerns than the Fed's questionable forecasting skills. Truth be told, in recent years we have become alarmed by what we perceive to be declining sophistication and acumen among the newest Fed Governors and Regional Bank Presidents. Without naming names, the Fed's traditional roots of academia and economic theory are giving way to more partisan and ideological lines of thinking.

Dangerous implications of diminishing wisdom and judgment on the FOMC are detached decision making and mounting potential for financial accidents. Pure and simple, the Fed is so focused on conveying meeting-by-meeting reasoning for individual rate hikes they often seem oblivious to second derivative impacts all around them. Returning to Jamie Dimon's concise vernacular (10/24/23):

> There's this kind of omnipotent feeling that central banks and governments can manage through all this stuff…I don't think it makes a piece of difference whether [fed funds] rates go up 25 basis points—like ***zero, none, nada.***

To us, an example of the Powell Fed's narrow-minded focus has been the positive spin they have been ascribing to the recent surge in Treasury rates. In the seven weeks between 8/31 and 10/19, the 10-year Treasury yield exploded from 4.11% to 4.99%. While causal theories range from stronger than expected U.S. growth to higher than anticipated Treasury issuance, the Fed has been insinuating Treasury yields may be rising at least in part from market reaction to the Fed's higher-for-longer mantra. Even better, the Fed has been jawboning that one benefit of rising Treasury yields is that markets are doing the Fed's tightening work for them.

The Fed has become so enamored with this theme that during the ***month of October***, Fed Governors and Presidents have made no fewer than ***17*** public comments suggesting higher Treasury yields are a welcome development because tightening financial conditions may obviate the need for further rate hikes (see our Quotes section). Yet, this rationalization ignores the destabilizing impacts of surging rates on the global financial system. While the Fed is gazing in its policy mirror, global investors are becoming increasingly alarmed by the destabilizing impacts of surging long rates.

Along these lines, in Deutsche Bank's October global investment survey, 410 institutional investors were quizzed about their investment outlooks. One question listed recent financial accidents caused by rising rates (U.K. LDI, crypto collapse, U.S. regional banks and Credit Suisse) and asked respondents how they expected higher rates to impact markets in coming months. We find it telling that ***99%*** of respondents felt higher rates would lead to ***more*** financial accidents in the future. Breaking down concern levels, ***17%*** of managers felt accidents would be "quickly contained with limited market impact," ***59%*** felt accidents will "continue to cause some stress in markets," and ***22%*** felt "bigger accidents are coming with serious financial stress." Just ***1%*** of respondents believed it was "unlikely there will be any more big accidents."

Collateral Damage

In prior reports, we have characterized the Powell Fed as the most mistake prone Fed of all time. We have highlighted Chair Powell's post-Covid QE as a leading contributor to the inflation outbreak of 2020-21. Rounding out our critique, we question whether the effectiveness of the Powell Fed's tightening campaign could have been meaningfully enhanced by focusing less exclusively on rate hikes and more on QT and curtailment of bank reserves. It is common knowledge that the 2021/2022 inflation surge was driven by the $10 trillion of post-Covid monetary ($4.6T) and fiscal ($5.2T) liquidity. Doesn't it seem a bit narrow-minded that the Fed tried to quash inflation with super steep rate hikes without more aggressively addressing the excess liquidity in the system?

With respect to overall financial conditions, what have the Fed's 525 basis points of rate hikes actually accomplished? Well, CPI has contracted from 9.1% to a still elevated 3.2%, but prominent measures of liquidity and financial conditions remain extraordinarily loose. By way of example, the Bloomberg Financial Conditions Index [BFCIUS] is looser today than on 2/17/22, a month before the Fed's first rate hike. As we look around, financial markets seem totally awash in liquidity, the best example being the Fed's reverse repo facility, which as recently as 6/30/23 still stood at a mind boggling $2.034 trillion. With this amount of liquidity still rattling around in the system, we think it's a bit early for the Bullard victory lap.

On the deleterious side of the performance ledger, the Fed's steep rate hikes have decimated valuations of long-dated fixed income instruments, most notably Treasury securities at the nexus of the global financial system. Perhaps because the S&P 500 has remained so resilient, consensus seems unfazed by the bond market implosion triggered by Fed rate hikes. Measured from the heights of post-Covid liquidity, the current Treasury bear market has quite simply been the worst in history. As shown in Figure 4, below, Bank of America's proprietary Treasury composite collapsed an unprecedented 24.7% between 7/31/20 and 10/31/23, with ***zero*** aggregate recovery so far in the subsequent 12 months.

Table 1: The greatest Treasury bear market of all time.. 2020-today
History of US Treasury bond bear markets

Date of Market Peak	Date of Market Trough	Peak to Trough Performance	Recovery One Year from Trough	Duration of Bear Market (mos)
7/31/2020	10/31/2022	-24.7%	0.0%	28
06/30/1860	05/31/1861	-18.7%	32.4%	12
05/31/1835	12/31/1839	-16.1%	19.0%	56
06/30/1979	02/29/1980	-15.8%	8.2%	9
05/31/1931	01/31/1932	-15.4%	18.5%	9
06/30/1980	09/30/1981	-14.6%	43.1%	16
09/30/1833	03/31/1834	-13.7%	16.5%	7
05/31/1811	03/31/1813	-11.3%	6.8%	23
02/28/1987	09/30/1987	-10.5%	14.7%	8
10/31/1993	11/30/1994	-10.2%	25.1%	14
7/31/2012	12/31/2013	-10.1%	10.8%	18

Source: BofA Global Investment Strategy, Global Financial Data; "bond bear market" = total return decline of 10% or more

Figure 4: Greatest U.S. Treasury Bear Markets (1800-10/31/23) [Bank of America]

When assessing benefits against costs of the Powell Fed's rate hikes, it is important to consider how severely these hikes have kneecapped market values of Treasuries anchoring the U.S. financial system. Such mark-to-market losses led directly to the March failure of Silicon Valley Bank (16th largest U.S. bank), in turn sparking the failures of Signature Bank and First Republic Bank and igniting a national run on regional bank deposits. For the record, how could San Francisco Fed President Marly Daly not foresee Silicon Valley's failure? The bank's year-end '22 public financial filings disclosed that the rate hikes Ms. Daly and her colleagues implemented had inflicted mark-to-market losses of ***$15 billion*** on the bank's U.S. government bond portfolio, amounting to ***93%*** of Silicon Valley's total equity ($16.2 billion). ***Macroprudential stewardship?***

To quell the subsequent regional bank run, the Fed was forced to roll out $700 billion of emergency liquidity and launch the Bank Term Funding Program (BTFP) to lend ***unlimited*** capital to commercial banks pledging impaired Treasury holdings. In the most tortured Fed policy prescription we can recall, the BTFP actually backstopped commercial bank Treasury holdings at ***par value***, effectively reversing the tightening of financial conditions the rate hikes were designed to accomplish in the first place, all while the Fed simultaneously continued its $90 billion monthly QT program to reduce the Fed's balance sheet and tighten financial conditions further.

Incidentally, while the BTFP does not get much press anymore, this is not because the value impairment hole has been fixed. Quite the contrary. The Fed just reported in its 11/15/23 H.4.1 balance sheet report that use of this "emergency" funding facility just ***reached a new record high of $113 billion***. And contrary to the popular belief that only regional banks have been affected by Treasury mark-to-market losses, Bank of America just disclosed in its Q3 earnings report that unrealized losses on the bank's held-to-maturity debt securities now total ***$131.6 billion***, or ***46%*** of total equity. ***Whoa!***

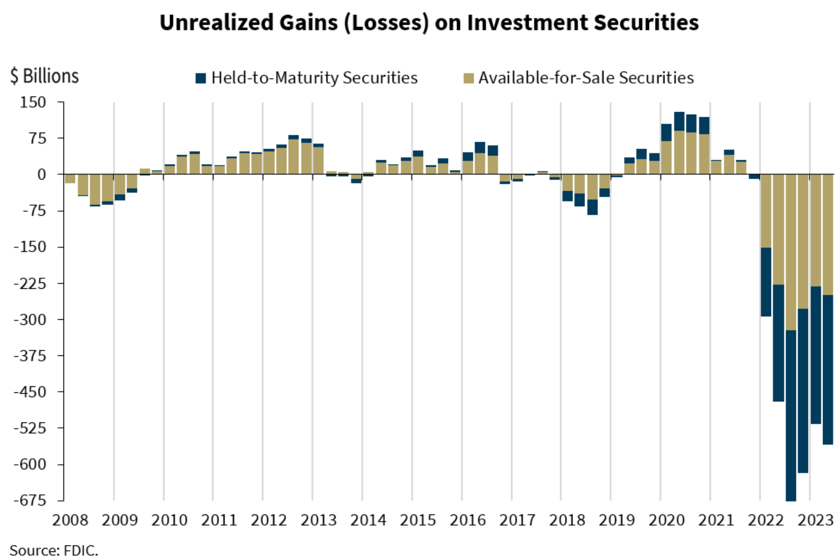

Figure 5: Total Unrealized Gains or Losses on Investment Securities Held by U.S. Commercial Banks (2008-6/30/23) [FDIC]

Overall, the impaired asset burden first identified by FDIC Chair Martin Gruenberg during the March regional banking crisis has never been remediated and is starting to deteriorate further. As shown in Figure 5, above, total unrealized losses on investment securities held by U.S. commercial banks increased during Q2 to ***$558 billion***. Reflexive math of the late-2023 surge in Treasury yields suggests these unrealized losses are now approaching ***$750 billion***.

Even though the BTFP backstop has suspended the immediate threat of insolvency, the ongoing presence of these huge unrealized losses on bank balance sheets continues to exert negative pressure on the commercial banking system. In its Q2 Economic Review, the Kansas City Fed sounded the alarm that these mark-to-market losses weigh on regional banks by reducing their share prices, increasing their financing costs, reducing loan growth and preventing M&A activity. ***Victory lap?***

Unintended Consequences

We close our Fed analysis with an observation about today's global financial system with broad implications for all investors. In the wake of post-GFC regulatory reform, the global financial system has dramatically increased the use of collateral as a means of credit-risk mitigation. In its July '23 report (*Collateral Damage*), the Bank for International Settlements (BIS) noted that during the past decade, financial transactions have increasingly been based on assessments of collateral quality rather than of borrower's cashflows.

The BIS credits increased use of collateral with facilitating the broadening and deepening of contemporary financial markets such as derivatives trading. At its heart, the use of collateral decreases micro risks associated with individual transactions but increases macro risks as more and more individual transactions are tied to the same collateral. As the BIS explains,

> Greater collateral use also raises financial stability risks of its own. Collateral ***does*** protect individual creditors – including derivatives' counterparties – in the event of default. But it increases the incidence of defaults at the aggregate level. And by shifting the loss absorption function to markets, it raises liquidity risk, which can disrupt the system.

Because Treasuries are the largest and most important anchor of the global collateral system, it is safe to assume that the Fed's steep rate hikes have applied pressure to collateral margins in countless transactions around the globe. The question becomes, is it possible that the three-year Treasury bear market might eventually trigger a liquidation spiral of Treasuries pledged as collateral? As the BIS warns,

> The widespread use of government paper as collateral may even undermine its safe-haven status…This scenario does not feature a wave of private sector defaults…Rather it involves an exogenous shock that depresses the value of government paper, triggering a selling spree.

The sudden demise of Silicon Valley Bank lends perspective to the pressures Fed rate hikes may be exerting on global transactions tied to Treasury collateral. By way of example, the undisputed poster children of the current Treasury bear market are two ill-fated 30-year issues: the 1.25%'s of 5/15/50 and the 1.375%'s of 8/15/50. These paragons of AAA collateral currently trade at ***44 cents*** and ***46 cents*** on the dollar, respectively. That's quite the margin call.

We were curious what types of investors are caught holding these two Treasury debacles, so we looked it up. It should come as no surprise that as the Fed whistles past the graveyard of mark-to-market Treasury losses (on their policy victory lap), it is their own balance sheet which has been hit the hardest. Among the Fed's $4.9 trillion of Treasury holdings still sit a stunning ***19%*** of the entire 1.25% issue and a whopping ***24%*** of the 1.375% issue. ***C'est la vie!***

Word on the Street

As long-term gold investors, we are amazed the Fed still commands such unflinching respect in global investment circles. Why do more people not appreciate the incalculable damage caused by the modern era of unconventional central banking? We recognize that Wall Street and the global financial elite favor the central banking status quo because the system enriches them on a daily basis. But we are surprised that the frequency and severity of global financial crises have not yet spurred more public outcry for reform.

During the era of QE and ZIRP, the Fed became a mandatory focus for the entire institutional investment community. Today, given the rise of populism in the new era of equity and inclusion, the broader U.S. public is beginning to question whether legacy institutions such as the Fed are working in their best interests. It would certainly be poetic justice for the Fed to lose its Congressional mandate on the back of a populist uprising.

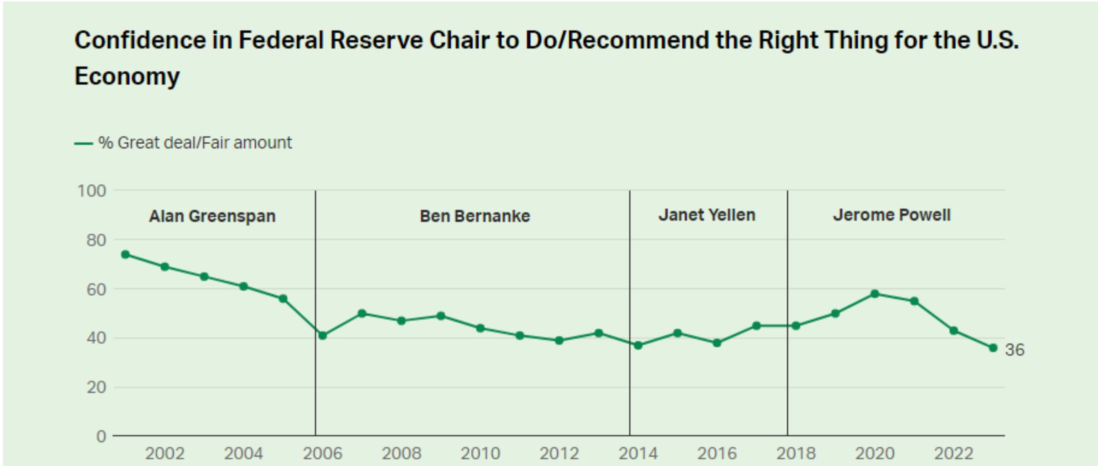

Figure 6: Percent of Surveyed Respondents Expressing Confidence in Federal Reserve Chair Annual Gallup Governance Poll (2002-2023) [Gallup]

Along these lines, it is interesting to note that public perceptions of the Fed have never been lower. In Gallup's 2023 governance poll (April), just 36% of respondents professed confidence in Chair Powell, not only the lowest rating in ***his*** six years as Fed Chair, but also the lowest rating on record for ***any*** Fed Chair.

Outlook

As long-term gold investors, we are pretty familiar with the full range of motivations for a commitment to gold. There are lots of different ways to group these investment cues, but one of our favorite category distinctions is to separate the long-term underlying fundamentals from short-term events which can trigger the type of "hockey stick" price spikes so coveted by traders and speculators. Newer investors in the precious metal space generally favor hockey stick over slow and steady. We cannot count the number of times investors have told us that they are disappointed that the gold price has not "done better" following one event or another. We always counsel that gold is not a hockey stick endeavor. Sharp price movements attract fickle crowds who soon seek an exit.

We are especially enamored with the relationship between the Fed and gold because it offers so many investment rationales in both the long-term and hockey-stick categories. As we have mentioned, we attribute gold's two-decade outperformance of traditional assets to persistent, underlying concern about excesses of the modern era of unconventional central banking. This long-term fundamental is what gets us up every morning.

But there are plenty of occasions when the Fed gives gold investors hockey stick excitement as well. Most recently, the Fed's post-Covid liquidity binge caused the gold price to surge ***43%*** from mid-March 2020 lows to early-August 2020 highs. Over the same span, the VanEck Gold Miner ETF (GDX) rallied ***183%*** and the VanEck Junior Gold Miner ETF (GDXJ) exploded ***238%***.

If our analysis is correct, full impacts of the Fed's tightening campaign are about to come home to roost in 2024. Many trillions of dollars of malinvested capital are going to be rationalized, requiring amounts of Fed liquidity likely to surprise many. Whether the Fed rewards our patience with gentle slopes or hockey sticks, we look forward to a rewarding 2024!

Sincerely,

Trey Reik
Managing Member
Bristol Gold Group LLC
(203) 722 9160

"As is often the case, we are navigating by the stars under cloudy skies."
Jerome Powell, Chair, Federal Reserve [Permanent FOMC Voter], 8/25/23

Dollar Sentiment Quotes

I worry that the economic and policy signals coming out of this [Sept.] Federal Reserve press conference may come across to many as both confused and confusing. Some will deem this an inevitable consequence of this phase of the inflation and policy cycle; others will view it as further evidence of challenged Fed communication.

Mohamed El-Erian, Chief Economic Advisor, Allianz, 9/20/23

Inflation is still too high, and I expect it will likely be appropriate for the Committee to raise rates further and hold them at a restrictive level for some time to return to our 2% goal in a timely way…Progress on inflation is likely to be slow given the current level of monetary policy restraint.

Michelle Bowman, Governor, Federal Reserve [Permanent FOMC Voter], 9/22/23

I expect rates may have to stay higher, and for longer, than previous projections had suggested, and further tightening is certainly not off the table…There are some promising signs that inflation is moderating and the economy rebalancing, but progress has not been linear and is not evenly distributed across sectors.

Susan Collins, President, Federal Reserve Bank of Boston, [2025 FOMC Voter], 9/22/23

We still got very real risks to the soft-landing scenario, both from the no landing, continued inflation, the Fed's going to have to raise rates more than it now expects side, and from the fact that every recession that we've had for a generation people have been talking soft landing right before it and they've turned out to be wrong. So, I think that people [are] just a little too optimistic right now and I think the Fed's caught into that optimism. And, you know, on the one hand things won't be any better than you aspire for them to be. On the other hand, it's a good idea to under-forecast and over-perform. So, it's a very difficult balance the Fed has to walk. But my suspicion is that it's more likely than not that they're either going to get surprised on the higher inflation side or on the weaker output downturn side, or possibly both could materialize in a stagflationary kind of dynamic.

Larry Summers, Former Secretary, U.S. Treasury, 9/22/23

You can call this whatever you want to call this, but they [U.S.] are directly at war with us. We can call this a hybrid war, but that doesn't change the reality. They are effectively engaged in hostilities with us, using the Ukrainians as fodder.

Sergey Lavrov, Foreign Minister, Russia, 9/23/23

If the economy is fundamentally much stronger than we realized, on the margin, that would tell me rates probably have to go a little bit higher, and then be held higher for longer to cool things off.

Neel Kashkari, President, Federal Reserve Bank of Minneapolis [2023 FOMC Voter], 9/25/23

We consider that our policy rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to our target…The labor market is finally adjusting and will probably take a little bit more time to adjust…Job creation in the services sector is moderating and overall momentum is slowing. Recent indicators point to further weakness in the third quarter.

Christine Lagarde, President, European Central Bank, 9/25/23

Going from zero to 2% [fed funds] was almost no increase. Going from zero to 5% caught some people off guard, but no one would have taken 5% out of the realm of possibility…I am not sure if the world is prepared for 7%.

I ask people in business, 'Are you prepared for something like 7%?' The worst case is 7% with stagflation. If they are going to have lower volumes and higher rates, there will be stress in the system. We urge our clients to be prepared for that kind of stress. Only when the tide goes out do you discover who's been swimming naked. That will be the tide going out. The 200 [bps] will be more painful than the 3% to 5%...

I would be cautious. We have to deal with all these serious issues over time, and your deficits can't continue forever. So, rates may go up more.

Jamie Dimon, Chief Executive Officer, JPMorgan Chase, 9/27/23

In today's environment, believing too strongly in the inevitability of a large trade-off between inflation and unemployment comes with the serious risk of a near-term policy error…The unwinding of supply shocks, the composition of demand returning to more stable patterns, and Fed credibility are central to why I think it might be possible today to reduce inflation while avoiding a deep recession…We're moving to a period where the question is not how much more is the rate going to go up - it becomes how long are we going to keep it here…If we pull this off, if we could get inflation down this much without having a deep recession, I think they're going to name elementary schools P.S. 2023 FOMC — this is an opportunity, not a guarantee.

Austan Goolsbee, President, Federal Reserve Bank of Chicago [2023 FOMC Voter], 9/28/23

My current assessment is that we are at, or near, the peak level of the target range for the federal funds rate. I expect we will need to maintain a restrictive stance of monetary policy for some time to fully restore balance to demand and supply and bring inflation back to desired levels.

John Williams, President, Federal Reserve Bank of New York [Permanent FOMC Voter], 9/29/23

I continue to expect that further rate increases will likely be needed to return inflation to 2% in a timely way. I see a continued risk that high energy prices could reverse some of the progress we have seen on inflation in recent months...Progress on inflation is likely to be slow given the current level of monetary policy restraint…further policy tightening will be needed to bring inflation down in a sustainable and timely manner.

Michelle Bowman, Governor, Federal Reserve [Permanent FOMC Voter], 10/2/23

I think it is likely that we are at or very near to the level that is sufficiently restrictive to bringing inflation back to 2% over time. I think we are going to be increasingly focusing on thinking about the path of interest rates over time. I think it is likely that we'll need to keep rates up for some time in order to get inflation down to 2%. I'm confident that we'll get there.

Michael Barr, Vice Chair for Supervision, Federal Reserve [Permanent FOMC Voter], 10/2/23

We raised the funds rate intending sort of to change financial conditions and tighten financial conditions. We've seen that 10-year rate go up quite a bit since, even since the last meeting. So that's certainly going to feed into whether we think we need to, or whether I think we need to, raise the funds rate again. If it's sustained, then that's a tighter financial condition that will help moderate growth and moderate demand, bringing it into better balance with supply. So, that's certainly a factor I look at…[But] if the economy looks the way it did at the next [Oct.] meeting similar to the way it looked at our recent [Sept.] meeting, I would do the further rate increase…I suspect we may well need to raise the fed funds rate once more this year and then hold it there for some time.

Loretta Mester, President, Federal Reserve Bank of Cleveland [2024 FOMC Voter], 10/3/23

I am not in a hurry to raise, but I am not in a hurry to reduce either. If we reduce too soon, or send signals that we are not resolved, we won't get to 2% — and we have to get to 2%. That's non-negotiable. So, ***I want us to hold. I think that's the appropriate thing to do, for a long time.***

Raphael Bostic, President, Federal Reserve Bank of Atlanta [2024 FOMC Voter], 10/3/23

If we continue to see a cooling labor market and inflation heading back to our target, we can hold interest rates steady and let the effects of policy continue to work. Importantly, even if we hold rates where they are today, policy will grow increasingly restrictive as inflation and inflation expectations fall. So, holding rates steady is an active policy action…Likewise, if financial conditions, which have tightened considerably in the past 90 days, remain tight, the need for us to take further action is diminished because financial markets are already moving in that direction and they've done the work—we don't need to do it more…***When bond yields rose, we saw the [hike] probability on the November meeting go down. To me, that says the markets are understanding how we think about things and they do have the reaction function in mind.***

Mary Daly, President, Federal Reserve bank of San Francisco [2024 FOMC Voter], 10/5/23

I actually don't think we need to increase rates anymore…I don't think we need to do anything more in terms of interest rates. Interest rates are restrictive. Inflation is coming down. And if you want to have a measure of the degree of our restrictiveness, you compare what our interest rate is to what the rate of inflation is. And if our interest rate is higher than that, then we're definitely, in real terms, putting a bind on the economy.

Raphael Bostic, President, Federal reserve bank of Atlanta [2024 FOMC Voter], 10/10/23

It's certainly possible that higher long-term yields may do some of the work for us in terms of bringing inflation back down. But if those higher long-term yields are higher because their expectations about what we're going to do has changed, then we might actually need to follow through in their expectations in order to maintain those yields.

Neel Kashkari, President, Federal Reserve Bank of Minneapolis [2023 FOMC Voter], 10/10/23

Recently, bond yields have tightened, meaning financial conditions have tightened. If that's right, maybe the Fed doesn't need to do as much. That's why I said, depending on whether it unravels, or whether the momentum in the economy changes, that could be equivalent to another rate hike...5% is not going to be the new neutral. There's no evidence that will be the new neutral – that's still the policy rate trying to fight back high inflation…I completely could imagine that we go from 2.5 – anywhere between 2.5 and 3 as the nominal neutral.

Mary Daly, President, Federal Reserve Bank of San Francisco [2024 FOMC Voter], 10/10/23

The financial markets are tightening up and they're going to do some of the work for us. We are just keeping a very close eye on that. We will see how those higher rates feed into what we do on policy in the coming months…All this economy data was coming in looking like the infamous soft landing would actually hold, which is good for the economy...We're in this position where we kind of watch and see what happens.

Christopher Waller, Governor, Federal Reserve [Permanent FOMC Voter], 10/11/23

Inflation remains well above the FOMC's 2% target. Domestic spending has continued at a strong pace, and the labor market remains tight. This suggests that the policy rate may need to rise further and stay restrictive for some time to return inflation to the FOMC's goal. Michelle Bowman, Governor, Federal Reserve [Permanent FOMC Voter], 10/11/23

Importantly, the rise in long-term yields implies some tightening of financial conditions. If it persists, it likely reduces the need for further monetary-policy tightening in the near term. This reinforces my view that we are very near, and perhaps at, the [rate] peak. Susan Collins, President, Federal Reserve Bank of Boston [2025 FOMC Voter], 10/11/23

Looking ahead, ***I will remain cognizant of the tightening in financial conditions through higher bond yields*** and will keep that in mind as I assess the future path of policy.
Philip Jefferson, Vice Chair, Federal Reserve [Permanent FOMC Voter], 10/12/23

Financial conditions have tightened notably in recent months. But the reasons for the tightening matter. If long-term interest rates remain elevated because of higher term premiums, there may be less need to raise the fed funds rate.
Lorie Logan, President, Federal Reserve Bank of Boston [2025 FOMC Voter], 10/12/17

Absent a stark turn in what I see in the data and hear from contacts, I believe that we are at the point where we can hold rates where they are. By doing nothing, we are still doing something. And, actually, we are doing quite a lot…Disinflation is under way…Labor markets are coming into better balance…I am sure policy rates are restrictive, and as long they remain so, we will steadily press down on inflation and bring markets into a better balance.
Patrick Harker, President, Federal Reserve Bank of Philadelphia [2023 FOMC Voter], 10/13/23

The risk that's underpriced in markets is that disinflation stalls out or stops altogether and core PCE inflation starts to go up again. That would start a whole new round of consternation among policymakers about whether they've done enough. If that happens the committee will have to contemplate going to 6% or 6.5%.
James Bullard, Former President, Federal Reserve Bank of St. Louis, 10/13/23

This may be the most dangerous time the world has seen in decades.
Jamie Dimon, Chief Executive Officer, JPMorgan Chase, 10/13/23

We do need to come up with funds, both for Israel and for Ukraine. This is a priority…America can certainly afford to stand with Israel and to support Israel's military needs and we also can and must support Ukraine in its struggle against Russia. The American economy is doing extremely well. Janet Yellen, Secretary, U.S. Treasury, 10/16/23

Small firms are really struggling with access to capital. Some of the bankers I've talked to are concerned that their business plans just aren't going to be able to make it at the higher rates. I heard that warning a lot over the summer. ***This is why we should hold rates steady, we should not at this point be thinking about any increases***, because if that's true — and it is true — then we should let that ride out.
Patrick Harker, President, Federal Reserve Bank of Philadelphia [2023 FOMC Voter], 10/16/23

Frankly, the Fed has won the battle of the American consumer—they are slowing down. And the question is what happens next…Inflation is tough, especially on median-income households in terms of goods and services. That is pressure you see in some of the consumer sentiment. Brian Moynihan, Chief Executive Officer, Bank of America, 10/17/23

We are witnessing the beginning of a regime change in how investors perceive America's fiscal sustainability.
Kevin Warsh, Former Governor, Federal Reserve, 10/18/23

Longer term rates have moved up, that's certainly tightened financial conditions. The challenge with depending on (long-term) rates is they can move. I understand so little about the long end of the yield curve that I try not to over index them. I have no idea where the rates are going to be 3 weeks from now, given what's happening globally.
Thomas Barkin, President, Federal Reserve Bank of Richmond [2024 FOMC Voter], 10/17/23

I believe we can wait, watch and see how the economy evolves before making definitive moves on the path of the policy rate. I will be looking carefully at the data to see whether the real side of the economy begins to cool off or whether prices, the nominal side of the economy, heat up. As of today, it is too soon to tell…I believe we can hold the policy rate steady and let the economy evolve in the desired manner. But I also can't avoid thinking about the second scenario, where demand and economic activity continue at their recent pace, possibly putting persistent upward pressure on inflation and stalling or even reversing progress toward 2%. Christopher Waller, Governor, Federal Reserve [Permanent FOMC Voter], 10/18/23

We're going to stick at it to make sure that we really achieve that goal of 2% on a sustained basis. ***We need to keep this restrictive stance of policy in place for some time.*** We [also] have to be watching what's happening around the world, whether it's war or other geopolitical developments, and taking those into account about how we see the global economy, how we see this feeding into the US economy. We live in a global financial system and a global economy.
John Williams, President, Federal Reserve Bank of New York [Permanent FOMC Voter], 10/18/23

The world is now completely dependent on the good sense of leaders to avoid an Armageddon. It's hard to avoid the conclusion that investors aren't nearly as worried as they should be…If you are looking for portfolio protection you might look at receiver options. They are not cheap, but they are very likely to work in a stressed market environment. We own a bunch of them. Paul Singer, Founder, Elliott Investment Management, 10/19/23

I understand that the Fed's job is not to get involved in fiscal policy, but I think — over time — the Fed is going to have to — as the monetary authority of the country — engage on some of these questions about Treasury debt. If there's more debt, much bigger deficits, that means more demand in the economy. And that raises the neutral rate now and raises even more the prospective neutral rate in the future. Larry Summers, Former Secretary, U.S. Treasury, 10/20/23

The soft data I'm hearing from contact after contact after contact is that things seem to be slowing down.
Patrick Harker, President, Federal Reserve Bank of Philadelphia [2023 FOMC Voter], 10/20/23

When you look at the geopolitical situation, it's as complex as we've [ever] seen—I don't know if it's 1948 or 1938—obviously all hope that it goes away I think it's a little bit of wishful thinking. It's gonna' take real leadership on the part of many people out there. And then I look at the financial situation—the fiscal spending which is more than it's ever—I am talking about the United States but it's almost true around the world—more than it's ever been in peacetime by a longshot with the highest debt levels we've ever had by governments.

And there's this kind of omnipotent feeling that central banks and governments can manage through all this stuff. I am cautious. ***I don't think it makes a piece of difference whether rates go up 25 basis points or more—like zero, none, nada.*** [But] I think whether the whole curve goes up by 100 basis points—I would be prepared for it. I don't know if it's going to happen. But I look at what we're seeing today as more like the 70's. A lot of spending. A lot of it's going to be wasted…

To fix this, it's going to take real leadership from the western world and particularly America, but leadership which is not just military but diplomatic, development, finance. And what we need in development and finance dwarfs what governments can do. It can't be done without private capital and private capital isn't going to come in if they can build something and it can be taken by a government. So, we have a lot of work to do...

When you look at economics, I think people should prepare for possibilities and probabilities, not coin one course of action. I've never seen anyone call it. ***I want to point out that central banks 18 months ago were 100% dead wrong.*** You know, so maybe there should be some humility about financial forecasting. I would be quite cautious about what might happen next year. Jamie Dimon, Chief Executive Officer, JPMorgan Chase, 10/24/23

I think gold ought not to trade as an inflation hedge, but as an investment in monetary disorder of which we surely have enough in the world. So, it's a question of getting people interested in the problem, and then in the solution. If you want to go back and look at the long cycles, it might just be that the fifty odd years since the end of Bretton Woods and the end of the dollar's convertibility to gold, that that cycle is ending. It might be that paper money in the historians' retro perspective views will seem to have been a failure and that the world is going to charge back on unconstrained central bank credit creation and unconstrained sovereign borrowing. Maybe, that's one way to look at it. It's the way I tend to look at these things: longer-term, historical trends – and fifty years in the history of money is about the blink of an eye.
Jim Grant, Publisher, *Grant's Interest Rate Observer*, 10/29/23

There is a view among market participants that the growing imbalance between supply of and demand for US Treasury debt may also have contributed to the [recent] sell-off. The $1.7 trillion fiscal year 2023 deficit was larger than originally forecast and both private sector and official projections expect a similarly large deficit next year. In addition, the Federal Reserve is allowing $60 billion in US Treasuries to run off its balance sheet each month, funding that will need to be replaced by issuance to the private market. On August 1st Fitch downgraded the US long-term rating from AAA to AA+, though the market reaction to the news was limited.

Demand for US Treasuries may have softened among several traditional buyers. Bank security portfolio assets have been declining since last year with bank holdings of Treasuries down $154 billion compared to one year ago…Anecdotally, some investors had expected that ten-year Treasury yields would not rise beyond the approximately 4.25% high of last year and had already extended the duration of their fixed-income portfolios – meaning they now have limited capacity to add more interest rate exposure…

Effectively, while there is still reasonable demand for U.S. Treasuries from many domestic and international market participants, it has not kept pace with the increase in supply.
Deirdre Dunn, Chair, U.S. Treasury Borrowing Advisory Committee, 10/31/23

I have a lot of very simple fundamental ideas that I think every educated person ought to have. Those ideas include what Adam Smith taught everybody….You've got a huge increase in what I would call civilization per capita. And it happened automatically just because people take better care of their own property than they take care of somebody else's property….In order to get the Smithian results, you need a currency to facilitate exchanges. And to make the currency respected widely, the trick we've used is the sovereign issues it.

The only way to get from hunter-gathering to civilization that we know of that's ever worked is to have a strong currency. It can be seashells, it can be corn kernels, it can be a lot of things. It can be gold coins, it can be promises in banking systems like we have in the United States and England and so on. When you start creating an artificial currency [like bitcoin]…you're throwing your stink ball into a recipe that's been around for a long time, that's worked very well for a lot of people. Charlie Munger, Vice Chair, Berkshire Hathaway, 11/3/23

They're [consumers] managing that budget really carefully, and it certainly is pressuring discretionary spending. They're purchasing fewer items, even within the food and beverage sector…Even in the food and beverage categories, over the last few quarters, we've seen a decline in the units, the number of items they're buying. So, they're even tightening up their spending in those categories. In discretionary goods, we have seen seven consecutive quarters of decline in both dollars and units. This means consumers are buying less apparel, fewer items for their home, and fewer toys…For seven quarters, they've been purchasing fewer discretionary items, and they're not buying the goods they were during the pandemic.
Brian Cornell, Chief Executive Officer, Target, 11/3/23

The economy has proved to be really resilient even though we've raised interest rates a lot over the past couple of years. That's good news…[but] we haven't completely solved the inflation problem. We still have more work ahead of us to get it done...[I am] a little nervous about declaring victory too soon.
Neel Kashkari, President, Federal Reserve Bank of Minneapolis [2023 FOMC Voter], 11/6/23

Decompositions between changes in expected rates and term premiums depend on the specific models and assumptions used. But I would say that an expectation of higher near-term policy rates does not appear to be causing the increase in longer term rates. Lisa Cook, Governor, Federal Reserve [Permanent FOMC Voter], 11/6/23

We've got to get inflation down — that's the No. 1 thing. I'm absolutely hammering that's what we should be watching.
Austan Goolsbee, President, Federal Reserve Bank of Chicago [2023 FOMC Voter], 11/7/23

The complacent investor view that geopolitics should be ignored might be true, except for the times when it isn't. We suspect we are in one of those times. If we are right, current extreme levels of geopolitical tension will lead to lower stock prices over a timeframe that lasts more than a couple of hours. David Einhorn, Founder, Greenlight Capital, 11/8/23

[The Fed] is committed to achieving a stance of monetary policy that is sufficiently restrictive to bring inflation down to 2% over time. We are not confident that we have achieved such a stance…If it becomes appropriate to tighten policy further, we will not hesitate to do so…While the broader supply recovery continues, it is not clear how much more will be achieved by additional supply-side improvements. Going forward, it may be that a greater share of the progress in reducing inflation will have to come from tight monetary policy restraining the growth of aggregate demand…We will continue to move carefully, however, allowing us to address both the risk of being misled by a few good months of data and the risk of overtightening. Jerome Powell, Chair, Federal Reserve [Permanent FOMC Voter], 11/9/23

With monetary policy, there are always lags. Holding the rate steady will give those lags time to catch up…[and] will allow us to make more measured and educated policy rate decisions going forward — decisions, which I must add, could go either way, depending upon what the data tell us.
Patrick Harker, President, Federal Reserve Bank of Philadelphia [2023 FOMC Voter], 11/9/23

In aggregate, we are still not seeing the full effects of policy…***I think our policy is restrictive, and likely sufficiently restrictive***, but I think we're going to still have bumps along the way…Inflation is going to get to 2%. We will keep restrictive policy until that happens, or until we are sure that is going to happen…I believe there's a slowdown coming. I believe we're going to need that slowdown, because I think that's what it's going to take to convince price-setters the days of pricing power are over. Thomas Barkin, President, Federal Reserve Bank of Richmond [2024 FOMC Voter], 11/9/23

It remains incumbent on all players in the financial system — banks, other market participants, as well as central banks in our roles as both regulators and financial institutions — to appropriately manage liquidity risk.
Lorie Logan, President, Federal Reserve Bank of Dallas [2023 FOMC Voter], 11/10/23

This is going to be something that is going to take some time. ***I think we will get to our 2% target without us having to do anything more***…We are well positioned to let things happen. The words I used are patient, cautious and resolute.
Raphael Bostic, President, Federal Reserve Bank of Atlanta [2024 FOMC Voter], 11/10/23

[If inflation] continues to move sideways, and the labor market and GDP growth remain solid or strong? Well, then we probably have to raise again. If those things don't happen, they come down and inflation comes and continues to come down to 2%, well, then that's a different decision.

Mary Daly, President, Federal Reserve Bank of San Francisco [2024 FOMC Voter], 11/10/23

While the statement by Moody's maintains the United States' AAA rating, we disagree with the shift to a negative outlook. The American economy remains strong and Treasury securities are the world's preeminent safe and liquid asset.

Wally Adeyemo, Deputy Secretary, U.S. Treasury, 11/10/23

[The Moody's downgrade] is yet another consequence of congressional Republican extremism and dysfunction.

Karine Jean-Pierre, White House Press Secretary, 11/10/23

The takeaway for us is that we're seeing share gains versus others, but there still is pressure on the consumer. We are more cautious on the consumer than we were 90 days ago at this time. John Rainey, Chief Financial Officer, Wal-Mart, 11/15/23