Bristol Gold Group January 5, 2024

As we turn the page on 2023, exuberance once again reigns in asset markets. Expectations for 2024 are as benign as we can recall. Stocks are trading at all-time highs. Recession fears have faded. Banks are out of the woods. Spreads are tight. What is powering such widespread optimism?

Well, the Fed of course. After spending the month of October championing higher-for-longer policy and the tightening benefits of rising long-term yields, the Fed had a November epiphany. December jawboning now suggests rate ***cuts*** are on the horizon. The Fed's December dot plot even upped the number of expected 2024 cuts from two to three (followed by four in '25 and three in '26). Spurred by this sudden change of tune, futures traders have rushed ahead of the Fed to price-in ***six*** cuts in 2024. Wow, that was quick.

In our November report *(Fed Cred)*, we suggested the Powell Fed was a bit over its head and grasping at straws. Since then, the Fed's December communication set new standards for muddled messaging. On 12/1, Chair Powell threw cold water on prospects for Fed easing, ***"It would be premature to speculate on when policy might ease."*** But just 13 days later, Chair Powell shocked the 12/13 FOMC press conference in revealing rate cuts were ***"a topic of discussion…for us at our meeting today."*** Completing the circle of confusion, New York Fed President John Williams promptly contradicted his Chair on 12/15, ***"We aren't really talking about rate cuts right now."***

What Changed?

Reading between the lines of the Fed's jumbled narrative, the operative message is that sometime between December 1 and December 13, the Fed changed its mind on the imminence of rate cuts. Since the timing of this policy decision is merely the most consequential variable facing global asset markets, it is important to examine what developments contributed to Chair Powell's reversal.

The most logical catalyst would be that weaker-than-expected economic data signaled to the data-dependent Fed that it was time to ease its tightening posture. Yet, careful review of incoming reports reveals exactly the opposite trend—December economic data was routinely stronger than expectations.

- On 12/5, November ISM Services Index ***increased*** from 51.8 to 52.7, ***beating*** the 52.3 estimate.
- On 12/8, November payrolls ***increased*** from 150,000 to 199,000, ***beating*** the 185,000 estimate.
- On 12/8, November unemployment rate ***declined*** from 3.9% to 3.7%, ***below*** the 3.9% estimate.
- On 12/8, November average hourly earnings ***increased*** 0.4%, ***double*** October's 0.2%, ***beating*** the 0.3% estimate.
- On 12/12, December U. of Michigan Sentiment Index ***increased*** from 61.3 to 69.4, ***crushing*** the 62.0 estimate.
- On 12/12, November CPI ***increased*** 0.1%, ***higher*** than October's 0.0% and ***hotter*** than the 0.0% estimate.
- On 12/14, November retail sales ***increased*** 0.3%, ***higher*** than October's -0.2% and ***higher*** than the -0.1% est.

An alternate explanation for Chair Powell's change of heart speaks to what we perceive to be the increasingly political nature of the Powell Fed. In recent months, several high-pedigree political polls have reported sharp declines in President Biden's standing versus President Trump, especially in key battleground states. Most notably, in a November New York Times/Siena College poll, President Trump led President Biden in five-of-six swing states by a range of four-to-ten percentage points (Figure 1, below). Despite winning all six battleground states in 2020, President Biden now trails in every state except Wisconsin, where he leads by a slim 2-point margin.

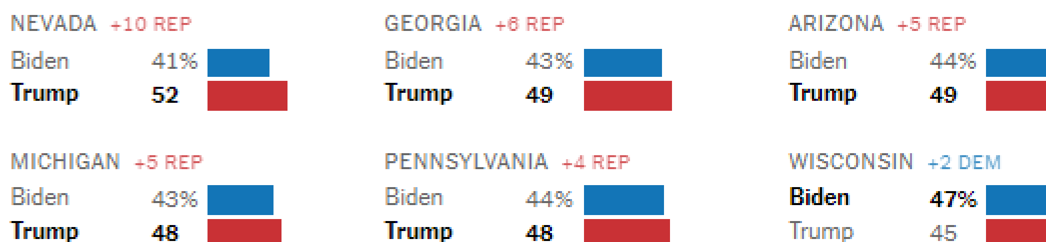

Figure 1: Presidential Poll Results in Six Swing States (11/5/23) [New York Times/Siena College]

Could President Biden's weak polling numbers be leading to White House pressure on Chair Powell and Treasury Secretary Yellen to promote easier financial conditions? You can bet on it. We were not alone in noting the coincidental timing of Chair Powell's 12/13 rate cut bombshell and Secretary Yellen's odd 12/12 soliloquy on falling inflation and Fed rate cuts—matters well outside her purview (see Quotes section). Not to mention that as President Biden's poll numbers slip, Chair Powell is likely hearing echoes of President Trump's sharp admonishments: "I'm not even a little bit happy with my selection of Jay" (11/27/18) and "Jay was the worst mistake I ever made" (12/23/18).

Behind the Curve

Conceding that ***all*** Presidents pressure Fed Chairs, we suspect the Fed's December policy reversal stems from developments more troubling than calls from the White House. ***We believe the Fed has been surprised by how rapidly rate structures have declined during the past eight weeks.*** The Fed's higher-for-longer October mantra belied their expectation that policy lags would take a few more quarters to drive a stake through inflation's heart. However, such rapid 1%-plus declines across the yield curve suggest markets are spooked by something more consequential than CPI or payrolls.

At the risk of talking our own book, we truly believe the legacy imbalances of the modern era of unconventional central banking are finally coming home to roost. Exacerbated by the gross excesses of post-Covid fiscal stimulus and monetary expansion, the U.S. financial system is saddled with untenable amounts of malinvestment and unproductive debt. Even the most optimistic bulls recognize that excessive debt must eventually be rationalized. But partly due to the sheer size of post-Covid liquidity and partly due to the feverish spending of the Biden administration, the U.S. economy has so far withstood the Fed's aggressive tightening. The Fed's December behavior suggests all of this is about to change.

In retrospect, the $10 trillion tidal wave of post-Covid liquidity was sufficiently large to suspend one of the most ironclad economic relationships of the past 40 years. Since the buildup of U.S. debt began in the 1980's, not only have long rates been in steady decline, but on every occasion 10-year yields have backed up meaningfully, a financial crisis has ensued. As shown in Figure 2, below, the downtrend of 10-year Treasury yields has formed a remarkably consistent channel since 1985. Prior to the Covid liquidity cycle, each time the 10-year yield approached the top of this channel some sort of financial meltdown was triggered.

Figure 2: 10-Year Treasury Yield (1977-1923) [Bloomberg]

Since the Fed began its aggressive tightening in March 2022, 10-year yields have broken decisively above their 40-year downtrend. Truth be told, we are shocked long rates have been able to rise this high without causing more visible damage to the financial system, but we have learned this is the type of systemic indemnity $10 trillion can buy!

As impressive as the resilience of the U.S. economy has been, it is only a matter of time before the stimulus buffer is exhausted and reality sets in. Our extensive study of debt dynamics and monetary policy leave us firmly convinced that today's over-levered U.S. financial system cannot withstand normalized rate structures without clearing trillions-of-dollars of malinvestment and nonproductive capital. That is our story and we're sticking with it. Our only questions are when and how quickly rate structures revert to their prior downtrend. On both the long and short end, we expect rates to decline further and much faster than current consensus.

Macro Matters

While full rationale for the Fed's December pivot remains unclear, we want to explain why ***we*** expect the approaching easing cycle to be more aggressive than consensus expects. In its efforts to tame inflation, we believe the Fed has focused too narrowly on its policy rate and not devoted enough attention to reserves and money supply. In the process, while the FOMC is now patting itself on the back for reducing CPI without tanking the labor market, the Fed is missing the fact that it has set the price of money far too high for existing debt and liquidity dynamics in the U.S. financial system.

By way of example, we reference an important economic concept which garners little attention in today's investment world: ***savings***. A decade-and-a-half of QE and ZIRP have completely dis-incented savings in every sector of the U.S. economy. Because all capital formation requires true savings, the erosion of savings has impaired U.S. growth prospects and increased the need for cheap capital to service legacy obligations. While $10 trillion of post-Covid liquidity temporarily masked the savings decline in the United States, now that households have spent their handouts and the Fed is scaling down its balance sheet, the underlying savings picture is coming into clearer focus.

The Fed maintains an aggregate U.S. savings statistic called the net national savings rate. This measure incorporates combined savings of the household, business, corporate and government sectors of the U.S. economy. As shown in Figure 3, below, the Fed' calculation of national savings has remined positive in every year of the postwar era except during the GFC and pandemic years, when trillions-of-dollars of federal stimulus and bailouts flipped aggregate national savings negative (below **red** line).

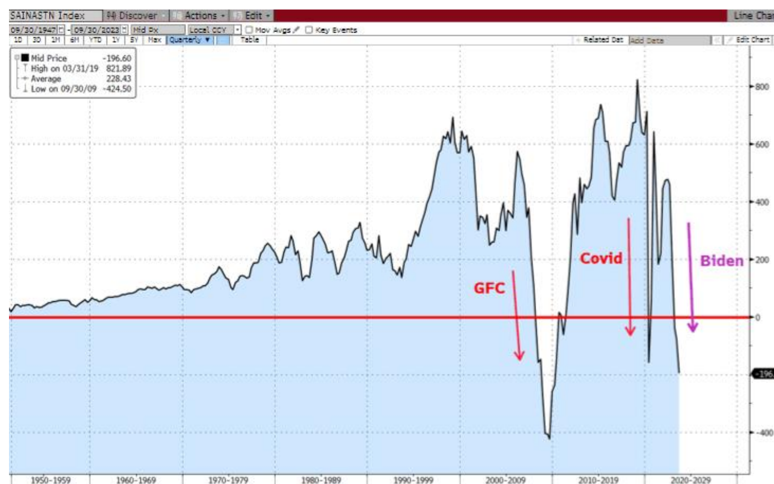

Figure 3: Total U.S. Net Saving (All Sectors) (1950-9/30/23) [Federal Reserve Z.1 Report]

In recent years, the Biden administration has chosen to normalize federal spending at elevated Covid levels even though the U.S. economy no longer faces any unusual threats or challenges. Worse still, most of this breakneck spending is dedicated to (definitionally inefficient) government programs promoting the Biden agenda of social equity and climate change. ***The combination of legacy debt service and unproductive government spending now exceeds the capacity for the U.S. economy to generate net savings.*** Because all capital formation requires savings, implications of a negative national savings rate are anathema to a capitalistic economy. Because the federal government is unlikely to scale back spending anytime soon, the Fed will need to step into the savings void and provide enough liquidity to bridge the gap to self-sustaining U.S. growth. In the concise words of MacroStrategy's Andy Lees (12/20/23):

> The official U.S. net national savings rate is negative. Other than during the GFC, it is the first time since records began in 1947. We are not only borrowing output from the future, but we are also borrowing credit worthiness, interest income, and even money supply—and its velocity—from the future…With minimal productivity growth, and the net national savings rate negative, rates should be near zero. Instead, the premium of the Fed Funds rate to the natural rate is at a record level, dwarfing that under Volcker.

In another troubling monetary development, while the Fed has been futzing with the Phillips curve, U.S. money supply has been contracting at a historic rate. Immediately following the Fed's March '22 liftoff, M2 flattened and has now fallen 4.3% from its July '22 peak, the steepest decline since the Great Depression. In fact, there have only been four periods in U.S. history in which money supply posted similar declines: 1920-21, 1929-33, 1937-38 and 1948-49. Needless to say, all of these prior declines led to severe recessions. We see no reason this time will be different. In order to reverse the ongoing M2 decline and prevent a default wave, the Fed will need to cut rates aggressively and provide copious amounts of QE.

While equity investors remain unconcerned about the collapse of monetary aggregates such as net national savings and M2 money supply, bond markets are beginning to take note. We attribute late-2023 yield curve declines to bond market recognition of monetary clouds gathering on the Fed's policy horizon.

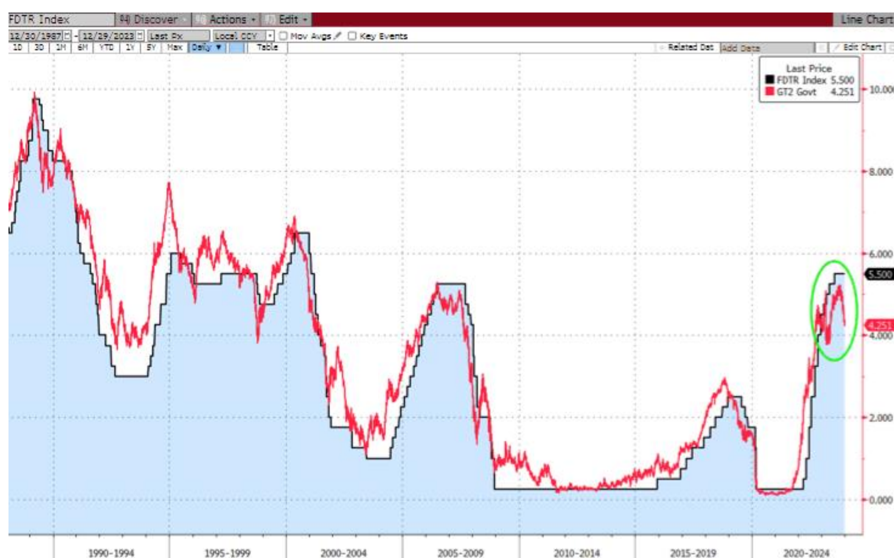

***Figure 4:* Upper Band of Fed Funds Target Rate *vs.* 2-Year Treasury Yield (12/31/87-12/31/23) [Bloomberg]**

Just how out of synch is the Fed's current policy rate from evolving bond market conditions? Well, historically so. As shown in Figure 4, above, the 2-year Treasury yield closed the year at 4.25%, a full ***125 basis points*** below the Fed's 5.50% target rate (**green** oval). Quite simply, a variance this wide has ***never*** occurred during the past forty years. Further, since 2-year yields historically lead fed funds by a quarter or so, while consensus debates whether the Fed's first rate cut will occur by March, we would not be surprised to see ***100 basis points*** of cuts during the same span. Needless to say, markets are not positioned for this potentiality.

Year-End Review

Before we share our investment recommendation for the Fed's anticipated easing cycle, we wanted to briefly review the main tenets of year-end investor optimism. What if things are not as rosy as consensus believes? If things are so great, why did gold close the year at $2,063, a new all-time monthly high? Answers to these questions are important in forecasting how aggressive Fed easing will be. For readers interested in our take on the bullish thesis, we return to our opening paragraph and drill down a bit. For readers sufficiently familiar with our perspective, feel free to skip to the investment conclusions in our "Fastest Horse" section.

Stocks are trading at all-time highs. Given early-2023 recession fears, full-year equity performance was borderline spectacular. The Dow and S&P ended the year near all-time highs and the Nasdaq came within 7.5% of its record close. Despite the steepest tightening cycle since the Volcker era, the S&P ended the year ***higher*** than it traded before the Fed's first rate hike (3/16/22). Through 525 basis points of tightening, the S&P 500 has now ***increased*** 12.70%, a truly mind-boggling statistic.

While the artificial intelligence (AI) craze powered equity markets during the first half of 2023, it is interesting to note that equities slumped considerably during the August-October span. In fact, the S&P and Dow achieved the majority of their 2023 performance during a rip-snorting rally in the final nine weeks of the year. Specifically, the post-10/27 surge accounted for ***62%*** of the S&P 500's annual gain and ***104%*** of the Dow's advance (Figure 5, below).

Index	2023 Total Return	10/27-12/31 Return	10/27-12/31 % of Tot. Ret.
S&P 500	26.26%	16.21%	62%
Dow Ind.	16.18%	16.78%	104%
Nasdaq	44.70%	19.00%	43%

Figure 5: 2023 Performance Stats. for S&P 500, Dow Jones Ind. Average and Nasdaq Comp. [Bloomberg]

Not to complain, but we think the late-2023 equity rally had more to do with central bank liquidity than commonly recognized. Goldman Sachs' November *Macro Checkpoint* observes that combined November reserve additions at G4 central banks and the PBOC totaled a whopping ***$350 billion*** (see addenda graph). These reserve injections helped the Goldman Sachs Financial Conditions Index register in November its ***steepest monthly easing on record.*** Throw in record CTA equity purchases, record corporate buybacks ($5 billion daily), record dealer gamma, a massive (hedge fund) short squeeze, renewed (retail) meme stock buying and favorable seasonals, and you have all the makings of feverish rally. We don't expect this royal flush to repeat in early-2024.

Recession fears have faded. Despite the fact that few investors and no FOMC members are still forecasting a 2024 recession, we remain firmly in the recession camp. In our September report *(Hard or Soft?)*, we identified four time-tested indicators unequivocally signaling recession. Through year-end, all four indicators were still flashing bright red.

- During November, the Conference Board's LEI Index registered its 20th sequential monthly decline, the longest consecutive streak since the GFC (June '07-April '08).
- Through year-end, the 2-yr/10-yr Treasury spread (-41 bps) had been inverted for 373 consecutive trading days, the longest inversion since August 1978-May 1980 and the steepest inversion since October 1981.
- Federal tax receipts have declined from $3.131 trillion in Q3 2022 to $2.803 trillion in Q3 2023. Declines of this magnitude are exceedingly rare and have always been followed by recession.
- During Q3, GDI (1.5%) continued its negative divergence from GDP (4.9%). The trailing 4-quarter average divergence (3.17%) is now the ***widest on record***, surpassing the prior high of 2.45% during the GFC (Q3'07).

To us, the fact that the Fed is suddenly hinting at rate cuts provides more insight into their recession views than GDP estimates in their dot plot. There have been only five occasions in the past 90 years when the Fed cut rates when core CPI (now 4.0%) was above the unemployment rate (now 3.7%). One was during wartime (Oct.'42) and the other four were triggered by recession (Oct.'69, Aug.'74, May'80, & Jul.'81). Hmmm.

Banks are out of the woods. No market segment benefitted more from the year-end equity rally than financials. The S&P Regional Banking ETF (KRE) closed 2023 at $52.43, up a steep ***39.2%*** from its 10/25/23 low ($37.66). Obviously, consensus is no longer troubled by issues related to the March 2023 regional banking crisis, which required significant Fed intervention to quell. This is a bit surprising because none of the underlying issues have been solved. First, the FDIC reported on 11/29/23 that while deposit outflows have slowed considerably since the Q1 '23 bank run, they have now remained negative for six consecutive quarters (Figure 6, on the following page).

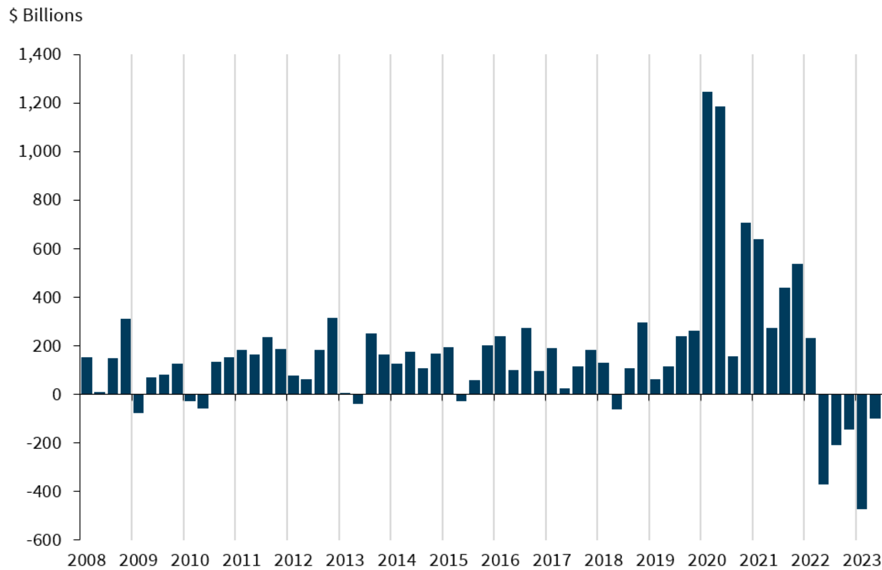

Figure 6: Quarterly Change in Deposits at U.S. Commercial Banks (2008-Q3 2023) [FDIC]

Additionally, commercial banks still hold enormous mark-to-market losses on their Treasury portfolios. On 11/29/23, the FDIC reported that total unrealized losses on long-term securities held by U.S. commercial banks increased ***22.5%*** during Q3 to $683.9 billion (Figure 7, below). For perspective, aggregate mark-to-market losses now stand ***33% higher*** than in Q1 '23 when similar losses vaporized Silicon Valley Bank. While the late-2023 bond market rally has no doubt trimmed these book losses since Q3, the value impairment issue isn't going to disappear anytime soon.

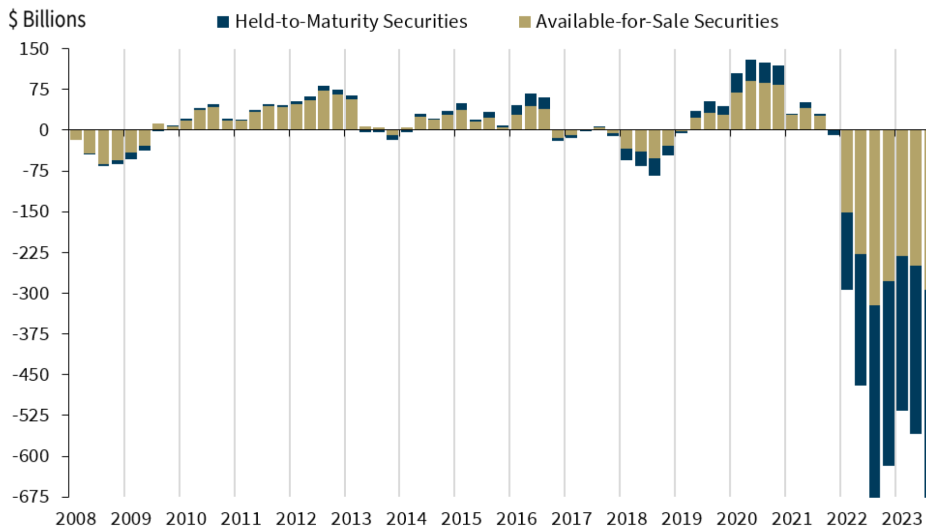

Figure 7: Total Unrealized Gains or Losses on Investment Securities Held by U.S. Commercial Banks (2008-Q3 2023) [FDIC]

On the flip side of the impaired asset conundrum, while media coverage of the Fed's Bank Term Funding Program (BTFP) has died down, its use keeps growing. This "emergency" Fed facility was launched in March 2023 at the height of the regional bank run. As shown in Figure 8, on the following page, the Fed's 12/27/23 balance sheet disclosed the BTFP just reached a new all-time high of $135.8 billion. Interestingly, the one-year term on original BTFP loans is about to expire in March. How will the Fed recoup the BTFP funding they doled out? If history is any guide, these term loans will simply be rolled in perpetuity.

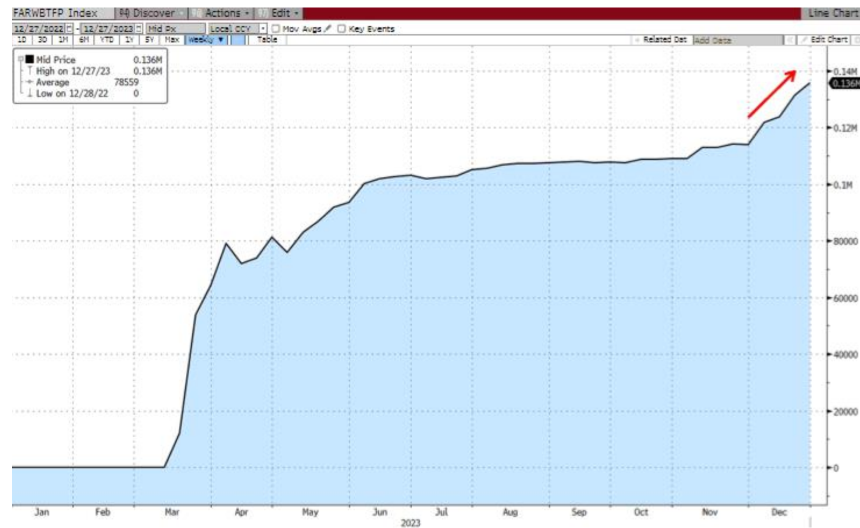

Figure 8: Total Assets Bank Term Funding Program (1/1/23-12/27/23) [Federal Reserve]

As footnote to unintended consequences of endless Fed liquidity programs, it appears a few imaginative banks are employing the BTFP in a clever way to monetize early market reaction to the Fed's December pivot. The interest rate the Fed charges for one-year BTFP loans is the one-year overnight swap rate (OIS) plus 10 basis points. As one of the market's most hypersensitive interest rates, the OIS has already reacted to the Fed's easing smoke signals by declining from 5.40% on 10/31 to 4.76% at year-end. Since the Fed is still paying 5.40% on reserve balances held at the Fed, nimble banks can now borrow from the Fed through the BTFP at 4.76% and deposit the funds back at the Fed to get paid 5.40%. Who says banking isn't a great business?

Spreads are tight. The Bloomberg U.S. High Yield Spread Index [LF98OAS] ended the year at a super skinny 3.23%, down from 4.37% as recently as 10/31/23. As shown in Figure 9, below, junk spreads are now the tightest they have been since April 2022 and flirting with the low end of the 17-year range since the GFC.

Figure 9: Bloomberg U.S. High Yield Spread Index (12/31/00-12/31/23) [Bloomberg]

While the most recent downticks in junk spreads certainly reflect market anticipation of a looser Fed, their general zip code is a function of below-average default rates in recent years. In the recessionary environment we envision, that trend is likely to change quickly. Fitch reports that the U.S. high yield default rate more than doubled in 2023, rising from 1.35% in 2022 to 2.99% this past year. Fitch's estimated default rate for 2024 is currently a range of 5.0% to 5.5%.

Figure 10: Total Monthly U.S. Commercial Chapter 11 Filings (2006-11/30/23)
[United States Courts; Epiq Bankruptcy]

To us, contracting credit spreads are increasingly at odds with rising rates of delinquency and bankruptcy. By way of example, during November (Figure 10, above) U.S. Court System reports that commercial Chapter 11 filings soared 141% year-over-year (to 842), the highest level since 2010 fallout from the GFC. Stay tuned.

Fastest Horse

We believe December marked the beginning of a major Fed policy shift. As we have explained, we expect the Fed's easing cycle to be far more aggressive than consensus contemplates. What are the investment implications of our easing expectations? What are the best investments to play a Fed easing cycle? ***History has repeatedly demonstrated that gold shares are among the best performing investment assets in early stages of a Fed easing cycle.*** As markets recalibrate to Fed easing in 2024, bullion's role as a non-correlating portfolio asset will offer valuable investment utility. But a tactical commitment to gold shares is likely to generate ***significant portfolio alpha***. Indeed, we expect gold shares to be among the best performing assets in 2024.

We have examined Fed policy cycles since 2000 and identified five examples of policy shifts toward easing posture. We then calculated performances of the S&P 500, spot gold and the VanEck Gold Miners ETF (GDX) immediately following the change in Fed policy. We suspect the degree to which gold shares outperformed will surprise many.

1.) On January 3, 2001, the Fed finally responded to the "internet" crash by cutting the fed funds rate from 6.50% to 6.00%, commencing an easing cycle which would take rates down to 1.0%. During the following 17 months (through 5/28/02), the S&P 500 declined 18.76%, spot gold rose 20.92% and the GDM Index (pre-GDX) soared ***177.87%.***

2.) On November 25, 2008, in response to the spiraling GFC, Chair Bernanke finally embraced the nuclear option of quantitative easing and launched QE1. During the following 12 months (through 12/2/09), the S&P 500 increased 32.76% spot gold rose 47.90% and GDX climbed ***113.23%.***

3.) On January 19, 2016, in an effort to quell global market stress triggered by the Fed's 12/16/16 liftoff, Janet Yellen signaled a pause in rate hikes. Ultimately, the Fed did not attempt a second hike until 12 months later. During the seven months following Chair Yellen's *mea culpa* (through 8/12/16), the S&P 500 rose 17.59%, spot gold rose 22.86% and GDX exploded ***148.99%.***

4.) On December 19, 2018, Chair Powell (defiantly) hiked rates 25 basis points to (2.5%), predicted two 2019 hikes and declared Fed balance sheet runoff was "on autopilot," "working well," and "not subject to review." Within days, market reaction (and pressure from President Trump) were so severe, the Fed executed one of its sharpest policy U-turns in history. The Fed abandoned rate hikes in early-January, shut down QT by June and was cutting rates by July. During the nine months following Chair Powell's fateful rate hike (through 9/4/19), the S&P 500 rose 18.87%, spot gold increased 24.89% and GDX increased ***55.93%.***

5.) On March 16, 2020, the Powell Fed responded to the developing Covid crisis by cutting fed funds by 100 basis points, from 1.25% to 0.25%. During the next five months (through 8/5/20), the S&P 500 rose 40.42%, spot gold rose 34.61% and GDX soared ***97.99%.***

Importantly, we have presented these performance statistics in highly subjective manner, tailoring individual time frames to present the performance of gold shares in its strongest light. We recognize that it is impossible to predict whether or for how long gold shares will outperform during any Fed cycle. All we are saying is that gold shares have historically proven to be an ***especially*** potent tactical investment during early stages of a Fed pivot to easing posture. Judging from these performance statistics, it would be difficult to argue that gold shares do not currently represent a compelling investment opportunity.

Fortuitous Entry

By way of footnote, the 2023 performance of gold shares was mildly disappointing. Spot gold closed the year at a new monthly high of $2,062.98. Given bullion's 13.1% advance during the year, we would have expected gold shares to rise by a multiple of that gain. Instead, the VanEck Gold Miners ETF (GDX) increased only 9.96%, and the Van Eck Junior Gold Miners ETF (GDXJ) increased just 7.12%. We attribute this softer-than-expected performance to a few factors.

The Fed's higher-for-longer mantra, combined with the October surge in 10-year Treasury yields to the 5% threshold, had a chilling effect on precious metal capital markets. Specifically, institutional interest in large cap equities was subdued and financing for explorers and developers became more challenging. Additionally, the industry suffered its traditional assortment of high-profile cost overruns and project delays. Finally, gold shares did not immediately participate in gold's sharp rally following October 7 events in the Middle East.

Encouragingly, the Fed's November/December policy pivot occurred before gold's Mideast boost had subsided. Because gold's monetary buyers tend to have longer time horizons than geopolitical traders, the anticipated post-Gaza drawdown never materialized. On a short-term basis, gold shares are due a bit of catchup to gold's late-2023 advance.

Especially in light of this recent performance lag, we believe gold shares are ideally positioned for significant gains in coming quarters. We would enjoy visiting with Bristol clients at their convenience to review gold exposures for the coming year.

Sincerely,

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

Addenda Graph

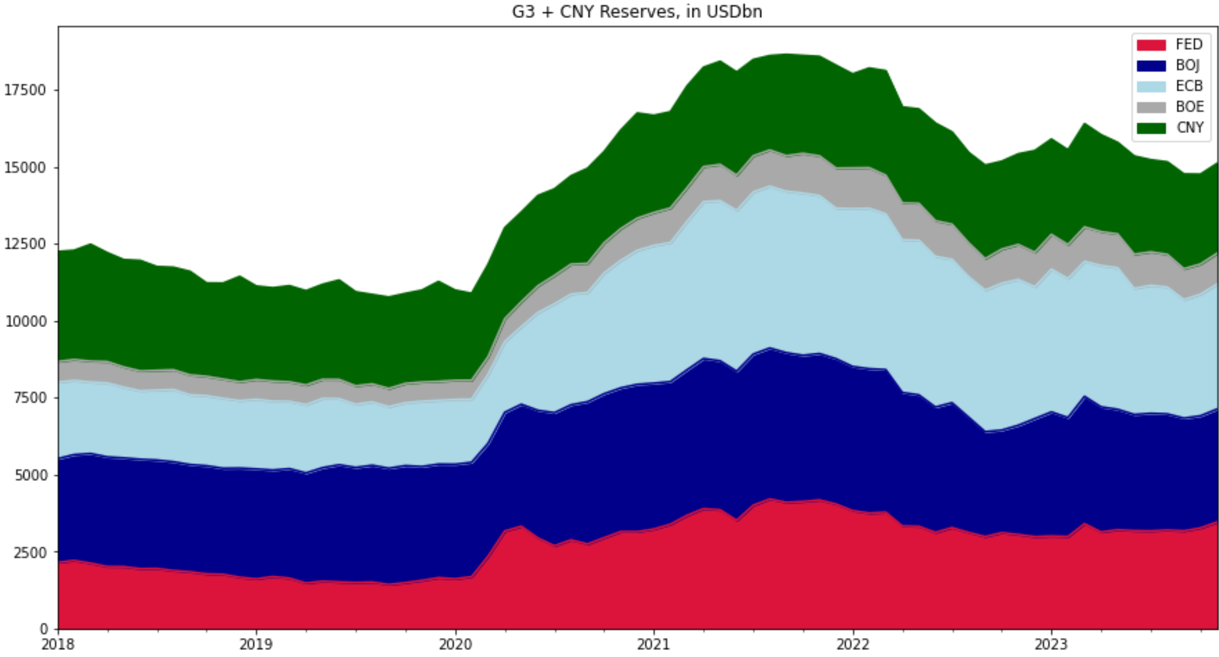

Figure 11: Monthly Total of Central Bank Reserves (G4 & PBOC) (2018-11/30/23) [Goldman Sachs]

People are trying to figure out exactly what it's going to take to keep inflation moving down. And the economic resilience that they see maybe suggest higher for longer, but we'll see. I think it's by no means a given.

Janet Yellen, Secretary, U.S. Treasury, 10/3/23

It does seem things are toughening up.

Natalie Knight, Chief Financial Officer, Stellantis, 11/5/23

We are still learning about the effects of pandemic-specific factors on the economy. Additionally, heightened geopolitical risks have recently contributed to increased uncertainty…We have long appreciated that policy decisions under uncertainty should consider a range of possible scenarios about the state, and the structure, of the economy...In my thinking, this prospect serves as a reason for central banks to strive for predictability and transparency in policy actions and communications while avoiding the hubris of overrepresenting the state of our knowledge.

Philip Jefferson, Vice Chair, Federal Reserve [Permanent FOMC Voter], 11/14/23

I'm just not convinced that inflation is on some smooth glide path down to 2%...The inflation numbers have come down, but much of the drop has been partial reversal of Covid-era price spikes, which were driven by elevated demand and supply shortages. Shelter and shelter inflation remain higher than historic levels, so does services inflation.

Thomas Barkin, President, Federal Reserve Bank of Richmond [2024 FOMC Voter], 11/14/23

Progress continues, though we still have a way to go. With goods inflation already coming down and non-housing services inflation typically slow to adjust, the key to further progress over the next few quarters will be what happens to housing inflation. More generally, there are always some bumps in the road as inflation comes down.

Austan Goolsbee, President, Federal Reserve Bank of Chicago [2023 FOMC Voter], 11/14/23

I am also attuned to the risk of an unnecessarily sharp decline in economic activity and employment…As we try to identify the full, lagged effects of monetary policy tightening, I am considering whether small businesses, the housing sector, and low- and moderate-income households could be warning of broader stress ahead… I believe that a soft landing is possible, with continued disinflation and a strong labor market, but it is not assured.

Lisa Cook, Governor, Federal Reserve [Permanent FOMC Voter], 11/16/23

At the Federal Reserve, we are not certain whether inflation is on track to return to 2%. We are unsure about the length of policy lags and whether they are behind us or still to be fully realized…There is also uncertainty about the economic forecast, monetary policy transmission mechanism and economic fundamentals, such as the neutral rate of interest…When uncertainty is high and the risks to our objectives more balanced, we need to practice gradualism.

Mary Daly, President, Federal Reserve Bank of San Francisco [2024 FOMC Voter], 11/17/23

Inflation has been running well above the Fed's goal for more than two years and while it's still above our 2% goal, there's been discernible progress on inflation even while the overall economy has remained relatively strong. It's going to take some time to get inflation back down to 2%.

Loretta Mester, President, Federal Reserve Bank of Cleveland [2024 FOMC Voter], 11/17/23

We are likely at or near the peak of where we need to be in terms of having a sufficiently restrictive stance of monetary policy that will bring inflation down to 2%...We're cautious about over-interpreting any one data point.

Michael Barr, Vice Chair of Supervision, Federal Reserve [Permanent FOMC Voter], 11/17/23

In order to get back down to 2% in a reasonable amount of time we need to be patient and resolute, and I wouldn't take additional firming off the table. A key point is we need to really stay the course. Data is so noisy right now, and the progress that we've seen has been pretty uneven. I think we're positioned to be patient.

Susan Collins, President, Federal Reserve Bank of Boston [2025 FOMC Voter], 11/17/23

The economy is still growing — unemployment is still 3.9% and as you showed a little bit ago, inflation does seem to be settling. So, all that's good. But the job's not done, and so you have to keep on until you get the job done, and we'll see where we land…What I'm hearing is a normalizing economy and a good way to look at it is year-over-year consumer-spending growth, year-over-year retail sales. Those numbers look much more like trend numbers than they do like the frothy numbers…I see inflation being stubborn, and that makes the case for me for being higher for longer…Inflation convincingly coming back to target — that's my marker. And you can get there a lot of different ways. But I'm still looking to be convinced that price-setters in this economy have gotten back to where they were three or four years ago, which was an understanding that above-normal price increases just weren't a management lever.

Thomas Barkin, President, Federal Reserve Bank of Richmond [2024 FOMC Voter], 11/20/23

We can't allow Ukraine to lose a battle on the home front because it lacks enough money to keep schoolteachers in the classroom and first responders on the job, when it's fighting valiantly on the battlefield, so Ukraine is utterly dependent on this aid.

Janet Yellen, Secretary, U.S. Treasury, 11/21/23

There is clearly an asset bubble going on in private credit. There are many other asset bubbles building. What it needs is just one thing to trigger a fiduciary crisis. Colm Kelleher, Chair, UBS, 11/28/23

Inflation rates are moving along pretty much like I thought…***I am increasingly confident that policy is currently well positioned to slow the economy and get inflation back to 2%***...I am encouraged by what we have learned in the past few weeks — something appears to be giving, and it's the pace of the economy…[If inflation cools] for several more months — I don't know how long that might be — three months, four months, five months — that we feel confident that inflation is really down and on its way, ***you could then start lowering the policy rate just because inflation is lower***…It has nothing to do with trying to save the economy. It is consistent with every policy rule. There is no reason to say we will keep it [fed funds] really high. Christopher Waller, Governor, Federal Reserve [Permanent FOMC Voter], 11/28/23

My baseline economic outlook continues to expect that we will need to increase the federal funds rate further to keep policy sufficiently restrictive to bring inflation down to our 2% target in a timely way…I remain willing to support raising the federal funds rate at a future meeting should the incoming data indicate that progress on inflation has stalled or is insufficient to bring inflation down to 2% in a timely way.
Michelle Bowman, Governor, Federal Reserve [Permanent FOMC Voter], 11/28/23

Encouragingly, the inflation trajectory has turned, with headline 12-month PCE inflation having fallen by more than half from its peak to a still elevated 3.4% as of September 2023…The Federal Reserve has continued to signal its strong commitment to return inflation to target.
John Williams, President, Federal Reserve Bank of New York [Permanent FOMC Voter], 11/28/23

Overall, we have made progress on inflation outside of the food sector. It's been coming down. It's not yet down to target. ***But in 2023, we're on a path to set the highest drop in the inflation rate in 71 years***…The Fed tends not to look at energy and food inflation. They don't give the best characterization of what's the underlying state of inflation.
Austan Goolsbee, President, Federal Reserve Bank of Chicago [2023 FOMC Voter], 11/28/23

If inflation comes down naturally and smoothly, awesome, there's no particular need to do anything with interest rates if inflation steps down. But if inflation is going to flare back up, I think you want to have the option of doing more on rates.
Thomas Barkin, President, Federal Reserve Bank of Richmond [2024 FOMC Voter], 11/29/23

I don't think we've seen the full effects of restrictive policy, another reason I think we'll see further cooling of economic activity and inflation…I'm sensing greater clarity about a few important currents. ***Our research and input from business leaders tell me the downward trajectory of inflation will likely continue***.
Raphael Bostic, President, Federal Reserve Bank of Atlanta [2024 FOMC Voter], 11/29/23

Based on what I know now, my assessment is that we are at, or near, the peak level of the target range of the federal funds rate…The risks are two-sided, with the possibility of inflation remaining stubbornly persistent weighed against the risk of a weaker economy and employment.
John Williams, President, Federal Reserve Bank of New York [Permanent FOMC Voter], 11/30/23

I'm not thinking about rate cuts at all right now. I'm thinking about whether we have enough tightening in the system and are sufficiently restrictive to restore price stability. Discussion about interest rate cuts is not particularly helpful at the moment. We should continue to focus on lowering inflation…Policy is in a very good place.
Mary Daly, President, Federal Reserve Bank of San Francisco [2024 FOMC Voter], 11/30/23

It would be premature to speculate on when policy might ease…The strong actions we have taken have moved our policy rate well into restrictive territory, meaning that tight monetary policy is putting downward pressure on economic activity and inflation. Monetary policy is thought to affect economic conditions with a lag, and the full effects of our tightening have likely not yet been felt …Having come so far so quickly, the FOMC is moving forward carefully, as the risks of under- and over-tightening are becoming more balanced. Jerome Powell, Chair, Federal Reserve [Permanent FOMC Voter], 12/1/23

I've always been deeply opposed to crypto, bitcoin, etc. You [Senator Warren] pointed out the only true use case for it is criminals, drug traffickers, money laundering, tax avoidance, and that is a use case because it is somewhat anonymous, not fully, and because you can move money instantaneously and because it doesn't go through, as you mentioned, all these systems built up over many years—know your customer, sanctions, OFAC—it can bypass all of that. If I were the governments, I'd close it down. Jamie Dimon, Chief Executive Officer, JPMorgan Chase, 12/6/23

Our customer continues to tell us they are feeling significant pressure on their spending, which is supported by what we see in their behavior. Todd Vasos, Chief Executive Officer, Dollar General, 12/7/23

To me, a soft landing is the economy continues to grow, the labor market remains strong and inflation comes down. And I believe that's the path we're on…It's certainly meaningfully coming down. And I see no reason, on the path that we're currently on, why inflation shouldn't gradually decline to levels that are consistent with the Fed's mandate and targets. I personally don't see any good reason to think that the last mile is going to be especially difficult…Because inflation expectations had never meaningfully ratcheted up on a long-term basis, we just had to have the economy normalize and get the labor market back to a sort of full employment state to bring inflation down…Of course, as inflation comes down, other things equal, real interest rates tend to rise, which causes a tightening of monetary policy in a sense. So that's one factor that could weigh in a decision that the Fed makes about the path of interest rates.

Janet Yellen, Secretary, U.S. Treasury, 12/12/23

We are seeing strong growth that appears to be moderating. We are seeing a labor market that is coming back into balance. We're seeing inflation making real progress…These are the things we've been wanting to see. Declaring victory would be premature. But of course, the question is when will it be appropriate to begin dialing back?...We're not talking about altering the pace of QT right now, just to get that out of the way.

Jerome Powell, Chair, Federal Reserve [Permanent FOMC Voter], 12/13/23

We aren't really talking about rate cuts right now….I just think it's just premature to be even thinking about that… As Chair Powell said, the question is: Have we gotten monetary policy to a sufficiently restrictive stance in order to ensure that inflation comes back down to 2%? That's the question in front of us. It is looking like we are at or near that in terms of sufficiently restrictive, but things can change. One thing we've learned even over the past year is that the data can move and in surprising ways, we need to be ready to move to tighten the policy further, if the progress of inflation were to stall or reverse…If we get the progress I am hoping to see on inflation and the economy, then of course it will be kind of natural to move monetary policy over a period of a few years to a more normal level.

John Williams, President, Federal Reserve Bank of New York [Permanent FOMC Voter], 12/15/23

China should step up the adjustment of its overseas assets and liabilities, increasing the income of overseas net assets. To this end, China should reduce the proportion of overseas assets in its foreign exchange reserves [Treasuries].

Yu Yongding, Former Advisor, People's Bank of China, 12/18/23

It's not what you say, or what the Chair says. It's what did they hear and what they want to hear…I was confused a bit—was the market just imputing, here's what we want them to be saying?...We don't debate specific policies, speculatively, about the future. We vote on that meeting. The market expectation of the number of rate cuts is greater than what the SEP projection is.

Austan Goolsbee, President, Federal Reserve Bank of Chicago [2023 FOMC voter], 12/18/23

The focus still needs to be on inflation. There's a long way to go on this fight. I do worry they're [Fed] blinking a bit and now trying to pivot and worry about recession, when I don't see any of that risk in the data so far.

Sheila Bair, Former Chair, FDIC, 12/18/23

We have to be forward-looking and make sure that we don't give people price stability but take away jobs.

Mary Daly, President, Federal Reserve Bank of San Francisco [2024 FOMC Voter], 12/18/23

For me, I'm thinking inflation is going to come down relatively slowly in the next six months, which means there's not going to be urgency for us to pull off our restrictive stance…It's not like there has been an active discussion on this [cutting rates]…we're not going to jump at the first data point. We're going to let things happen, make sure the trends are really trends…Now is that the time to consider changing the inflation goal, but ***nothing should be etched in stone***.

Raphael Bostic, President, Federal Reserve Bank of Atlanta [2024 FOMC Voter], 12/19/23

We're not yet done with inflation…If you're going to assume that inflation comes down nicely, of course we would respond appropriately…[but] I don't assume what the data is going to do. I've got a perspective that inflation is a little stubborner than the average person in there. And I hope I'm wrong on that.

Thomas Barkin, President, Federal Reserve Bank of Richmond [2024 FOMC Voter], 12/19/23

We expect revenue will continue to be pressured by volatile macroeconomic conditions negatively affecting customer demand for our services across our transportation companies.

Guy Erwin, Controller, FedEx, 12/19/23

Russian-Chinese relations are at a high point in their history. Further developing our relations is in the interest of both countries. We have a special model for intergovernmental cooperation based on a mutually respectful, equal, and confident dialogue…In today's geopolitical conditions, Russia and China's relations have successfully passed the test of strength. They show a high degree of stability. Consolidating and deepening China-Russia relations in the new era is a strategic choice made by both sides based on their respective national conditions. It is in line with the fundamental interests of the two countries and their peoples…It is not aimed at a third party, and is not subject to or swayed by external influence.

Li Qiang, Premier, China & Mikhail Mishustin, Prime Minister, Russia, Joint Communique, 12/19/23

El-Erian: Total confusion. The fact that you start [this television] show on Tuesday talking about confusion from last Wednesday, is an indication of how absurd this whole situation is…Fed communication confuses people. Fed communication fuels moral hazard—how often did you hear, "the Fed put is back." It erodes their credibility and I think we have a real problem with Fed communication. Mohamed El-Erian, Chief Economic Advisor, Allianz, 12/20/23

I've been in the camp of, 'Let's hold rates where they are for a while, let's see how this plays out, we don't need to raise rates anymore…[Looking ahead] it's important that we start to move rates down. We don't have to do it too fast. We're not going to do it right away—it's going to take some time…The job on inflation is not done, but we are moving in the right direction—things are starting to look better and better.
Patrick Harker, President, Federal Reserve Bank of Philadelphia [2023 FOMC Voter], 12/21/23

The United States continues to strengthen its Asia-Pacific deployments, this is a Cold War mindset. Its goal is for its own selfish gains and to maintain its hegemony. Its nature is to stoke confrontation. We firmly oppose any country having official and military contact with Taiwan in any form. The U.S. is manipulating the Taiwan question in various forms, which is a very dangerous gamble. We urge the U.S. to stop arming Taiwan under any excuses or by any means…The U.S., out of its selfish calculations, has been conniving at, and emboldening the Philippines, attempting to coerce and threaten China. Wu Qian, Director, Information Bureau, Ministry of National Defense, China, 12/28/23

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