

TRENDMACRO LIVE!

On Powell in Rehab

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He knows he blew it bad in December, and did everything he could to make it right.

This morning we speculated that disgraced Fed Chair Jerome Powell would seek to rehabilitate himself after his [disastrous December FOMC press conference](#), in [a joint interview](#) with former chairs Ben Bernanke and Janet Yellen (see [“On the December Jobs Report”](#) January 4, 2019). He very much did so, and as of this writing, markets seem to love it.

- From the outset, Powell seemed intent on taking Step 8 in the [12 Step Rehabilitation](#) program – “Making a list of wrongs done to others and being willing to make amends for those wrongs.” Specifically, he said the things he needed to say but didn’t say, or restated the things he said badly, at the December FOMC.
- In light of the strong growth reported this morning in average hourly earnings, *Powell was crystal clear that it “does not raise, you know, concerns about too-high inflation.”*
- Having failed in the December FOMC statement to live up to the covenant contained in the [minutes of the November meeting](#) – that is, to emphasize data dependency, to convey the message that further hikes would have to be justified by further growth (see [“Data Insights: FOMC Minutes”](#) November 29, 2018) – *he recounted the story (as we have) of how the Yellen Fed recovered from its ill-advised lift-off in December 2015, and ended up not hiking again for a year.* Not content to throw himself on the mercy of the court, though, he said sheepishly, “I have mentioned this in the December press conference in passing.” Well, he *is* a trained lawyer.
- When asked about the normalization of the balance sheet, he didn’t repeat the careless characterization of it being “on auto-pilot,” but rather cited the original objective of having it “shrink gradually and predictably in the background.”
- When asked if he would resign at the president’s request, he said simply “no.” That was just a forced move, where “yes” would look too transparently subservient and “no comment” would be too tantalizing. We are sure the answer is, in fact, “yes.”
- Nothing here contradicts – and everything here confirms – that Powell had a little sit-down with Treasury Secretary Steven Mnuchin, and cut a deal (see [“Did Powell Just Cut a Deal?”](#) December 23, 2018). It’s Step 3: “Deciding to turn control over to the higher power.”
- *He’s going to be much more dovish from now on. We can consider solved what was once a serious risk.*

Update to strategic view

US FED: In a joint interview with Yellen and Bernanke, Powell made amends for his disastrous December FOMC performance. He affirmed with clarity that there is no inflation risk from rising wages. He cited the story of how Yellen backed off rate hikes for a year after the ill-advised lift-off of 2015. He had no choice but to say “no” to the question of whether he would resign if asked. This confirms that he has cut a deal to be more dovish going forward, or resign at some point, or both. This clears a major risk overhanging the economy.

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