

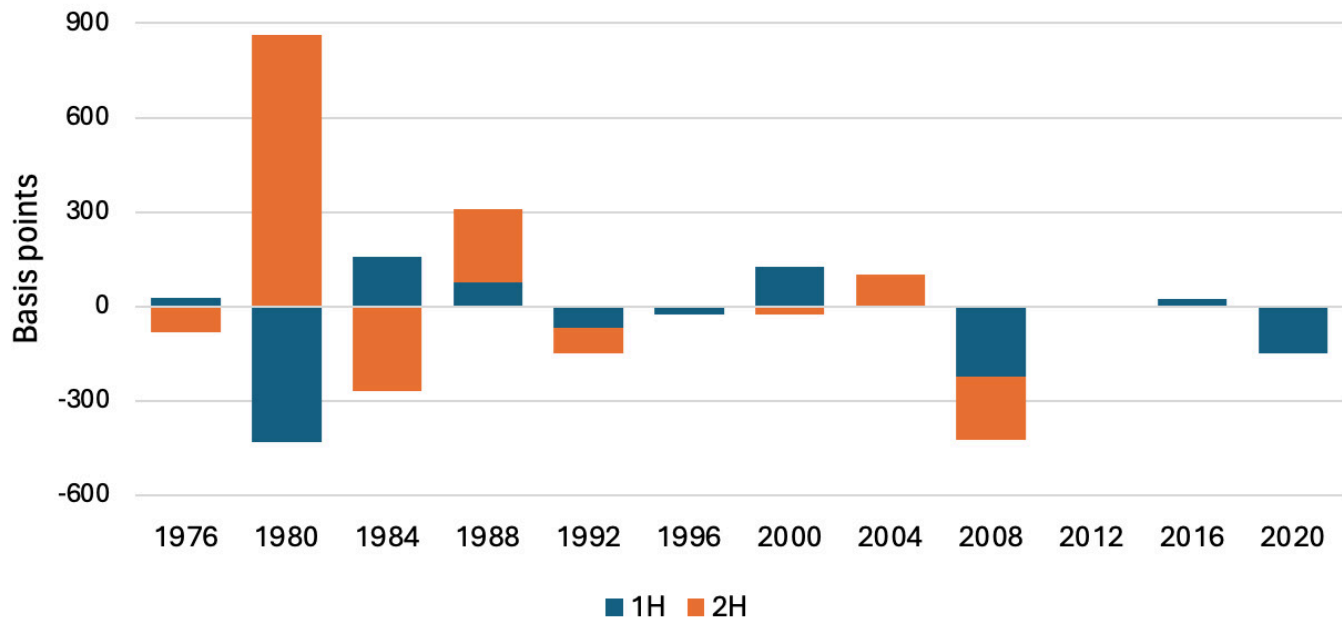


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- ▶ It has been suggested to us that the Fed is unlikely to shift monetary policy during a presidential election year to avoid the appearance of influencing the outcome. We decided to look back in time to see if there was evidence to support this theory.
- ▶ Historical evidence doesn't appear very supportive. We evaluated 12 presidential election years and the changes in the Fed Funds rate during the first and second half of those years. The Fed shifted rates in nearly all those election years, and in 8 of them, they moved rates in the second half of the year. The Fed appeared to be unencumbered by political considerations.
- ▶ The most extreme rate shift occurred in the second half of 1980 when Paul Volker was Chair and the Fed raised rates by 800 basis points. Volker was nominated by President Carter and Carter lost the election.
- ▶ Looking at the 4 years that the Fed took no action in the second half of the year, we didn't find a political angle in those years. For example, in 2020 the Fed effectively dropped rates to zero in the first half, so it couldn't have done more, though they were still active with quantitative easing. Then in 2012, we were still recovering from the Great Financial Crisis. The unemployment rate was ~8%, inflation was below 2%, and the funds rate was near zero. No action by the Fed was consistent with the economic conditions.
- ▶ We recognize that the Fed was created by Congress, and that most of the voting members are nominated by the President and approved by the Senate. The Fed can't fully escape political influence, but history suggests it hasn't played a major role during election years.
- ▶ We believe if the Fed changes interest rates this year it will be data driven. Current estimates are for 3 small reductions and a longer path to lower rates over the next couple of years. We are watching inflation and the labor market for clues as to whether the trajectory in rates will change.

Fed Funds Rate Changes in Election Years





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