

TOUGH TALK FOR POWELL

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Professor Jeremy Siegel is now a vocal critic of the [Federal Reserve](#).

Last year, the Professor referred to Jerome Powell as the most [dovish](#) head of the central bank in history. Powell ignored signs of [inflation](#) and referred to it infamously (and incorrectly) as “transitory.”

Now that Powell has found inflation religion and believes it will remain sticky, he has swung so far to the other extreme that Siegel now refers to him as among the most [hawkish](#) central bankers in history.

We hosted a conference call to get Siegel’s latest view on the market implications of this tough talk for the Fed and you can listen to the full replay [below](#).

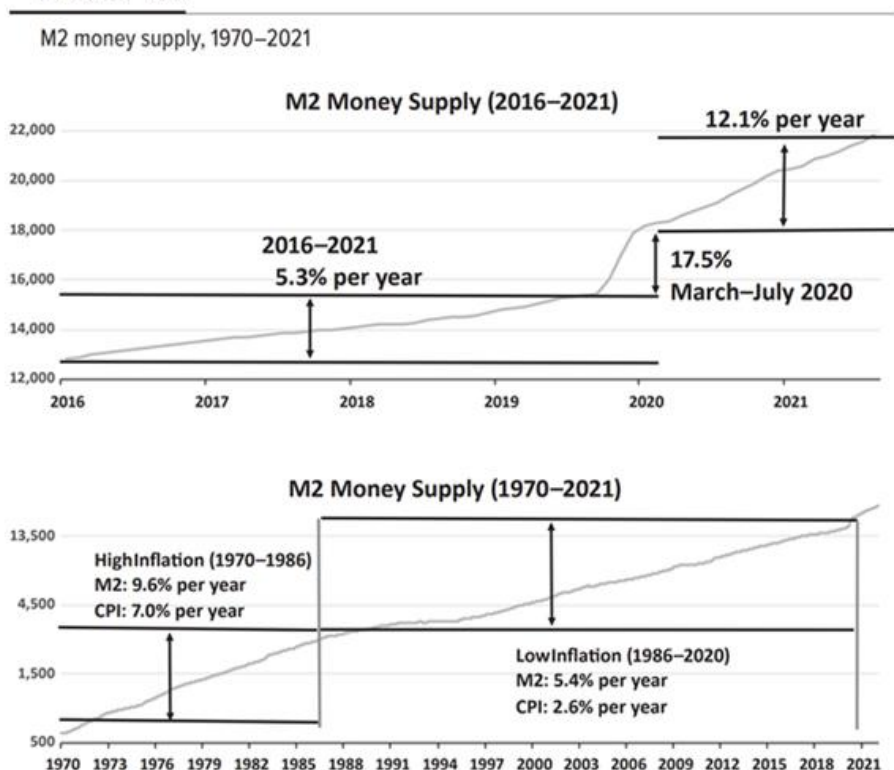
First, a few charts from the sixth edition of *Stocks for the Long Run*, by Jeremy J. Siegel with Jeremy Schwartz, which just recently became available at bookstores and illustrates Siegel’s view on the inflation outlook.

Chapter 24 of the new edition discusses the COVID-19 pandemic and the government and [monetary policy](#) response. The explosion in [M2 money supply](#) is what signaled to Professor Siegel that inflation would become a problem.

Low-inflation period: 1986–2020, M2 grew **5.4%** per year; CPI **2.6%**

High-inflation period: 1970–1986, M2 grew **9.6%** per year; CPI **7.0%**

FIGURE 24.2



Source: Jeremy Siegel and Jeremy Schwartz, *Stocks for the Long Run*, 6th edition.

M2 historically was growing at 5% a year, which is consistent with an approximate 2%–3% real growth rate for the

economy and 2%–3% inflation. We want the money supply to grow at that 5% rate over the long run, which it was from 1986 to 2020.

During the onset of the pandemic, M2 ballooned 17.5% in four months and grew at a 12.1% rate after. That above-trend growth in M2 is now money in the economy—cash in people’s checking accounts from all the relief measures and fiscal transfers. The Federal Reserve helped support this by buying bonds and expanding its balance sheet.

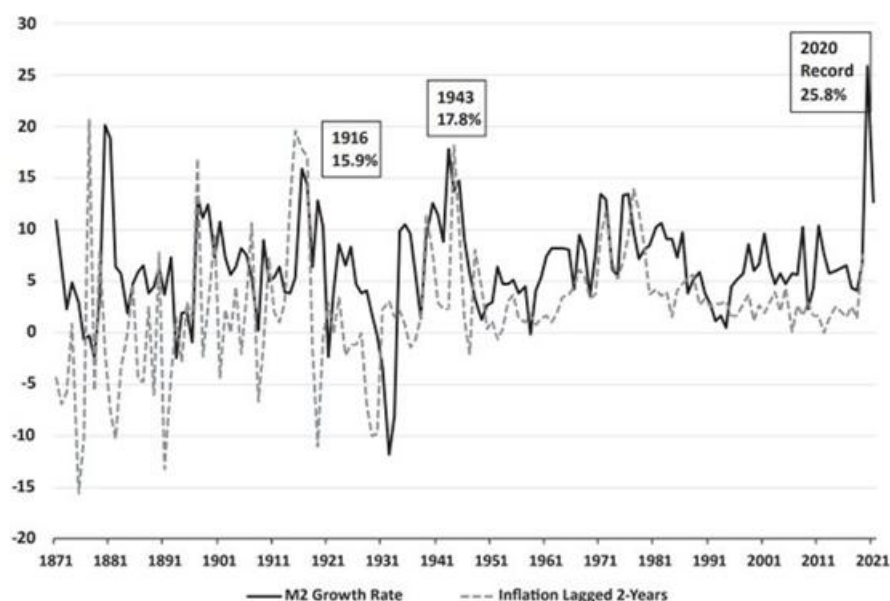
Unlike the [quantitative easing](#) following the financial crisis—when Fed bond-buying remained as excess reserves at the Federal Reserve and never found its way into the real economy—the pandemic response *did* affect the real economy.

Powell stated at recent press conferences that there was a spurious relationship between inflation and the money supply. Siegel believes Powell needs to recalibrate those models and zoom out from the noise to see the big picture.

Professor Siegel studied under the University of Chicago’s Milton Friedman, who famously taught that inflation is always and everywhere a monetary phenomenon. Going back 150 years, spikes in inflation were generally preceded by spikes in the money supply, and 2020 saw a record spike in M2.

FIGURE 24.3

Annual M2 money growth and inflation (lagged 2 years)



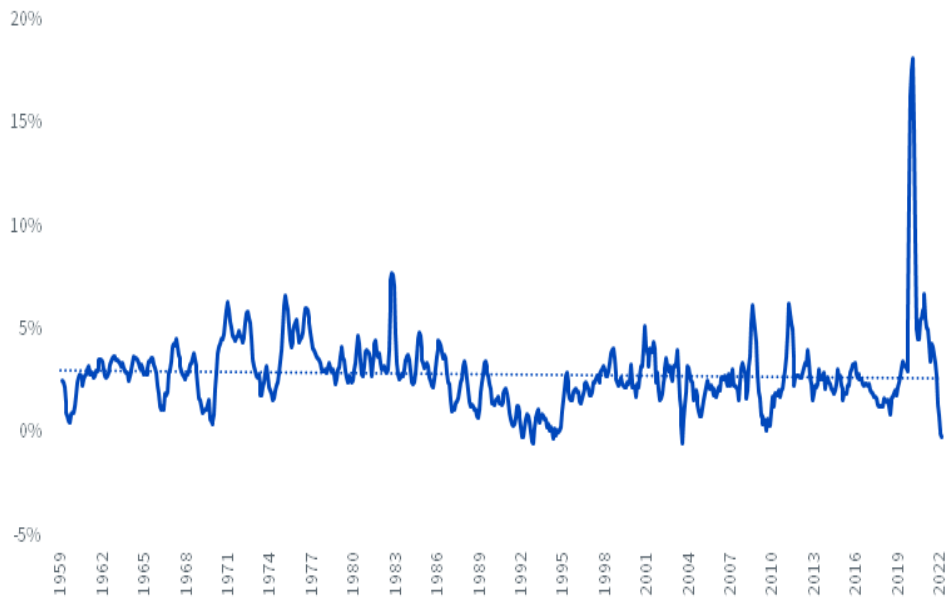
Source: Jeremy Siegel and Jeremy Schwartz, *Stocks for the Long Run*, 6th edition.

What does this M2 data show now?

The five-month change in money supply is now negative, something that rarely happens. Even during the famous Volcker years, the fight against inflation did not send the money supply and [liquidity](#) for the economy back and forth into contracting and restrictive territory.

Powell risks slamming on the brakes on the economy far too quickly, sending us crashing through the windshield.

5-Month Change in M2 Money Supply



Sources: St. Louis Federal Reserve, WisdomTree.

This money supply issue was just one of the key topics discussed in our recent conversation with Professor Siegel on the current state of the economy and the Federal Reserve. To get the Professor's latest take on the Fed, inflation, and stock and bond returns, you can listen to the full replay [here](#).

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Dovish : Description used when stimulation of economic growth is the primary concern in setting monetary policy decisions.

Inflation : Characterized by rising price levels.

Hawkish : Description used when worries about inflation are the primary concerns in setting monetary policy decisions.

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

M2 money supply : Contains all funds deposited in checking accounts as well as funds deposited in savings accounts and certificates of deposit. There are various ways to measure the money supply of an economy. This one is meant to broadly account for the majority of savings and checking accounts held by individuals and businesses across the economic landscape.

Quantitative Easing (QE) : A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

Liquidity : The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.