

UP ON THE TIGHTROPE: POWELL'S 'BALANCING' ACT

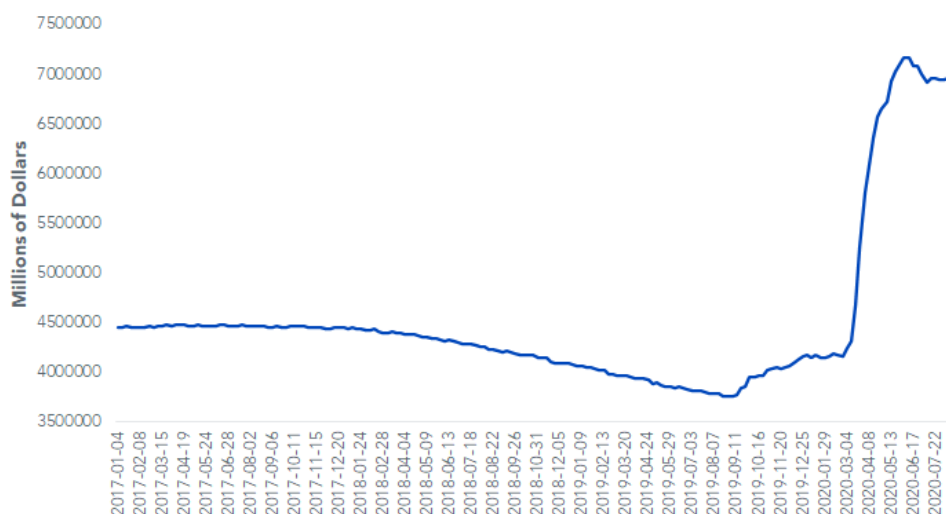
Kevin Flanagan — Head of Fixed Income Strategy

08/26/2020

Tomorrow morning Chairman Powell is scheduled to take center stage at the annual Jackson Hole conference. In the past this appearance by the Chair of the [Federal Reserve \(Fed\)](#) has been of the “headline-making” variety, and it tends to be eagerly awaited by the money and bond markets. This time around is no exception, as the markets are anticipating some type of announcement, or perhaps “hint” is the better word, of what the Fed is contemplating regarding its policy framework review. At this point, the focus is on what, if any, adjustments could be forthcoming with respect to [inflation](#) targets and also on any potential thoughts regarding the Fed’s [balance sheet](#). Given market expectations, Powell may have to engage in some sort of a balancing act.

Up to this point, the Fed has characterized the latest expansion of its balance sheet as being more “market-related.” In other words, the increased buying of [Treasures](#) and [mortgage-backed securities \(MBS\)](#), as well as the implementation of a whole host of various facilities, has been designed to prevent market dislocations and avoid another financial crisis. There is a school of thought that believes the policy makers may want to shift their “mission statement” regarding the balance sheet and now place the emphasis on being a stimulus measure for the economy. Think of it as being akin to the prior episodes of [quantitative easing](#) (QE1, 2 and 3) we witnessed.

Federal Reserve Total Assets



Source: Federal Reserve, as of 8/20/20.

As the reader may recall, I blogged about the [Fed's balance sheet following the July FOMC](#) meeting, but here's a quick update. Between February 26 and June 10, total assets rose by an unbelievable \$3 trillion. Since then, the balance sheet has actually shrunk by \$158 billion, but total assets still stand at more than \$7 trillion. In recent weeks the trend has been relatively flat, suggesting that perhaps the “heavy lifting” has already taken place, or at least, that is the hope.

Conclusion

So, what's a central banker to do? Based upon prior Fed commentary, the policy makers appear to be settling in on a plan to let the economy “run hot,” aka overshoot their inflation target. In addition, even though the money and bond markets seem to have “normalized,” the Fed can't take away its aforementioned facilities too early. QE? Right now, there doesn't seem to be a pressing need to alter the current state of purchases, and quite frankly, I'd rather have some

arrows in the quiver in case they're needed. As a result, barring any negative developments, perhaps \$7 trillion is the appropriate number for the Fed's balance sheet, at least for now.

Unless otherwise stated, all data sourced is Bloomberg, as of August 24, 2020.

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.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

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

Inflation : Characterized by rising price levels.

Balance sheet : refers to the cash and cash equivalents part of the Current Assets on a firms balance sheet and cash available for purchasing new position.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Mortgage-backed securities : Fixed income securities that are composed of multiple underlying mortgages.

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.

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.