

Team: important turn of events in monetary policy land over the last 24 hours, with Chairman Powell's opening speech at the Fed's Jackson Hole confab (see full Powell remarks [here](#)).

While essentially dismissing the Fed staff paper's overt hawkishness, the Chairman continued to imply that **rate hikes will continue until "neutral" is achieved**—but with **meaningfully dovish implications for the longer-run** outlook.

Please READ the official research commentary from Krishna Guha (quick preview [here](#) + takeaways [here](#)).

For some additional thoughts + color (slightly longer than usual) from here on the desk, keep reading:

WHAT HAPPENED: PEELING BACK THE ONION ON POWELL'S REACTION FUNCTION

- **Sidestepped references to "risk factors from abroad"** + made no mention of a "pause" or yield curve flattening concerns
- DID, in a nod to astrology, characterize the unobservable policy variables of $u^* / r^* / \pi^*$ as **"celestial stars"**
- Noted this is **NOT the 1970s**—inflation expectations are anchored + **inflation's no longer that responsive to resource utilization** or tight labor markets
- Mentioned **Alan Greenspan** a total of **SEVEN times** + showered **ebullient praise on the mid-90s policy regime**
- While remaining "dovish on the stars," noted **that FCI excesses are destabilizing** + warrant attention—an **underappreciated** / potentially **hawkish bias** that colleague Krishna Guha has consistently highlighted

Also noteworthy + **without resorting to "Fed Kremlinology"**:

- There's more than a **hint of partial dissent from the Board staff**
- Back to the days when Mike Prell would get consistently shot down at FOMC meetings?
- Encourage those in the weeds / central bank junkies to read this great Larry Meyer article, *Inside the FOMC*, from David Smick's *The International Economy* magazine in 2004 (link [here](#))

Lesson learned: this isn't the Bernanke / Yellen era when staff papers augured policy changes (ala in 2013 [Erceg Levin](#) / [Reifschneider Wilcox](#) or in 2015 [Laubach Reifschneider](#)).

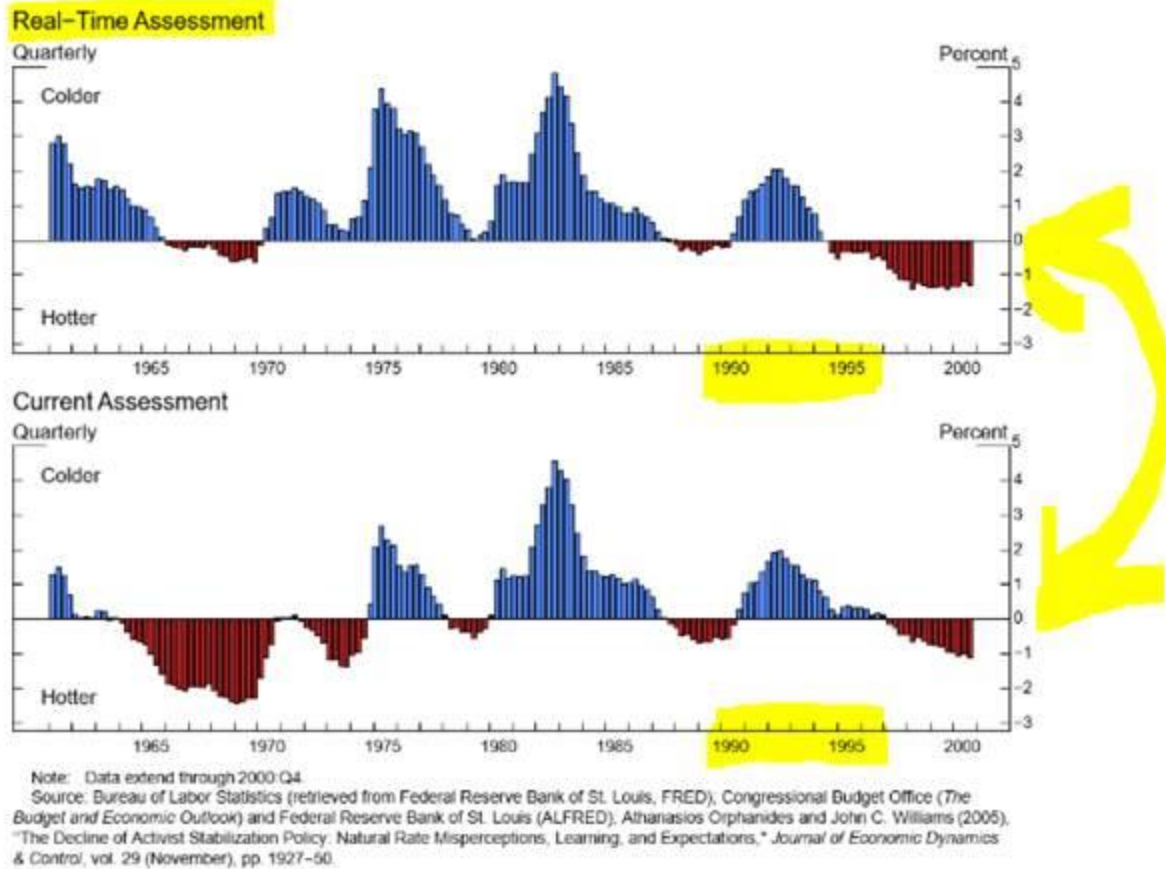


(Greenspan + Volcker + Reagan + Baker, 2 June 1987)

WHAT THIS MEANS FOR POLICY: MORE HIKES THIS YEAR—BUT (DOVISH) GREENSPAN RISK MGMT LOOMS

- **Hikes in Sept + December are all but a certainty** (unless trade + EM blows up)—there should never have been any question about that
- Once in the neighborhood of “neutral” (read: 2.50-3.00%)—rate decisions will be made more **meeting-by-meeting #DataDependence #ForRealThisTime**
- Resurrection of Greenspanian **risk management + Brainard principle** means stay vigilant towards the “tail risks”—in either direction

Figure 4. Unemployment Rate Relative to Assessments of the Natural Rate

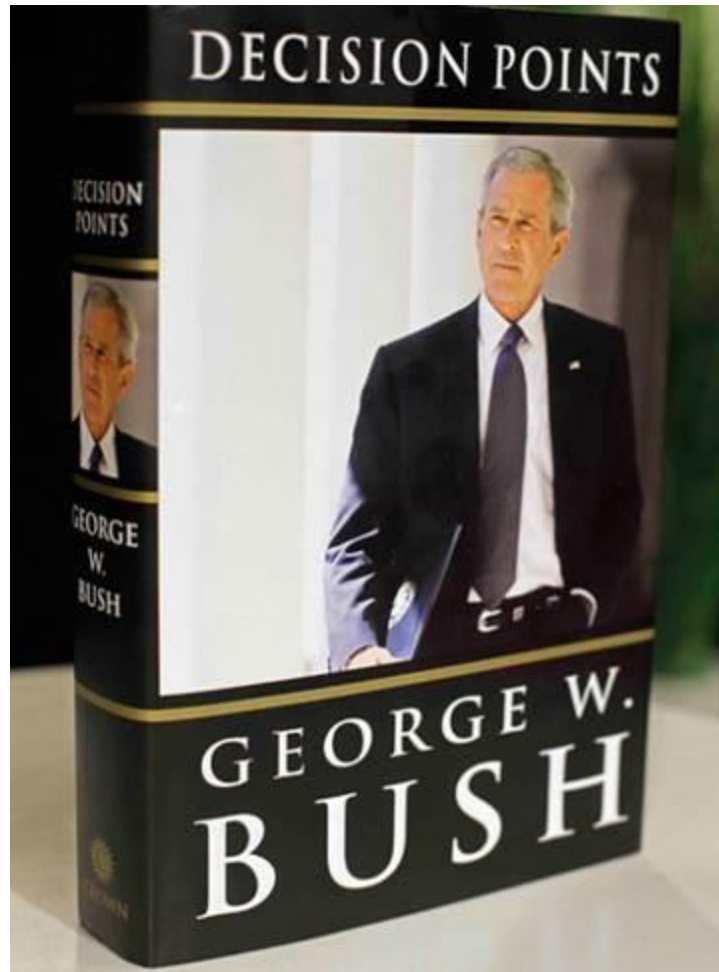


Readers of these commentaries will appreciate the many Powell references to Greenspan (big fan of Maestro) + 1998 (past as prologue?) + [Meyer 1996](#) ("2% improperly measured?") + [Blinder / Reis 2005](#) ("the Greenspan standard?") + [Arthur Burns 1979](#) ("The Anguish of Central Banking").

Encourage you to peruse these during your end of summer vacations.

As was written in a note here on 13 June 2018:

The Chairman is the Decider.



“The diversity of views on the FOMC is one of the great virtues of our system. Despite differing views on these questions and others, we have a long institutional tradition of finding common ground.”
-Jerome Powell

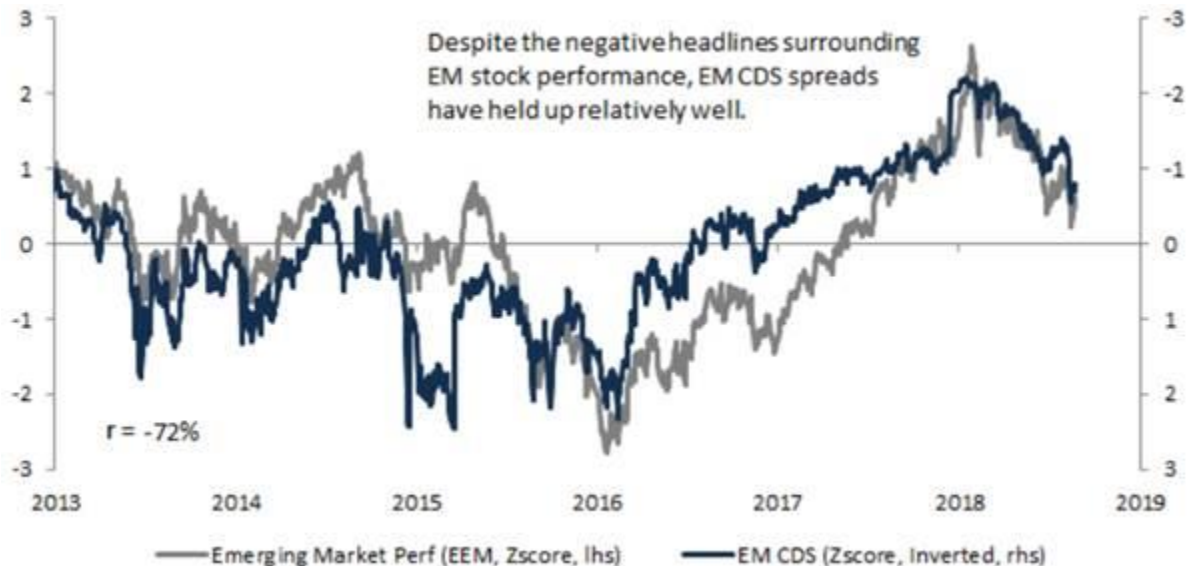
WHAT THIS MEANS FOR MARKETS: RISK-ON “--FOR NOW--”

Besides the handful of macro guys who’ve been making \$ paying on front-end rates, **market participants / sentiment** from those we spoke to today **perceived the Powell speech / policy trajectory as quite dovish**—especially given the **myriad downside global risks from trade + EM + midterms**, etc on the horizon.

Some **near-term** market implications (see Dennis DeBusschere equity strategy note [here](#) + [here](#)):

- **Risk** complex ON
- **USD Weaker**
- Spreads tighter

- **EM** rebound (--for now--)
- Growth (**tech + healthcare + discretionary**) continues to structurally outperform (see Rich Ross technicals chartpack [here](#))
- **Value** names + cyclicals (energy + fins) set for tactical rebound



FINAL EXCERPT WORTH REFLECTING ON

*“When you are uncertain about the effects of your actions, **you should move conservatively.***

*Given what the economy has shown us over the past 15 years, the need for the sort of risk-management approach that originated in the new-economy **era is clearer than ever before.***

Under Chairman Greenspan's leadership, the Committee converged on a risk-management strategy that can be distilled into a simple request:

Let's wait one more meeting; if there are clearer signs of inflation, we will commence tightening.

Meeting after meeting, the Committee held off on rate increases while believing that signs of rising inflation would soon appear. And meeting after meeting, inflation gradually declined.

*In retrospect, it may seem odd that it took great fortitude to defend **"let's wait one more meeting,"** given that inflation was low and falling.*

Conventional wisdom at the time, however, still urged policymakers to respond preemptively to inflation risk—even when that risk was gleaned mainly from hazy, real-time assessments of the stars.”

-Jerome Powell, 24 August 2018



(Time Magazine, 15 February 1999)

Happy to chat 1:1 with anyone next week.

(Back-to-back client conference calls with former / official sector members, on deck!).

Enjoy your last August weekend.

Best. –rja

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