

The Federal Reserve: Transition of Leadership

February 5, 2018



Transition of Leadership

On February 3, 2018, Jerome “Jay” Powell officially took over leadership of the Federal Reserve, becoming the 16th chairman of the FOMC. Chairman Powell succeeds Janet Yellen, the central bank’s first female leader, whose four-year term expired.

Straying from tradition, President Trump’s decision not to bring back Yellen marks the first time in nearly four decades that a new president has not asked the serving Fed leader to stay on for another term, regardless of political affiliation.

The Market’s Reaction

The news of a new Fed chairman was widely expected and had very little impact on the market given that Powell’s views of economic and monetary policy correspond with his predecessor. In fact, in five years with the Federal Reserve, Powell has never dissented on a Fed monetary or regulatory policy vote.

If the trajectory that Janet Yellen and Ben Bernanke set forth continues, that would mean a gradual rise of short-term interest rates (generally by a quarter-percent point) as well as the reduction of the Federal Reserve’s \$4.2 trillion balance sheet.

Where we may see a change comes on the regulatory side, perhaps relaxing certain restrictions that were adopted during the financial crisis. Chairman Powell, careful with his words, has previously stated “more regulation is not the best answer to every problem”, however, in testimony before lawmakers this past summer, he said the rules implemented after the crisis made the financial system “substantially stronger and more stable.”

Who is Jerome Powell?

Chairman Powell went to Princeton University and Georgetown Law School, then worked for several years as a lawyer in New York before joining an investment



bank. He later returned to Washington to become assistant secretary in George H. W. Bush’s administration. After he left the Treasury, he joined private equity firm and asset manager, The Carlyle Group, as partner. In 2012, President Obama appointed Powell to the Fed to fill an unexpired term. Two years later, Powell was confirmed for a full term as a governor.

A lawyer by trade, Powell is the first Fed chairman in three decades without a Ph.D. in economics. Instead, he presents a more market-based orientation given his time at The Carlyle Group.

The Federal Reserve’s Member Composition

The FOMC consists of 12 members: 7 members of the Board of Governors (all appointed by the president to 14-year terms), the president of the New York Fed and 4 Reserve Bank presidents who serve on a 1-year rotating basis. These individuals are involved in interest-rate decisions, bank regulation and managing the nation’s currency circulation. It also serves as the Treasury’s fiscal agent in managing the nation’s debt.

President Trump will have the unique opportunity to nominate up to four vacant seats on the FOMC in 2018, including the vice chair. This should present a different look and feel to the Fed but with Powell as Chairman, continuity is expected. To be continued...

The opinions contained in the preceding commentary reflect those of Sterling Capital Management LLC, and not those of BB&T Corporation or its executives. The stated opinions are for general information only and are not meant to be predictions or an offer of individual or personalized investment advice. They also are not intended as an offer or solicitation with respect to the purchase or sale of any security. This information and these opinions are subject to change without notice. Any type of investing involves risk and there are no guarantees. Sterling Capital Management LLC does not assume liability for any loss which may result from the reliance by any person upon any such information or opinions.

Investment advisory services are available through Sterling Capital Management LLC, a separate subsidiary of BB&T Corporation. Sterling Capital Management LLC manages customized investment portfolios, provides asset allocation analysis and offers other investment-related services to affluent individuals and businesses. Securities and other investments held in investment management or investment advisory accounts at Sterling Capital Management LLC are not deposits or other obligations of BB&T Corporation, Branch Banking and Trust Company or any affiliate, are not guaranteed by Branch Banking and Trust Company or any other bank, are not insured by the FDIC or any other government agency, and are subject to investment risk, including possible loss of principal invested.