- *John Kelly ? White House Chief of Staff*
- *James Mattis ? Secretary of Defense*
- *Jeff Sessions ? Attorney General*
- *Rex Tillerson ? Secretary of State*
- *Gary Cohn ? Chief Economic Advisor*
- *Steve Bannon ? White House Chief Strategist*
- *Anthony Scaramucci ? White House Communications Director*
- *Reince Priebus ? White House Chief of Staff*
- *Sean Spicer ? White House Press Secretary*
- *James Comey ? FBI Director*

?*Every week is shark week in the Trump White House*,? wrote The Hill contributing author Brad Bannon in August of 2018. •A recent Brookings Institution study shows that the turnover in the Trump administration is significantly higher than during any of the previous five presidential administrations. The concern is that for a president without government experience, a rotating cast of top administration officials and advisors presents a unique challenge for the effective advancement of U.S. policies and global leadership. Bannon *(no relation to former White House Chief Strategist Steve)* adds, ?*Inexperience breeds incompetence*.? Although the sitting president has broken just about every rule of traditional politics, it is irresponsible and speculative to assume either ineffectiveness or failure by this one argument. One area of politics that falls within our realm of expertise is a ?rule? that Donald Trump has not yet broken; firing the Chairman of the Federal Reserve. Following the December Federal Open Market Committee (FOMC) meeting in which the Fed raised rates and the stock market fell appreciably, Bloomberg News reported that President Trump was again considering relieving the Fed Chairman of his responsibilities. This has been a continuing theme for Trump as his dissatisfaction with the Fed intensifies. Not that Trump appears concerned about it, but firing a Fed Chairman is unprecedented in the 106-year history of the central bank. Having tethered all perception of success to the movements of the stock market, it is quite apparent why the president is unhappy with Jerome Powell?s leadership. Trump?s posture raises questions about whether he is more worried about his barometer of success (stock prices) or the long-term well-being of the economy. Acquiescing to either Trump or a genuine concern for the economic outlook, Chairman Powell relented in his stance on rate hikes and continuing balance sheet reduction.

Clamoring for Favor

Notwithstanding the abrupt reversal of policy stance at the Fed, President Trump continues to snipe at Powell and express dissatisfaction with what he considers to have been policy mistakes. Before backing out of consideration, Steven Moore?s nomination to the Fed board fits neatly with the points made above reflecting the President?s irritation with the Powell Fed. Moore was harshly critical of Powell and the Fed?s rate hikes despite a multitude of inconsistent remarks. Shortly after his nomination, Moore and the President?s Director at the National Economic Council, Larry Kudlow, stated that the Fed should immediately cut interest rates by 50 basis point (1/2 of 1%). Those comments came despite rhetoric from various fronts in the administration that the economy ?has never been stronger.? Now the Kudlow and Moore tactics are coming from within the Fed. St.

Louis Fed President James Bullard dissented at the June 19th Federal Open Market Committee meeting in favor a rate cut. Then non-voting member and Minneapolis Fed President Neel Kashkari publicly stated that he was an advocate for a 50-basis point rate cut at the same meeting. All this with unemployment at 3.6% and GDP tracking better than the 10-year average of 2.1%. Given Trump?s stated grievance with Powell, Bullard and Kashkari could easily be viewed as trying to curry favor with the administration. Even if that is not the case, to appear to be so politically inclined is very troubling for an institution and board members that must optically maintain an independent posture. It is unlikely that anyone has influence over Trump in his decision to replace or demote Powell. He will arrive at his conclusion and take action or not. If the first two years of his administration tells us anything, it is that public complaints about his appointed cabinet members precede their ultimate departure. **Setting aside his legal authority to remove Powell, which would likely not stand in his way, the implications are what matter and they are serious**. For more on our thoughts on the ability of Trump to fire the Fed Chairman, please read our article Chairman Powell You?re Fired.

Prepare For This Tweet

Given Trump?s track record and his displeasure with Powell, we should prepare in advance for what could come as a surprise Tweet with little warning. Ignoring legalities, if Trump were to demote or fire Powell, it is safe to assume he has someone in mind as a replacement. That person would certainly be more dovish and less prudent than Powell. Under circumstances of a voluntary departure, a replacement with a more dovish disposition might be bullish for the stock market. However, the global economy is a complex system and there are many other factors to consider. The first and largest problem is such a move would immediately erode the perception of Fed independence. Direct action taken to alter that independence would cast doubts on Fed credibility. Other sitting members of the Federal Reserve, appointed board members, and regional bank presidents, would likely take steps to defend the Fed?s independence and credibility which could create a functional disruption in the decision-making apparatus within the FOMC. Further, there might also be an active move by Congress to challenge the President?s decision to remove Powell. Although the language granting Trump the latitude to fire Powell is obtuse (he can be removed for ?*cause*?), it is unclear that Presidential unhappiness affords him supportable justification. That would be an argument for the courts. **Financial markets are not going to patiently await that decision**. With that in mind, what follows is an enumeration of possible implications for various key asset classes.

FX Markets

The most serious of market implications begin with the U.S. dollar (USD), the world?s reserve currency through which over 60% of all global trade transactions are invoiced. •The firing of Powell and the likely appointment of a Trump-friendly Chairman would drop the value of the USD on the expectations of a dovish reversal of monetary policy. The question of Fed independence, along with the revival of an easy money policy, would likely cause the dollar to fall dramatically relative to other key currencies. An abrupt move in the dollar would be highly disruptive on a global scale, as other countries would take action to stem the relative strength of their currencies versus the dollar and prevent weaker economic growth effects. **The term ?currency war? has been overused in the media, but in this case, it is the proper term for what would likely transpire.** Additionally, the weaker dollar and new policy outlook would heighten concerns about inflation. With the economy at or near full employment and most regions of the country already exhibiting signs of wage pressures, inflation expectations could spike higher.

Fixed Income

The bond market would be directly impacted by Fed turbulence. A new policy outlook and inflation concerns would probably cause the U.S. Treasury yield curve to steepen with 2-year Treasuries rallying on FOMC policy change expectations and 10-year and 30-year Treasury bond yields rising in response to inflation concerns. It is impossible to guess the magnitude of such a move, but it would probably be sudden and dramatic. Indecision and volatility in the Treasury markets are likely to be accompanied by widening spreads in other fixed income asset classes.

Commodities

In the commodities complex, gold and silver should be expected to rally sharply. •While not as definitive, other commodities would probably also do well in response to easier Fed policy. A lack of confidence in the Fed and the President?s actions could easily result in economic weakness, which would lessen demand for many industrial commodities and offset the benefits of Fed policy changes.

Stock Market

The stock market response is best broken down into two phases. The initial reaction might be an extreme move higher, possibly a move of 8-10% or more in just a few days or possibly hours. However, the ensuing turmoil from around the globe and the potential for dysfunction within the Fed and Congress could cause doubt to quickly seep into the equity markets. **Two things we know about equity markets is that they do not like changes in inflation expectations and they do not like uncertainty.**

Economy

Another aspect regarding such an unprecedented action would be the economic effects of the firing of Jerome Powell. Economic conditions are a reflection of millions of households and businesses that make saving, investing, and consumption decisions on a day-to-day basis. Those decisions are dependent on having some certitude about the future. If the disruptions were to play out as described, consumers and businesses would have reduced visibility into the future path for the economy. Questions about the global response, inflation, interest rates, stock, and commodity prices would dominate the landscape and hamstring decision-making. As a result, the volatility of *everything* would rise and probably in ways not observed since the financial crisis. Ultimately, we would expect economic growth to falter in that environment and for a recession to ensue.

Summary

Although economic growth has been sound and stocks are once again making record highs, the market and economic disruptions we have recently seen have been a long time coming. Market valuations across most asset classes have been engineered by excessive and imprudent monetary policy. The recent growth impulse is artificially high due to unprecedented expansion of government debt in a time of sound economic growth and low unemployment. In concert, excessive fiscal and monetary policy leave the markets and the economy vulnerable. The evidence this year has been clear. Notwithstanding the Federal Reserve?s role in constructing this false reality, President Trump has not served the national interest well by his public criticism of the Fed. If Trump were to remove Powell as Fed chair, the prior sentence would be an understatement of epic proportions.