



PHILEQUITY CORNER

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The importance of Jackson Hole

Jackson Hole is a rustic mountain town in Wyoming. It is a place where the Federal Reserve (Fed) hosts an annual symposium for central bankers, policymakers, and economists. Investors pay close attention to this event because central bankers typically provide a clear policy roadmap and explain important programs that they would pursue. These statements could have major implications on the movement of various asset classes such as equities, bonds, and currencies. On August 22, Fed Chair Jerome Powell delivered a dovish speech that pushed the S&P 500 and Dow Jones to new all-time highs.

Historic speeches made in Jackson Hole

Over the years, the heads of the Fed delivered speeches in Jackson Hole that drove the movement of major asset classes for several years. Below are some examples of this.

1. In August 2010, former Fed Chair Ben Bernanke indicated that the Fed was ready to provide additional monetary stimulus to support the economic recovery. This led to the announcement of the second phase of quantitative easing (QE2) in November 2010.
2. In August 2016, former Fed Chair Janet Yellen remarked that the US economy was strong enough to handle a gradual rate hiking cycle (see *Is the waiting game over?*, August 29, 2016). Her speech ushered a two-year hiking cycle which raised the Fed funds rate by 200bps.
3. In August 2024, Powell said that the time has come for the Fed to adjust its policy (see *The time has come*, September 2, 2024). This was followed by a cumulative policy rate reduction of 100bps over the next four months.

Powell's recent speech

After implementing its last policy rate cut in December 2024, the Fed maintained a cautious stance on further policy easing. The Fed was wary of the inflationary impact of Trump's reciprocal tariffs even as US inflation remained above its 2% target. However, Powell's recent speech in Jackson Hole marked a change in tone and may be signaling a reversion to policy easing. Below are relevant quotes from his speech on August 22.

- "In the near term, risks to inflation are tilted to the upside, and risks to employment to the downside - a challenging situation. When our goals are in tension like this, our framework calls for us to balance both sides of our dual mandate."
- "With policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance."

Rate cut expectations have shifted following Powell's speech with consensus now pricing in an 86% chance of a September rate cut and a 76% of another rate cut in November.

Trump undermines Fed independence

This year, Trump has repeatedly threatened to unseat Powell because of the Fed's decision to refrain from cutting rates. Recently, Trump has made aggressive moves to fire Fed Governor Lisa Cook over allegations of mortgage fraud. Economists and former policymakers are warning that Trump's unprecedented attacks would undermine the Fed's independence and credibility, and this could impact the trajectory of the US dollar, interest rates, and the stock market.

Trump attacks US institutions

It is not only the Fed that Trump is attacking but also other American institutions as well. In April, Trump ordered a freeze in federal funding for Harvard University in light of student protests against Israel's war in Gaza. Last month, Trump sacked the head of the US Bureau of Labor Statistics following sharp downward revisions in the May and June payroll numbers. Recently, the Trump administration fired the director of the Centers for Disease Control and Prevention (CDC) after she clashed with the Health Secretary on vaccine policy. It thus appears that the strength and independence of key US institutions are being eroded by Trump's hardline tactics.

From bull to bear to bull

In just the first few months of his presidency, Trump's erratic behavior and unconventional policies have caused equities to swing from bull market to bear market and back to bull market. The market plunged to bear territory when Trump unveiled steep reciprocal tariffs on April 2, the so-called Liberation Day. The S&P 500 reached a low of 4,835 on April 7, down 21% from its recent high. After seeing the market reaction, Trump backtracked and paused most of these tariffs, paving the way for trade negotiations and a bull market rally of more than 30% from the low. Last week, the US Court of Appeals ruled that Trump has no authority to impose tariffs and this power lies solely with the US legislative branch.



A dilemma for investors

Powell's recent Jackson Hole speech laid the groundwork for the resumption of the Fed's policy easing to foster maximum employment and support economic growth. Powell's speech and the continued strength of US tech companies had fueled the climb of US stock indices to new record highs. However, market observers are concerned over Trump's unpredictable policies and aggressive attacks on important American institutions, most notably the Fed. Investors are now debating whether the stock market has reached its peak in light of the rich valuations of mega-tech companies and if Trump's chaotic actions will now be the main driver of market performance. Meanwhile, ASEAN markets continue to underperform amid brewing political turmoil in the region. Last week, Thailand removed its Prime Minister over ethical concerns from a leaked phone call even as border tensions with Cambodia continue. Massive anti-government protests are being held in Indonesia due to complaints on the allowances of lawmakers. In the Philippines, widespread floods across the country have triggered investigations on several costly flood control projects that have not yielded the expected benefits.

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