"All Gas, No Brake!"

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I love this phrase. Simple. Bold. Decisive. I first heard it during a football game when the head coach of the Green Bay Packers used it to describe the team's aggressive mindset. It's also an apt description of the Federal Reserve's (Fed) current all-in monetary policies. To the point Chairman Powell should simply bark, "All gas, no brake!" to every question he is asked. It would save everyone a lot of time and be 100% accurate.

For the Fed, an "All gas, no brake" philosophy means a zero-bound interest rate target no matter how strong the economy, labor markets or S&P 500 get. Inflation? We'll believe it when we see it – and probably not even then. It means $120 billion in monthly asset purchases until further notice. Unless, of course, we decide to buy more. Which I suspect they will. Starting with buying more long-maturity bonds in December and buying more bonds of all maturities at some point in 2021, when the need to monetize a larger portion of the massive U.S. federal budget deficit manifests itself in a steeper yield curve. "All gas, no brake!" means the Fed wants every weapon in its arsenal and the ability to fire at will.

Which explains the Fed's opposition to Treasury Secretary Mnuchin's decision to let several Fed credit facilities expire at year-end and his request to have the Fed return $455 billion in unused funds to Congress for re-appropriation. I get the Fed's reaction, but I find the market's angst over the decision a little overdone.

To be clear, I prefer the expiring corporate and municipal credit facilities remain in place for the time being. While lightly used, the programs have boosted investor confidence to buy credit-sensitive assets and allowed struggling issuers like the State of Illinois and New York Metropolitan Transportation Authority to secure funding not available from private markets. And really, what debt investor doesn't want a central bank backstop in such uncertain times?

I know I do, but I'm willing to keep an open mind. Like everything else these days, how you view the Treasury Secretary's decision is shaded by your views on President Trump. Critics believe Mr. Mnuchin is doing President Trump's bidding and just making trouble for an incoming Biden Administration. I doubt that's the case. Even the President's most ardent supporters would be hard pressed to argue President Trump is aware of, or even remotely cares about, things like the Term Asset-Backed Securities Loan Facility (or TALF, for you veterans of the Great Financial Crisis). Further, the decision can and almost certainly will be reversed by Janet Yellen, Mr. Biden's expected choice for Treasury Secretary. And I wouldn't put a lot of weight on concerns the programs would be difficult to reestablish should credit markets falter before the capable Ms. Yellen takes the helm. Washington-style red tape has a miraculous way of disintegrating when the chips are down.

If not to create trouble, why would Mr. Mnuchin create controversy? First, its 2020 – no further explanation needed. Second, returning the funds just may force Congress to get in the game and use the $454 billion in unspent funding to extend the Payroll Protection Program and bolster unemployment benefits, just as the economy begins to sputter under the weight of increased state lockdown measures. Between Speaker Pelosi's indefensible "all or nothing" negotiating position and President Trump's general unhelpfulness, additional doses of high-octane fiscal stimulus have been stymied at the source. If the latter is Mr. Mnuchin's intent, I can get on board. As should virtually every Fed official if their statements are to be believed. Fed policymakers have rightfully pointed out the Fed has the power to lend, not spend, and Fed Chair Powell has been adamant in his calls for more fiscal accommodation. Perhaps this is the best chance to make that happen.

The Great Financial Crisis of 2007-2008 was a severe worldwide financial crisis. The crisis sparked the Great Recession, which, at the time, was the most severe global recession since the Great Depression.

Sources:

Department of the Treasury, Letter to Jerome Powell, November 19, 2020

https://home.treasury.gov/system/files/136/letter11192020.pdf