ROCKEFELLER
GLOBAL FAMILY OFFICE

CIO MONTHLY PERSPECTIVE JULY 2024

Way Too Transparent?

The evolution of Fed policymaking

est^d 1882

R.

Market Watch

Equity Market Indices[1]	5/31/24 Price	6/30/24 Price	MTD Change	YTD Change
MSCI All Country World	786	802	2.1%	10.3%
S&P 500	5278	5460	3.5%	14.5%
MSCI EAFE	2356	2315	-1.7%	3.5%
Russell 2000®[2]	2070	2048	-1.1%	1.0%
NASDAQ	16735	17733	6.0%	18.1%
TOPIX	2772	2810	1.3%	18.7%
KOSPI	2637	2798	6.1%	5.4%
Emerging Markets	1049	1086	3.6%	6.1%
Fixed Income				
2-Year U.S. Treasury Note	4.87%	4.76%	-12	50
10-Year U.S. Treasury Note	4.50%	4.40%	-10	52
BBG U.S. Agg Corp Spread	0.85%	0.94%	9	-5
BBG U.S. HY Corp Spread	3.08%	3.09%	1	-14
Currencies				
Chinese Renminbi (CNY/$)	7.24	7.27	0.4%	2.4%
Brazilian Real (Real)	5.25	5.59	6.6%	15.2%
British Pound ($/GBP)	1.27	1.26	0.8%	0.7%
Euro ($/Euro)	1.08	1.07	1.3%	3.0%
Japanese Yen (Yen/$)	157.31	160.88	2.3%	14.1%
Korean Won (KRW/$)	1385.00	1376.50	-0.6%	6.9%
U.S. Dollar Index (DXY)	104.67	105.87	1.1%	4.5%
Commodities				
Gold	2327	2327	0.0%	12.8%
Oil	76.99	81.54	5.9%	13.8%
Natural Gas, Henry Hub	2.59	2.60	0.5%	3.5%
Copper (cents/lb)	460	439	-4.6%	12.9%
CRB Index	290	290	0.1%	10.1%
Baltic Dry Index	1815	2050	12.9%	-2.1%

Source: Bloomberg

INTRODUCTION

Despite the continued market rally, June was a month of contradictions and uncertainties that left investors with more questions than answers.

The closely scrutinized U.S. monthly employment report had the establishment survey reporting a much stronger-than-expected addition of 272,000 jobs while the household survey showed a contraction of 408,000 in the employed population. The latter sent the unemployment rate rising to 4%, which was 0.6% above the cycle trough and a sign of an incipient recession based on historical patterns. Inflation readings came in softer-than-expected, but the Fed still dialed down the expected number of rate cuts in 2024 from three to one.

The European Central Bank (ECB) started its easing cycle by cutting its policy rate by 25 bps to 3.75%, but it also raised its inflation forecasts for 2024 and 2025. This contradiction was soon overshadowed by strong gains in the European Parliament elections by rightwing populist parties, which prompted French President Macron to dissolve the Assemblée Nationale and gamble on a snap election that has further complicated the country's fractured political landscape.

South of the border, Claudia Sheinbaum's landslide victory in Mexico's presidential election sent the country's currency and stocks reeling, as investors feared that her leftwing populist party would pursue electoral and judicial reforms to effectively eliminate political checks and balances. The Indian market sold off briefly on the news that Prime Minister Narendra Modi's party failed to win an outright majority.

These rising political risks coupled with the Tories' expected electoral Waterloo in the U.K. may have led investors to divert more funds to U.S. markets. Ironically, we also have political and policy uncertainties that may become more pronounced in the months ahead. With the U.S. economy showing warning signs of a consumer-led recession, the stock market has become more concentrated as investors have piled into a handful of AI beneficiaries. Investor optimism still appears elevated as market liquidity and fiscal stimuli have remained plentiful for now. To wit, the Congressional Budget Office (CBO) just raised the current fiscal year's deficit to $1.9 trillion, an increase of $408 billion or 27% more than its projection in February due to greater-than-expected spending. Such a spending spree is unsustainable, but to many politicians, the fierce urgency of the upcoming election supersedes everything else.

JIMMY C. CHANG, CFA
Chief Investment Officer
Rockefeller Global Family Office
jchang@rockco.com
212-549-5218

An Era of Sacrifice

It was one of those rare days when Paul Volcker, a supremely confident and towering man at 6-feet and 7-inches, uncharacteristically expressed a sense of self-doubt. He thought he had blown the most important job interview of his career.

Earlier that afternoon on July 24, 1979, Volcker had met with U.S. President Jimmy Carter and outgoing Fed Chairman G. William Miller at the Oval Office. He felt like he was doing all the talking while the President listened politely. He told Carter that if he was Fed Chair, he would pursue a much tougher monetary policy to tame inflation. He made it clear that the Fed must be independent, and he would not take the job if there was going to be any interference from the White House.

On his way back to New York, Volcker realized that his bluntness might have taken him out of the running. He rationalized that at least his wife Barbara would be relieved since she did not want him to move to Washington where, as Chairman of the Fed, his pay would be cut by nearly half from the $110,000 remuneration he was making as the President of the New York Fed.

Back at the White House, President Carter was ruminating on perhaps the most important decision of his presidency. His approval ratings were tanking despite some major accomplishments on the foreign policy front – he had brokered the Camp David Accords that brought peace between Israel and Egypt and normalized diplomatic relations with China. However, the Iranian Revolution had triggered the second energy crisis in five years, and inflation had doubled from 5% to over 10% since his presidency had begun in January 1977. In mid-July 1979, as part of a shakeup of his cabinet, Carter moved then Fed Chair Miller to head the Treasury. Washington's focus immediately shifted to who would be leading the Fed's battle on inflation.

Carter had first offered the chairmanship to one of the most respected financiers of that era, David Rockefeller, Chairman and CEO of Chase Manhattan Bank. Rockefeller declined the offer, a decision he later explained in his memoir: "As a wealthy Republican with a well-known name, and a banker to boot, it would have been extremely difficult for me to make the case for tight monetary policy and sell it to a skeptical Congress and an angry public."

With Rockefeller having turned down the job offer, Volcker emerged as the favored choice of Capitol Hill and Wall Street. He was the consummate monetary and currency expert of that era, having served as a Treasury official under Presidents Kennedy, Johnson, and Nixon, and having worked for David Rockefeller at Chase. He was one of the architects of Nixon's suspension of the dollar's convertibility to gold. He became President of the New York Fed in 1975 and was known for his independent thinking; e.g., he had dissented at the April and May 1979 Federal Open Market Committee (FOMC) meetings and advocated tighter monetary policies.

Carter's advisors were unanimously opposed to Volcker as a nominee to replace Miller. Bert Lance, Carter's friend and one-time Director of the Office of Management and Budget, warned that the President would be mortgaging his reelection to the Fed should Volcker become Chair.

Carter was aware of the risk that Volcker's tight monetary prescription presented to his reelection. His recollection of their meeting was of a tall fellow striding in, sprawling out over the couch, and speaking in a deep voice like he

American President Jimmy Carter sits in the White House library for the first of his fireplace chats, Washington DC, February 2, 1977.

would fall asleep. However, he found Volcker's candor and conviction credible and refreshing.

On the morning of July 25, the early-rising peanut farmer received his usual 5:30 a.m. wake-up call and arrived at the Oval Office at 6:05 a.m. At 7:38 a.m., Carter made his first call of the day to New York. Volcker was still in bed when the President's call came in, and accepted the job offer on the spot. Barbara knew it was a job that her husband could not turn down and told him, "You go, I stay."

On August 6, 1979, Volcker was sworn in as Fed Chair by President Carter and proceeded to implement highly unpopular and punishingly tight monetary policies. At a Congressional hearing that October, he asserted that to avert a new burst of inflation, "The standard of living of the average American has to decline." Carter was supportive of Volcker's tough medicine and had often urged shared sacrifice – the word "sacrifice" was invoked so often that a historian later tallied that Carter had uttered it 479 times during his presidency.

It was indeed an era of austerity and sacrifice for many. Volcker, one of the most powerful people in the country at the time, rented a tiny apartment in a Foggy Bottom complex where most of the tenants were George Washington University students. He furnished the $400 a month "dormitory" with hand-me-down furniture from his daughter. With her husband's compensation cut by nearly half, Barbara Volcker, who was struggling with debilitating rheumatoid arthritis and diabetes, was forced to take a part-time job in New York and rent out the back room of their home.

During winters at the White House, Carter had the thermostats turned down to 65 degrees during the day and 55 degrees at

AN ERA OF SACRIFICE

night. Guests of the President were served a breakfast of orange juice, coffee, and a Danish pastry.

By March 1980, Volcker had nearly doubled the fed funds rate to 20% and the U.S. economy slipped into recession, or more precisely, stagflation; inflation hit a cycle high of 14.8% that month and the unemployment rate would continue to climb to as high as 7.8% by the summer. The recession enabled Volcker to bring the fed funds rate below 10% in June, which gave the White House a glimmer of hope that the economy would recover in time to salvage Carter's reelection. However, by autumn, with inflation remaining elevated, Volcker hiked rates again, which finally prompted Carter to push back. On October 2, roughly a month before the election, Carter said high interest rates were something he deplored and criticized Volcker's "strictly monetarist approach" as "ill advised." On November 4, Ronald Regan won a landslide victory as Americans opted for a new leader with a sunnier disposition.

The new administration initially refrained from interfering with Volcker's tight monetary policy, and it would take a deeper 18-month-long recession that started in June 1981 to finally break the back of inflation. Volcker was later lionized as the greatest central banker in U.S. history, and Reagan was lauded for restoring economic prosperity. Jimmy Carter, however, was never given much credit for his unselfish decision to appoint Volcker as Fed Chair in the first place 45 years ago, without which history might have evolved quite differently.

Years later, on a fishing trip together, Volcker asked Carter if his tight monetary policy had cost the ex-president his 1980 reelection. Carter smiled wryly and said graciously, "I think there were a few other factors as well, Paul."

October Suprise

Volcker's predecessor, Chairman Miller, had crafted policies by building consensus or brokering compromises among committee members, sometimes without even expressing his own views. During the first half of 1979, dissents on the FOMC were quite common as hawks wanted tighter monetary policies to tackle inflation and doves sought to minimize the risk of economic weakness. Volcker took a different approach by prodding fellow FOMC members to support rate hikes. The primary monetary policy tool to contain inflation at the time was to increase the fed funds rate – the interest rate that banks are charged for overnight loans from other banks to meet reserve requirements. Higher fed funds rates should theoretically increase the cost of credit to curtail borrowing and spending by businesses and consumers.

At the conclusion of the FOMC meeting on September 18, 1979, the media reported an unusual 4-to-3 split among the seven board members on the decision to raise the discount rate – the rate at which banks borrow directly from the Fed and a primary focus of the market at the time. The market interpreted the three dissenting votes as a lack of commitment by the FOMC to fight inflation, and the value of the dollar fell sharply while the price of gold soared.

The market's negative reaction convinced Volcker that the Fed would need to take a more aggressive approach to enhance its own credibility and tame inflation. He had become skeptical of economists' forecasts and frustrated that the money supply had consistently come in above projections despite the gradually rising fed funds rate. Rather than waiting until the next regularly scheduled FOMC meeting on October 16 to effectuate changes, Volcker convened a special and secretive FOMC meeting on Saturday, October 6, which was followed by a hastily organized weekend news conference.

Volcker's new policy initiatives sought to directly control the money supply in the system rather than target a narrow range in the fed funds rate. In other words, the Fed would take aim at controlling the quantity of money (bank reserves) instead of the price of money (interest rates). However, the trade-off was that the fed funds rate would fluctuate over a significantly wider range to restrain lending – in the fractional reserve banking system, money is created when banks increase aggregate lending and vice versa. The resulting policy directives, delivered with unanimity by the FOMC on that momentous Saturday evening, were to set the fed funds rate between 11.5% to 15.5%, lift the discount rate to a record 12%, and unveil higher bank reserve requirements.

American economist and Chair of the Federal Reserve Paul Volcker

No Immunity from Politics

Volcker's new policy prescription sent shockwaves through the economy and financial markets, and the effective fed funds rate surged to as high as 17.6% in less than three weeks. However, with high inflation expectations having become ingrained after a decade of rapidly rising prices, it would take more than two years for Volcker to finally break the back of inflation. The U.S. economy was hit with back-to-back recessions and the unemployment rate reached a then post-WWII high of 10.8% by late 1982. The economic hardships made Volcker a highly controversial public figure during that period. The Fed was soon inundated with hate mail and its headquarters were frequented by protestors. In December 1980, the Fed insisted that Volcker be given personal security escort protection. A year later, an armed man snuck into the Fed building and threatened to take members of the Federal Reserve Board hostage.

The Fed's presumed independence from politics and fiscal policies did not stop politicians from trying to exert undue pressure on Fed officials. President Lyndon Johnson had intimidated Fed Chairman William McChesney Martin by shoving him against a wall, and President Richard Nixon had pressured Chairman Arthur Burns to pursue expansionary monetary policies in the run-up to the 1972 election. With Volcker having raised the fed funds rate to as high as 20%, he was widely criticized by members of both parties; some Congressional members even initiated an impeachment against him.

In June 1982, then House Majority Leader Jim Wright called for Volcker to resign, and several economists testified before Congress that the Fed's policies made it impossible to achieve a considerable decline in real interest rates. Unbeknownst to the doomsayers and Fed detractors, Volcker's bitter medicine was starting to take effect. Inflation had already been cut by half to 7.1% and would dip to 3.8% by year-end, enabling Volcker to begin pivoting away from targeting the money supply. On August 13, 1982, after eight consecutive losing sessions that took the S&P 500 Index back to 1968 levels, the market rallied on rapidly falling interest rates, and the greatest equity bull market in U.S. history was born from a sea of pessimism.

President Reagan was supportive of the Fed's independence and Volcker's tight policies throughout 1981 and 1982 even though some of his cabinet members and political allies were not fully onboard. Treasury Secretary Donald Regan appeared to have made Volcker his bête noire and repeatedly criticized him in public. Despite Regan's reservations, President Reagan reappointed Volcker for a second term in June 1983. Behind the scenes, Volcker told the President that an early renomination announcement would be beneficial to the jittery market, and that he planned to serve only half of the second term to appease his wife, Barbara.

Despite his generally cordial relationship with Reagan, Volcker recounted one awkward moment in his 2018 memoir. In the summer of 1984, several months ahead of the general election, Volcker was summoned to the White House library. When he entered the room, he found President Reagan, flanked by Chief of Staff James Baker, sitting in silence and looking ill at ease. Baker told Volcker bluntly that the President was ordering him to not raise interest rates before the election. Stunned, Volcker said nothing and left the library.

Back at the Fed, Volcker's policymaking was facing more resistance from the new Fed governors, especially Vice Chairman Preston Martin, a Reagan loyalist and possible successor to Volcker. In February 1986, Martin attempted a "palace coup" and ambushed the Chairman.

US President Ronald Reagan announcing that Federal Reserve Board

From Reagan's inauguration in January 1981 to February 1985, the U.S. Dollar Index had appreciated 80% as the market became increasingly confident in the U.S. economy. After James Baker became Treasury Secretary in February 1985, he succeeded in weakening the U.S. dollar to increase America's exports. By early February 1986, the U.S. Dollar Index had declined more than 25% from the peak, and Volcker reached an understanding with the German and Japanese central banks to coordinate monetary easing to minimize volatility in the currency market. However, Baker wanted the Fed to ease more aggressively to further weaken the dollar.

At a Federal Reserve Board of Governors meeting reserved for routine business matters on Monday, February 10, 1986, Vice Chairman Martin made a startling proposal to cut the Fed's discount rate, and Volcker's request to hold off the discussion until the regularly scheduled FOMC meeting two days later was overridden by Martin and three other Reagan appointees, two of whom were sworn in only three days earlier and were attending their first Fed meeting. The four mutineers succeeded in shutting down the policy debate and voted 4-3 for a rate cut. Volcker left the meeting and called his wife to say that he would return to New York for dinner that evening.

By coincidence, Volcker had a previously scheduled lunch meeting with James Baker. At the end of the luncheon, Volcker told Baker that his letter of resignation would be submitted to the President that afternoon. Back at the office, as Volcker dictated his resignation letter, Wayne Angell, one of the mutineers, came in and said that he had reversed his vote to nullify the rate cut decision. This incident was later leaked to the media, and Vice Chair Martin resigned a month later.

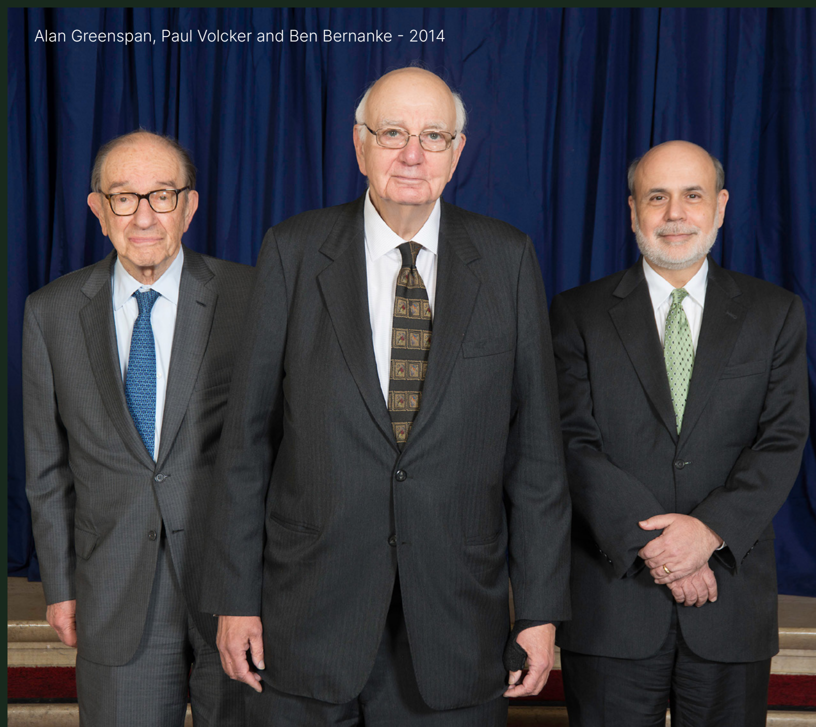
In the spring of 1987, having already reneged on his promise to his wife to serve only two years of his second term as Fed chair, Volcker asked the White House to find a successor and submitted his resignation. In August, Volcker passed the baton to Alan Greenspan and headed back to New York with no particular plans. However, his place in the pantheon of legendary central bankers had been secured, and he would forever be known as "The Chairman."

The Greenspan Put

While Volcker is revered as a gruff, no-nonsense giant who broke the back of inflation during the so-called Temperamental Era (the late 1960s to mid-1980s), a period marked by heightened economic cyclicality, Alan Greenspan was once feted as the Maestro who presided over the Great Moderation, a twenty-year period of stable inflation, steady economic growth, and muted business cyclicality. The two men were quite different stylistically, but they shared a common view in that the ideal inflation target is zero.

Chairman Greenspan elevated the importance of the Fed's communication with the market for greater transparency and impact by initiating the publication of a Policy Statement at the conclusion of each FOMC meeting. Prior to 1994, policy directives from each FOMC meeting were officially released to the public two days after the subsequent meeting.

The very first Policy Statement was released at the end of the February 1994 FOMC meeting and coincided with the first interest rate hike since 1989, a move that caught the market by surprise and sent bond yields surging. Investors soon realized that Chairman Greenspan had hinted at this rate hike at a Congressional hearing on the Monday before the FOMC meeting. It kicked off the Wall Street tradition of scouring every form of communication by the Fed and reading for tea leaves about policy intimations. Greenspan became famous for his nuanced communications, coined as "Fed speak," to signal the Fed's intentions and shape market expectations and behavior.


Alan Greenspan, Paul Volcker and Ben Bernanke - 2014

Another lasting impact from the Greenspan era was the "Greenspan Put," or the "Fed Put" – the belief that the Fed would come to the rescue during market dislocations. This expectation arose because of Greenspan's interest rate cuts in reaction to the stock market crash of 1987 and the collapse of Long-Term Capital Management hedge fund in 1998. Unfortunately, this moral hazard led to more risk-taking, ultimately precipitating the Great Financial Crisis that tarnished Greenspan's legacy.

98% Talk, 2% Action

In 2003, in the wake of the dot-com bubble implosion, 9/11 terror attacks, and a recession, Greenspan had cut the fed funds rate to a then record low of 1%. The Fed had grown concerned about how to ease further once the zero-bound was reached. Then Fed Governor Ben Bernanke and other economists proposed three new policy tool recommendations – inflation targeting, forward guidance, and large-scale asset purchases, aka quantitative easing (QE).

Bernanke had quipped that monetary policy is "98% talk and 2% action." As such, an explicit inflation target and guidance on the future path of interest rates and conditions under which policy adjustments would occur were viewed by him as policy tools to influence market expectations and longer-term interest rates.

Quantitative easing involves the Fed buying a large quantity of securities, which are paid for with electronically created money injected into bank reserves held at the Fed. Higher levels of reserves should enable banks to lend more money and thus stimulate the economy. As QE reduces the available pool of the safest securities from the market, investors would buy riskier alternatives, thereby driving up asset prices. In short, QE is designed to boost asset prices to create a salutary wealth effect.

In 2006, Bernanke succeeded Greenspan as the 14th Chairman of the Federal Reserve. He belatedly recognized the housing bubble but got a chance to put his unconventional monetary policy tools to work as the Great Financial Crisis (GFC) unfolded. After the fed funds rate was cut to zero by 2008, the Fed initiated three rounds of quantitative easing that ballooned the Fed's balance sheet from around $900 billion pre-GFC to $4.5 trillion by early 2015.

In November 2007, the Bernanke Fed began publishing the FOMC participants' economic forecasts, called the Summary of Economic Projections (SEP), on a quarterly basis. In January 2012, the Fed began releasing the "dot plot" – a chart that shows the FOMC members' interest rate forecasts – with the SEP. At that meeting, the Fed also formally announced an explicit inflation target of 2% as measured by the annual change in the price index for personal consumption expenditures (PCE).

Easy Money on Steroids

Chairman Bernanke had said on several occasions that QE was a temporary measure that would be reversed once the economy returned to normal. However, as with many welfare programs, once this market-friendly policy tool was deployed, it was extremely hard to dislodge it. In the 2010s, an unexpected flaw of QE emerged: despite more money being injected into bank reserves, banks did not materially increase lending for a variety of reasons. Instead, the excess money enabled cheaper leverage for financial engineering by investors and corporations, leading to greater inequality and a wealth gap that fueled the ascendancy of populism.

When the financial markets and economy were shut down by the COVID-19 pandemic in March 2020, Chairman Powell put Bernanke's unconventional policy tools into overdrive. In a span of three months in the spring of 2020, the Fed purchased $3 trillion of securities, including non-investment grade bonds. This massive liquidity injection jumpstarted the market and triggered an "everything bubble" that sent the prices of meme stocks and even images of pet rocks soaring. On the forward guidance front, Chair Powell famously (or perhaps infamously) said, "We are not even thinking about thinking about raising rates." The Fed also committed one of the biggest faux pas in central banking history – instead of targeting 2% inflation, it adopted an "average inflation targeting" policy that sought to drive inflation above 2% for a period of time to make up for the prior years when inflation was below 2%.

With this new round of QE indirectly purchasing Treasury debt issued by Washington to finance generous fiscal stimulus – sending checks directly to qualified American households and granting forgivable Paycheck Protection Program (PPP) loans to businesses – the money printed was no longer trapped in bank reserves. The aggressive fiscal spending turbocharged the money supply growth, and inflation took off as a consequence.

Federal Reserve Building in Washington, D.C.

Mere Mortals

Stock Market Opens Ahead Of Fed Chair Powell's Speech In Jackson Hole

The Fed's open communication strategy has turned Fed officials into policy rock stars as their speeches command more attention and excitement than any other public officials. However, this greater transparency has also exposed Fed officials as fallible humans who are prone to groupthink and recency bias (the tendency to overemphasize the importance of a more recent experience). What else can explain how the vaunted Federal Reserve, supported by hundreds of economics PhDs, missed the subprime crisis and post-COVID inflation?

The Fed's forward guidance might have also diminished rather than helped the organization's credibility. For example, the SEP from the December 2021 FOMC meeting pegged the fed funds rate at the end of 2022 at 0.9%, even as inflation had accelerated to nearly 7%. That SEP's 2.1% fed funds rate projection for year-end 2024 reflected the Fed's erroneous belief that the most virulent inflation in four decades can be brought back down to 2% with rates remaining accommodative (i.e., below the 2.5% "neutral" fed funds rate). Senior executives at Silicon Valley Bank might have taken that dovish forward guidance to heart and failed to hedge their holdings of longer-dated Treasuries, eventually triggering significant losses and the bank's collapse.

Last December, Chair Powell appeared to have prematurely declared victory over inflation, which led to a significant easing of financial conditions and rekindled the market's speculative fervor. Some cynics suspected the dovish pivot might have had political considerations as it was beneficially timed to bring down surging bond yields, alleviating the Treasury Department's growing challenge in financing Washington's rapidly rising budget deficit. While Fed officials would refute any conjecture that their policies could be remotely influenced by politics, history has shown that there is tremendous pressure on them to be team players with the rest of Washington. As the longest-serving Fed Chair William McChesney Martin observed, the central bank is "independent within the government, not independent of the government."

No Easy Calls

Last November, in an op ed titled *Federal Reserve Officials Talk Too Much*, seasoned market observer Mohamed El-Erian wrote that during a prior week, eleven top Fed officials had given twenty speeches. We've also seen dueling Fed speakers seemingly debating policies in public. It is understandable that there is mounting concern about overcommunication by the Fed and the unintended market impact. To wit, in early January 2024, some investors had priced in as many as seven rate cuts for 2024. At the most recent FOMC meeting, the dot plot reduced the projected number of rate cuts in 2024 from three to one, though Chair Powell said it's a close call between one and two.

The likelihood of a rate cut at the September FOMC meeting has increased with recent softness in retail sales, conflicting employment data, and improving inflation readings. A few more upticks in the unemployment rate might enable Chair Powell to convince policy hawks to get on board with an insurance rate cut against a potential recession.

After the September FOMC meeting, the future path of the fed funds rate will be heavily influenced by the outcome of the November election. This is where the dot plot predicting policy rates two or three years out makes little sense. There are at least four electoral scenarios with potentially different fiscal policy prescriptions to impact inflation and economic growth. Some have warned that a Republican sweep may even prompt the Fed to consider hiking rates in 2025.

With the U.S. general election in November being a pivotal event in this age of fiscal dominance, many things may be kept in a holding pattern for now. This may explain why stock markets have become so concentrated with a few AI related stocks – having secular tailwinds – leading the pack while the rest confront policy and economic uncertainties. Year-to-date through June, the S&P 500 Equal Weight Index trailed the S&P 500 Index 5% to 15.3%, and the economically sensitive Russell 2000 Index returned less than 2%. Such an environment calls for some rebalancing even though it has been psychologically difficult to trim the big winners.

On the fixed income side, I continue to favor extending duration since it's just a matter of time before the Fed starts easing. In addition, the pace of easing could turn aggressive next year as the unprecedented fiscal stimuli start to wear off. While some believe that a Republican sweep could lead to better growth and higher inflation, fiscal policy debates will likely drag into late 2025, leaving the economy potentially vulnerable to a decline in fiscal stimulus for about a year.

One casualty of the Fed's "higher-for-longer" interest rate policy is pension fund and endowment cash flows from illiquid investments. Higher rates have slowed initial public offerings (IPOs) and merger and acquisititions (M&A) activity needed to fund cash distributions to these institutional investors. The reduced cash distribution has left many private equity investors in limbo, and some are forced to sell their stakes at a steep discount, which creates an opportunities in the private equity secondaries market.

There is a role for gold in a diversified portfolio as it is a hedge on policy mistakes, especially on the monetary front. In the near term, gold also serves as a haven in the face of elevated geopolitical issues, especially with Israel and Hezbollah entering a period of increased military tension.

In the final analysis, with the secular bond bull market likely in the rear-view mirror, the Fed and investors will need to adjust to potentially higher secular inflation and neutral rates. Such an environment portends higher volatility despite the market's recent complacency. The November election will also have a far-reaching impact on monetary policies as the next administration and Congress will nominate and confirm Chair Powell's successor in 2026. An overtly political appointee could damage the Fed's hard-earned reputation as Washington's last bastion of responsible stewardship, as well as market confidence. The ideal pick would be someone with the courage and stature of the late Paul Volcker.

PRINCIPAL AUTHOR

Jimmy C. Chang, CFA

Chief Investment Officer
Rockefeller Global Family Office

EDITOR

Joan Park

Investment Strategy Specialist
Rockefeller Global Family Office

PHOTOGRAPHY

Getty Images, Wiki Commons

Visit **rockco.com/market-perspectives** or scan the QR code to learn more.

ROCKEFELLER
GLOBAL FAMILY OFFICE

45 ROCKEFELLER PLAZA FLOOR 5
NEW YORK, NY 10111

©2024 Rockefeller Capital Management. All rights reserved. Does not apply to sourced material. Products and services may be provided by various affiliates of Rockefeller Capital Management.

This paper is provided for informational purposes only and should not be construed, as investment, accounting, tax or legal advice. The views expressed by Rockefeller Global Family Office's Chief Investment Officer are as of a particular point in time and are subject to change without notice. The views expressed may differ from or conflict with those of other divisions in Rockefeller Capital Management. The information and opinions presented herein are general in nature and have been obtained from, or are based on, sources believed by Rockefeller Capital Management to be reliable, but Rockefeller Capital Management makes no representation as to their accuracy or completeness. Actual events or results may differ materially from those reflected or contemplated herein. Although the information provided is carefully reviewed, Rockefeller Capital Management cannot be held responsible for any direct or incidental loss resulting from applying any of the information provided. References to any company or security are provided for illustrative purposes only and should not be construed as investment advice or a recommendation to purchase, sell or hold any security. Past performance is no guarantee of future results and no investment strategy can guarantee profit or protection against losses. These materials may not be reproduced or distributed without Rockefeller Capital Management's prior written consent.

Rockefeller Capital Management is the marketing name for Rockefeller Capital Management L.P. and its affiliates. Rockefeller Financial LLC is a broker-dealer and investment adviser dually registered with the U.S. Securities and Exchange Commission (SEC). Member Financial Industry Regulatory Authority (FINRA); Securities Investor Protection Corporation (SIPC). Rockefeller & Co. LLC is a registered investment adviser with the SEC.

1 Index pricing information does not reflect dividend income, withholding taxes, commissions, or fees that would be incurred by an investor pursuing the index return.
2 Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

DIN: 1428079438-5477

FOR MORE INFORMATION ON ROCKEFELLER CAPITAL MANAGEMENT: ROCKCO.COM