



## Changing of Chairs: Styles of Central Banker and Rate Cycles

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### Jerome H. Powell vs. Janet Yellen



Since the mid 70s the Chairman of the Federal Reserve Board have served at least two consecutive terms (terms are 4 years at a time). The appointment of Janet Yellen, being the first women Chairperson of the Federal Reserve Board, back in 2014 by Barack Obama marks the first break in that trend, serving only one term. Many have asked if this change in Chairs will make a difference in the interest rate hike cycle in the US. Our Short answer: NO.

While Mr. Powell seems a tad bit more hawkish (interest rates rising), we think he will stick to the script of balancing target inflation at 2% and avoid overheating the economy and will continue with gradual rate increases (based on what data dictates).

The expectation is still 2 to 3 more hikes in 2018 if data persists. Major differences (and obvious ones) include man vs. woman, Republican vs. Democrat, Capitalist vs. Socialist but both Chairs are of the view that hikes are required to avoid the economy overheating. The one notable difference is their backgrounds –Mr. Powell has had extensive

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experience in capital markets. This experience could be a benefit to the investment community as it is well known bond investors scrutinize the FOMC meeting minutes and his speeches in the public for next steps in monetary policies. So far, he has been pretty transparent and consistent, which helps to stabilize the markets...now if only Trump stopped poking dragons.

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	<b>Jerome Hayden Powell</b>	<b>Janet Yellen</b>
<b>Term</b>	Feb 5, 2018 - present	Feb 3, 2014- Feb 3, 2018
<b>Age at start of term</b>	65	67
<b>Education</b>	Princeton University – Bachelor of Arts Georgetown University – Juris Doctor	Brown University - Bachelor of Economics Yale University - Ph.D
<b>Experience</b>	<ul style="list-style-type: none"> <li>• Lawyer at Davis Polk &amp; Wardwell (1981 to 1983)</li> <li>• Lawyer at Werbel &amp; McMillen (1983-1984)</li> <li>• Investment Banker at Dillion, Read &amp; Co (1984-1990)</li> <li>• United States Depart of Treasury (1990-1993)</li> <li>• Under Secretary of the Treasury for Domestic Finance (1992)</li> <li>• Investment Banker (1993-1997)</li> <li>• Partner at Carlyle Group (1997-2005)</li> <li>• Other Private Equity ventures (2005-2010)</li> <li>• Visiting Scholar at Bipartisan Policy Centre (2010-2012)</li> <li>• Federal Reserve Board of Governors (2011)</li> <li>• Federal Reserve Board Chair (2018)</li> </ul>	<ul style="list-style-type: none"> <li>• Lecturer at University of California, Berkeley (1980s to mid 1990s)</li> <li>• White House Council of Economic Advisors (1997 to 1999)</li> <li>• President &amp; CEO of Federal Reserve Bank of San Francisco (2004)</li> <li>• Vice Chair of Federal Reserve Board of Governors (2010)</li> <li>• First Chair-woman of the Federal Reserve Board (2014)</li> </ul>
<b>Nominated by</b>	Donald Trump	Barack Obama
<b>Political Party</b>	Republican	Democrat

### Canada vs. the U.S.



The Bank of Canada Governor, Stephen Poloz, came into his seven-year term on June 3, 2013, with an extensive background in Economics and serving at the Bank of Canada for 14 years working towards his final appointment there as Chief of the Bank’s Research in 1992 before leaving in 1995 to join BCA research for four years. He then became the Chief Economist at Export Development Canada (“EDC”) in 1999, moved into a financing role between 2008 to 2010 and then was most recently President and CEO of EDC before being appointed as the Governor of the Bank of Canada in 2013.

The main notable difference between Poloz and Powell is that Powell has extensive capital markets experience as we have indicated, which shows in his initial public appearances to be consistent in his forward looking statements as the investment community relies heavily on his statements. Poloz on the other hand has shown over the years to change his views drastically rather than phasing in shifts in his views over time which we think has caused more volatility in the bond markets than necessary.

As central banks of the United States and Canada, The Federal Reserve Board and Bank of Canada respectively, each uses a committee of members to vote on monetary policy and hold 8 meetings throughout the year. The members conduct economic and financial reviews to derive what is appropriate from a monetary policy standpoint.

In the US, there are 12 members on the Federal Open Market Committee (FOMC) while in Canada the board is composed of the Governor, the Senior Deputy Governor and then 12 independent directors. Both central banks are targeting a 2% inflation target and continue to be “data dependent” weighing economic factors to ensure inflation stays within their target range without swaying too far.

The table below highlights a few things we need to take note of and some of the anticipation of the next rate hike.

To conclude, our belief is that at this time, Governor Poloz will continue to lag the US in hikes and we expect at least a 25bps gap between Canada and the US before Poloz continues hiking (ie. we will not outpace the US such that our overnight rate will be higher).

To learn more about how we are positioning our income investments in today’s environment, please reach out to your Portfolio Manager. 📧

	United States Federal Reserve Board	Canada Bank of Canada
Fed Chair/Governor	Jerome Hayden Powell	Stephen S. Poloz
Overnight Rate (Lower Bound)	1.50%	1.25%
First Hike in Cycle	December 16, 2015	July 12, 2017
# of Hikes in 2017	3	2
# of Hikes in 2018 (YTD)	1	1
Anticipated Hikes for Rest of 2018	2-3	1-2
Next Anticipated Hike	June 2018	July 2018
Next Meeting	June 13, 2018	May 30, 2018
Inflation as at March 2018 (y/y)	2.4%	2.3%