

## Trump's Fed Nominees: Is the President Once Bitten Twice Shy?

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### Trump's Fed nominees

Yesterday, in a series of tweets, President Donald Trump announced that he planned to nominate Christopher Waller and Judy Shelton to the Federal Reserve Board. Waller is currently the executive vice president and director of research at the Federal Reserve Bank of St. Louis. Shelton is the US executive director of the European Bank for Reconstruction and Development. Trump's previous two Fed nominees, Herman Cain and Stephen Moore, withdrew from the race amid congressional opposition. Both the nominees' views towards women invoked criticism, and eventually, they had to bow out of the race.

### Judy Shelton

Shelton was an advisor for Trump's campaign and has advocated lowering interest rates. Last month, Shelton said, "I would lower rates as fast, as efficiently, as expeditiously as possible." President Trump has also long been calling for lowering interest rates. Trump has criticized Fed Chair Jerome Powell multiple times for raising rates. The Federal Reserve halted its rate hikes, albeit abruptly, earlier this year. Now, markets expect the Fed to start cutting rates as soon as this month. The bond market is already signaling rate cuts with the yield on the ten-year treasury note falling below 2%.

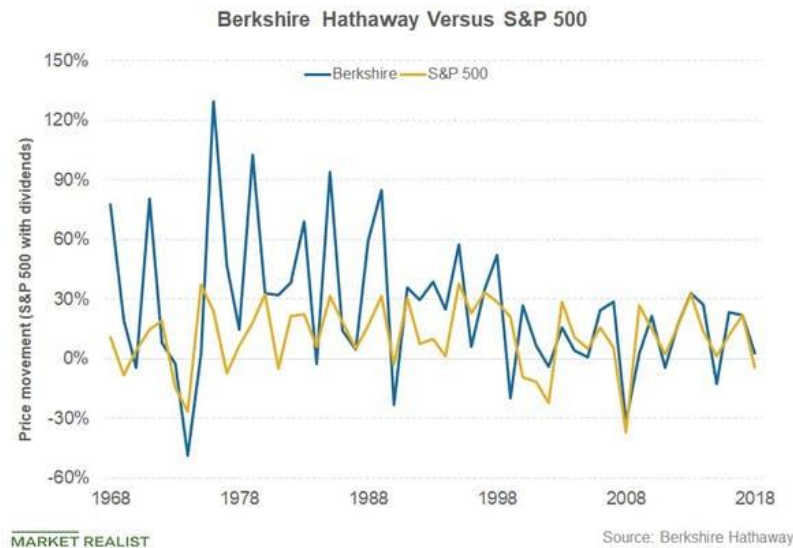
### Gold standard

Shelton's views on monetary policy and the gold standard might be scrutinized by Congress. Just last year, Shelton expressed his views on the gold standard in her post published on Cato Institute. Shelton said, "In proposing a new international monetary system linked in some way to gold, America has an opportunity to secure continued prominence in global monetary affairs while also promoting genuine free trade based on a solid monetary foundation." The gold standard gave way to what we now call fiat currency after the collapse of the Bretton Woods Agreement in 1971. Simply put, the Bretton Woods Agreement pegged other currencies to the US dollar. The US dollar, in turn, was pegged to gold. So, in plain terms, no country could issue currency above its gold holdings. Given the current unconventional monetary policy, no one really expects to go back to the gold standard.

### Christopher Waller

Waller, on the other hand, has pitched for the Fed's independence. In 2011 Federal Reserve Bank of St. Louis's review, Waller said, "Central bank independence is the best method for

governments to tie their own hands and prevent them from misusing monetary policy for short-term political reasons.” Having said that, the Fed’s independence has come under pressure amid Trump’s frequent rhetoric in favor of lower rates. Trump was also reportedly contemplating the legal angles around demoting Fed Chair Jerome Powell.



At a news conference after last month’s FOMC meeting, Powell said, “I think the law is clear that I have a four-year term, and I fully intend to serve it.” In what could be seen as a rebuke to President Trump, Powell said, “At the Fed, we’re deeply committed to carrying out our mission and also that our independence from direct political control we see as an important institutional feature that has served both the economy and the country well.”

Berkshire Hathaway chair Warren Buffett has also praised Powell. In an interview with CNBC, Buffett said, “I think he’s a terrific choice for Federal Reserve Chairman.” He also said, “He is a smart man and he’s— he’s very levelheaded, and he— but he understands both business and economics, and I don’t think you could have a better chairman.”

### **Warren Buffett**

Berkshire Hathaway has underperformed the S&P 500 (SPY) this year. The S&P 500 recorded its best first half since 1997. Apple (AAPL) is Berkshire’s largest holding. The company acquired Apple in 2016 and has added more shares since then. Buffett announced in May that Berkshire has also added Amazon (AMZN) to its portfolio. However, it was a different investment manager and not Buffett who took the position. Generally, Buffett has shied away from technology companies. In the past, Buffett took stakes in IBM (IBM) and Oracle (ORCL). However, Berkshire has exited both Oracle and IBM. Incidentally, Berkshire exited Oracle within a quarter of buying it.