

# Leadership at the Federal Reserve is changing. Will policy change as well?

November 2, 2017

*Janet Yellen's term as Fed chair is coming to an end. What are the implications of the change in leadership?*

President Trump is nominating the next chair of the Federal Reserve in preparation for the end of Chair Janet Yellen's four-year term in February. Dr. Yellen is also a member of the board, but her tenure does not expire until January 2024. Consequently, she may choose to remain on the board regardless of whether or not she is reappointed as chair.

**The Federal Reserve System, created by Congress in 1913, is the central bank of the United States.**

It performs five general functions to promote the effective operation of the U.S. economy and, more generally, the public interest. The Fed:

1. Conducts the nation's monetary policy to promote maximum employment, stable prices, and moderate long-term interest rates in the U.S. economy
2. Promotes the stability of the financial system and seeks to minimize and contain systemic risks through active monitoring and engagement in the U.S. and abroad
3. Promotes the safety and soundness of individual financial institutions and monitors their impact on the financial system as a whole
4. Acts as a bank to other banks by clearing checks, making electronic payments, and providing the currency that Americans need and use every day, fostering the safety and efficiency of the payment and settlement system to the banking industry and the U.S. government
5. Promotes consumer protection and community development through consumer-focused supervision and examination, research and analysis of emerging consumer issues and trends, community economic development activities, and the administration of consumer laws and regulations

Source: [federalreserve.gov](http://federalreserve.gov)



**Colin Moore**  
Global Chief Investment Officer

## **Leadership extends beyond the chair of the Fed**

The Fed includes the Board of Governors, which has seven members, including the chair (currently Janet Yellen) and vice chair. All members of the board are appointed by the president of the United States and confirmed by the U.S. Senate. The Fed also includes 12 regional Federal Reserve Banks located in cities throughout the country that vote on policy on a rotating schedule. The regional banks serve as the central banks' operating arms. They also gather economic information from across the country to help the Fed both monitor the economy and get the broad input necessary to develop and implement effective U.S. monetary policy. Monetary policy decisions at the Fed are made by the Federal Open Market Committee (FOMC), which includes all seven members of the Board of Governors and presidents from the Reserve Banks.

Three of the existing board seats are vacant and current member Randal Quarles only took office on October 13, 2017. Therefore, in addition to the appointment of the chair, we should consider the possibility that the board may have a different character and policy focus than in recent history. For many investors, Dr. Yellen, besides having excellent qualifications, represented continuity of policy from prior Chair Dr. Bernanke.

## **Looking at the candidates**

President Trump's choice for Fed chair is Fed Board Governor Jerome Powell; the president's nominee must be confirmed by the Senate. Other candidates have been considered for Fed chair, including current Board Chair Janet Yellen, former Board Governor Kevin Warsh, Stanford University Professor John Taylor and National Economic Council Director Gary Cohn.

If Yellen and Powell represent continuity, why replace one with the other? As usual, politics play a role in the analysis. Democrat Yellen appears to be associated with President Obama, at least in the minds of Republican lawmakers. Powell, a Republican, is not associated with President Obama, but is seen by Democrat lawmakers as being too close to Wall Street, potentially affecting his attitude to bank regulation.

## **Bottom line**

We now have clarity on who will chair the Fed, and the remaining question is who will occupy the open board member seats. This will provide more insight into their policy stance on the Fed's five functions. We can help investors through change; it is the uncertainty leading up to it that is often unsettling.



To find out more, call [800.426.3750](tel:800.426.3750)  
or visit [columbiathreadneedleus.com](http://columbiathreadneedleus.com)



**Not FDIC insured • No bank guarantee • May lose value**

Securities products offered through Columbia Management Investment Distributors, Inc., member FINRA. Advisory services provided by Columbia Management Investment Advisers, LLC.

Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies.

The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Management Investment Advisers, LLC (CMIA) associates or affiliates. Actual investments or investment decisions made by CMIA and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be suitable for all investors. Past performance does not guarantee future results, and no forecast should be considered a guarantee either. Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that any forecasts are accurate.