# WEEKLY ECONOMIC COMMENTARY

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Many of us end our weekends with a bout of the “Sunday scaries,” a sense of dread about the workload looming in the days ahead. This week, a source of significant distress appeared in our newsfeeds Sunday night. The Federal Reserve disclosed that Chair Jerome Powell had been served with a grand jury subpoena, the first step toward a criminal indictment related to his testimony before the Senate Banking Committee.

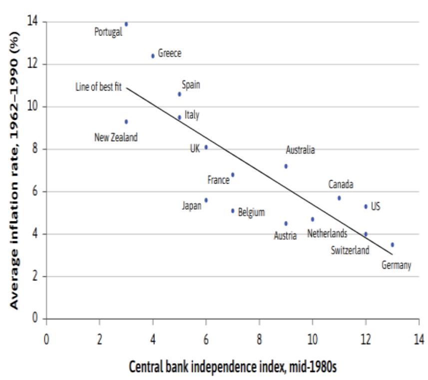
Powell responded with a concise but resolute public statement and accompanying video. Until this point, Powell had been steadfast in not responding to any provocative statement from President Trump, across both presidential terms. In this week’s release, Powell changed his tone, calling the charges pretextual matters of political pressure.

The specific issue in question is the cost overrun for the reconstruction of the Marriner S. Eccles Building, the Fed’s Washington headquarters. The project is massive: gutting the 90-year-old structure, remediating asbestos and digging new basement levels below the foundation. All construction costs have risen in the recent inflationary cycle. These factors pushed the estimated cost up 30% to $2.5 billion.

Allegations of mismanagement of the Eccles project reached a peak last summer, as the Trump administration sought a reason to dismiss Powell for cause. The saber-rattling led to Powell and Trump donning hard hats for a tour of the construction site. Afterwards, consensus took hold that, whatever its shortcomings, the project was not cause for termination. The matter had quieted down, until this weekend.

**Federal Reserve Board of Governors**

| Member | Term Expiration |
|---|---|
| Stephen Miran | January 2026 |
| Jerome Powell | May 2026 (as chair)<br>January 2028 (as a governor) |
| Christopher Waller | January 2030 |
| Michael Barr | January 2032 |
| Michelle Bowman | January 2034 |
| Philip Jefferson | September 2027 (as vice chair)<br>January 2036 (as a governor) |
| Lisa Cook | January 2038 |




*Sources: Federal Reserve, OECD, IMF*

Most observers, including Powell, were quick to recognize that the real reason for the investigation was to put pressure on Fed to cooperate with the Administration’s wish for lower interest rates. To gain additional control over monetary policy, the White House is attempting to dismiss a sitting Governor, Lisa Cook; that case is pending with the Supreme Court. As long as Powell and Cook stay on the board, the Fed’s independence should be secure. But even if recent legal initiatives prove unsuccessful, they could serve as a warning to others that non-compliance could raise risks.

Pushback against the investigation was rapid and bipartisan. All living former Fed chairs joined a cadre of prominent figures in a letter opposing the action; foreign central bank leaders offered their own statement of solidarity. Members of the Senate Banking Committee immediately vowed to halt all consideration of Fed nominees until the matter is settled. With Governor Stephen Miran's term expiring at the end of the month, and a replacement to be nominated imminently, this would be a major setback.

Sensing the mounting resistance, leaders distanced themselves from the action. President Trump claimed to be unaware of the investigation when it was announced, and the Secretary of the Treasury reported that he was not involved. The U.S. Attorney claimed the subpoena was served only because the Fed had not responded to prior inquiries.

Powell's term as Chair will expire in May, well before court proceedings would begin. No charges have been filed. Given the long odds on a White House takeover of the Fed, markets shrugged off the news. Trading opened Monday with fear of a bond sell-off or a broader "sell America" trade taking hold, but the day was calm.

**A spurious allegation can still send a strong message to other appointees.**

Perhaps market participants have grown a thick skin about policy surprises. More concerningly, we may simply be unable to price the risk of a compromised central bank. Across markets and history, even in the U.S., central bank leaders who bow to political pressure will raise the risk of uncontrollable inflation. Independence seems so natural that it can be difficult to conceive of any other arrangement. But today's independence was hard-fought, and the current administration is open to radical reforms.

The case may go nowhere, but damage from the subpoena has already been done. Any governors nominated by Trump will be viewed with great suspicion; their commitment to the Fed's mandate will be in question. Current Board members may assert themselves by voting in a way that pushes back against the White House's positions. Powell's turn as Chair ends soon, but his term as governor lasts into 2028; he just gained more reason to defer retirement.

The best remedy for the Sunday scaries is a good night's sleep, to be well rested for whatever the week has in store. We do not expect anyone at the Fed is resting easily; neither are we.

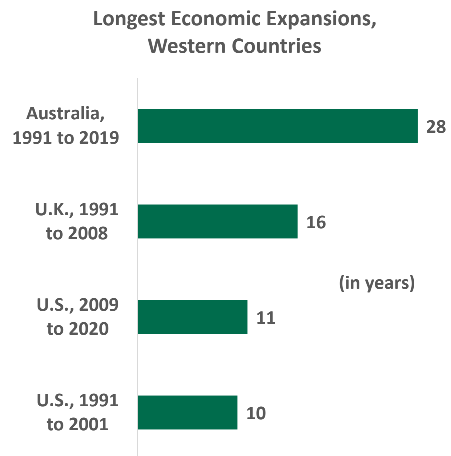
## Tunes and Trends

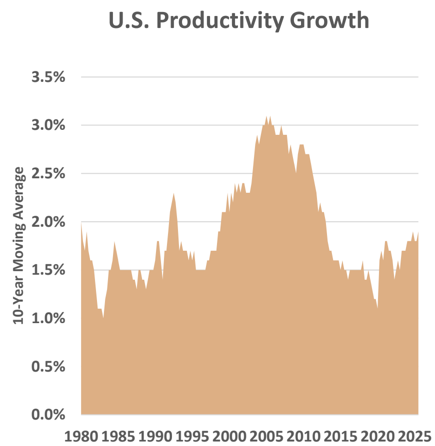
I am new to streaming music. So I was surprised when the platform I use offered a year-end summary of my activity. Included was an estimate of my age, based on my listening habits: the app thinks I am 42 years old. When I saw this, I kissed the screen and renewed my subscription for 10 more years.

The calculation was apparently based on my fondness for the music of the 1990s. I also have fond economic memories of the 1990s, an era when technological gains boosted growth and buoyed markets. Some are suggesting that we are on the brink of a repeat performance, but a close examination of the history casts some doubt over this conclusion.

After the tumult of the 1970s, a range of countries enjoyed a series of very long expansions. Starting in 1982, the United States economy grew for 24 out of 25 years. The U.K. enjoyed a similar experience; Australia recorded 28 years of uninterrupted progress. Unemployment rates plunged, and asset prices soared. The period became known as "The Great Moderation."

A series of factors contributed to these outcomes.  Globalization was ascendent during that interval, opening new markets for selling and sourcing.  The fall of the Berlin Wall expanded European vistas, and China entered the international trading community.  Cross-border investment boomed, accelerating the advancement of emerging markets.




*Sources: National Statistics, Haver Analytics*

Technology was moving ahead as well, allowing information to travel faster and farther.  Just-in-time inventory management, robotics and sophisticated logistics revolutionized manufacturing.  The shift to services, which are typically less cyclical, also reduced fluctuations in economic growth.

**The Great Moderation truly was the best of times.**

Traditionally, strong growth and falling unemployment would put pressure on prices.  Defying expectations, inflation continued to moderate throughout the 1990s.  Productivity growth was central to this outcome; output per hour for U.S. workers grew at an average rate of 2.5% per year for an extended period, a very strong level.

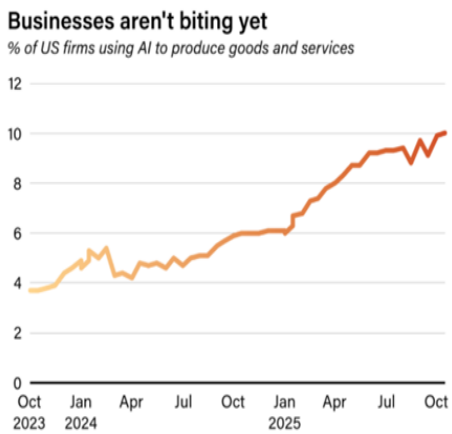
Low and predictable inflation enhanced the clarity of corporate planning and made long-term investment more viable.  Borrowing rates, which had carried a burdensome term premium, became more reasonable. Financial innovations further reduced the cost of credit.

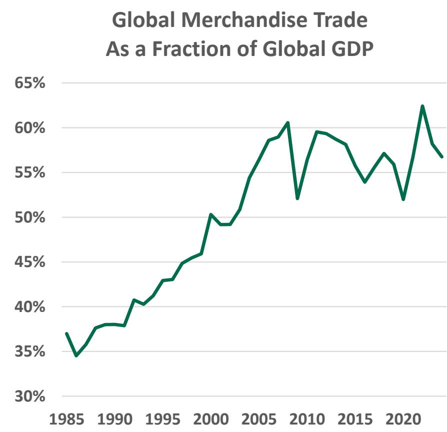
Alan Greenspan, the Chairman of the Federal Reserve Board throughout the 1990s, made a very brave decision in the middle of that decade.  The U.S. unemployment rate was closing in on 5%, for the first time in 20 years.  This prompting fears of overheating and calls for tighter monetary policy.  Greenspan resisted, and was vindicated when inflation remained tame even as joblessness fell to 4% at the end of the decade.

Central bankers were heroes during The Great Moderation.  It appeared that their ability to assess and manage the business cycle had reached new heights of precision, to the point where recessions would occur only rarely.  New peaks of prosperity seemed possible. Unfortunately, those visions were rudely interrupted by the Global Financial Crisis (GFC). We've been trying to recapture the magic ever since.

For the first time in nearly two decades, some see hope for another Great Moderation.  We are in the midst of a tech-led investment boom supporting what some think is a transformational technology.  The annualized pace of U.S. productivity growth was 5% in the third quarter of last year, well above the long-term average.  Markets appear positioned in a way that assumes that this sort of performance will continue for a while.

Embracing this narrative, critics of the Federal Reserve are calling on the central bank to show the same courage that Alan Greenspan did during the Great Moderation and lower interest rates, even though inflation is higher than desired.




*Sources: Eurasia Group, World Bank*

**It is far too soon to declare another productivity boom.**

Much as we would love to see another Great Moderation, we do not think one is yet at hand. Recent productivity gains are impressive, but we need to see something more persistent to declare the foundation of a trend. As promising as artificial intelligence is, adoption of AI is still in the early stages; this suggests that AI has not been a major contributor to recent productivity gains.

Further, tailwinds for the Great Moderation are headwinds today. Global trade is stagnating, not expanding, and recent policy actions could ultimately prompt a retreat. There are no new reservoirs of resources and talent like Eastern Europe and China left to tap into. Postwar generations were at their productive peak in the 1990s and 2000s; today, they are retiring.

Apart from the inflation risk, there is a further danger in taking interest rates down prematurely. The end of the Great Moderation came when excessive leverage and restrained financial supervision led to imbalances that ultimately toppled. Similar conditions may be developing in the present day; lower rates would add fuel to a flame that might need to be doused.

It has been interesting to see my streaming service learn my tastes and begin constructing playlists that suit them. While I've enjoyed many of the suggested songs, there have been others I don't want to hear again. Musically and economically, I'd like to revisit the harmonies of the Great Moderation…and skip the dissonance that followed.

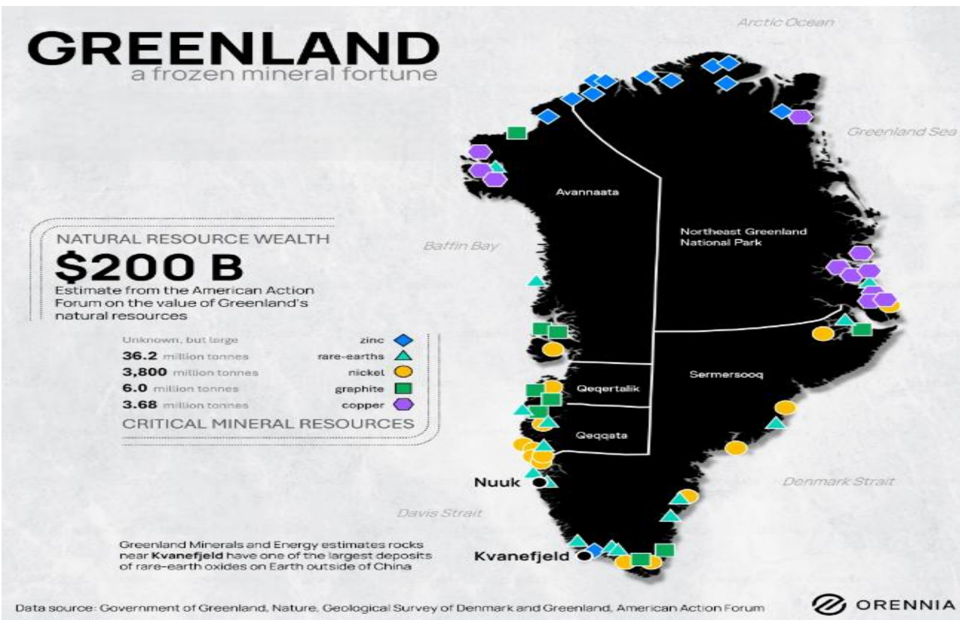
## On Thin Ice

Greenland has reemerged as a center of geopolitical attention. Its location midway between Washington and Moscow, combined with its position along maritime routes linking the Arctic and Atlantic Oceans, has long made it a focal point for trade. The brisk melting of ice is opening the possibility of substantially shorter Asia-Europe shipping routes compared with the Suez Canal.

For the United States, Greenland's role is not merely commercial, but also strategic. Much like Venezuela, Washington views this Arctic gateway as essential to countering Russian and Chinese influence in the region.

Greenland's resource base further heightens its appeal. Beneath the thick ice that covers 80% of the island lie sizable deposits of resources critical to modern technologies. The island ranks eighth in the world for rare earth elements, with an estimated 1.5 million tons, including two of the globe's largest known deposits.

China, Greenland's second largest trading partner after Denmark, has taken a keen interest in these opportunities. Yet its efforts to gain a foothold have repeatedly stalled. A rare-earth project backed by Chinese investors collapsed after Greenland imposed a ban on uranium mining. U.S. pressure blocked Chinese bids to construct airports and repurpose an abandoned Danish naval base into a research station.




Despite this interest, the promise of Greenland's mineral wealth remains largely unrealized. Since World War II, only nine mine sites have ever been active. Today, just two operate, and neither produces rare earths. Environmental restrictions and harsh weather conditions remain key roadblocks, with much of the island's resources locked under thick ice for much of the year. Infrastructure is sparse: only 93 miles of road stretch across a landmass roughly three times the size of Texas.

**Greenland's potential is immense, but its challenges are even larger.**

Transforming Greenland into a resource hub will require massive investment and time. For now, the island stands as a reminder that ambition alone cannot melt the ice of reality.

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