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## The Fed isn't sure whether Trump will be good or bad for the economy — but it thinks investors are ignoring the risks



BOB BRYAN  
7H

The Federal Reserve still hasn't made its mind up about President Donald Trump's policies.

Based on the central bank's most recent communication — [the Fed minutes for the January/February meeting](#) released on Wednesday — the members of the FOMC are still undecided about the ultimate effect of Trump's economic agenda, particularly fiscal stimulus, or if it will even happen at all.

"Participants again emphasized their considerable uncertainty about the prospects for changes in fiscal and other government policies as well as about the timing and magnitude of the net effects of such changes on economic activity," said the minutes.

It appears that while some members noted that a proposed \$550 billion infrastructure plan and other stimulus moves from Trump could be a boon for economic growth, other members were [concerned about the ultimate impact](#).

"In discussing the risks to the economic outlook, participants continued to view the possibility of more expansionary fiscal policy as having increased the upside risks to their economic forecasts, although some noted that several potential changes in government policies could pose downside risks," said the Fed's minutes.

### Inconsistent markets

In fact, while the Fed officials debated the outcome of the policies they noted that the possibility of the fiscal stimulus had been a contributor to the recent all-time highs in stocks. They did warn, however, that the markets may not be fully pricing in the risks from the Trump proposals.

"They also expressed concern that the low level of implied volatility in equity markets appeared inconsistent with the considerable uncertainty attending the outlook for such policy initiatives," said the minutes.



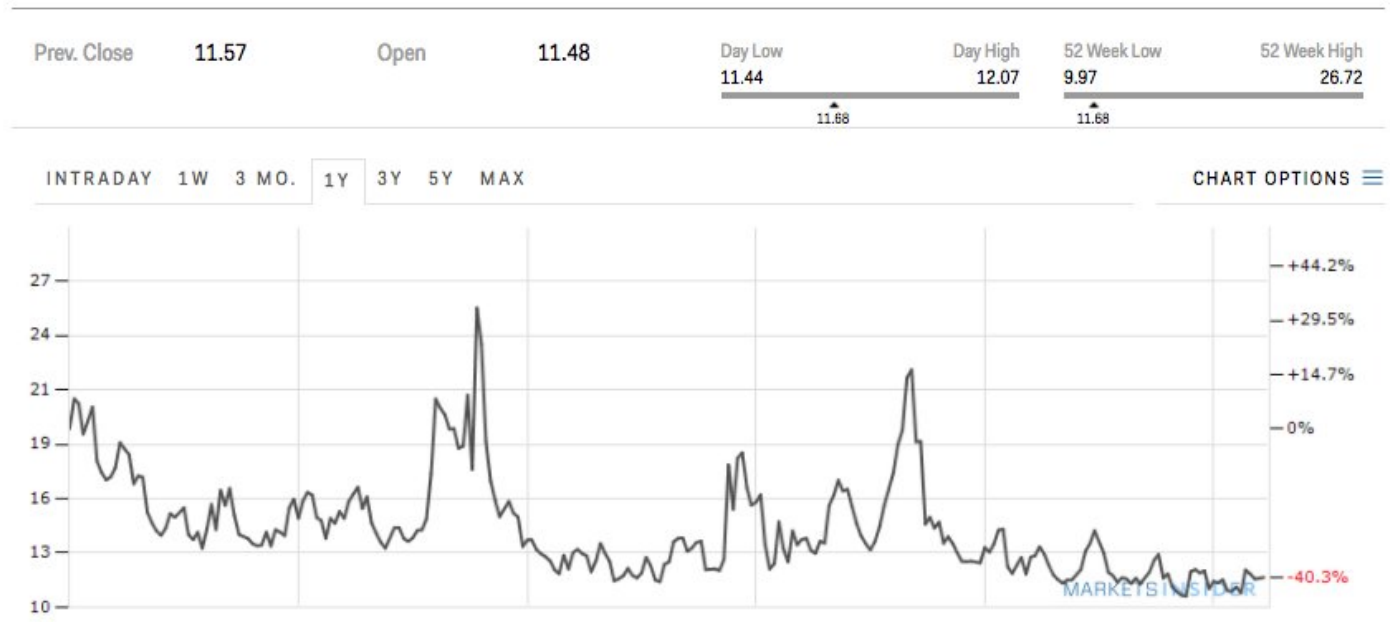
President Donald Trump and Fed Chair Janet Yellen

*Carlos Barria/Reuters; Composite by Bob Bryan/Business Insider*

# VIX

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The VIX reflects expectations for future market volatility.

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Some members cited the possibility of [increased inflation from the policies](#), which is good unless the rate of price increases overshoots the Fed's 2% target. A large fiscal stimulus package with the labor market so tight would, in theory, kick inflation into a higher gear.

Interestingly, the minutes also include multiple references to "other policies" that could be passed under Trump and their uncertain impact on the economy.

"Members agreed that there was heightened uncertainty about the effects of possible changes in fiscal and other government policies, but that near-term risks to the economic outlook appeared roughly balanced," said the minutes.

Fed Chairwoman Janet Yellen answered questions on two of Trump's seemingly non-economic policies during her testimony to the Senate Banking Committee: [curtailed immigration](#) and [the repeal of the Affordable Care Act](#).

Both of these policies, said Yellen, could produce drags on the US economy and would factor into the decisions regarding monetary policy for the Fed as their effect became clearer.

In the end, however, much of the economic impact is uncertain to the Fed and how it will impact their policy remains unclear. Especially, as the FOMC members noted, since they don't know what policies are coming at all.

Said the Fed, "A few participants commented that the recent increase in equity prices might in part reflect investors' anticipation of a boost to earnings from a cut in corporate taxes or more expansionary fiscal policy, which might not materialize."

