

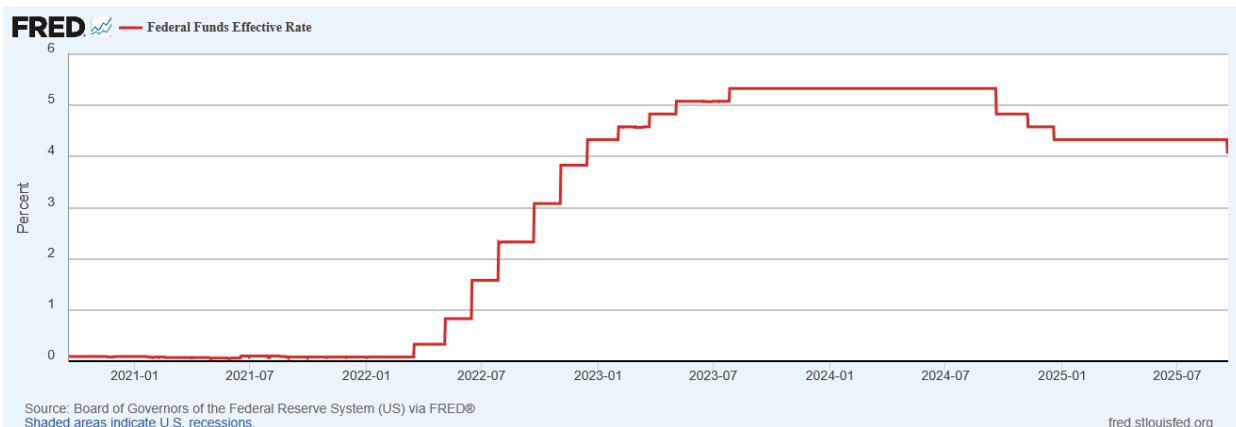
Views From the Stream

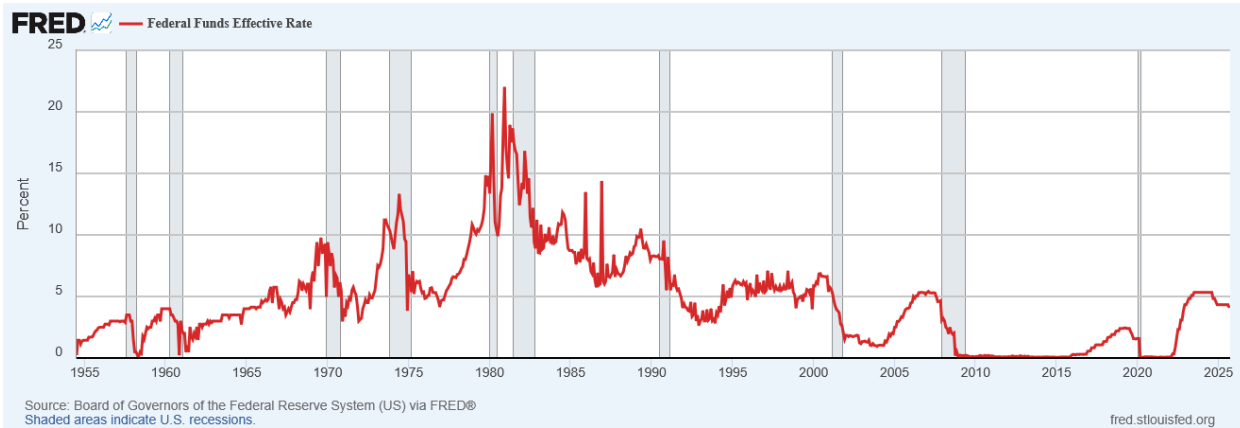
September 20, 2025

The Fed Giveth & The Fed Taketh Away

In December 1965, the Federal Reserve, under William McChesney “Bill” Martin, raised interest rates by 0.50%. President Lyndon Johnson, known as LBJ, got upset that the Fed continued to raise rates and started to raise them aggressively. So, in an apocryphal story, LBJ called Bill Martin down to his ranch in Texas to meet with him. At this meeting, President Johnson reportedly picked up Bill Martin, threw him up against a wall, and told him not to raise interest rates. Of course, Bill Martin then proceeded to raise rates by another 1.25% by September 1966. This likely infuriated LBJ even more given that he knew it would slow the economy.

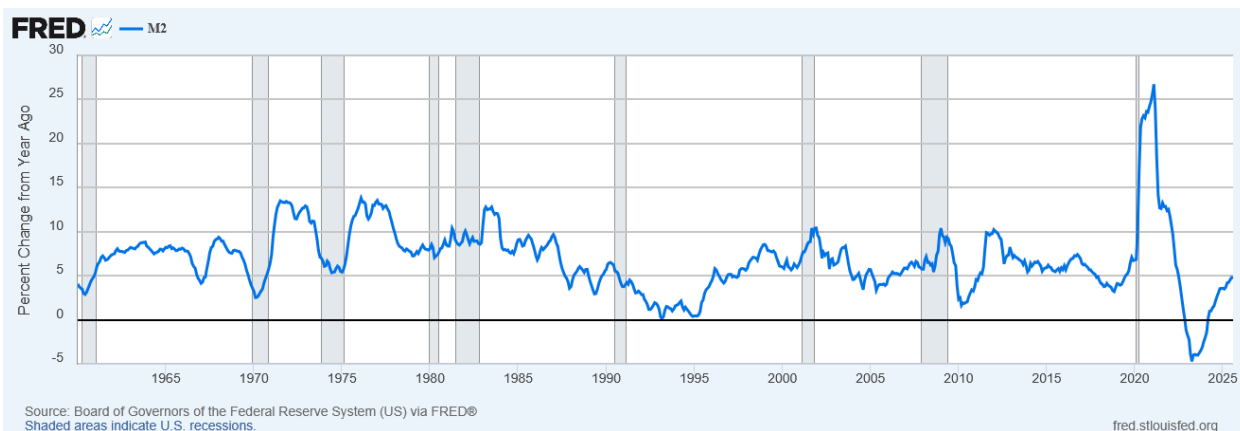
Fast forward to today. The Federal Reserve Chairman, Jerome Powell, and President Trump stand at odds over monetary policy. Jay Powell, over the past year, utilized a “Go Slow Approach”. In other words, don’t shoot until you see the whites of their eyes. On the other side, President Trump demanded the Federal Reserve lower rates given what he saw occurring in the economy. On Wednesday, September 17, 2025, the Federal Reserve finally lowered rates again, after keeping them on hold since December 2024.





As this chart makes clear, whenever the Federal Reserve raised rates this aggressively, the end result stood a recession. In fact, when the data get fully revised by the government, it may turn out the economy already stands in recession. The recent revisions to the Bureau of Labor Statistics Employment Data certainly indicate this as ~50% of the jobs created from March 2024 to March 2025 became revised away, indicating much weaker economic growth than originally reported. We would note that these revisions occurred after the Presidential Election, but not before. However, one wants to interpret the data, it appears that the Federal Reserve finally acceded to President Trump.

Several other monetary statistics indicate the Federal Reserve appears more concerned about the economy than it indicates. After shrinking M2 in 2022 and 2023, one of the core monetary aggregates, the Federal Reserve began to allow it to grow again in March 2024. And year over year growth accelerated since then:



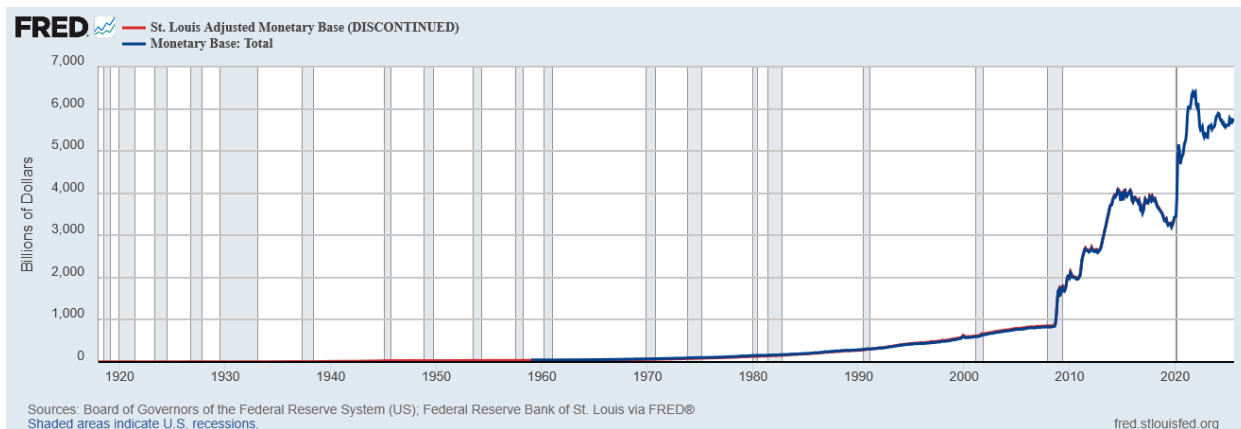
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M2 growth now stands at the low end of normalized growth. And it should continue to expand until it reaches at least the mid point of traditional growth rates between 5% and 10% per year.

Despite these moves, lurking under the surface, the Federal Reserve continuing to drain reserves from the banking system. As the Federal Reserve Open Market Committee stated in its release: “The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities.” One need to go to Page 3 of the release to discover that this means the Federal Reserve will drain \$40 billion per month in liquidity from the system or ~\$480 billion over the next year. With the Monetary Base standing at \$5, 684 billion as of August 31, 2025, this means the Federal Reserve will shrink it by 8.4% over the next year. And, as the following chart demonstrates, Monetary Base growth stalled out over the past two years:



For those looking to decipher the next wrinkle in Federal Reserve policy to understand its impact on the economy, they need to look under the hood. With the Fed beginning to lower Interest Rates, it appears the Fed Giveth, as this typically accelerates the economy with a lag. However, with the Fed continuing to pull money out of the system to shrink its balance sheet, the Fed Taketh Away, in a manner that typically shrinks the economy. Should Unemployment accelerate, the easy solution stands increasing its balance sheet by expanding its holdings of securities. With the economy showing some signs of its engine needing a higher octane fuel and facing the impact of tariffs, which act as a large tax increase, it likely stands only a matter of time until the Federal Reserve truly opens the monetary spigots. But, until then, expect the fireworks to go off as the Fed and the President vie for control over Monetary Policy.

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The Monthly Letter:
Housing:
The Affordability Issue, The Credit Issue, & The Supply Issue

This month, we take a look at Housing for the first time since 2022. We review the current state of the market and the changes needed to address the affordability issue, the squeeze on non-prime credit, and the ability to create more unit supply.

The link is:

<https://greendrakeadvisors.com/2025/09/housing-the-affordability-issue-the-credit-issue-and-the-supply-issue/>

Next month, we plan to publish our Global Economics Quarterly. Given the massive reconfiguration of the world's trading patterns, a new normal is emerging that takes into account the deglobalization under way and the rise of Cold War II. These two forces will reshape the Global Economy producing a bifurcated world in which numerous countries will need to choose a side. In addition, some regions of the world, such as Europe and China, face significant demographic challenges. These challenges will impact their ability to grow and sustain their economies over the long term.

Yours Truly,

Paul

Paul L. Sloate
Chief Executive Officer

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