



# The Fed: What's Next?

Local Government Officials Conference  
April 13, 2017

**Presented by**

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Meeder Investment Management

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Meeder Investment Management

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## AGENDA

- History of the Fed
- Fed Mandates
- Current Complexion of the Fed
- What's Next?



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## History of the Fed

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## HISTORY OF THE FED

1907

- No central bank (Federal Reserve) in America
- Knickerbocker Trust loaning out 99% of its reserves
- Run on Banks
- Banks did not have enough cash on reserves
- JP Morgan bailed out the banking system

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## HISTORY OF THE FED

1910

- 6 influential banking leaders get together on Jekyll Island, GA
- First U.S. Central Bank (Federal Reserve) was created
- Bank had a bad name, so they called it the Federal Reserve to make it sound official
- All banks have to play by the same rules...every bank has to keep the same percentage of deposits on hand

Operated the same until 2008

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## HISTORY OF THE FED

2008

- Financial Services Regulatory Relief Act goes into effect  
Congress allows the Fed to pay interest on required reserves AND excess reserves
- Roughly \$1.6 billion in excess reserves.
- Roughly \$68 billion in required reserves.

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## QUANTITATIVE EASING BEGINS



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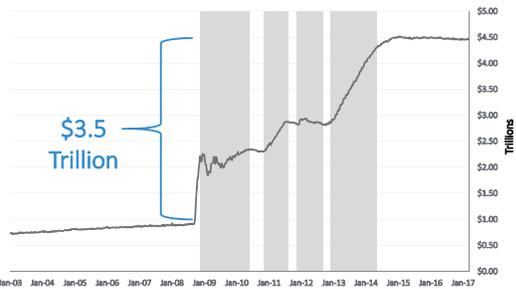
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## FED BALANCE SHEET



Source: Board of Governors of the Federal Reserve System (US)

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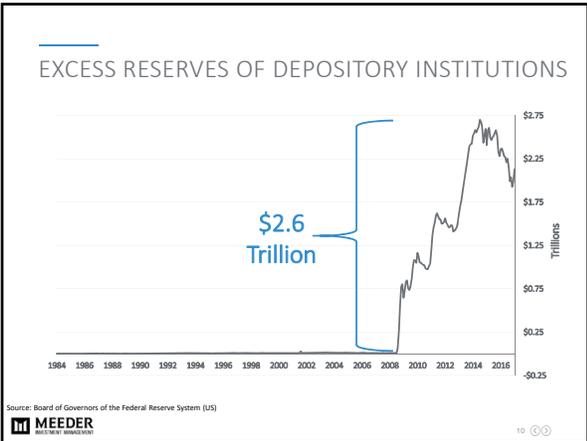
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### Fed Mandates

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### MANDATE OF THE FED

- Price Stability/Inflation
- Employment
- Rate Stabilization/Manage Bubbles

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# Inflation

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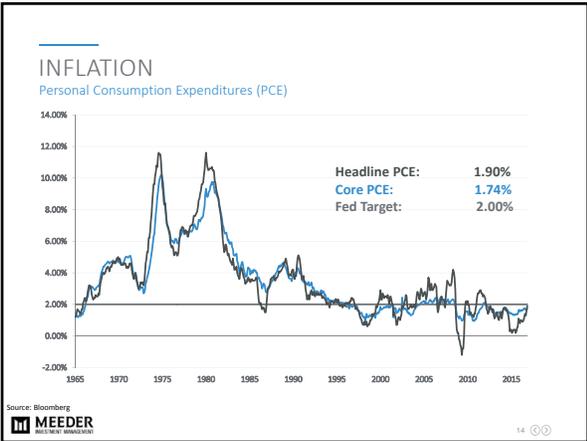
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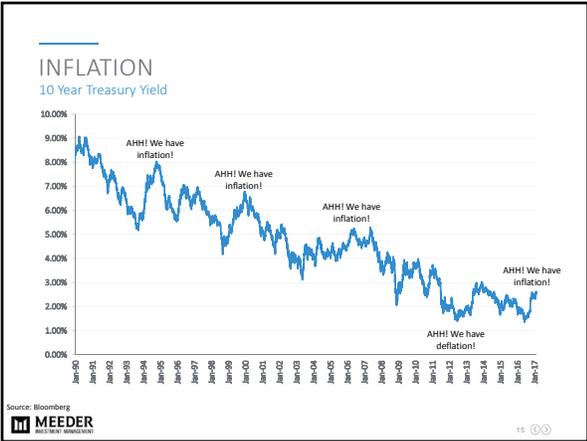
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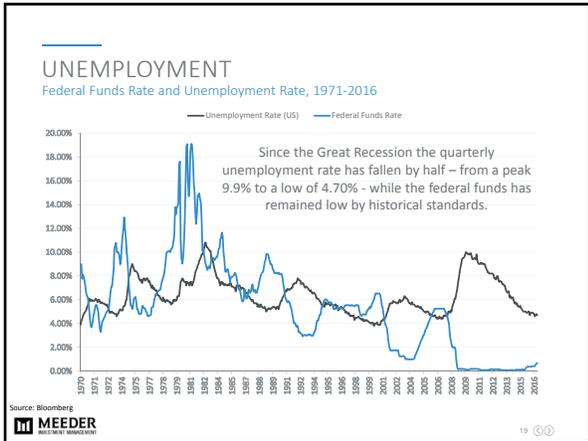
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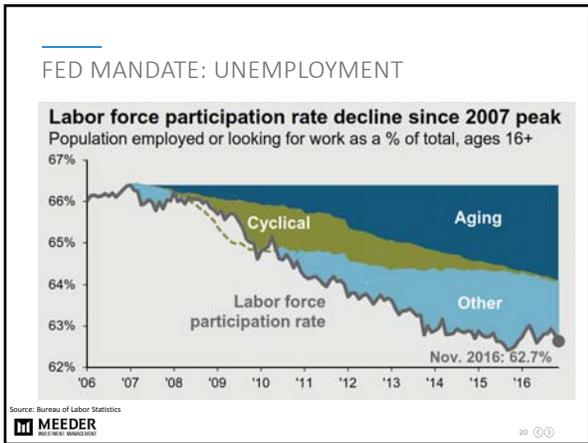
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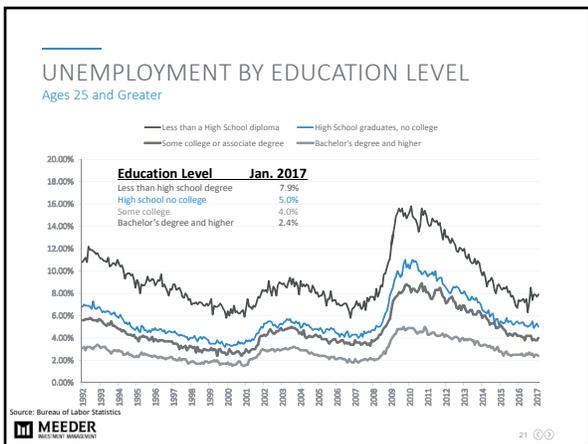
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# Student Loans

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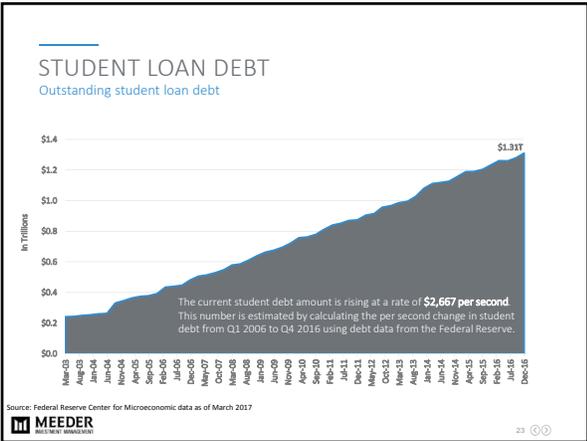
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- ## STUDENT DEBT FACTS
- 66% of graduates from public colleges had on average \$25,550 debt
  - 75% of graduates from non-profit colleges had on average \$32,300 debt
  - 88% of graduates from for-profit colleges had on average \$39,950 debt
  - Estimated 82% students used their student loan money for vacation, parties, electronics, and similar
  - Over 2% of the US population = 7+ million defaulted on student loans
  - Total Increase In Student Loan Debt In 4Q-2016: \$31 billion
  - New Delinquent Balances (30+ days): \$32.6 billion
- Source: <https://debtclock.tyworld.com/student-loan/>
- MEEDER**  
MULTIMEDIA EDUCATION

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## STUDENT DEBT FACTS

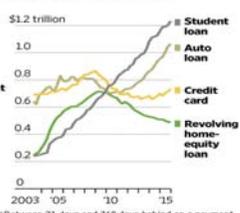
### Failing to Repay

Some 43% of the roughly 22 million Americans with federal student loans were either behind or received permission to postpone payments due to economic hardship as of Jan. 1.

#### Americans who are out of school and owe federal student loans



#### Debt outstanding by type of consumer loan



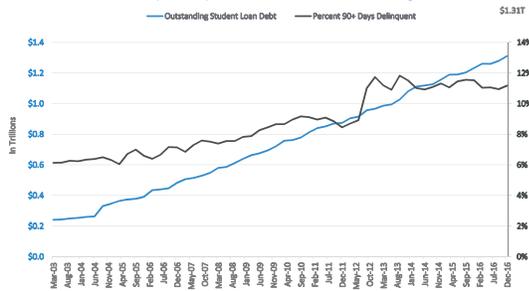
\*At least 360 days behind on a payment †Between 31 days and 360 days behind on a payment  
Sources: Education Department (student loans); Federal Reserve Bank of New York (debt outstanding)

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## STUDENT LOAN DELINQUENCY

### Student Loans 90+ Days Delinquent as Percent Loans Outstanding



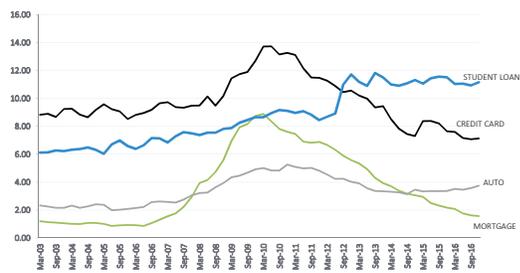
Source: Federal Reserve Center for Microeconomic data as of March 2017

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## CONSUMER CREDIT DELINQUENCIES

### Percent Of Balance 90+ Days Delinquent By Loan Type



Source: Federal Reserve Center for Microeconomic data as of March 2017

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### THE FED'S TOOLBOX

- Fractional Reserve Requirement
- Set Federal Funds Rate
- T-Bills



Macroprudential

FFR Under the Corridor System

Interest on Reserves

Reverse Repurchase Rate

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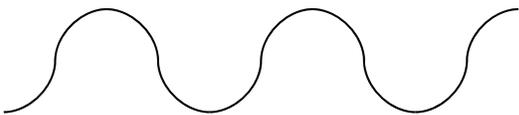
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### FED FUNDS RATE UNDER THE CORRIDOR SYSTEM

Interest on Reserves    0 bp    50 bp    100 bp



Reverse Repo Rate

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### FUN FED FACTS



Yellen has been know to take an entire suitcase of books on vacation

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FUN FED FACTS

Yellen has a stamp collection estimated to be worth up to \$50,000




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FUN FED FACTS



Paul Volcker Alan Greenspan Ben Bernanke Janet Yellen

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FUN FED FACTS

Who Makes up the "Fed"?

Federal Reserve Board of Governors	Term End (Chair and Vice Chair)	End of Term as Governor
Janet Yellen (Chair)	February 2018	2024
Stanley Fischer (Vice Chair)	June 2018	2020
Daniel Tarullo	Retiring April 2017	2022
Lael Brainard		2026
Jerome Powell		2028
Vacant		2018
Vacant		2030

FOMC District Bank Voters in 2017	District
William Dudley	New York
Patrick Harker	Philadelphia
Charles Evans	Chicago
Neel Kashkari	Minneapolis
Robert Kaplan	Dallas

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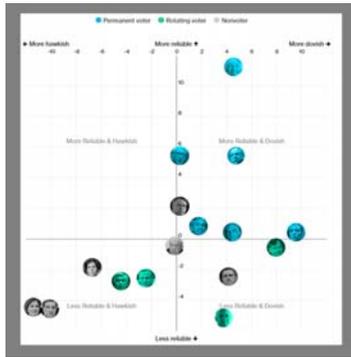
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## VOTER RELIABILITY



Source: Bloomberg  
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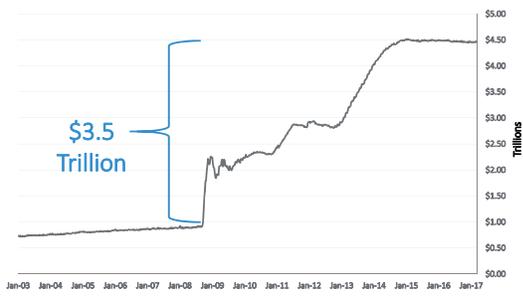
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## FED BALANCE SHEET



Source: Board of Governors of the Federal Reserve System (US)

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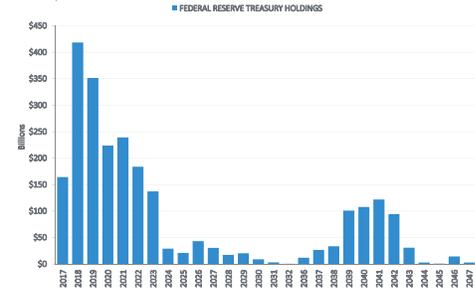
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## FED BALANCE SHEET

Maturity Distribution of U.S. Treasuries



Source: Federal Reserve Bank of New York: System Open Market Holdings

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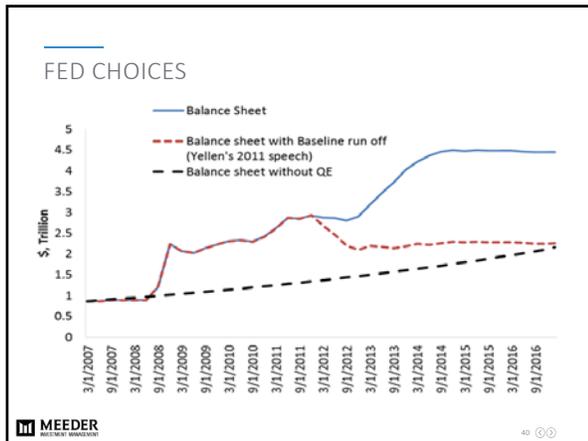
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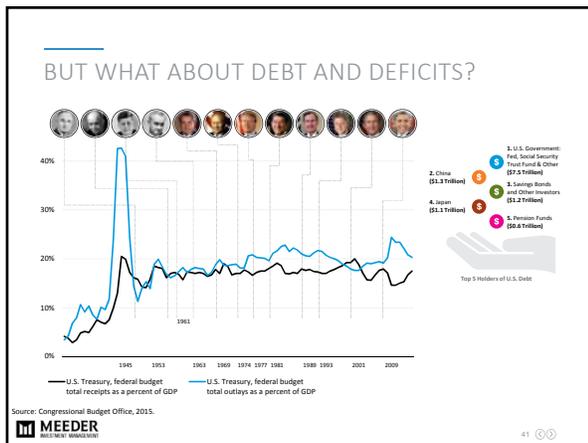
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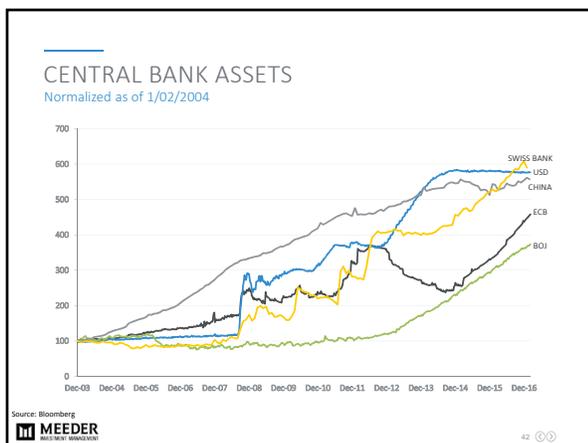
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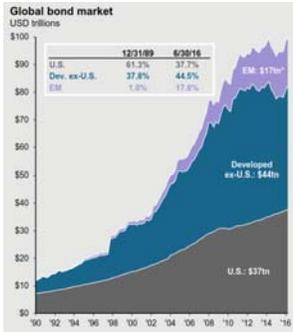
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## GLOBAL BOND MARKET



Source: JPMorgan Guide to the Markets  
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## GLOBAL BOND YIELDS

As of 3/16/17

	1Y	2Y	3Y	4Y	5Y	6Y	7Y	8Y	9Y	10Y	30Y
Switzerland	-1.02%	-0.99%	-0.85%	-0.76%	-0.65%	-0.56%	-0.44%	-0.34%	-0.27%	-0.19%	0.28%
Sweden	-0.87%	-0.63%	-	-0.36%	-0.09%	-	0.15%	0.34%	-	0.56%	-
Germany	-0.71%	-0.72%	-0.73%	-0.60%	-0.48%	-0.29%	-0.14%	0.01%	0.16%	0.32%	1.02%
Netherlands	-0.72%	-0.69%	-0.67%	-0.59%	-0.30%	-0.27%	-0.10%	0.08%	0.25%	0.41%	1.11%
Finland	-0.62%	-0.64%	-0.61%	-0.45%	-0.38%	-0.20%	0.02%	0.09%	0.32%	0.42%	1.12%
France	-0.62%	-0.62%	-0.44%	-0.24%	-0.02%	0.01%	0.13%	0.37%	0.59%	0.77%	1.72%
Belgium	-0.64%	-0.60%	-0.53%	-0.42%	-0.27%	-	0.12%	0.31%	0.49%	0.65%	1.71%
Austria	-0.73%	-0.66%	-0.59%	-0.46%	-0.33%	-0.14%	-0.05%	0.15%	0.31%	0.50%	1.41%
Denmark	-	-0.60%	-	-	-0.25%	-	-	0.01%	-	0.32%	1.00%
Japan	-0.33%	-0.25%	-0.20%	-0.15%	-0.13%	-0.10%	-0.04%	-0.01%	0.02%	0.06%	0.77%
Spain	-0.30%	-0.29%	-0.20%	0.04%	0.22%	0.57%	0.76%	1.05%	1.28%	1.41%	2.69%
Italy	-0.30%	-0.10%	0.11%	0.29%	0.62%	0.88%	1.20%	1.45%	1.61%	1.86%	3.01%
Portugal	-0.07%	0.18%	0.71%	1.38%	2.00%	2.65%	3.25%	3.52%	3.78%	3.96%	4.92%
UK	0.10%	0.17%	0.23%	0.43%	0.58%	0.77%	0.91%	1.07%	1.21%	1.34%	2.00%
Canada	0.62%	0.75%	0.83%	0.99%	1.10%	1.23%	1.37%	1.48%	1.59%	1.68%	2.28%
US	0.99%	1.33%	1.63%	-	2.05%	-	2.35%	-	-	2.54%	3.15%
Australia	1.73%	1.85%	1.97%	2.11%	2.26%	2.37%	2.50%	2.59%	2.64%	2.70%	3.69%

Source: Bloomberg  
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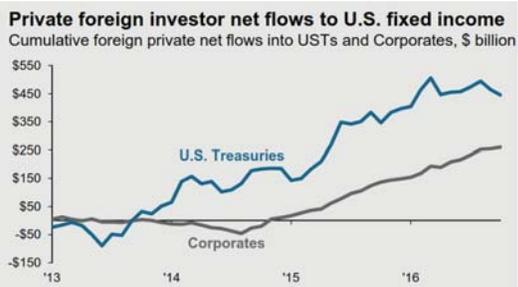
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## CENTRAL BANKS AFFECT FLOWS TO U.S.



Source: JPMorgan Guide to the Markets  
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## POSSIBLE ADDITIONS

- Ron Paul – former Texas Representative
- John Taylor – the “Oz” behind the Taylor Rule
- John Allison IV – Cato Institute and former CEO of BB&T
- Paul Atkins – former SEC member
- Tom Hoenig – VC of FDIC, and former head of Kansas City Fed

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## TRUMP AGENDA

- Affordable Care Act
- Infrastructure
  - Wants to spend \$1 trillion over 10 years
- Tax Cuts
  - Corporate tax cuts: 35% down to 20%
  - Individual tax cuts from 40% down to 30%, all others to fall as well
  - Repatriation (could be as high as \$2 trillion)
  - Fees on importers (border taxes)
- Dodd Frank

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## FED “DOT PLOT” VS MARKET EXPECTATIONS

Historical projections for December 31, 2017



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