

ISN Coffee House - Investment

Jerome Powell in Zurich 6 September 2019



Coffee houses in both the UK and USA historically are meeting places, obviously for coffee, but also to discuss the issues of the day normally with a business emphasis. This tradition is still active today. The ISN Coffee House occasional musings are in a similar vein discussing issues of the day.

This past week FED Chairman Jerome Powell, spoke at the Zurich University. I (Bruce Albrecht) attended with many others. One does not go to these events expecting to learn some new revelation although it is good to have some things confirmed and one never knows what questions might be asked from the audience.

Swiss security in contrast to the US is discrete and probably in actuality much less. The country has one of the highest per capita gun ownership, yet firearms rarely feature in crimes. At the event attendees streamed in from many entrances. There was no general checking as individuals carried cameras, brief cases, computers and back-packs. Also in Swiss style the presentation started exactly on time and all the punctual Swiss were seated in advance.

As well as Jerome Powell there was Thomas Jordan, Swiss National Bank Chairman and the moderator Martin Meyer, President of the Swiss Institute of International Studies. The whole event was broadcasted live on some internet sites. If you missed it live it can be viewed on YouTube in its entirety from Yahoo Finance at

<https://www.youtube.com/watch?v=7NK5zDPcXxU&t=38s>

or from CNBC at

https://www.youtube.com/watch?v=aYoXY_QaQI4&t=3s

As of Sunday they have been watched over 50,000 times in total. There are other shorter YouTubes containing what the poster thought were the highlights of the talks. There are also extensive press coverages.

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The moderator is rarely mentioned despite his ability to move things along and inject some humour. He started by promising that every problem would not be solved tonight. One side benefit of attending is a chance to have some conversations with others who share an interest in the subject matter. In general, Swiss are more favourably inclined toward the US than some other European countries such as France. They also understand, to some degree, the problems of BREXIT being outside the European Union, yet needing to trade with the block. I had a small chat with an older attendee (hmmm a bit like me !) who talked about changes we have seen in banking and investment over the past few decades. He is Swiss and was posted to London in the 1970s working for a Swiss bank in the City. We joked about those times of the “3-day only” electricity working with candles on our desks wearing heavy coats due to lack of heat. It was a bad time for the UK under the Labour government and now these lessons have been forgotten. Other chats were about how Americans can possibly like Trump or any of the Democratic hopefuls. “What has become of America?”

The take-aways for me from Jerome Powell (or Jay or Jerry) as Jordan called him were;

- Continued moderate growth in the USA
- Uncertainty in trade policy causing less business investment
- No forecast of recession
- Job data continues to be very good
- In the future, Central Banks will be less able to handle downturns in the economy with interest rates and inflation so low. Banks like to have a 5 ½% rate flexibility - not possible now.
- FED governors presently have different views on the economy and policy. This is good as Powell says he wants the smartest people in the room to say what is wrong with a policy proposal – BEFORE decisions are taken not AFTER.
- Digital currencies such as Libra need to prove themselves first. The risk is in hacking and damage to banks’ source of finance.

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- Powell stressed more than once that the FED governors are not in the room when political discussions on economics are held in the government. An obvious sore point as he does not want to be seen as political. Some attendees laughed when he said the FED is not politically influenced. He boldly said, the lack of political influence is not the same as in China.
- He refused to give recommendations when questioned on advice to European Central Banks on how to get inflation up towards the 2% target.
- In answer to some questions he described the Phillips curve as only a “faint heart beat” compared to the past, as inflation expectations are now very important. This is an area of study for the FED.
- He summarized the economic situation as “murky”

Thomas Jordan spoke less while answering questions primarily dealt with Europe or Switzerland. Take-aways from him were

- Switzerland targets price stability or 1% inflation not 2%
- The Swiss National Bank has been successful in inflation management for decades
- The Swiss have less control over their economy due to the location and percentage of trade that is with the European Union.
- He implied that Switzerland was a rule taker not a giver.
- The Swiss National Bank is more of a consensus organization than the FED.
- When asked from the audience why not simply give everyone CHF 500 to help the economy he said he thought that was a good idea that he would like to do it, unfortunately the bank's constitution would not allow it!

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The evening concluded with a gift for Chairman Powell of a high quality Swiss belt that was designed for when the “economies go hard”. He can then tighten the belt that was too small for the present situation. It would also act as a deterrent to eating too many Swiss chocolates.

