Discussing the Possible End of QT With One Who Worked at the Fed (Szn 5, Ep 7)

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With Jake Schurmeier, Harbor Capital

Transcript (*Starts @03:15 on recording*)

Nathaniel E. Baker 0:15
Jake Schurmeier, Portfolio Manager with multi asset solutions at Harbor Capital. Thank you so much for joining me, contrarian investor podcast today, it's great to have you, we are going to talk about the Fed. And you are in a great position to talk about this because you were there, you worked at the Fed, we usually leave the individuals background, professional background for the second half of the show. But in light of everything that we are going to be discussing, I wanted to start with that. And maybe you can just start a little bit and tell us what you did at the Fed. And then we'll talk about this whole idea of quantitative tightening and how much longer it may have to go. So over to you

Jake Schurmeier 1:23
Great. Well, first of all, thanks for having me on the podcast, it's great to join you and discussing a topic that's near and dear to my heart. So in terms of my background, I spent several years at the Federal Reserve Bank in New York on their open markets trading desk, so within the Treasury Markets team, and so what that area is responsible for is one implementing monetary policy. So that was engaging in all the QE, the Qt and then the COVID response, as well as kind of informing policymakers about what's going on in the treasury market. What does it say about expectations for Fed policy? What does it say about the term structure of inflation expectations? What does it say about the market structure of the Treasury market writ large? Who's buying? who's selling? How do you understand that?

Nathaniel E. Baker 2:05
let me cut you off right there. Because we often hear that the Fed doesn't care about markets. But it sounds like they maybe that's true for stock markets. But you're telling us now they do care about Treasury markets?

Jake Schurmeier 2:16
They do they care deeply about the Treasury market, money markets, the MBS markets are the areas where they're most active in and then they care more broadly about financial markets, insofar as it informs their understanding of how much policy tightening is going on in this in the current regime, in previous regimes how much

easing is going on financial markets and financial conditions are how they transmit policy, by and large, that real economy. And Simon, what do equity multiple sort of equity valuations tell you about? Investors risk preferences, what do credit spreads tell you about the cost of funding for businesses, things like that, that's cares deeply about financial Of course,

Nathaniel E. Baker 2:54
okay, sorry. So go on. And so you're on the on the Treasury market desk. And you were there for a couple of cycles, right? When did you start? And what year was that?

Jake Schurmeier 3:05
I was fortunate to kind of get the whole lifecycle. So I started towards the fall of 2015. And so that was right before they were lifting off zero, which happened in December of that year. So after the financial crisis, of course, rates have been floored for around seven years. And so I was there right when they were pulling interest rates off the floor. And kind of the novel aspects of that at the time is, they'd never done that with a very large balance sheet, which obviously was a result of QE. And so there was a lot of discussion and, you know, uncertainty about how interest rate passthru would work in a world where you had a much larger balance sheet. So kind of fast forward a few years, they start running down that balance sheet in 2017. And so again, another kind of first pass through the post, in the sense that they had never run down the balance sheet, because of course, they've never done QE prior to the financial crisis. And this globally, it really hadn't been done either. The Bank of Japan had experimented kind of in the 2001 2006 range. But no large central bank had really tried to run down their balance sheet to the extent that the Fed was beginning in 2017. So we went through that for the next two years, we of course, ran into a little bit of repo volatility in September of 2019, that caused the Fed to reverse course, start growing the balance sheet, again, to kind of increase the level of reserves that lasted for a few months. And then of course, COVID, hit March of 2020. And then all hell broke loose. And we started increasing the balance sheet dramatically, again, in order to improve market functioning, provide accommodation, and by and large, backstopped the financial markets.

Nathaniel E. Baker 4:39
So the question now, as we record this on Tuesday, March 14, the situation is very fluid here, of course, the banks that went under over the weekend, Signature Bank of New York and Silicon Valley Bank out in California, and the Fed was part of the, I guess, rescue committee to at least shore up the system with liquidity and make sure that the depositors, all depositor,s would be made whole. So the question is, what are the chances that the Fed reigns in QT or ends QT outright in your view?

Jake Schurmeier 5:20
Pretty high. It's really going to depend on what we see in terms of the take up of the new facility. So the new facility at the Fed announced on Sunday night, the bank term

financing program. And so what that effectively is, is a way for banks to transform their securities holdings into one year funding from the Fed at OAS plus 10s, are pretty attractive rates, depending on kind of where the volatility in the front end settles, the curves inverted. So for a lot of banks, you can take your underwater mortgages, you can put them to the Fed, you can take that funding at OAS plus 10, you can pocket and fed funds. And you can pick up your 2030 basis points of carry on a riskless trade face on the Fed. So really, in terms of what it means for Qt, as banks do that, that increases the amount of reserves in the system, which is effectively what QE does, right. Obviously, it's only for a year long term. And so it should have a more mechanical roll off than QE one through QT. And so it really just depends on takeout. And so, you know, I think the Fed might continue to roll down their balance sheet on one hand through QT. But if you see a lot of take up to this to this new bank term, I always get this acronym right. Wrong, as is the newest one. The BT FP

Nathaniel E. Baker 6:39
Yeah, yeah. It's like BT FD except for a P instead of a D.

Jake Schurmeier 6:43
Exactly. So I don't know if the Fed would like to put it in that way

Nathaniel E. Baker 6:47
probably not. But yeah.

Jake Schurmeier 6:49
But yeah, so insofar as the BTF P starts to see a lot of take up, that'll materially offset the reserves during that's coming from QT. And so, you know, it's unclear, we'll start to get that data as of Wednesday, close. So we'll get that on Thursday with the feds kind of weekly balance sheet release. And so, you know, we're kind of in the dark here for the next few days until we get more clarity on what's happening there. But I don't expect it to fully offset what we're seeing with QT, because most of the banks that are likely to use a facility like this, don't hold that many security. So it's why we say regional banks, where most of their assets are in loans, which are portable to this fed facility. The banks that own a lot of these types of securities are the Bank of America has the JPMs, the Citis of the world that are less likely to use it, probably for both, you know, need, they're, you know, they're less under pressure over the last few days. And the other point is kind of the supervisory guidance behind the scenes that I'd be surprised that they're encouraging these larger institutions to tap these facilities unless they really need to. And so the other point of it is, you've seen the FHLB systems of the Federal Home Loan Bank system that provides funding against real estate collateral, you've seen them issue a lot of debt yesterday, and I'd expect these regional banks to tap a lot more funding from the FHLB's because their balance sheets comprise a lot more of these real estate loans. And they do have securities.

Nathaniel E. Baker 8:15
Okay, very interesting. So it sounds like there are a lot of resources available there for the regional banks, is it going to be enough to, I guess, save their business model here? Because we've heard a lot about, you know, the flight to the big banks, as a result of this, and things like that. So what do you think about that?

Jake Schurmeier 8:36
That I mean, that's the long term structural question that regulators have to be dealing with, because, you know, there's a huge tail to the US banking system, there's over 4000 institutions, while most of the deposits are concentrated, and you know, the G sibs, the jpm, is the Bank of America's of the world. You know, there's very small community banks all over this country. And those have a lot of political implications for Congress to be thinking about, if you're in a rural district, and you're one local community bank that has been in the community 4050 years is failing for for largely doing the right things. And I think, you know, there can be some criticisms of Silicon Valley Banks and signature banks, specific business models, silver gates, as well. Maybe they had too much in wholesale kind of business deposits. Maybe they got a little too far into crypto, had it overly concentrated at the deposit basis. But for a lot of these regionals, they're just doing the fundamental basics of maturity transformation, which is what all banks do. And so in a world where you see this flight to quality to the largest G sibs, you basically unwinding a lot of the goals of the post crisis regulatory framework, which was to make banks, individual banks less systemically important. And so you know, the last few days shows you that a bank that's in the top 20 of assets, you're nowhere near the top of the leaderboard in terms of total assets, Silicon Valley Bank fails, and then all of a sudden, you see the FDIC needing to use systemic risk exemption to guarantee their deposits for Signature Bank as well. And so in a world where you can see that flight to quality to the jpm to the world, this is exacerbating the problems associated with a failure of a large institution going forward. And so I would expect more regulatory burden for those kinds of category for banks. So that's kind of where Silicon Valley Signature Bank, a lot of the regional banks fall in so below $250 billion in assets, that got some kind of, you know, lighter regulatory burden after the Taylor enrolls at the Fed, and Congress, implemented in 2019. So I, whether Congress actually gets it done, I would expect more conversations about whether to reverse that. There's been tailoring what else going forward?

Nathaniel E. Baker 10:47
What do you think of the issue of moral hazard here and the fact that you've, you've bailed out depositors who had nothing to do with this? Obviously, they're just depositing their funds. But you still have an adjustment to the FDIC, I guess, mandate or whatever, for these couple of banks? And what that may introduce, should other banks run into the same issue in the future?

Jake Schurmeier 11:10
I mean, it certainly introduces more and more hostile postures, then I've been wrestling

with this over the last few days, I It's hard to expect a lot of retail clients and small businesses to do the kind of credit risk underlying their banks. So I get in miniature? Yes, there's there's moral hazard from bailing out specific depositors, because there's that kind of implicit backstop for other bank depositors going forward. But kind of to a larger point. I don't know if we want to get to a point where people have to do that credit risk on their banks, right, when people have to incorporate that we have to people have to think actively about bank failures have to think about moving their funds, diversify across banks, because there's a lot of inefficiencies to that. And so I, there's a huge tension between those two things. I'm not tracking American salad.

Nathaniel E. Baker 11:59
Fair enough. Finally, where does this leave interest rates? I know, that's not wasn't your purview of the Fed. But this, you know, with the Fed meeting next week, and could we maybe expect to Qt some Qt language, QE language to make it into the, into the statement? And what Yeah, what about interest rates?

Jake Schurmeier 12:17
Yeah, so I would expect, given the strength and CPI print for February this morning, that the Fed still wants to do 25 basis points, that kind of 50 basis points that they floated last week, during chair pals testimony, I think that's gone out the window with the bank volatility. I think going forward, you're still going to have this underlying kind of issue with the maturity and transformation that banks are doing. And because banks are now wary of that, and the consequences of that, I think they're going to be less likely to be less willing to lend going forward, corporate topology me a little bit more conservative. So I think, you know, there are going to be, you know, more permanent effects of this volatility, even if we get past it, that, you know, you're probably, you know, lowering demand and the, you know, the, you know, one to three quarters out, and you're probably pulling forward and increasing the likelihood of a recession. So, I think it probably limits where we get in terms of the terminal rate, right. Do you think the Fed wants to hike at the March meeting 25 basis points, probably another 25 In May, in terms of q t. I think they'll probably leave it ongoing. You know, the, the mortgage right off is pretty limited, just given where prepayments on treasuries are kind of on, you know, a fixed pace. And it's, you know, that with, you know, absolute certainty going forward over the next few months, kind of the next big decision maybe for the main meeting, because that'll come before the Fed will have very large maturities from is it's a quarterly refunding month based on kind of how Treasury issues debt. So maybe they'll might start to talk a little bit more and give more guidance, in remarks between the March and May meeting about what they're thinking about the level of reserves, they'll have more clarity in terms of the take up of the BT FP. But I think for now, they don't want to surprise on that front at the March meeting. And they'll just say, hey, we'll see what happens with the BT FP he'll take questions on that and talk about the aggregate level reversers.

Nathaniel E. Baker 14:09
What can you tell us about the past cycle, which sounds like it lasted from late 2015?

Through 2019? It's about four years, and what kind of stuff you and the Fed were looking for. You touched on some of it. But before reversing course, and how that process worked.

Jake Schurmeier 14:28
Yeah, I mean, so that the principal lesson was that we can do QT, it had never been done in the size that the Fed was trying and the beginning of the end of 2017. We will accomplish that goal. We ran down the balance sheet successfully. You know, you had some volatility towards the end, but by and large, it was a very successful program. And so when we started Qt earlier this year, the Fed had the playbook markets had the playbook. They had an understanding of the effects, kind of the pace at which the Fed would be doing it. The Fed pre announced kind of the sizes of much You know, a much more rapid pace of declines relative to 2017. And one that was because of this learned experience, and then to the balance sheet was far larger in 2022, than the comparative comparative period in 2017. Of course, because the size of the purchases and COVID, were just so much of such a larger magnitude. And so that's kind of the principal differences, we had that learned experience. And then the Fed also changed their operating framework subtly, in order to kind of put some guardrails around what we saw in late 2019. And so they introduced a standing repo facility, they introduced a FEMA repo facility. So these are additional ways for the Fed to achieve rate control, when they're uncertain about what the right level of reserves in the system is. But there's some kind of issues running the other way. And so because this rate hike cycle has been so rapid, you've seen a big concentration of assets on the Fed's balance sheet. So that's a liability for the Fed in the form of the overnight reverse repo. So money funds, because interest rates increases have been so rapid people kind of hoarding money at the front end of the curve. And so they're saying we don't want to extend duration, we don't want to extend out the curve, because the interest rate path is so uncertain, we can plug money in, you know, in a money fund, who puts it on the Fed's balance sheet, gets that Oh, and RP rate, you know, which is going to go right in line with Fed rate increases. And so now you have a much larger pool of money sitting on the Fed's balance sheet, which complicates the calculus around how much reserve balances should be in the system. And when the appropriate end for QT. So that's one complicating factor. Okay, another one is the debt ceiling. So the debt ceiling is likely to bind in sometime in the fall, you know, I think the early end would be August, you know, if they get over a few tax states, maybe that pushes it out to September. And so what that does, as well as that also puts more reserves in the system. As the Treasury Department spends down its cash that's releasing reserves into the system as well, it's also pulling out other short term investment opportunities, because the Treasury is going to be reducing the supply of bills. And so again, that's another complicating factor for how many bank reserves are likely to be in the system. And the other part of it is just how different the MBS market looks. And so today, because of how rapidly interest rates have increased, the Feds stock of MBs securities are deeply out of the money, you know, they bought the bulk of those securities. In 2020, when rates were at two, two and a half percent, you get a 30 year mortgage at two and three quarters. And so what that

means is you have to have a really sharp decline in interest rates in order for those MBs to start prepaying again. And so what that means is it slows kind of the passive process on the MBS side. So most of the rundown that's happening today, is really coming through the Treasury side. In a world where the Fed funds rate is at 3%, you can only cut to zero, that only gives you about 300 basis points of cuts. So that makes QE more likely. So it's really about the trajectory of long term interest rates. That matters for the probability of QE going forward.

Nathaniel E. Baker 18:11
You say we can only cut to zero, but we saw other central banks that cut below zero. And Was there ever any talk about that being a possibility? And also, what about this, this concept that the Fed could buy stocks? Because they buy some bonds? Obviously MBs and some bonds with a corporate bonds? I don't even know what they are. So but yeah, was there ever any discussion about buying stocks?

Jake Schurmeier 18:38
Yeah. So on on the negative interest rate story, it's certainly you know, there's public evidence of it. There's historical memos from FOMC meetings, they've clearly discussed the possibility of negative interest rates. The big holdup in the US is really about the money fund industry. So money market funds are a thing here, and have a large stock of you know, short term cash. And they they run into difficulties in the world with negative interest rates, because it kind of their price to the buck. So, you know, we had this during the financial crisis, one of these large money funds broke the buck, if you will. And it caused a lot of havoc at the front end of the engineering market. And so, you know, in other regimes, you know, Switzerland, Scandinavia, Japan, they're all these money fund frictions that kind of make negative interest rates, so less plausible, palatable option here in the US. On equities. That's a far more difficult exercise. I think that's a, that would be a policy of last resort. We've really only seen the Bank of Japan do that largely through ETFs. And the reason being, once you get away from the core, government backed securities, you're kind of going away from the legal document, you know, the Federal Reserve Act, and kind of the strictures there, and so you kind of need an emergency. It's called 13.3 authority that allowed the Fed do things like buy corporate bonds, the municipal funding facility, things like that. Buying equities? I think it's probably beyond the pale. And so that would be in a world where they've already gone through all of these other exigent programs.

Nathaniel E. Baker 20:16
And Was there ever any serious discussion about that, that you're privy to? Yeah, yeah. Okay. All right. Good to know. So that'll kill some conspiracies right here. Very cool. All right, Jake Schurmeier of Harbor Capital, very interesting, calm conversation here about the Fed. I want to take a short break and come back, ask you some more about your background about what you do at Harbor and continue talking about fed interest rate policy. Don't go anywhere. If you're a premium subscriber, do not touch the dial, because we will be right back. In fact, we already are. Alright, welcome back, everybody,

here with Jake Schurmeier of Harbor Capital. Jake. This is the segment of the show where we ask our guests to tell us a little bit more about themselves. And their entry, I guess, origin story to put things in Marvel terms, and what they did in their career. We obviously know about the federal ready when you were there. But tell us about this, how you got interested in investing or economics or policy or on any of these things? And how this brought you to where you are today?

Jake Schurmeier 21:16
Yeah, so I think it really started in grad school, I was doing a public policy degree, I spent a summer at the US Treasury Department on their international side. That was during the first Russia invasion of Ukraine in 2014. And so it was a really kind of close experience with sanctions policy with thinking about the intersection of macro policy and financial markets, we also did a lot of work, that's when they are winding down some of the Icelandic bank bailouts, you had kind of the remnants of the European sovereign debt crisis still ongoing. Spain, Portugal, thinking about capital markets there. And so I really enjoyed the intersection of kind of macro economics, kind of the core theory, thinking about trade all of these things, and financial markets. And so how do you price those things, how they intersect, and kind of the reflexivity of that too. After grad school, I kind of landed with the Fed. And while there, of course, you know, I spent a number of years in financial markets and Treasury markets specifically, I spent a year at the Treasury Department in their office a debt management, so the seller of treasury security, so thinking about the policy issues around, do we issue more tips? What's the appropriate amount of bills? How do you think about kind of as a steward of the Treasury market, the correct market structure central clearing those sorts of issues? And then, you know, I left the public sector and 2021 to become a fixed income portfolio manager, what I've been for the last year, 16 months or so,

Nathaniel E. Baker 22:49
interesting, pretty straightforward. The going back to the the Fed here, and all these QtQ II and stuff, one of the things that the Fed did, you touched on it, this cycle and during COVID is buy mortgages MBs. And this was a little bit unorthodox, just because the housing market wasn't really impacted by it. So maybe it was maybe you can tell me differently. You know, the MBS market obviously imploded in 2008 2009 and needed the Fed as a buyer of last resort, but possibly not so much in 2020. And, you know, some of the criticism of the Fed that it exacerbates inequality, this could be one of the ways that people have pointed that it does so, so curious about your thoughts on all that?

Jake Schurmeier 23:38
Yeah. I mean, I think you rightly said it. So 2020. Last night, it was clearly a crisis centered in the mortgage market. And insofar as that was reflected in the banking system, so buying mortgages buying agency debt, you know, I think it was really hard to argue that that wasn't the nexus of the crisis, come to 2020. It's really a small, it's really a business crisis. People are stuck at home, people can't spend, how are you going to keep people attached to the labor market, how you're going to keep kind of the economy

moving in a world where people are stuck at home in a pandemic. So it was a far more kind of macro shock emanating from the real economy far less driven by financial markets, but the Feds kind of knee jerk reaction. And, you know, their ability to affect broader macro economy is really through interest rates. And so the treasuries, obviously, he kind of the benchmark interest rate for the world, they're going to set the price for corporates, they're gonna set the price for equities, MBs, etc. But the pass through is always kind of more nebulous was the housing market and buying agency MBS securities, they can directly affect people's ability to buy homes, the costliness of homes, their ability to service debt, those sorts of things. And so kind of the knee jerk and March of 2020 us, Hey, we've done this before. We have a lot of experience buying treasuries and agency MBS let's do it and At the outset, one of the issues why we were buying securities was because of market functioning issues, those who are extremely clear in the treasury market and the MBS market. So it made a lot of sense from a market functioning purpose to buy in both of those markets. Fast forward a few months later, though, the housing market had really started to recover, mortgage repayments are rising, mortgage refinancing activity was rising, interest rates were so low, people were restricting their debt, taking advantage of very low interest rates, all the fiscal programs had really supported household balance sheets. And so I think there's a strong argument to be made, that the QE that continued from there probably should have been more concentrated in Treasury securities. Kristin Forbes, a professor, I believe, at MIT talked a little bit about kind of the unequal distribution of QE coming out of the COVID pandemic, and so really focused on MBS securities in particular, and how those may have exacerbated some of the housing price increases that we saw coming out of the pandemic. As you know, people who own their homes generally skew a little bit wealthier, higher credit scores have more household net worth just by virtue of owning those homes. And so insofar as there's an argument to be made about QE kind of exacerbating inequality, because it directly affects financial net worth buying MBs and supporting the housing market kind of disproportionately benefited those wealthier households. I think the Feds counter argument would have been this was a crisis, we were doing everything we could we have shown the efficacy of buying MBS securities. And that was kind of an easy lever to pull before they could stand up all the 13 got three facilities. And I think that's a really valid counter argument. I think where I differ a bit is, it probably didn't make sense to be continuing buying MBAs in 2021. But again, we're playing Monday morning quarterback here, and there was a lot of uncertainty about the counterfactual, How fast would the US economy recover? How willing would people be to spend? How, how could you think about job security in that environment. And so the main lesson for the Fed coming out of financial crisis was to do things fast, and to err on the side of doing too much, because the recovery from the financial crisis was pretty slow. And it was, you know, bumpy, and they had to do successive rounds of QE. And so kind of the lesson there was, let's front load it, let's do more now. Because we can always raise interest rates later to offset some of those effects.

Nathaniel E. Baker 27:20
You talked about the speed with which the Fed operates and is curious that they do

send tend to act pretty quickly. And they have to, and that would normally lead one to believe it's a pretty top down heavy organization, just because somebody has the authority to make those decisions, but it's kind of not, you have all these committees and things. And so I'm curious about the decision making process, and how long that takes. Because on the corporate side, when you want to make some of these decisions, takes months of meetings, and blah, blah, blah, meetings about meetings and all this horrible stuff that hopefully nobody nobody ever has to experience for probably most of us do. Another story for another day. But at the Fed, how Yeah, how top down? Is it? How does that whole thing work? How quickly are decisions made?

Jake Schurmeier 28:08
Yeah, so it really depends. A crisis really has a way of concentrating the mind. And so I think, you know, we went from doing these reserve management purchases in February, early March of 2022, all of a sudden do an open ended $75 billion per day by March 17. Later, you know, only three weeks later, and so the crisis necessitated it. And so the Fed was able to kind of, you know, take off some of the guardrails in terms of thinking about how do we size these programs? How do we think about the liquidity effects? How do we think about success in this environment? Because we know we can't do too much. And so let's take those away, where it gets into the 13 got three facilities, it gets more difficult. So buying corporate bonds in the secondary market, the primary market municipal securities. And that's why you saw a lot of those things come later, in March, early April. And so those are those take the lawyers, those take a lot more kind of structuring because they they're not as directly specified by the Federal Reserve Act. And so but I think to your general question, yes, the Fed is a consensus driven committee organization. And so the chair sets, the tone sets, the research agenda, and the staff and all the Reserve Bank's kind of work towards that. But a crisis, you throw that all out of the way you say, what can we do quickly and effectively. And so in March 2020, that was buying Treasury and agency MBS securities, that was, you know, opening up the repo facilities, doing all those things. And so, you know, what, I think the lessons of coming out the financial crisis is, you know, they reflect on those until six, seven years of thinking about okay, what are the guardrails for future crises? What are kind of other programs we left on the cutting room floor that we need to think about? And so the Feds always doing that prep, always thinking about these exigencies. circumstances and what they might be able to do. So that that preparation is always ongoing, but a crisis just, you know, constantly having to shift into gear.

Nathaniel E. Baker 30:08
Yeah, very interesting. And also related to that, and what we talked about so far this half of the program, what do you make of the argument that the Fed has become too meddlesome? And to prominent in financial markets, and that, you know, has maybe had a part maybe a large part in creating some of these bubbles that we've seen? And I really, if the Fed would just kind of leave things alone. Maybe let some more of these banks fail? Maybe they should have in Oh, eight, then it might be better for the long

term. Yeah, curious about that. And if there's people inside the Fed that actually advocate for that at all?

Jake Schurmeier 30:46
Yeah, so I think policymakers would agree generally, that they want to be doing less, they want to have a less active part to play in financial markets. They believe in markets, you know, these are a large organization of economists, they believe that markets are efficient, by and large, that they come to good outcomes. And so they would agree that the feds footprint has probably been too large. But that's not by their choice. And so we didn't see much fiscal spending coming out of 22,008 2009. And that's kind of the classic response to get out of a low interest rate environment to get out of zero lower bound a live liquidity trap. Whereas in COVID, we saw that we saw that fiscal spending, and I think that policymakers would hope that we have more of that counter cyclical fiscal spending, I think the experience since COVID, with high inflation, with, you know, the ongoing bickering between the two parties about the appropriate role for fiscal policy the size of the national debt, I would be skeptical that we'll probably get such a large counter cyclical fiscal response and future crises, because the pandemic was so unique. And it was, it was very hard to argue that people who are staying home for their health reasons should be you know, unable to afford food, unable to keep the lights on unable to heat their homes, because they're staying home for a national emergency. So I think that really concentrated the fiscal authorities as well. And so I would expect in future shocks, we're probably not going to get quite as much counter cyclical fiscal spending. And that's going to probably force the Fed to step back in again. Because at the end of the day, one of the lessons from the financial crisis was that long recoveries, lead to poor recoveries, it gets people out of the labor force, it causes them to lose their skills, it makes labor markets less dynamic going forward. It's called this concept called hysterics. And the Fed really wants to avoid that. And so that's why they do as much as they can,

Nathaniel E. Baker 32:38
and do so quickly. A second, one thing I want to ask you about the Fed if I could, and this is we you know, the whole scandal last year and the year before about inside the Fed central bankers buying stocks or, or indexes or whatever it was. I'm curious what what if anything, you're required to disclose because I asked this, because working on a news desk, where I had very, very little access to Insight information, like maybe a couple of times, but I had to disclose I had to give my employer access to my brokerage account, basically, fully full transparency into anything that I was doing. And it never became an issue that probably because I haven't done anything, but the so the question there is, and that's me on a new stance, where again, I had very little, but at the Fed, I mean, they literally set policy, but yet they don't seem to be required to do any of that stuff. Is that wrong? That

Jake Schurmeier 33:37
that is wrong. So they there are pretty strict requirements, they have changed them

subsequent to some of the issues with the Fed presidents over the past three years. You know, Chair Powell has talked a little bit about this. And I think they've publicly disclosed what the new requirements are for senior officers and presidents and board members. But when I was there, and I think this has been the case in the Mortgage Group for a very long time, because we were actually implementing policy. So we had a little more access relative to the rest of the system in terms of what policy decisions are, are likely how the Feds buying treasuries and MBs, etc, we had pretty strict requirements in terms of we needed to disclose what we're buying. When we're buying it. We had to hold it for a certain amount of time. We need to disclose when we're selling it, we weren't trading options. We weren't buying individual Treasury securities MBS there were pretty strict requirements about what we could buy, how long we had to hold it for. So yeah, I think the vast majority, it's, you know, you're buying some ETFs you're holding those for a very long time. There's a very vanilla investment strategy, I think. Yeah.

Nathaniel E. Baker 34:44
Which is basically yeah, so it sounds like similar to what we had to Yeah, but but the the Fed. I mean, I guess that's all they did. The bank, the central bankers is by they bought indexes, but maybe it was a timing of it that people were but then people in government don't have to do Do that apparently, like senators and congressmen is a different story, of course, and you don't know that about that. But anyway, yeah, I mean, do you think that there should be some kind of a blanket policy that or I mean, in government as well as the Fed and elsewhere for people to have to disclose some of that stuff?

Jake Schurmeier 35:17
Yeah, I think I think it's right. It's just the Fed is a public institution who gets its remit from Congress who works on behalf of the American people, I think it's, it's a great thing for them to be transparent about the rules around what they can buy and sell and that they're not privileging themselves at the expense of the American people. And I think the Fed. You know, I'm obviously biased here as a former Fed person, and, you know, very close to that organization. I think that organization, as a principle really tries to abide by that to be transparent, to follow the rules to make to kind of put themselves above reproach. And I think that the recent issues with a few of the Reserve Bank presidents, they're quick resignations, I think, show that the Fed takes it very seriously. Powell, himself, I think, is someone who really upholds himself and really is responsive to the American people.

Nathaniel E. Baker 36:12
Yeah, fair points. Fair points. Very interesting. Alright. Jake Schurmeier, thank you so much for joining me contrarian investor podcast today. Very fascinating conversation. In closing, maybe you can tell our listeners how they can find out more about you more about Harbor Capital. And I'll put this information in the show notes as well.

Jake Schurmeier 36:31
Great, Nathaniel. So Harbor Capital, we are a major provider of active ETFs and mutual funds, you can go to our website, HarborCapital.com. And to see more about us, for me, you know, I put a number of, you know, market insights onto our website, not a big social media presence. So you'll just have to follow me through the official channels. But you know, this has been a wonderful time. Really appreciate speaking with you. And you know, look forward to doing it again in the future.

Nathaniel E. Baker 37:01
Yeah, fascinating conversation look forward to having you on again, as the cycle turns here, that will be very cool indeed. So yeah. Thanks so much, Jake. Thank you all for listening. And we look forward to seeing you again next week. See you then.