First Trust
Monday Morning OUTLOOK

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – *Dep. Chief Economist*
Strider Elass – *Senior Economist*
Andrew Opdyke, CFA – *Senior Economist*
Bryce Gill – *Economist*
Nate Gerze, CFA – *Economist*

630-517-7756 • www.ftportfolios.com December 8, 2025

The Future of the Fed

There are two very important meetings about monetary policy this week but, so far, most of the public only knows about one of them.

On Wednesday the Federal Reserve will decide what to do about short-term interest rates and both the futures market and our economics team thinks the Fed will almost certainly reduce rates by another quarter percentage point, just like it's done at the last two meetings in September and October.

That meeting will also bring forth a new set of economic projections for the next couple of years – don't expect fireworks – and will end with a press conference with Fed Chairman Jerome Powell, where he will provide hints about additional Fed moves, if any, in the early part of next year. We think Powell will signal that investors should assume rate cuts will come more staggered; like every other meeting, rather than at every meeting in early 2026.

But the other monetary policy event, the one that fewer are paying attention to, might be much more important in the long run. That's a hearing to be held on Thursday, by the Chairman of the Senate Committee on Homeland Security and Governmental Affairs, Rand Paul, titled "The Fed's Big Bank Welfare Program: Oversight of the Fed's IORB Regime." (Full Disclosure: Brian Wesbury will be testifying at this hearing while the Fed is sending former Vice Chair of the Fed, Donald Kohn.)

One reason this hearing is important is because it dovetails with President Trump looking for a successor to Jerome Powell. As of this weekend it looks like Kevin Hassett, the head of Trump's National Economic Council, has the insider track, but we wouldn't count out former Fed Governor Kevin Warsh.

Either way, the new leader at the Fed, who would likely replace Powell by May, would have the power to shift the Fed in a very different direction. Monetary policy would still be made by the Federal Open Market Committee (FOMC), which includes the full slate of Fed Governors headquartered in Washington, as well as a rotating portion of the regional Fed bank presidents. But the new Fed chief would have a 4-3 Trump appointed majority on the Board.

That 4-3 majority is important because if the Board wants, it could vote to remove regional bank presidents. In theory, these removals are only supposed to be "for cause" but some regional bank presidents might not fight the pressure. It is true that bank presidents could go to court, like embattled Fed Governor Lisa Cook, but the courts might be less likely to fight a Fed majority asking for removal versus Trump asking for himself, like he did with Governor Cook. We don't think courts have jurisdiction over the internal workings of the Fed and it's hard to imagine them telling the Fed which votes it must accept on policy decisions.

In the meantime, Treasury Secretary Bessent has suggested changes to the antiquated system of regional Fed banks, a system which dates back more than a century. He suggested requiring any potential President of a regional Fed Bank to have been a resident of that district for at least three years. We would go even further and suggest reducing or even eliminating the regional banks and the duplication of all sorts of functions, to streamline the system and reduce spending at the central bank.

Another huge issue is that the Fed has been losing money hand over fist the last couple of years because it's paying banks interest on the massive amounts of reserves it's pumped into the financial system, while earning less yield on the debt securities the Fed itself owns.

Senators Ted Cruz, Rick Scott, and Rand Paul have bills to end these payments. We think these bills are a great start but the process needs to be handled with delicacy as the payments are the counterpart to the abundant monetary policy regime the Fed embarked on almost twenty years ago with multiple rounds of Quantitative Easing. Both these policies should be wound down at the same time and the Fed prevented from embarking on similar policies in the future.

Yet another issue investors need to pay attention to is that the Fed is in the process of reducing the liquidity requirements it imposes on banks while it is still cutting short-term rates and ending quantitative tightening. In turn, this set of policies could result in a pick-up in the growth rate of M2. The surge in M2 in 2020-21 was the harbinger of the inflation surge in 2021-22. Then the drop in M2 from mid-2022 through 2023 signaled the current slowdown in inflation.

The M2 money supply is up 4.7% from a year ago. That is consistent with some continued moderation in inflation. But if recent policy measures, like loosening the liquidity ratio, lead to a pick-up in M2 growth, then the Fed will be further delayed in getting inflation down to its 2.0% target.

Either way, this is a key week for monetary policy, both in the short-term and, potentially, the long run.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
12-10 / 7:30 am	Q3 Employment Cost Index	+0.9%	**+0.9%**		+0.9%
12-11 / 7:30 am	Initial Claims – Dec 6	220K	**220K**		191K
7:30 am	Int'l Trade Balance – Sep	-$63.0 Bil	**NA**		-$59.6 Bil