



September 15, 2025

Morning Briefing

Dear Scott

Check out the accompanying [chart collection](#).

Executive Summary: A recent article by Treasury Secretary Scott Bessent takes aim at the Fed for its use of unconventional monetary tools and its mission creep. Today, Dr Ed addresses the Treasury secretary in an open letter, detailing where they agree and diverge on the Fed's role and what monetary and fiscal policies are needed to sustain the Roaring 2020s scenario that both support. While an original aim of the Fed was to promote financial system stability, Bessent's push for lower interest rates risks a stock market meltup and upward pressure on inflation and bond yields. ... Also potentially destabilizing: The administration's highly unconventional Genius Act, which would use stablecoins backed by US Treasury bills to increase demand for Treasuries and fund the federal debt.

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Dear Scott I: I Wholeheartedly Agree. Thank you for your public service as Secretary of the Treasury of the United States. I read your recent excellent [article](#) in *The International Economy* titled "The Fed's New 'Gain-of-Function' Monetary Policy." I agree with much of your criticism of the Fed. In addition, I believe that we share the same optimistic "Roaring 2020s" outlook for the US economy, and we both hope that the Fed doesn't screw it up.

In an internal [memo](#) to your colleagues at Keysquare Capital Management dated January 31, 2024, you wrote: "Our base case is that a re-elected Donald Trump will want to create an economic lollapalooza and engineer what he will likely call 'the greatest four years in American history.' Economist Ed Yardeni believes that post-Covid America has the potential to have a boom similar to the 'Roaring Twenties' of a century ago. We believe that a returning President Trump would like this to be his legacy. In this scenario, the greatest risk factor, in our opinion, would be a sudden rise in long-end rates."

In your recent article, you criticize the Fed for attempting to manage the economy with unconventional monetary tools. You rightly observe that the Fed successfully ended the

Great Financial Crisis of 2008 by implementing the first round of quantitative easing (also known as “QE1”) in late 2008 and early 2009. In that round, the Fed purchased \$1.25 trillion in mortgage securities and \$300 billion in Treasuries.

QE1 was consistent with what arguably is the primary job of any central bank: to provide liquidity during such crisis periods. Indeed, the Fed was created at the end of 1913 in response to previous financial crises. Its original central mission was to maintain financial stability.

We both agree that the Fed’s subsequent three rounds of quantitative easing (QE2, QE3, and QE4) were a mistake. When the federal funds rate was cut to zero on December 16, 2008, Fed officials should have acknowledged that monetary policy could do no more to stimulate the economy, leaving fiscal policy to do the heavy lifting. Instead, the Fed implemented QE2 in November 2010, committing to purchase \$600 billion in long-term Treasury securities by the middle of 2011. Fed officials said that their economic model estimated that in effect this would lower the federal funds rate below the so-called “zero lower bound” by as much as 75 basis points. Other central banks around the world adopted similar unconventional policies, including actual negative-interest-rate policies.

On September 13, 2012, the Fed introduced QE3, the third round of quantitative easing. It involved the Fed purchasing \$40 billion in mortgage-backed securities per month to inject liquidity into the financial system and stimulate economic growth. It was open-ended, meaning that the Fed committed to continue purchases until the labor market improved significantly. It was expanded in December 2012 to include purchases of \$45 billion per month in Treasury securities. It too was open-ended. The Fed pledged to keep the federal funds rate near 0% until at least 2015.

QE4 was initiated in March 2020 in response to the Covid-19 pandemic. In that round, the Fed committed to making unlimited purchases of Treasury and mortgage-backed securities to support the economy.

As you note, “the Fed extended its liquidity tools into uncharted territory, repurposing asset purchase programs as instruments of stimulative monetary policy. ... These tools were designed to stimulate the economy through various channels, none of which are well understood.” The models used by the Fed to predict the positive impact of unconventional monetary policies were flawed, as you opined.

Even more troubling, as you state: “The wall of liquidity created by QE flattened the cost of

capital across industries and sectors, effectively drowning out the market's ability to send early warning signals when the real economy shows signs of weakening or of rising inflation." In other words, the bond market was rigged. The Bond Vigilantes were stymied from signaling any objections to the Fed's liquidity flood.

Furthermore, the Fed's ultra-easy monetary policies following the Great Financial Crisis through the Great Virus Crisis enabled the widening of fiscal deficits, accompanied by mounting federal government debt that could be financed at record-low interest rates. In addition, as you note, the Fed crossed the line "into the realm of public debt management, a role traditionally overseen by the Treasury Department. This entanglement between the Fed and the Treasury is concerning, as it creates the perception that monetary policy is being used to accommodate fiscal needs, rather than being deployed solely to maintain price stability and promote maximum employment." The Fed certainly can be accused of mission creep, as you convincingly explain in your article.

To be fair, Fed officials defend themselves by rightly observing that they are required by law to manage the economy. Therefore, they must do everything possible to do so. The Humphrey-Hawkins Act, formally known as the "Full Employment and Balanced Growth Act of 1978," was signed into law by President Jimmy Carter on October 27, 1978. The Act amended the Federal Reserve Act and required the Fed to pursue two primary goals: maximum employment and stable prices. In addition, a third goal, to pursue moderate long-term interest rates, was included but is rarely emphasized today.

Totally ignored was the Fed's original mandate to maintain financial stability. That really should be the third mandate and the most important one, in my opinion. According to the original Federal Reserve Act of 1913, the Fed was tasked with providing an "elastic" currency. This meant creating a flexible money supply that could expand or contract in response to economic needs, particularly to prevent seasonal shortages or panics. The Fed was to support banks by rediscounting short-term loans, helping to maintain liquidity in the banking system.

Accordingly, the original Act aimed to improve oversight and regulation of banks to prevent failures and systemic risks. That role wasn't explicitly stated in the original Act's text, but it clearly was implied and became central to the Fed's function during financial crises.

Dear Scott II: I Respectfully Disagree. It's true, as you noted in your article, that the Fed's unconventional monetary policies have been partially based on the notion that they would have a positive "wealth effect" on the economy, which has exacerbated wealth inequality to

some extent. As a result, the rich got richer, as you said, thanks to the Fed.

You also indirectly referred to the Fed Put when you wrote: "Successive interventions by the Fed during and after the financial crisis created what amounted to a de facto backstop for asset owners. This led to a harmful cycle whereby asset owners came to control an ever-larger portion of national wealth." I would add that the Fed Put increases excessive risk-taking, which is the source of financial instability. Again, to be fair, it has also been very effective in ending financial crises.

This raises an important question today. You have been leaning on the Fed to implement the Fed Put again now. Even before the recent batch of weak employment indicators, the Trump administration pushed the Fed to lower the federal funds rate significantly. Obviously, that would help to slow the increase the net interest outlays of the US Treasury. It might also provide your deficit financed fiscal stimulus programs with some support from monetary policy.

The odds of our Roaring 2020s scenario might increase if the Fed lowers interest rates. However, I presume that neither of us would like to see the decade end as badly as the 1920s did. Ideally, the Roaring 2020s will set the stage for the Roaring 2030s. That might be less likely if the Fed fuels a stock market bubble by cutting interest rates, which would exacerbate wealth inequality during the stock market meltup. The subsequent financial and economic meltdown would reduce wealth and income inequality as everyone got poorer.

In other words, the Fed's original mandate to avert and to stop financial instability should be a top concern for the Fed and for you.

Financial instability is a real risk at this juncture: As we saw last year, the Fed lowered the federal funds rate by 100 basis points from September 18 through December 18, 2024, yet the 10-year Treasury bond yield didn't fall but rose 100 basis points. You should beware of the Bond Vigilantes. If bond yields do go higher following a renewed round of cuts in the federal funds rate, will you implement the unconventional measure that your predecessor Janet Yellen did in 2023, i.e., issue more Treasury bills?

In any event, don't forget the old proverb: "People in glass houses shouldn't throw stones." The Treasury, which implements fiscal policy, has been experiencing mission creep for much longer than has the Fed. There have been more and more federal government program outlays financed by borrowing. That's evident from widening federal deficits and from soaring federal government debt when the economy is growing.

I hope that the administration's fiscal and regulatory policies work to lower the nation's debt-to-GDP ratio, as you project. However, it seems to me that you've concluded that won't happen unless the Fed cuts interest rates significantly.

The administration's tariff policies certainly have boosted federal government revenues. Still, I'm sure you are working on a backup plan should the Supreme Court rule that the Constitution doesn't grant the administration the power to impose most of these tariffs.

Dear Scott III: Debt Management & Stablecoin. On a separate note, I am aware that you have been a strong supporter of the Genius Act, both before and after it was signed into law by the President on July 18, 2025. You've stated that it will provide the regulatory clarity needed for the stablecoin market to grow into a multitrillion-dollar industry. You also stated that stablecoins, with the proper legislative framework, will expand the use of the US dollar and increase demand for US Treasuries, which back stablecoins.

I understand that stablecoins provide the speed, security, and low cost of blockchain transactions while eliminating the wild price swings that make other cryptocurrencies impractical for many everyday uses. Can you confirm that you are counting on them to finance a significant portion of the federal government's debt, as most of them might be backed by Treasury bills? Won't that mean that the stablecoin money supply will increase dramatically and that the Fed will lose whatever control it has over the money supply? The result could be a very serious and prolonged rebound in inflation. Just saying.

Dear Scott IV: Some Data for Your Consideration. Let me finish this letter by reviewing some of the key data series that I will be monitoring to discern how the Fed's monetary policies and your fiscal policies are affecting the financial markets and the economy:

(1) *Federal funds rate.* It's not obvious to me that the federal funds rate is too restrictive now and needs to be lowered given that the economy is still growing and the stock market is at a record high. Previous rate-cutting cycles were triggered by financial crises ([Fig. 1](#)). There is no financial crisis currently.

I'm not convinced there is an employment crisis either given that the unemployment rate is currently only 4.3%. The main problems in the labor market today—a shortage of labor and skills mismatches—can't be solved by easier monetary policy. Better productivity growth, however, is likely to solve them. That would be consistent with our Roaring 2020s scenario.

(2) *Bond yield and mortgage rates.* The prospects of a Fed easing brought down bond

yields and mortgage rates in early 2023 ([Fig. 2](#)). But when the Fed cut the federal funds rate late that year, both rose by about 100 basis points. That could happen again if the economy continues to grow while inflation remains above the Fed's 2.0% target.

(3) *Stock market*. It would be quite unusual for the Fed to ease when the equity markets are at record highs, with the total value of all stocks exceeding \$100 trillion ([Fig. 3](#)). This is an important measure of easy financial conditions as well as an important driver of the economy because of the positive wealth effect. In other words, the stock market is already very stimulative for the economy.

By the way, as I have previously observed, much of the wealth inequality in America is attributable to the demographics of aging. Older American households, particularly Baby Boomers, have lived long and prospered, as *Star Trek's* Spock advised them to do. They are retiring with over \$80 trillion of net worth. The bull market in stocks is making them even wealthier, and their spending is supporting the growth of the economy.

(4) *Real GDP & productivity*. The latest reading of the Atlanta Fed's [GDPNow](#) tracking model shows that the economy is growing at a solid pace of 3.1% (saar) during Q3, following an upwardly revised 3.3% during Q2 ([Fig. 4](#)). The recent downward revisions in payroll employment imply that productivity growth over the past year or so will be revised higher ([Fig. 5](#)).

(5) *Inflation*. The three major measures of core consumer price inflation are still running closer to 3.0% than to 2.0% ([Fig. 6](#)). The Fed's credibility is likely to take a hit if the federal funds rate is cut with inflation remaining relatively troublesome. That could push bond yields higher. Again, beware of the Bond Vigilantes, especially since you have previously acknowledged that the administration's fiscal policies need bond yields to decline.

(6) *Fiscal deficits and debt*. Over the past three years, the 12-month sum of the federal deficit has exceeded \$1.5 trillion, and that's while the economy has been growing and tax receipts have been rising to record highs this year ([Fig. 7](#) and [Fig. 8](#)). The problem, as you know all too well, is that outlays are growing faster than revenues. Net interest outlays on the federal government's debt have more than tripled since 2022, when the Fed started raising interest rates, to almost one trillion dollars over the past 12 months ([Fig. 9](#)). So I can certainly understand why you would like the Fed to lower interest rates. I can also understand your concern about having to refund billions of dollars of tariff revenues should the Supreme Court rule against your tariffs ([Fig. 10](#)).

(7) *Money supply & government debt.* I can also understand why you are a fan of stablecoins. Marketable Treasury securities held by the public was up to a record \$29.4 trillion during August ([Fig. 11](#)). Imagine if M2, which is currently at \$22.1 trillion, was converted to stablecoin, which must be backed up by Treasury bills. That would lock in a huge source of demand for the government's debt. But it might also have the unfortunate destabilizing effect of making it much harder for the Fed to maintain some control over the money supply, which would have adverse inflationary consequences.

I am counting on you to keep the Roaring 2020s going through the end of the decade.

Sincerely,
Ed Yardeni

Calendars

US: Mon: Empire State Manufacturing Index 3. **Tues:** Headline & Core Retail Sales 0.2%,0.4%; Industrial Production 0.0%; Capacity Utilization Rate 77.4%; Business Inventories 0.2%; Atlanta Fed GDPNow 3.1%; NAHB Housing Market Index 33; Import Price Index -0.2%. (Source: FX Street)

Global: Mon: Germany Wholesale Price Index 0.1%*m/m*; China Industrial Production 5.8%*y/y*; Lagarde; Schnabel. **Tues:** Eurozone Industrial Production 0.5%; Eurozone ZEW Economic Sentiment 20.3; Germany ZEW Survey 25; Germany Buba Monthly Report; Italy CPI 0.1%*m/m*,1.6%*y/y*; UK Average Earnings Including & Excluding Bonus 3.8%,4.8%; UK Unemployment Rate 4.7%; Canada CPI 2.6%*y/y*; Buch. (Source: FX Street)

Strategy Indicators

Global Stock Markets (US\$ Performance) ([link](#)): The US MSCI index rose 1.7% during the September 12 week and closed 0.1% below its September 11 record high. The AC World ex-US rose 1.9% for the week to a new record high. The AC World ex-US has been hitting new record highs since May 14 for the first time since June 15, 2021. Despite its strength in recent weeks, the US MSCI only outperformed the AC World ex-US in 11 of the past 33 weeks. EM Asia was the best performing region last week, with a gain of 4.5%, followed by EM (3.9%) and the AC World ex-US. Europe was the worst regional performer,

albeit with a gain of 0.9%, followed by EMEA (1.1), EAFE (1.1), EMU (1.4), and EM Latin America (1.6). The Korea MSCI index, with a gain of 7.4%, performed the best among country indexes, ahead of Taiwan (6.5), South Africa (4.4), China (4.2), and Hong Kong (3.8). The Switzerland MSCI index was the worst performer w/w, with a decline of 1.0%, followed by Germany (0.0), Sweden (0.3), Canada (0.6), and the UK (1.0). In terms of ytd performance rankings, the US MSCI index is up 12.1% ytd, but ranks as the second worst country performer and trails the 22.4% gain for the AC World ex-US. Among the regional indexes outperforming the AC World ex-US ytd, EM Latin America leads with a gain of 33.8%, followed by EMU (28.1), Europe (23.6), EM Asia (23.3), and the AC World ex-US. EMEA is the worst ytd performer, albeit with a gain of 17.8%, followed by EAFE (22.0). Looking at the major selected country markets that we follow, Spain is the best ytd performer, with a gain of 55.9%, followed by Korea (51.7), South Africa (44.4), Mexico (39.8), and China (34.5). The worst performing countries ytd: India (1.2), the US (12.1), Australia (13.8), Japan (19.1), and France (20.2).

US Stock Indexes ([link](#)): Thirty-three of the 48 major US stock indexes that we follow rose during the week ended September 12, steady with the 33 rising a week earlier. The S&P 500 LargeCap Growth index was the best performer for the week, rising 2.6%, ahead of Russell 1000 Growth (2.5%), Russell 3000 Growth (2.4), and Dow Jones 15 Utilities (2.1). The S&P 600 SmallCap Pure Value index was the worst performer, with a decline of 1.3%, followed by S&P 600 SmallCap Equal Weighted (-0.9), S&P 400 MidCap Pure Value (-0.9), and S&P 400 MidCap Value (-0.7). All but one of the 48 indexes are higher ytd. With a gain of 17.1%, the S&P 500 LargeCap Growth index is in the top spot as the best performer so far in 2025, ahead of S&P 500 LargeCap Pure Growth (15.6), Nasdaq 100 (14.7), Nasdaq Composite (14.7), and Russell 1000 Growth (13.6). The worst performing major US stock indexes ytd: Dow Jones 20 Transports (-1.7), S&P 600 SmallCap Value (1.5), S&P 600 SmallCap Equal Weighted (1.7), S&P 600 SmallCap (2.4), and S&P 600 SmallCap Growth (3.6):.

S&P 500 Sectors Performance ([link](#)): Nine of the 11 S&P 500 sectors rose during the week ended September 12, but just two were ahead of the S&P 500's 1.6% gain. That compares to five S&P 500 sectors rising a week earlier, when four were ahead of the S&P 500's 0.3% gain. The outperformers last week: Information Technology (3.1%) and Utilities (2.4). The underperformers last week: Consumer Staples (-0.3), Materials (0.0), Health Care (0.1), Real Estate (0.3), Industrials (0.4), Communication Services (0.8), Consumer Discretionary (1.3), Financials (1.3), and Energy (1.5). The S&P 500 is now up 11.9% ytd, with all 11 sectors positive ytd but only four are ahead of the index. During the June 20 week, Consumer Discretionary and Health Care were trailing so far behind ytd that they

were the only sectors trailing the index. Communication Services still wears the crown as the best ytd performer with a gain of 24.2%, followed by Information Technology (17.3), Industrials (14.6), and Utilities (12.2). These seven sectors are lagging the S&P 500 so far in 2025: Health Care (0.1), Energy (2.7), Real Estate (3.6), Consumer Staples (4.1), Consumer Discretionary (4.5), Materials (9.9), and Financials (11.0).

US Economic Indicators

Consume Price Index ([link](#)): The headline CPI rose 0.4% in August, exceeding the 0.3% expected gain and double July's 0.2% increase. The Bureau of Labor statistics notes that shelter once again was the largest contributor to the CPI, climbing 0.4% during the month. Meanwhile, the food index also advanced, climbing 0.5%, with the food at home index up 0.6%, while the food away from home increase was half that, up 0.3%. Energy prices increased 0.7% after falling 1.1% in July, led by a 1.9% rise in gasoline prices. The CPI ex food & energy rose 0.3%, matching July's increase. Indexes that moved higher in August were air fares (5.9%), used cars & trucks (1.0), apparel (0.5), new vehicles (0.3), and household furnishings & operations. Medical care (-0.2), recreation (-0.1), and communication (-0.1) were among the few decliners during the month. Looking at the yearly rates, the headline rate climbed to 2.9% in August after easing from 3.0% in January to a four-year low of 2.3% in April. The core rate held at 3.1% y/y in August, up from 2.8% from March through May. The headline rate peaked at 9.0% during June 2022, while the core rate peaked at 6.6% during September 2022. Categories posting noticeable increases over the past 12 months include used cars & trucks (6.0% y/y), motor vehicle insurance (4.7), household furnishings & operations (3.9), shelter (3.6), and medical care (3.4).

Consumer Sentiment Index ([link](#)): Consumer sentiment fell for the second month in September, according to preliminary estimates, dropping to its lowest level since May. Consumer sentiment sank to 55.4 this month, after climbing from 52.2 in April and May to 61.7 by July. The expectations component fell for the third month, from 58.1 in June to 51.8 in September, while the current conditions component moved lower for the second month, to 61.2 in September from 68.0 in July. According to the report, September's decline was particularly strong among lower- and middle-income consumers. "Consumers continue to note multiple vulnerabilities in the economy, with rising risks to business conditions, labor markets, and inflation. Likewise, consumers perceive risks to their pocketbooks as well," notes Joanne Hsu, director of the Surveys of Consumers at the University of Michigan. Tariff policies are also a major concern for many Americans, with roughly 60% of

consumers raising the topic in interviews during this month. Turning to inflation, year-ahead inflation expectations remained steady at 4.8%; however, consumer's long-run inflation expectations rose for a second consecutive month to 3.9% this month, though the current reading is below the 4.4% rate recorded in April.

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