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FX

Brent Donnelly

bdonnelly@spectramarkets.com  
(212) 398-6230



Activision's Atari cartridge boxes from the 1980s featured excellent graphic design

### Current Views

**Short USDCAD @ 1.2355**

Stop loss 1.2411  
Take profit 1.2201

**Short AUDNZD @ 1.0476**

Stop loss 1.0622  
Take profit 1.0200

**Short 01NOV and long 15NOV 1.3550 GBP put**

Calendar spread  
Price 21bps off 1.3730 spot

## A new chair?

We eagerly await the Fed chair nomination. Powell's nomination in 2017 was the latest on the calendar in modern Fed history and that came on November 2. For the record, that was a Thursday, and prior Fed nominations do not follow a specific day-of-the-week pattern.

I have been writing in past notes about possible outcomes from the main chair options and my views there are the same. [See here](#) for the most recent grid of outcomes. I think Powell is just under 50% with Brainard in second place (dovish, bullish risky assets) and Bostic a distant third (hawkish, bearish risky assets).

So that is my look forward. I think it is also useful to look back, so let's do that now. I wanted to see how a new Fed chair impacts the stock market in three different ways. First, how do stocks react to nomination? Second, how do stocks trade when the new Chair first sits down? And third, are there bigger-than-usual drawdowns in the 30-day, 90-day, and 1-year period after a new Fed Chair starts? All those questions answered in the table. Sample sizes are an obvious issue here.

### Stocks tend to rally on nomination and sell off when new Chair starts

	Return in the 10 days after nomination	Returns 5 days before to 2 days after taking office	Max S&P 500 drawdown after new Fed Chair start date		
			30day	90day	1 year
Powell	0.2%	-6.2%	7%	7%	15%
Yellen	2.3%	-1.7%	2%	2%	2%
Bernanke2	-0.1%	-2.9%	4%	4%	7%
Bernanke1	3.7%	-0.1%	2%	4%	5%
Greenspan	5.2%	5.8%	7%	33%	33%
Volcker	-3.6%	-1.5%	3%	8%	12%
Entire Sample of SPX data 1970 to now	0.4%	0.3%	3%	6%	9%

Max drawdown is close-to-close not close-to-low

Takeaways:

1. Nomination tends to be bullish and then stocks get nervous when the new Chair starts. This makes sense and would be the traditional buy rumor / sell fact pattern in a world where the Fed is primarily dovish and giving away free SPX puts. Another dove or status quo nomination has been bullish. Then, the new Fed Chair sits down, and people feel a bit of the old visceral uncertainty. Is he/she really going to be as dovish as the last one? Maybe not! Sell!

The prior pattern should persist on a Brainard nomination. If Powell is renominated, I would think it's random and confusing given he's somewhat priced in. Bostic will be perceived as much less accommodative. He will trigger the exact opposite pattern to what we are used to as the market will panic first and then probably rally once he starts as all the bad news will be priced in.

- Markets were extremely calm in the year after Bernanke and Yellen started. With Powell, Greenspan and Volcker, there was larger-than-normal downside volatility. Bernanke and Yellen were known, old guard, Davos elite style permadoves and very boring, unscary nominations. In contrast, Powell was scarier because he was not an obvious permadove. For example, he openly worried that QE was distorting markets as far back as 2013. He came over to Team “Whatever It Takes” pretty quickly though, as most central bankers do.

atheist is to: foxhole .. as...  
hawk is to : central bank in a crisis

Powell got a rude first-day-on-the-new-job greeting in February 2018.



- Recall the huge 2018 year-end sell off in stocks was driven by the unforced error when Powell said, “We are a long way from neutral.” [Tim Duy's confused take here](#) is representative of the vibe at the time. It was a clear communications blunder by a new Fed Chair. By contradicting prior guidance and suggesting many more hikes were needed, he single-handedly put the top in stocks. Less than a year later, the Fed was cutting rates as the algorithmic monetary policy rule triggered: **(if stocks down 20%, cut rates)**.

The lesson from Powell's blunder and many other incidents like the Minervini kerfuffle, is that if you make a mistake or do something dumb, just own it and move on. Don't compound it by pretending it didn't happen or your audio isn't working.

### Powell misspoke in 2018 but never reeled it back in



### One month later, US 2-year yields peaked at 3%

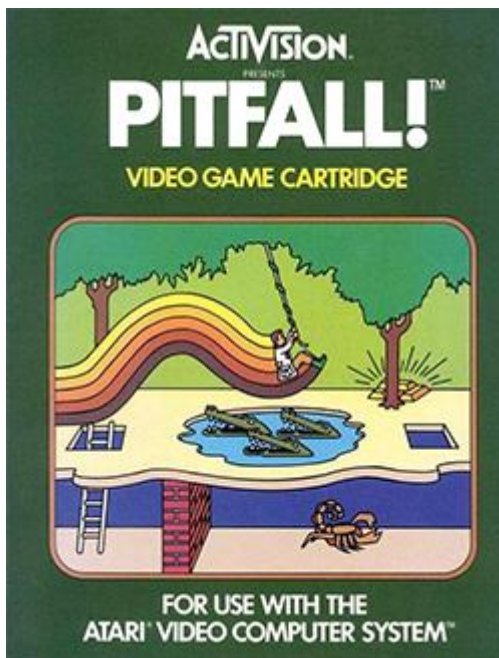


Enjoy your weekend. Check the headlines for any Fed chair nominations. Happy Halloween.

good luck ↑↓ be nimble

Judith Love Cohen, who helped create the Abort-Guidance System which rescued the Apollo 13 astronauts, went to work while in labor, took a printout of a problem with her to the hospital, called work to give them the answer to the problem, then gave birth to Jack Black. Jack Black was later in this Activision Pitfall commercial:

<https://www.youtube.com/watch?v=DA4V-n8Ft3g>



HT SKD

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