

Episode 02

A post election discussion

Ryan Caldwell (00:00:56):

This is Ryan Caldwell, CIO of Chiron Investment Management, and this is the FS Chiron Podcast number two. And for our listeners who may not know the intro music, that was The Beastie Boys, Rhymin & Stealin, from the License To Ill, I think that was, that wasn't debut was it, Pete?

Pete Bianco (00:01:22):

It's definitely old school Beastie Boys.

Ryan Caldwell (00:01:24):

Yeah, no, it's mid to late '80s.

Pete Bianco (00:01:26):

Exactly.

Ryan Caldwell (00:01:28):

It's good, but, again, I felt it was appropriate for where we're going. So, for this month's podcast, we thought what we would do is maybe take a little bit of a turn although it's incredibly pertinent to what we do. What we thought we would do is dive a little bit into a post election summary and dive into how we think that's going to affect the landscape going forward and maybe some discussion about implementation after that. I'm joined today by a few of my colleagues, first, Pete Bianco, the head macro trader here at Chiron, got him back for another episode of the podcast.

Ryan Caldwell (00:02:08):

Somehow, although I'm not sure how, we were able to get Lara Rhame, our chief economist here at FS to rejoin the podcast. It was a little touch and go after the last one, I wasn't sure she would come back, but, somehow, somehow, I have got her to join the podcast. And, sneakily, I think she helped me grab Eric Edwards, who is the head of government affairs for FS, and a little bit of background on my relationship with Eric, Eric and I did a client event, Eric, I don't know, about a month ago, month and a half ago, definitely pre-election.

Ryan Caldwell (00:02:48):

And Eric was incredibly helpful during that discussion with me and, actually, kind of threw some cold water at the time if you remember about a month ago, the big narrative in the market was this big blue wave that was coming and all the things that were going to happen, and Eric actually had some really good thoughts around that and actually kind of tempered some of those expectations, and, quite honestly, helped us think through some things that turned out to be true.

Ryan Caldwell (00:03:18):

So, what we thought we would do today is have Eric kick off and give us a little bit of a post election update, and walk us through some of the big buckets and what's happening in DC, what's likely to happen in DC, and maybe even a few predictions. From there, bring Lara, Pete

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and I back in and maybe kick around some of the implications of what Eric sees and how we think about that in terms of markets and future outlook.

Ryan Caldwell (00:03:48):

So, maybe first, Eric, do you want to give everybody a little bit of your background and sort of how you got to where you are and sort of what the job is today?

Eric Edwards (00:04:02):

Yeah, sure. Before that, I guess I have to rearrange my notes, because you indicated it's post election. I thought the election was still ongoing.

Ryan Caldwell (00:04:10):

Fair point, very fair point.

Eric Edwards (00:04:13):

I served, worked on Capitol Hill in senior positions on the House Financial Services Committee, over a decade. It was book ended largely by Gramm–Leach–Bliley legislation that I worked on, and then ended with Dodd-Frank. As you do when you're part of the establishment, I left the Hill right before Dodd-Frank became law and went to work from Goldman Sachs and so I had a period of eating my own cooking. Moved on from Goldman Sachs and I was head of government affairs for a DC based law firm and then one of my first clients was, then, Franklin Square, now FS Investments, and I've been on board at FS since 2015 doing government affairs issues.

Eric Edwards (00:04:58):

So, go ahead.

Ryan Caldwell (00:05:00):

No, I was just going to say, Gramm–Leach–Bliley, my God, you take me back to my financial analyst days.

Eric Edwards (00:05:07):

Yeah, at cocktail parties, when people are talking about what caused the financial crisis, I have to raise my hand.

Ryan Caldwell (00:05:16):

No, I remember it clear as day. Clear as day.

Eric Edwards (00:05:20):

Yeah, so, to the never ending Presidential election, I think the markets have held up extremely well considering the circumstances, and by circumstances I mean that one candidate is trying to block the Electoral College from voting, because, let's be honest, that's what's going on publicly here. And for those folks, I won't go deep into this, but for folks who are wondering, what in the hell is the strategy behind the litigation, et cetera? They're just trying to throw up enough dirt to block Biden from getting to 270 electoral votes. That's all it is.

Eric Edwards (00:05:55):

Overall discrediting the vote where possible, trying to prevent swing states from certifying, and then certification happens, which has started today, then they'll try to flip electors, which they'll be largely unsuccessful in doing. And then, after that, the next step is to block them from actually voting, so, December 14th is the day that they are scheduled to meet to vote. So, we'll see what the Trump campaign comes up with between now and then, so, we're still in this

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precarious situation, no one really thinks it's going to be successful, and by success, if Biden doesn't get to 270, the vote then goes to the House and it's a one state, one vote format and President Trump would theoretically win that.

Eric Edwards (00:06:42):

So, I look at this, I'm a bank regulatory guy by nature, so I look at this as a huge stress test for our democratic system. And it's in realtime, and hopefully the markets will continue to ignore this as background noise, knowing that if Trump is successful, the Cap markets are the least of our worries. So, the problem is is that leaves us with basically no lame duck Presidency, the executive is rudderless, I think we all see that. Seemingly the only goal is to make as much trouble as possible for the next administration, so, this is going to make it very difficult for the Biden team to dig out.

Eric Edwards (00:07:23):

The states and private sector are really taking the lead on the pandemic. And it leaves a vacuum that McConnell and Pelosi could have stepped into, but McConnell seems to be singularly focused on getting as many Trump nominated judges through before those nominations expire in January. He doesn't really seem interested in another COVID package, it's really him driving that as much as anything, there's a few folks on the right, but in the House, the Republicans have improved their numbers through this election. So, they also are not, they would like to see a COVID package in the longterm politically, but it's not something that's driving them in the short term.

Eric Edwards (00:08:10):

Simply put, the Republican leadership believes that they gain leverage politically by not doing anything now, and then they could pivot in late January to blame the Biden administration. How that affects the markets, it's not great, because we have a situation where mid December, we're going off the fiscal cliff again, meaning the funding runs out for the federal government. Can they come together and find a package? I think there's an outside chance, I would say 30%, that McConnell just refuses to fund the government. That's not going to reach crisis level by mid January, so, there's enough things that they can do with the Treasury, we're not going to run out of money.

Eric Edwards (00:08:52):

So, it's not a real fiscal cliff issue, but it's just another notch in the belt of things that are going wrong as we head into the new year. So, that's kind of the precarious situation we're in right now with the election slash transition, lame duck, and just one other issue on the transition, this whole, the GSA and the whole formal transition is less of a concern at this point than it's being made out to be. If it were a real concern for the Biden folks, they would be in court trying to force her to do something rather than trying to browbeat her in the media.

Eric Edwards (00:09:33):

So, that's kind of a level set of where we are, at least right up to the Georgia runoff, I don't know if you had any questions.

Ryan Caldwell (00:09:40):

Yeah, no, there are a couple of things I wanted to kind of poke and prod there and obviously, Pete and Lara, pop in as well, but you tickled a couple of things. I guess, first, when you think and you kind of laid out strategically, again, I'm assuming that McConnell thinks they're going to win, and we'll get to the Georgia runoff in a minute, is assuming they're going to win that. And, so, I was thinking about your point of kind of gaining leverage into the early part of the Biden

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administration. Flesh that one out for me a little bit, because that's one of the things I've been trying to get my arms around is ultimately what the end games are here kind of around the transition, to your point, because it does seem like the market's just looking through Trump and saying, "okay, it's over, whether it's over today or whether it's over December 21st, whatever, it's over, and it's going to be Biden, so we're looking through it".

Ryan Caldwell (00:10:33):

But I am interested in your point about the leverage the Republicans are hoping to gain. Because it feels like, well, if they do end up winning the runoff, they're going to have leverage regardless of having leverage, so what does being difficult now gain you, I guess, net politically between now and what ultimately looks like it should be the playing field or could be the playing field, again, I know I'm jumping ahead to Georgia.

Eric Edwards (00:10:58):

Yeah, that makes sense. So, I think the most descriptive way to explain that was it's already been taken by a Trump staffer who was probably supposed to be speaking off the record, but it was reported, this was just in respect to Trump's foreign policy or lack thereof right now, but I think it goes across the board, and the comment was something to the effect of, "we're just starting as many fires as possible so it's difficult for Biden to put them out".

Eric Edwards (00:11:29):

The whole idea is to shorten the clock on a Biden presidency overall. So, you limit the amount of policy changes, and kind of force him into an executive order footing and then criticize him for that. And we are going to get a pivot from Republicans, we've actually already gotten a pivot, over a year ago, from moderate Democrats who saw this coming, on, hey, we need to pay attention the deficit and we can't spend our way out of this and what are we going to do? We're forced into a position where we have to monetize the debt as we come out of COVID, while the middle market is crushed and unemployment numbers are still high, we've got a real problem.

Ryan Caldwell (00:12:21):

No, that makes total sense. And the other thing I wanted to pull on, the string I wanted to pull on, because you said it and we're seeing it in the tape, now, it feels like daily or every other day, but this kind of starting as many fires as you can mantra, by clearly we saw another kind of swipe at China, again, it sounds like we're planning between now and whenever the Trump administration exit is to start more fires there to the extent they can, as well. Are there any other things tickling around we should be thinking about in terms of fires that, again, today the market doesn't necessarily care about, but could get started between now and, again, inauguration, which is crazy when you're talking about 60 days.

Ryan Caldwell (00:13:08):

But that's really the timeframe we're thinking about, or talking about. Anything else there that you expect kind of coming down the pipe? Because, like you said, they're on the record with this, by no means is this a big secret, and, clearly, the market, again, has shrugged it off, but it's clearly the policy.

Eric Edwards (00:13:28):

Yeah, this is a double edged sword. So, I'll address it this way, and the double edged sword is, no one is governing. So, I think that's the markets are also looking at that and saying, "wait a second, no harm is being done". Yeah, but there are a couple of key moments, and I've already addressed those, but one is the December 11th expiration of government spending. We really

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need to show the foreign markets that we can do something right, so, I think that is a key moment and hopefully somebody will weigh with McConnell and we'll at least get a straight extension.

Eric Edwards (00:14:03):

And that's really kind of the first test, but keep in mind, that is a few days before the Electoral College has to do their official vote, so look at all the trouble that can be caused politically between now and then with us being rudderless. So, that would be my big concern, I don't think there's really anything else, if Trump were to roll back regulations or implement a regulation or do something, it's too late in the game for that. There's the Administrative Procedure Act that blocks a lot of that stuff and an Executive Order is just not going to have time to go into effect. So, I don't see anything else.

Ryan Caldwell (00:14:41):

Yeah, no, that's super helpful. Pete? Lara? You guys have anything?

Pete Bianco (00:14:45):

Yeah, I guess I'm just curious if you think, in the lead up to the election, we were going to get a deal, we weren't going to get a deal, do you think either party overplayed their hands? What are your thoughts on that? Could we have avoided the situation we're in right now?

Lara Rhame (00:15:07):

Yeah, and, Pete, just to ask a part B to that, so that Eric can answer it all at once, does the nature of the outbreak being predominantly in states where both senators are Republican, does that increase the chance of these guys going to McConnell and saying, "we are actually going to need help, you've got to move the needle". Because, before, I think the outbreak was so much more focused on the coasts and the traditional blue cities, now it's everywhere, does that change the conversation around a deal?

Eric Edwards (00:15:38):

Yeah, that's a great question, both great questions. So, I'll answer the first one in this way, if I were advising Pelosi, I would've advised her to pull back on her deal a little bit and go ahead and get a deal before the election, even if it look like that was going to credit Trump, because I think everything, I think the votes were locked in. This is a rare election, you had very little... The undecideds were so small in all of the polls, even if you want to point to polls in particular areas and say, well, this poll was way off, and there's a few congressional districts where that happened, and they're key districts.

Eric Edwards (00:16:17):

But, in general, especially in the Sun Belt states, the polls were pretty accurate, and I think those were locked in, and it would not have hurt Pelosi at all and may have helped her a little bit to cut a deal, so, I think she maybe overplayed her hand a little bit if anybody else did. I think McConnell was always going to be Dr. No, with President Trump putting pressure on him, that was the case. And will there be additional pressure? Interesting point, Lara, because you saw Cornyn who just won tough reelect, coming out and talking about, "hey, maybe we need to do something now", and he's in leadership in the Senate.

Eric Edwards (00:16:57):

Do I think that's going to change McConnell's mind? I really don't. Just because in politics a year is forever, and we're just finishing up an election cycle. I would think the only thing that would change that is if the two sitting Georgia senators meted it to push them over the finish line in

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the Georgia runoff. That might change the dynamic, otherwise it's not going to happen because they'll just push it off for a month.

Ryan Caldwell (00:17:28):

No, that's a really good point, I didn't think about that as catalyst to Georgia, which is probably a good entrée then, Eric, into Georgia. So, I guess the given truth is that Perdue, likely to win, low for a little bit, maybe a coin toss, closer race. But, and the market, again, has sort of priced that, so that's why I wanted to start there is that the market seems to have priced the fact that the Republicans will hold the senate. So, insights there, so, what's kind of the thought process there, the runoff, again, what sort of nuttiness should we expect into the runoff? And then, ultimately, how do you think it goes?

Eric Edwards (00:18:13):

I think we want to pay attention to Stacey Abrams and her Get Out To Vote machine, that has been really impressive. And if it looks like there's any type of turnout in the Atlanta metro area that's similar to the main election, the Presidential, then it's going to be a coin toss. It's going to be a really tough race, yes, and I think Loeffler, she's in a more precarious position than Perdue, and it's one of those situations that I think if Ossoff were actually running for Loeffler, he would probably be up five to 10 points.

Eric Edwards (00:18:54):

So, you have the better candidates running for the same seat on either side of the aisle, and then vice versa. So, it's going to be a tough lift for the Democrats to win either of those seats, I don't see a lot of ticket splitting, if you will. What to keep an eye on is, we don't know this, but this will be the first test of it, it is possible that Trump administration policies pushed the college educated white women in the suburbs over into the Democratic aisle, helped extensively by the Never Trumpers, who dumped a lot of, and these are former Republican campaign workers, campaign managers, who turned against Trump, and they dumped a lot of advertisements in Georgia and basically say they made it okay for those folks to switch parties.

Eric Edwards (00:19:56):

If they feel like, "wait a second, I don't really want at least two more years of the dysfunction in the senate and wrangling over whether somebody gets a cabinet pick or a low level judge", they may switch. So, that's what to look out for.

Ryan Caldwell (00:20:15):

Okay, no, that's a good heads up into...

Eric Edwards (00:20:19):

Yeah, and as far as the shenanigans, I just want to, the reason that McConnell is walking this thin line of giving Trump the room to do something that under normal circumstances everybody would be saying this is sedition, why is he trying to overturn the Electoral College, McConnell cannot suppress the Trump base in Georgia if he helps to keep those two seats. That's all it is.

Ryan Caldwell (00:20:43):

Yeah, that was our read, as well, actually that was a question I was going to ask you. And that seems, I get the longer this goes on, the longer you keep the base riled up, the better, back to your turnout point about Abrams in Georgia, it seems to me that even if the Republicans want to distance now from Trump, they need him through this runoff at least to keep the fervor in the base up, so, I'm glad you addressed it because I was going to ask you it directly.

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Eric Edwards (00:21:16):

Yeah. So, go ahead.

Ryan Caldwell (00:21:16):

No, so, I guess, then assuming, and, again, I know it's a big assumption and we'll have to see, and maybe we can kind of talk through both paths, but assuming you pick up one win in Georgia and the Republicans hold the Senate, a little bit of insight on how you think this goes. Because, again, all these narratives are already forming on how Biden will govern with McConnell, how Pelosi will have to wrangle the House together which is now almost, it seems, a little bit of a harder House given what's gone on in some of the tales.

Ryan Caldwell (00:21:57):

Any insight into that? Is there anything in the narrative that you've heard so far that you would just poke holes in? And, again, I'm happy to throw the dumb Wall Street guy narratives that are floating around Wall Street, because we've heard them all, but I'm really interested in your thoughts on kind of how this governing process goes, again, assuming that outcome?

Eric Edwards (00:22:17):

Yeah, so, the historically moderate Joe Biden, pro Wall Street senator, now President, and Mitch McConnell would definitely strike a lot of deals. I don't think that's going to happen. I don't buy it. I think McConnell has gotten too much traction with taking the, for lack of a better word, for the obstructionist or the blocker and he will continue that. I read an article recently about how Romney, Murkowski and Collins, the moderate senators, who would, if they join with Democrats, could make a majority. They said, "oh, well, yeah, we believe that Biden should get his cabinet picks, as long as they're mainstream".

Eric Edwards (00:23:08):

Okay, so, first of all, now, Biden's cabinet picks go through three senators, from sparsely populated states, so we've got to worry about Alaska, Maine and Utah for our cabinet picks, even though we have a President, that's kind of an absurd situation to begin with. It is what it is, the Senate has a lot of power, and it was created that way. But those folks don't control the schedule in the Senate, Mitch McConnell does, and if he doesn't like a nominee or somebody else doesn't like a nominee or if he thinks he's going to get political leverage by blocking a nominee for anything, he'll do it in a heartbeat.

Eric Edwards (00:23:47):

I don't see anything more than maybe half of the cabinet getting votes initially. There'll be some wrangling to get other cabinet level folks votes, but I don't think it's going to happen. [inaudible 00:24:01] look for people who have been confirmed before, who are recognized as more moderates, to get nominations, to get confirmation votes fairly quickly. And, also, going against conventional wisdom, people saying Elizabeth Warren wouldn't get an up or down vote or wouldn't get confirmed. How many senators do you think would like to get rid of Elizabeth Warren, on the Republican side?

Ryan Caldwell (00:24:26):

I understand.

Eric Edwards (00:24:27):

You're confirming a nominee, or Bernie Sanders, so, I wouldn't count those out, actually, either, especially if you got a situation where there's a Republican governor and they could get an

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appointed Republican to the position, so, that's something that Biden has to game out. But I just think it's going to be more of the same from McConnell.

Ryan Caldwell (00:24:48):

No, so, I want to tug on that string for a second, because that is one of the Wall Street guy narratives, right? The Wall Street guy narrative seems to be, Joe's going to hammer, President elect Biden is going to hammer the hard right hand side of the Republican party, which helps Mitch, and Mitch is going to keep the hard left side of the Democratic party at bay, because he'll block, and those two guys are going to hold hands and just cut deals left and right, and we'll get to a better place.

Ryan Caldwell (00:25:22):

So, I like that you kind of poked a hole in that, because I would say that's one of the things floating around is that Mitch and Joe are just going to do what they've always done which is hold hands and cut deals, and they'll keep the kind of left and right tails kind of pushed in the corner, and we'll get to move things forward, so, your point is slow down with that narrative a little bit because that's probably an overstatement?

Eric Edwards (00:25:44):

Yeah, I'd look for McConnell to wait to see what within the Republican Senate conference starts to percolate up to the top as issues that they would like to see a vote on, so that he doesn't have a complete mutiny, and he'll just move on those issues. So, I actually would see Biden's team working out, reaching out to Pat Toomey, who will be Senate Banking Chair, and he's announced he's not going to run again, from Pennsylvania, who is pretty far to the right but I would say in the middle of the fairway on financial services and markets issues.

Eric Edwards (00:26:24):

And then another one would be Mike Crapo, senator from Idaho, who will be Finance Committee, which is the tax writing committee in the Senate. And those are folks that Biden has good relationships with, and Biden's staff does, as well, and if they can cut deals with those type of chairman, and force McConnell's hand, then you'll see bipartisan legislation go to the Senate floor.

Ryan Caldwell (00:26:49):

Got it. That's really helpful, and then anything on the House side? Just in terms of, again, like I said, that problem seems like a harder one to wrangle and maybe the answer is just far less gets done, and I don't think Wall Street thinks a lot's getting done, so I want to make sure that I'm clear on that, but any kind of insight there when you think about how Speaker Pelosi is going to have to wrangle the House together?

Eric Edwards (00:27:20):

Yeah, I'll address that and then I do want to talk about a couple of issues which I think can get done, which Wall Street should keep an eye on. But in the House, in the previous Congress, Pelosi didn't really have a governing problem, she ran circles around McConnell and the White House on the COVID packages, and the Republicans previously were unable to get EXIM Bank reauthorization through the House, and she got that through basically the way that EXIM and industry wanted it, and just ran it by both wings, the left wing and the right wing, because she has a core governing section in the house of 40 to 50 moderate Democrats, who are all very quiet folks. Not media hounds, they're just doing their job, and have a lot of connectivity to their district.

Eric Edwards (00:28:09):

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Pelosi had a messaging problem. She used the moderates to govern, while she allowed AOC and the progressive wing to suck up all of the media attention. When it came to election time, that was really thrown in their face. So, I would look for Pelosi to take the approach that won the Dem's back the house previously, and that is for her to allow the moderates to be more vocally critical of her, like she would represent the progressives so that they don't have to attack their colleagues like AOC and others, they can be critical of her and that will bolster their support of moderates back in their home districts. And then she'll continue to use them to pass legislation that will circumvent the progressive blockages, and then look for 99% of those bills to die in the Republican Senate, just like last Congress.

Ryan Caldwell (00:28:57):

No, I know that, we know that playbook pretty well. Sitting in Kansas, and, again, having a moderate House seat here, that was absolutely the old game plan. She would hammer Pelosi, and that did get turned on its head, so that's a really astute observation from how you manage and govern versus the media messaging, because that's exactly what happened.

Eric Edwards (00:29:26):

Yeah, and a couple of the issues which I alluded to were I think that if you can agree on, pick one at a time, but agree on the parameters and then have a policy discussion, which we don't have a lot of today, on the nuts and bolts. But two things that could move. One is not an infrastructure package, I think that could eventually be something that is strapped to COVID relief, but I think there's a possibility of an infrastructure bank, something that would be based similarly as the Federal Home Loan Bank that both parties could get behind, because it's more of a public private partnership on infrastructure issues, but something that we have a quasi-governmental entity that we can deputize to carry it out.

Eric Edwards (00:30:20):

So, it's not just spending good money after bad, et cetera. So, I think that's one thing to look at. Another to look at, which I think Wall Street should be very interested in, and there's a couple of draft pieces of legislation floating around House and Senate, and that is similar to a terrorism risk insurance backstop by the federal government, which the insurance companies didn't like until they started to like it after terrorist attacks.

Ryan Caldwell (00:30:52):

After it happened, right.

Eric Edwards (00:30:53):

Yeah, they see the... Something similar for pandemics or that would just be ubiquitous, any type of situation that we needed to backstop insurance companies. Now, you're going to get the usual, "oh, well, create a too big to fail issue", or, "is this socialism?" And you'll get the usual Rand Paul, libertarian line on some of these, but if you look at how much we're going to spend to dig ourselves out of this now, and you compare that to how much we would spend if we had some similar backstop, it's going to be eye opening. So, that's something that folks in the financial sector should keep an eye on, as well.

Ryan Caldwell (00:31:37):

That's a really good nugget. Lara, I see you jumping up and down, not pacing, so I'm kicking it over to Lara.

Lara Rhame (00:31:43):

Yeah, Eric, as always, when I think that Wall Street's a tough business, and then I hear you talk about Washington, I am awestruck at how much you have to navigate and all the factors that

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you have to consider, so, thanks for, once again, not only informing me but reaffirming my career choice, I don't know how you do it.

Ryan Caldwell (00:32:10):

Mine too.

Lara Rhame (00:32:15):

I think I spend so much time thinking about the Fed, policy, what they're going to do, the choices that they have, the ammunition that they have. And then we've got this, so, first of all we have the Shelton vote that was, she's been proposed as the new Fed governor that McConnell voted no and cut off that vote. Could you, procedurally, just talk about that? And is he going to allow those seats to be filled by Biden or not? Or is it going to be like the Supreme Court where he's going to jam through whatever picks he wants on that front?

Lara Rhame (00:33:00):

And then we got this news last night about Mnuchin taking away the facility or deciding to not extend the funding for the facility for the Fed to intervene in investment grade bond markets. Is that the same strategy? [inaudible 00:33:23].

Eric Edwards (00:33:23):

Yeah, that's under the umbrella of creating fires, although, ideologically, this is something that Mnuchin, he's never agreed with the Fed facility programs and never really supported the Main Street Lending Program, as well, which is operated out of the Fed. Nor has-

Lara Rhame (00:33:40):

[crosstalk 00:33:40] Is that why it didn't do that well?

Eric Edwards (00:33:42):

Yes, that's why it didn't do that well, yes, he purposefully put something... So, the Main Street Lending Program needs to be fixed. We at FS have talked to Toomey about this on multiple occasions, he's behind us, literally told us there was a high level phone call that came from Treasury to Fed that put the SBA's affiliation rule, that was used for PPP, into the Main Street Lending Program. The affiliation rule is what says if you have private equity in your capital stack, then your number of employees has to include the private equity firm and then all of the other companies that get loans out of that fund.

Eric Edwards (00:34:23):

So, it takes them out of the size category to be eligible for the Main Street Lending Program.

Lara Rhame (00:34:27):

That's absurd, by the way, but, yeah.

Ryan Caldwell (00:34:30):

I totally agree, that's nuts, that's crazy, yeah.

Eric Edwards (00:34:33):

It's absurd, it's an assumption that we have a 1960s economy and nobody has any private equity in their stack if they're a mid market company. But those are the companies that are going to be hit the hardest, and that's a huge warning sign, and something that needs to be fixed as soon as possible. So, I think there should be some hand wringing over the Mnuchin action on the lending facility and on the Main Street Lending Program more broadly. I don't know what he's going to do with the Shelton nomination. There are going to be several seats

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that come open at the Fed, there's two open now, I believe, and there's several more that are going to come open soon.

Eric Edwards (00:35:20):

So, I wouldn't worry too much about that, she could be a problem there, but I don't know what he's going to do strategically. I doubt that he brings it up again, but what he did was there's a procedural quirk in the Senate that if you lose a vote, and the leader votes on the winning side, even though he wanted whatever it is to pass, confirmation or legislation, that if he voted on the winning side, then he can bring it up again. So, he has done that and reserved his right to bring up the Shelton nomination again. I don't see Trump in this environment being able to flip, and I'm not knowledgeable of anybody who's lobbying any senators to flip their votes on this.

Eric Edwards (00:36:00):

So, I think the nomination is dead. But to add, where you're kind of probably going next, or maybe to try to reassure you a little bit, if I were betting, I would say Janet Yellen is going to end up as Treasury Secretary, former Fed governor. Biden wants somebody at Treasury who works closely with Fed, so, a lot of these problems with Mnuchin and the Fed facilities are going to go away in January. And I think Yellen could get confirmed. If it's not Yellen, it's probably going to be Lael Brainard, who would come from the Fed to Treasury, and that would open up another Fed seat for Biden.

Eric Edwards (00:36:39):

Ferguson has also been potentially in the mix, TIAA CREF, also former Fed governor. So, you can see where Biden is focusing with Treasury, and just for the macro view on that, there's going to be internecine wars on some of these cabinet picks, Biden is just not going to have it when it comes to Treasury, [inaudible 00:37:04], and Defense and probably Justice. He will allow the progressives more leeway on his Labor picks, HHS, HUD, et cetera. But not on the Fed, not on Treasury, so I think we can expect more mainstream folks there.

Ryan Caldwell (00:37:24):

And then, Eric, just to maybe tickle that a little bit, this sort of Fed, Treasury relationship, because this is one that was burning a hole in my pocket and I wanted to throw out and I saw, we saw, I guess it was yesterday, Bill Spriggs, the chief economist at the AFLCIO sort of made this comment, pretty directly made the comment, that while you won't have, again, assuming the Georgia runoff goes the way the market thinks the Georgia runoff is going to go, and the Republicans control the Senate, since you won't be able to legislatively fill some of these gaps on stimulus and funding, a coordinated Treasury and Fed sure can.

Ryan Caldwell (00:38:11):

And, so, again, we're hearing the same thing, the market thinks it's likely, Yellen at Treasury or Brainard, and then Fed, eventually, I'm assuming Powell won't make it past '22, but a much more coordinated Treasury and Fed effort, maybe to your point, in terms of achieving whatever kind of economic outcomes they want to achieve and those probably, to your point, look a little bit different.

Ryan Caldwell (00:38:38):

But could you maybe talk about that a little bit? Because I do think that is one that's critical for the market to understand and get right, because if it's successful, it's probably a bit of a different backdrop than we've been operating under the last handful of years, maybe going all the way back to, Lara can smack me around if I'm wrong, back to the Geithner, Bernanke kind of Treasury, Fed relationship where it was really hard to glove to maneuver and do what

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needed to be done. Is that a possibility? And if it's a possibility, how should we kind of think about that working? Again, where Fed and Treasury are working together to almost hit legislative, what I would call legislative goals or outcomes, or what we would've traditionally thought as legislative outcomes. Is that a reality or is, again, that another kind of Wall Street overstatement?

Pete Bianco (00:39:38):

And he even alluded to taking equity stakes in companies, which is sort of a throwback to Elizabeth Warren's economic plan from last year which, I think that kind of shook the market up a little bit.

Eric Edwards (00:39:53):

Yeah, that's a tougher one to address, I'll try to address the good part of that, or my view of the [inaudible 00:40:02].

Ryan Caldwell (00:40:03):

[crosstalk 00:40:03] Do what you can.

Eric Edwards (00:40:05):

So, I not only think that we can get back to that, I think that's the model. Remember, people are shaped by their experiences, and that's especially true in government. And I know that I used to be a lot more libertarian than I was, because I served on [inaudible 00:40:19] financial services, and I wasn't in the room but I was just outside the room when Bernanke had the discussion with the leaders about the capital markets. And that shakes you up, and it shakes who you are, and I can tell you that Joe Biden was there in the early days of the Obama administration, and they made the decision, even though they thought healthcare was the way to go, that we needed to, and it was Barney Frank and others prodding them, but we needed to get the financial system in order first, even though that wasn't their priority.

Eric Edwards (00:40:54):

And the other guy who was there was Ron Klain as Biden's Vice Presidential Chief of Staff, so now he's in the White House, and these folks are going to be looking at it as the model of cooperation. Maybe not from a policy standpoint, but the model of cooperation, and they understand the importance that those positions and the undersecretaries and the staff and not just the Fed board but the New York Fed, the roles that they play, and there'll be a lot more respect for that, and trying to make things work, and to the extent where they can lend a helping hand, they will, if they need to get out of the way and let the markets do it, they'll do that as well.

Eric Edwards (00:41:35):

That's going to be a tougher road, though, because some of the progressives will want certain interventions, and to that point about taking equity stakes, one area where there was kind of an agreement in policy, not a real agreement, but just kind of in policy was both Mnuchin and Warren wanting to make it as punitive as possible for different reasons for companies of all sizes to participate in any government bailouts or government loan programs or lending facilities, et cetera. I am hopeful that that will discontinue, and that's what the Warren thing was all about, and that's what Mnuchin's affiliation rule was all about, it was just making this as painful as possible, and if they don't want to use it, fine, we don't want to bail them out anyway. And I think that's shortsighted, and I don't believe that Yellen and Powell would have that type of relationship, or Brainard and Powell, because they don't now. So, I think that's one positive.

Ryan Caldwell (00:42:44):

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That ones a big one at the top of my mind as to how that will work and be implemented. And then, Eric, how are you thinking about Fed and Biden administration, where do you think he goes post Powell? Is it Brainard? Are there others that are being kind of bandied about possibly as a replacement there? Because it just doesn't seem reasonable that he's going to keep Powell.

Eric Edwards (00:43:13):

Yeah, I haven't heard a lot in terms of names. Brainard I think would be on that list, and you could have a situation, if Yellen doesn't end up Treasury, or Brainard goes to Treasury and then comes back as Fed chair later, that's a possibility. I've heard Bostic, who is I think chair of the Atlanta Fed, on the shortlist for Biden at the Fed in general, and he possibly then could be elevated to replace Powell. But I have to think that, based on Biden's previous experience and Ron Klain, that they're going to go with a moderate establishment type, they'll probably lean more towards academics for the Fed governor positions, and then chairs, someone similar to that but that also has previous government experience. They're not going to want a newbie at Fed chair.

Pete Bianco (00:44:10):

Yeah, I've heard Jason Furman as sort of an out of the box candidate. Didn't Obama promise Larry Summers the chair and then kind of reversed on that?

Eric Edwards (00:44:24):

Yeah, who knows whether he was actually promised or if that was just Summers' view.

Ryan Caldwell (00:44:31):

I was just saying, according to Larry it was promised.

Pete Bianco (00:44:35):

In Cambridge...

Eric Edwards (00:44:36):

Yeah, so, I always... I'll go ahead and say it, I always joke that Biden and Klain are going to lean towards a Summers type intellectually, but not from a personality standpoint.

Ryan Caldwell (00:44:51):

Yeah, well said.

Eric Edwards (00:44:54):

Let me throw some names out there that concern me.

Pete Bianco (00:44:59):

Yes, please.

Eric Edwards (00:45:01):

And it affects those of us on this podcast and folks who are listening. The SEC, they're talking about potentially Preet Bharara. I don't really, that doesn't make me, I'm not quaking in my boots because of that. That just means more enforcement actions. And if you look at Clayton's enforcement record versus the Obama years, they're pretty similar. So, I don't think that that's really going to be that big of a deal, there are a couple of other names that do worry me.

Eric Edwards (00:45:30):

One is Gary Gensler, and the reason I'm throwing that in there now is because he's the kind of guy that could end up at the Fed as well, or undersecretary of Treasury with a lot of power

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under a Yellen Treas Sec. And Gensler, fellow Goldman alum with me, but really, really screwed up the derivatives portion of Dodd-Frank. And there's no other way to say it. And not necessarily with respect to the bulge bracket banks, but to the independent broker dealers, and there was a lot of stuff that had to be fixed. He's very hands on in crafting rules, this was when Gary was the chair of the CFTC.

Eric Edwards (00:46:17):

He's very hands on in crafting rules, and can essentially recraft legislation, and some of that should've been ironed out through litigation, but it was changed. He concerns me quite a bit. Another guy is University of Michigan professor, Michael Barr, who was in the Obama administration and also crafted a lot of the Dodd-Frank particulars that had to be, let's say, reviewed in the regulatory process, as well. So there's a little bit of overreaching there when he was with the Obama Treasury.

Eric Edwards (00:46:53):

So, those folks, although very smart, good at what they do, personable, middle of the road seeming type folks, are very, very active in rewriting regulations and I think that's why people are talking about them at someplace at the SEC, but that could really wreak havoc in very complex areas like, let's say, the private placement markets, where you have retail investors investing in alternatives more frequently. There could be some problematic rule makings coming out of an SEC that was Bharara, Gensler and Michael Barr.

Ryan Caldwell (00:47:35):

No, I will only concur that having my own interesting experience with the Gensler driven CFTC, that I would share your concerns. I would share your concerns, as well. One I was going to throw at you, as well, Eric, is one of the things, again, putting my old financial analyst hat back on, that's percolating as well is the whole notion of sort of the DOL rule and fiduciary rule rearing its head again, we were so close to implementation and then it ended up not happening. Any insight there under a Biden administration, is that something we could see kind of make a comeback?

Eric Edwards (00:48:24):

I think you're absolutely right there, it could make a comeback, whether it's a Bernie Sanders or there's a congressman from Michigan, Andy Levin, who is mentioned, can probably get confirmed easier than Bernie, if you had a situation where you had a Gensler as chair of the SEC, and you had a Levin who was over at Labor department, I could see them working hand in hand on a new fiduciary rule that was very similar to what was produced by the Obama administration, if not more stringent.

Eric Edwards (00:49:00):

And, you know, it's interesting, the markets, as we all know, have moved a little bit in that direction anyway, but I'm sure that they would come up with something that would make all of us uncomfortable, and it makes me uncomfortable that they would try something like that as we're coming out of COVID, and we need private investments in the mid market more than ever before, so, that is something that really, really concerns me, and you're right to bring it up and be concerned about it.

Ryan Caldwell (00:49:33):

Lovely, I'll put that on the list of things I'm concerned about. Pete, Lara, anything else for Eric directly before we kind of just open it up a little bit to discussion? Because now I want to push Lara a little bit on thoughts and push you, Pete, a little bit on thoughts having kind of heard Eric

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give the kind of state of play and the overview, but for you two, anything else for Eric just in terms of what he sees and kind of state of play in DC?

Lara Rhame (00:50:04):

Yeah, I could keep Eric on the phone, I could keep this podcast going for hours-

Ryan Caldwell (00:50:13):

[crosstalk 00:50:13] Yeah, so can I.

Lara Rhame (00:50:15):

And I'm going to be careful what I wish for, because I said I could hammer Eric with questions, but I feel like that's just karmically setting me up for you to then-

Ryan Caldwell (00:50:24):

[crosstalk 00:50:24] Yes, exactly, it's exactly what's happening, that is exactly right.

Lara Rhame (00:50:24):

Hammer me back with questions, so I don't want to... So.

Ryan Caldwell (00:50:30):

So, do hammer.

Lara Rhame (00:50:31):

To limit my own damage.

Eric Edwards (00:50:35):

Yeah, not just that, Lara, I'm interested to know what you think the impact of some of these issues could be, so, be careful.

Lara Rhame (00:50:43):

Yeah, yeah, I think, I guess, the final hanging question, we haven't really looked internationally at all, we haven't talked about China, these are issues that would take up a whole nother podcast, but we haven't talked about engagement with WTO, who cares, is that is it just even relevant anymore? China, if we roll back some of these trade kerfuffles, that's still, I think, just to me only pivots the real confrontation with China, which is military, two global powers, it's all the other stuff that actually we're on a collision course with China, I think Trump just, rightly or wrongly, chose to really address a lot of through trade, but there's a whole other host of issues.

Lara Rhame (00:51:39):

The question about China is so broad, I don't even know how to ask it coherently, clearly, but is there any sort of near term appointment that we need to be looking out for to see an early hint at how it's going to go?

Eric Edwards (00:51:54):

Yeah, I would look at State Department, primarily, and that's most likely going to be Tony Blinken, there's Susan Rice it has been mentioned, I just don't think there's any way she gets confirmed, Michèle Flournoy, who has similar background, Michèle is more on the intel, she's more of a spy than Tony Blinken, who's been at State. But any of those folks could end up in senior positions at State, and I think that that takes us back more to the Biden administration, maybe the second term, those type of policies. It also looks very similar to what we would've had under a Clinton administration. So, I think you'll see the trade stuff rolled back, and they'll

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try to roll up their sleeves and get back to where we were on the, I don't want to say bigger issues, but different issues.

Eric Edwards (00:52:50):

One of the folks that has been mentioned is Avril Haines at NSA, and she has strong background at NSA and in the intel community, and homeland security more broadly, so she would work really well with Blinken and his crew over at State. So, I think that that's something to have positive thoughts about. One thing that Biden may try, and I've heard this discussed by what would be his second or third tier appointees, so that's like deputy assistant secretary types, people I served on the Hill with, et cetera. And their thought is, they really like the strategic economic dialog that the Bush administration had, and Paulson's ability as Treasury Secretary to enlist Barney Frank and others on the Hill, to send senior staff or go to China or have a dialog, to show that we had a united front with the government, and that's one area where you talk about Biden working with McConnell, that's one area where it could happen is internationally and with China.

Eric Edwards (00:54:00):

That sends a strong message. If you send a bipartisan congressional delegation, maybe a week or two ahead of a Biden administration delegation to kind of lay the groundwork, but it's going to cause the Chinese to take a step back and say, "wait a second, this is now old school, we're back to negotiating with them as a united front, and not a divided entity, so we have to take this a little more seriously. There's so many problems to work through, like you said, I don't know where we try to press first, but I think from a process standpoint, that would be a great idea.

Ryan Caldwell (00:54:39):

I'm really going to miss Ron Varra, it's been, for those of you who don't know, that's Peter Navarro, I will miss the Ron Varra interludes into our diplomatic relations with China. I said it, Eric, you didn't, so, no problem. Pete, anything?

Pete Bianco (00:55:03):

I guess I would ask, you don't hear much about it, but how should we think about Kamala? What's her influence on Joe Biden and will her fingerprints be on policy at all? Or is it just sort of a storm in a teacup?

Ryan Caldwell (00:55:23):

Yeah, that's another Wall Street narrative, I think that's a good one to tease out a bit, yeah, I'd love to hear your thoughts on that, Eric.

Eric Edwards (00:55:29):

Yeah, and what is the Wall Street narrative? I know what I read, but what's the chatter?

Pete Bianco (00:55:35):

Depends who you talk to.

Ryan Caldwell (00:55:36):

Yeah, it depends who you talk to, but I do think that there is a fairly consensive narrative that her fingerprints will be larger than a typical Vice President's fingerprints will be, and that she will have a more influential hand on policy and that, again, I'm not sure Wall Street knows what to do with that, but I would say that's kind of the consensus by a little is maybe what I would say, and that one's building, and, again, part of that, again, conspiracy theories aside, about how long President Biden will serve, but I think at the heart of that narrative is that she is just going to have a bigger influence in policy than a typical Vice President would have, maybe more of a

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Cheney, Bush model is sort of the Wall Street consensus, if you will. And when I say consensus, I mean consensus by a little.

Eric Edwards (00:56:37):

Yeah, okay, so, it's really a perception issue I think more than anything. Again, people are shaped by their experiences, Joe Biden was always the last guy in the room when Obama made a decision. He relied on Biden a lot. Biden was just the kind of guy that he was deferential, he wasn't out front, he wasn't leaking, et cetera, and I see this Biden administration being similar to that, there's not going to be a lot of leaking, and I don't see the Vice President trying to steal a lot of limelight, but I think her fingerprints are going to be all over things, but it's not going to be discernible.

Eric Edwards (00:57:19):

There will be narratives about that, but I see it more as maybe a little more powerful than Al Gore, in Clinton, Gore, which is pretty powerful, and I would say on par with where Biden was in the Obama White House, as a trusted policy adviser and part of the kitchen cabinet, and will have certain portfolios, possibly Justice. My concern would be if, I'm not up in that atmosphere, but if I'm going to be Attorney General, is the Vice President going to be looking over my shoulder? So, that's one of the areas where...

Eric Edwards (00:58:01):

And maybe that's something that she takes up in conjunction with the Attorney General is looking at the Civil Rights Act and voting protections, et cetera. So, certain things like that, but I don't see, overall, her dictating policy. There are so many, whether you call it the deep state, or establishment folks, Ron Klain's going to pull from his protégés, which have been at CIA, Department of Defense, chief of staff of the entire DOD. His folks are going to be so seasoned, they're going to have more government experience than the Vice President.

Eric Edwards (00:58:45):

So, I just don't see that narrative playing out. It'll be a good parlor game, like, "oh, were her fingerprints on this?" But I don't see her as being more powerful than anyone else.

Ryan Caldwell (00:58:58):

No, I think that's a helpful framing. Maybe, okay, I'm going to kind of throw this open to the group and, Lara, I'm going to kind of put you front and center, which is, and I'm thinking, look, Eric, I think it's a question for you, as well, just from a policy perspective, and it's one that we've got to figure out from a market perspective because the way the world is constructed.

Ryan Caldwell (00:59:25):

This has just been the given truth whether I want it to be or not, which is, I guess, Lara, given what you've heard and what you think, and you know where I'm going to go with this because I harass you with it all the time, but, Eric, Pete, obviously want you to weigh in as well, which is when you take all of this in combination and think about the narrative that has driven much of what we've lived under which is sort of this low nominal growth environment, can't really get out of your way, which has lent itself to incredibly repressed interest rates relative to history, and the self reinforcing mechanism that we, not for lack of trying and maybe we're going to try harder now under this new construct and new administration which is what I want to get at.

Ryan Caldwell (01:00:20):

We haven't been able to generate nominal growth globally for any sustained period of time, and, so, I guess I'll start with you, Lara, is there anything about what you hear about at least kind of where Eric's set the table that makes you think that that narrative can change?

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Lara Rhame (01:00:44):

Yeah, it is, I think Brian Cho described it as a Shakespearian tragedy, which I think was the most apt description I've heard so far [inaudible 01:00:55] ability to just-

Ryan Caldwell (01:00:56):

[crosstalk 01:00:56] That's from a quant, when you can get your quant to be verbose, you've achieved something.

Lara Rhame (01:01:03):

That is a special kind of work environment. So, I think the one thing, and it's not about what I hope, it's about what I expect, so, a lot of this does sound like we're kind of rearranging the chess pieces but we still have a lot of the same positions in place, they can still really only kind of do the same things and move the same ways, I don't know how much hope it actually gives you that we're going to be able to intercede against these big demographic trends and productivity trends.

Lara Rhame (01:01:45):

One thread I do really want to pull, and hope is probably too optimistic, but I think there's a lot of interesting stuff that could happen. What I heard from Eric, and I've made some notes here because I'm a note taker, not the big spending package, that kind of anybody had maybe hoped for or then expected, but there is possibly some wiggle room to really get creative when you think about some of these facilities. And this is both interesting and it's dangerous.

Lara Rhame (01:02:21):

When I think about the Fed facility, and I'm going to get some of these numbers wrong, so, just recognize that I know, for the sake of argument, I'm going a little loose. Hundreds of billions of dollars in the Main Street Lending Facility that could be levered up to multiple trillions of dollars, and putting that money to work was always going to be tricky, I had not appreciated the extent to which Treasury actually threw up those roadblocks, but if somebody really rolls up their sleeves and over the next year digs in and thinks, "okay, how are we going to put this money to work?"

Lara Rhame (01:03:00):

The PPP funding program did that, it was sloppy because it was rolled out very fast, you kind of saw that coming, but that's a place where you think about, all right, you've kind of opened a bridge to getting dollars to the economy, if we get creative with that and we're actually able to do it, we could actually save a lot of jobs, push a lot of companies through what is clearly still going to be a challenged time on the economy, and I added dangerous to that mix and let me just elaborate on that, because I, like you, Ryan, have a tendency to go towards down spirals of outlier situations.

Ryan Caldwell (01:03:51):

It's a flaw, I agree, it's a flaw.

Lara Rhame (01:03:54):

Yeah, yeah. But sometimes that's where the magic happens, and when, over my 20 plus year career, have watched the Fed move from this very sort of staid, what is employment doing, and what is inflation doing? And now they're creating lending facilities and arguing about how much PE money should be in a company to make it relevant to saving... They got their toes hammered after the last financial crisis when they were perceived as moving outside of their

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lane, and, so, the risk is if it comes from the far left or from the far right, both of them are always waiting for the Fed to stick their head up out of the foxhole so they can take a sniper shot.

Lara Rhame (01:04:50):

I think this is, to me, what could also risk, if the Fed is able to get creative, if they are able to really get those dollars out there, they are begging to be just, their independence to be taken away, or to be pushed totally back into their original lane, which really limits them if we get another crisis like this, which I thought was once in a lifetime and here I am 13 years later, we're having another crisis.

Lara Rhame (01:05:17):

So, what I take away from it, that cul-de-sac notwithstanding, we don't get a great big spending package. We maybe get a less interesting, I mean, we're all I think going to miss the market moves that have-

Ryan Caldwell (01:05:38):

[crosstalk 01:05:38] I'm not going to miss, I'm not at all, I'm not going to miss it at all.

Lara Rhame (01:05:41):

You're not going to miss them?

Pete Bianco (01:05:42):

Zero.

Ryan Caldwell (01:05:43):

Zero, yeah, sold to you, I'm not going to miss.

Lara Rhame (01:05:49):

So, you get a much more predictable Fed, clearly the Treasury secretary appointment's going to be kind of a yawn, because it's somebody who's going to just be totally aligned, but is that really able to move the needle on what, at it's core, is broken? Which is the low inflation expectations, the low potential growth, the low productivity. We don't have a healthy, all the things that give you a healthy financial system, like [inaudible 01:06:18] that you can really take and [inaudible 01:06:23] in a yield curve and at it's core make banking behave the way it's supposed to and risk appetite behave the way it's supposed to, I haven't heard anything from what Eric said that really gives me that bottom line hope that we're going to get ourselves out of this, where we're at.

Lara Rhame (01:06:44):

Which is just heavily relying on liquidity, relying on low interest rates, and all of the equity valuations that we've seen really stemming from that and not from nominal growth.

Ryan Caldwell (01:06:58):

No, you hit the ball out of the park, that's the thing that we're trying to balance, too, when we think about this from positioning perspective, and, interestingly, you know, Lara, Pete and I were kicking this around yesterday with the investment team, which is at the moment you don't even need to know that. The market, I don't think, has even had to push itself to understand that point yet, right? There's enough, I guess, looking through to COVID normalization to occupy Wall Street for now.

Ryan Caldwell (01:07:36):

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When you think about earnings repression, when you think about the deflationary gap that COVID is causing, the market has sort of stopped and said, "well, by the end of '21, beginning of '22, it's going to normalize, and that's all I need to know, I don't need to think past that because it's such a big pothole to get through that if you normalize that, it's going to feel like enough like a cycle to go ahead and call it a mini cycle again, what happens on the other side of that? We'll worry about later". And I do think, one of the things that we seem to experience in the tape is that the market doesn't really look that far anymore.

Ryan Caldwell (01:08:20):

It tends to deal with these issues the day that they happen, and then it prices them fully in automatically that day, and then we deal with them. But I think your point, and that's why I wanted to have the discussion with Eric and you and Pete, which is is there some, and you're right, the danger of getting really creative and having it work out is huge. And the players understand that in a way that Wall Street doesn't probably want them to understand that, whether it's a Yellen or a Brainard at Fed, or Fed governors, is that that's a big genie to pull out of the bottle, and once you pull it out, you might not ever get to put it back, and the politicizing of it is massive.

Ryan Caldwell (01:09:05):

And then, Eric, then I think about it from, look, if I'm sitting in the chair and I'm Biden, and I'm looking at what the midterms are likely to look like with the Republicans having a lot of Senate seats to defend at the midterms in 2022, my proclivity is going to be to hit the gas, to push this as hard as you can, because you think with vaccine and normalization, you're going to get what's going to look like an economic rebound if you just show up and vaccinate people, and then if you can push Fed, I don't even want to say craziness, but I'll use Lara's cul-de-sac reference because I loved it, if we're getting pushed even a little bit into the cul-de-sac, to add some juice to it, things could feel pretty good by, call it early to mid 2022, right into that midterm.

Ryan Caldwell (01:10:00):

And, so, that's, again, I'm thinking game theory and trying to think past COVID normalization to kind of think what's the game theory that if you're sitting in these big seats and, again, I think one of the other Wall Street narratives that I don't believe is that Biden really wants a Republican Senate because it makes his life easier, that's become, again, a little bit of a wall street narrative. But if you're setting up the knock down bowling pins in 2022, hitting the gas to the extent you can do it, and I think Lara's analogy is perfect, that's the thing that we're trying to think about as maybe right tail.

Ryan Caldwell (01:10:38):

Because I think your base case is right, everything I hear you say is like, okay, I've seen this movie before, we'll get through normalization on COVID, then it's back to what we've all known the last decade. But, again, Eric, kind of thinking about game theory from the Biden perspective, anything to add there into Lara's cul-de-sac analogy? I want to put people in Fed and Treasury that probably do want to do things or would be willing to do things that maybe they shouldn't be willing to do.

Eric Edwards (01:11:09):

Yeah, and I'll throw another analogy out there, but I'll just say it's triage. But it also is, what they would do to triage this situation, is consistent with what they would do strategically for political reasons, and I don't think that they're going to be thinking about those, at least in the first year, because it also, by creating all of these fires, the Trump administration create the situation

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where you can come in as the Fire Department, and you put out a couple of fires, and you look like you're heroes.

Eric Edwards (01:11:40):

So, what if, and I'll just throw this as a question to you guys, what if rather than haggling over a three trillion dollar COVID package that the House says they want, and McConnell wants one that's 500 billion, what if the Biden administration, says, "okay, we'll take the 500 billion", and at the same time, they're allowing Powell to pull all the levers that he wanted to pull. So, you've got several hundred billion going into effect that's also levered over there, and, to your point, Ryan, doesn't it look like you're doing a little more than triaging? You're actually juicing things. And you didn't get into this stupid political battle over three trillion dollars.

Eric Edwards (01:12:20):

Now, I'm disparaging a little bit because there might be some PPB and other state local expenses, but we can address that separately. But let's just say it's just straight out federal funding, doesn't that work better?

Ryan Caldwell (01:12:35):

Yeah, Eric, I think from a market perspective, and I'm going to kick it to Lara for the economic outcome, but from a market perspective, I think the market would take that and rip, because the market will create whatever narrative it wants to for the outcome, but it'll say, "hey, maybe I didn't want all the drugs I wanted fiscally, but I got some", and, to your point, now, the only fly in that ointment is, quite honestly, and, again, not to sound disparaging but Chairman Powell's had a real problem enunciating these tools that can help the market. His communication style has not lent itself to be able to give the market the credibility it wants.

Pete Bianco (01:13:17):

And I also think he's had a problem getting the Committee together, so he has to talk this way to appease this side of the table, but I completely agree with that.

Ryan Caldwell (01:13:28):

But, yeah, Eric, I would tell you the market would take that as a signal, enough, again, to gas it further and then deal with the ramifications of that later. Now, I'll kick to Lara the economic outcome of what does that get you? Does it get you any more than it normally would've gotten you? I don't know what it gets you.

Lara Rhame (01:13:49):

Right, I think it gets you a lot. The numbers that we're talking about are so staggering, a billion here, a trillion there, when the difference between one trillion dollars and three trillion dollars is five and 15% of GDP, this is a huge, huge difference. So, but I think it actually gets you a lot, and this is why I think of all the notes I took today, Eric, and all the thoughts that you really triggered for me, one of the big ones is, clearly if they are really bringing this alignment to Fed and Treasury, they are actually planning on getting creative to get some of these dollars to the economy.

Lara Rhame (01:14:34):

That's the Fed's perennial problem, they know, they all know, that they are out of bullets. They know it. Of course they can't say it, but they are just desperate to try to find another way to get the economy going, and, so, I think something like these... I'm surprised they haven't done more, honestly, with the Municipal Bond Facility, to me, that's the next no brainer. The government, the federal government, can run a deficit for however they want, but they force

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these cities and states to scrape closer to the bone and to start cutting immediately, why not let them issue debt?

Lara Rhame (01:15:17):

We need debt, corporations issue debt, they've issued record amounts of debt this year, so, why not let cities and states do it? There are a lot of ways that you could get creative if the Treasury is there saying, "sure, here's a couple of hundred billion dollars, lever it up times 10, and let it rip". I think that this is what I was saying, and, again, I'm just looking years from now, do you have a situation three years from now when Biden's trying to get reelected where you get the left and the right hauling the Fed before Congress saying, "your Main Street Lending Program bailed out an industry that now has become unfavorable", or, "now you're looking too [inaudible 01:16:06]", who knows.

Lara Rhame (01:16:07):

You could craft a million scenarios where the Fed gets itself into political trouble, but, from an economic point of view, it seems like if they're going to really pile kindling and get a fire started, it seems like this is the way that they're going to do it, not through the traditional spending package. The CARES Act doesn't seem like it's going to happen again.

Ryan Caldwell (01:16:31):

I think it's incredibly well said. I think it's like, that's it. And, again, like I said, as a market participant, the market only needs to understand it as a whiff and a possibility and once it gets its arms around it it'll create that outcome at least for some short period of time as success. So, I think it's a critical variable. Critical variable.

Ryan Caldwell (01:17:02):

And, so, yeah, Eric, I think it would work is my other way of kind of wink and nod, the medium term implications, currency, there's a million things that we're not going to have time to go into, that are likely could be fall outs of that, but, yeah, I think if I'm Biden, to your point, that's a much easier program to run, and it actually might be more effective in a shorter time period of achieving some of the objectives that you want to achieve, given that, again, we're going to be back campaigning in two and a half years or almost three years. So, yeah, I think that's a good point.

Eric Edwards (01:17:45):

Yeah, the Fed, the political ramifications about the Fed being more active is a good point, Lara, but, to your other point, they're out of bullets, and they recognize that they can't do nothing, so, they're going to take the opportunity if given it, and they will, I think they will be in a Biden administration to expand the role a little bit. That's always, especially with the growing populism in the US, and all of the competing conspiracy and other theories out there, yes, there's potential for a huge blow back onto the Fed, but I think that everybody's got to put on their big boy pants and give it a shot, and that's probably with the gridlock on Capitol Hill, it's probably the best way to do it.

Eric Edwards (01:18:33):

I will point out that attempts in Dodd-Frank, there were specific attempts in Dodd-Frank to curtail the Fed's role when it comes to bank holding companies in certain areas, and then Congress proceeded to massively expand the Fed's role in other areas. So, even though they complained about it, at the end of the day, this is what our legislators have created. So, there's nothing wrong with the Fed jumping into that opportunity.

Ryan Caldwell (01:19:05):

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That's really well said. Well, quite honestly, ladies and gentlemen, I could do this for the next hour and a half after the last hour and a half, but in spirit of being cognizant of everybody's time, anything to wrap up on, Pete, Lara, Eric? Anything you'd kind of like to leave? Lara's smiling at me. No, look, I mean, I would just say... No, go ahead, Lara.

Lara Rhame (01:19:40):

I think the one thing, when I think about the economy, the connections to market, the contradiction that we have seen, the news flow over the last two weeks has been about as good as it can be on the vaccination front, and about as bad as it can be on the pandemic front. So, this contradiction where markets just sort of sail past really probably the biggest challenge the US economy is facing, it is a resilient, strong US economy, given everything that we've thrown at it. That contradiction I don't think has ever been stronger, so, even though we've got the [inaudible 01:20:20], we've got the QE, we've got all the stuff that has fueled, that I'm calling, the markets in 2020 I'm calling it liquid courage.

Lara Rhame (01:20:27):

I think all of this massive liquidity that's allowed them to really ignore the short term and just look longterm, I just gasp, maybe it's because I'm a mom and I have little kids and I see them running down the street and I'm like, oh, God, what if they trip and fall? There's that part of me that just is nervous that we're forgetting the big crisis, the health crisis, that started all this in the first place, and that contradiction between the underlying economy and markets, it just continues to get so stretched, I think it's hard to forget that.

Pete Bianco (01:21:03):

Yeah, I think that's a really great point. And I guess, for me, it's we're probably going to get some sort of package, and to placate the market, I think it's going to be more substance over form. If they're talking about canceling student debt, that has a multiplier to GDP of zero versus some sort of shovel ready projects, infrastructure projects, creating more jobs, I think the market's going to start to discern that and, to Lara's point, I think the markets right now, the liquid courage, I think that's a great analogy.

Ryan Caldwell (01:21:41):

We should name the podcast Liquid Courage as a matter of fact.

Pete Bianco (01:21:44):

I'll use that in other term now.

Ryan Caldwell (01:21:45):

[crosstalk 01:21:45] Yeah, executive decision, this is now the Liquid Courage Podcast.

Pete Bianco (01:21:49):

But it feels like the market's kind of priced to perfection right now, and I've been, frankly, shocked with how resilient it's been, and we're starting to see breath and it's not just a long growth, long Treasury trade, but we're starting to see it kind of broaden out.

Ryan Caldwell (01:22:08):

Well, look, just to parry in between the two of you, I think there is no question, Lara, this market is decided that this is just some big natural disaster that it's going to look through, because normalization is too potent to not look through and it's near enough that it's okay to do it, and, so, pulling your point and Pete's point together, any slippage of the timeline is a huge problem. So, I now think of this like the tape has got to thread the needle, and it believes, and maybe, I

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guess, this is the only thing that matters, but it believes that the backstops will continue to be credible, right?

Ryan Caldwell (01:22:56):

So, it's saying, "well, I got to thread the needle on time, because", to your point, Lara, the push pull, you framed it exactly right, the news couldn't have gotten worse on virus and lockdown and cases, all the stuff that we would've said, geez, if we see that at the end of the year, it's going to be a mess. And we're seeing it, and the market's kind of looking through it, because it's saying, "well, but you're going to vaccinate everybody by", pick your date, whether it's on the Trump timeline, December, if it's on the Fauci timeline of March through June, the market's just said it'll work itself out, so, therefore it's fine.

Ryan Caldwell (01:23:35):

So, that's why I keep saying if there's any push to normalization in economic activity by 4Q '21, you've got a problem on your hands because the markets priced that. And, so, yep, I think that's an awesome way to frame the risk, and then I flip over to the discussion we just had with Eric, which is phenomenal, to say, again, the narrative is pretty sing song-y, if you will, on Wall Street, again, Wall Street loves to create its political outcomes, right?

Ryan Caldwell (01:24:09):

First a blue wave was bullish, then a red wave was bullish, now split is the best thing that could've ever happened. Wall Street just wanted it gone, right? And it's kind of priced it and, Eric, you bring up some really good points about some of these mini fires that are being started on the way out the door, like you said, Wall Street so wanted the event risk behind it, that it effectively took any outcome as a good outcome as a good outcome because we knew the outcome, and it's trying, now, to say, like I said, in a very sing song-y way that this will be fairly Kumbaya, so, I think your point of next year, if it turns out to be more combative, and it turns out to be a little bit more obstructionist and harder and we flip to these tools which I think is probably going to be the game plan.

Ryan Caldwell (01:24:59):

I think, Eric, your point about take the McConnell package and then use Fed and Treasury to goose it, that's probably going to be the outcome, because that seems to be the easier political thing to do, but from here to there, to Lara's point, you worry about the kid running down the street and tripping in the cul-de-sac, and how that feels and how we get there. So, I think that's really well said, I think, Eric, I'm going to leave you the last word since you were the star of the show today. Anything we should kind of take away and you would leave us as sort of parting advice?

Eric Edwards (01:25:39):

Well, to follow up on your last point about, I would phrase it as Biden trying to avoid the obstructions as much as possible with McConnell early on, in the early days, and basically taking what he gets, knowing that that's going to work most likely for the market, and it's across the board. It's on financial measures, it's on COVID issues, everything, that's going to show progress and it's going to give the markets the opportunity to say, "see, look, we were right, this is behind us". So, I think that's a positive takeaway.

Eric Edwards (01:26:10):

One warning that I would sound on putting on our faith, and there's many warnings we could sound on putting too much faith in the Fed is getting the structure of these programs right, and going back to that, there will be significant pressure to keep those affiliation or non affiliation

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rules in place, that could exclude large portions of the middle market US companies. And that could hamper recovery, and if you're looking at timelines, that's not one that's, like the COVID timeline, that's front page news, but that's a huge timeline there, that's about a third of a the economy from an employee standpoint that is hampered in recovery. So, I would keep my on that as the Fed does its magic.

Ryan Caldwell (01:26:57):

That's really sage advice, and very well said. Lara, Eric, Pete, can't thank you enough. Eric, that was awesome, Lara, again, that was awesome, we'll keep trying to suck you back into the monthly Chiron Podcast as frequently as we can, and, Eric, we absolutely would love to have you to kind of come up and update as these things come along. Guys, like I said, I could do this all day long, it was fantastic. So, thank you all very much, and we will be back next month.