**Andrew Huszar**

Andrew built and managed the centerpiece of the first Federal Reserve quantitative easing program (“QE1”). At that time, the Fed’s balance sheet was around $800 billion. Today, it’s nearly $8.5 trillion. So how did we get here? And can the Fed reverse course?

1. Stagnation of the median American wage. While GDP per capita continued to rise, median family income slowed (flat on an inflation-adjusted basis)
2. Massive financialization. Beginning in 1988, Wall Street would double and become much more concentrated by 2008.
3. The Fed began to use monetary policy proactively with an eye towards stimulating more credit.

This worked, until it didn’t. Consumers couldn’t handle the debt burden. The government steps in…

Phase 1: Wall Street stabilization. This included Fed emergencies facilities and the TARP program from Congress.

Phase 2: Confronting collateral damage. Quantitative easing (inject cash into banks so they will create credit).

Banks, seeing that the Fed was stimulating markets, the banks decided to buy loans instead of issuing new ones. By the summer of 2010, as QE1 was ending, was a mixed success. It stabilized Wall Street, but didn’t have a knock-on benefit for the average American.

In November 2010, Fed starts QE2 because of market concerns. Instead of credit easing, it’s trying to push up asset prices held by the public – the “wealth effect.” From 2010 to 2020, the Fed slowly increases its balance sheet to $4.5 trillion. This was the all-time greatest trade for Wall Street banks from commissions for QE trades, lower funding costs, and huge capital gains.

The trade was much more mixed for the average American. If you didn’t own stocks and bonds, you were out of luck. This led to spiking income inequality.

Then COVID hit…

$5 trillion in stimulus, supply chain issues, and the Fed announces $6 billion in QE over the next two years. Not only did asset prices rise, but commercial banks began to lend (like was the plan during QE1).

There are problematic factors from the Fed trying to be the “firehouse” of financial markets. Stocks are overvalued and addicted to easy money. Inflation is a “poor tax” on the people the Fed set out to help. A chronically underperforming U.S. economy propped up by the government.

The Fed has an outdated monetary policy model. Short-term rates are not effective in the face of trillions of dollars in new liquidity. Corporate debt with floating interest rates have surged, meaning companies are more at risk as rates rise.

Because of these Fed mistakes, financial markets decoupled from fundamentals. Now, the future looks murky and challenging.