

to spend down, and therefore do not need to borrow, then rising interest rates will have a much more muted effect on your purchase decisions initially and it will take longer for the effects of interest rate hikes to filter through to the economy. That is just one of a multitude of facets that affect policy lag.

What is the risk of lowering interest rates too quickly?

The most obvious would be that inflation could flare up again and we would be back at square one. Furthermore, this could potentially damage the Federal Reserve's credibility as a purveyor of stable prices, especially if the action were seen to be taken merely to protect the stock market rather than in response to truly unstable financial conditions. For that reason alone, I do not expect the Federal Reserve to loosen prematurely unless they deem it absolutely necessary, for example to prevent financial market malfunctioning.

This is the most volatile the market has been since 2008. Do you expect it to continue in 2023?

I do not expect 2023 to be as volatile. We went from a Federal Reserve that expected inflation to be transitory to one that deemed seven consecutive rate increases over ten months necessary to tamp down inflation. That is a total increase of 4.25 percentage points in the federal funds target rate, with more expected to come. Add in the massive amount of uncertainty generated by the war in Ukraine and I believe 2022 would be a tough year to top with respect to market volatility.

Do you have any thoughts on the collapse of FTX and the crypto market in general?

Do you expect contagion?

I do not expect the fallout from FTX to spread beyond the cryptocurrency/NFT space. Based on the information that has come to light so far, the collapse of FTX was not a result of lax risk management, inadequate accounting procedures, or some feature inherent to crypto – it was purely fraud. With respect to the wider crypto universe – I view the asset class as too dependent on the “greater fool theory” to be a desirable investment. Fortunately, although FTX and firms

like it have increased marketing of their products in recent years, the lack of any noticeable widespread market reaction to FTX suggests that they are still fairly concentrated in the hands of a relatively small subset of investors. Moreover, the differences we observed in the aftermaths of the popping of the tech bubble and the popping of the housing bubble showed clearly that credit-fueled asset bubbles create far more contagion when they ultimately deflate. There does not appear to be a significant amount of leverage dedicated to the cryptocurrency/NFT space at this time, so I do not expect contagion to spread very far beyond this particular asset class.

Covid-19 was unpredictable. Are there other black swan event you think about?

The black swan event I think markets, and really the world at large, ought to be most worried about is some kind of conflict erupting between China and Taiwan. I noted in a previous article that, owing to unfavorable demographic trends, China may have reached the height of its economic influence for some time. All the while, Xi Jinping has methodically consolidated power and made himself essentially president for life. He has been fairly candid in his intention to eventually bring Taiwan back into the fold, and he may begin to feel his window is closing. I venture he would view it as a blemish on his legacy were he to leave it undone. Taiwan has shown no willingness to acquiesce to Xi's plans and so the conditions for some type of conflict in the near future are there. The sheer amount of world trade that currently flows through that region, and the number of semiconductors fabricated by Taiwanese firms upon which the technologies we enjoy rely, make any conflict a potential nightmare scenario.

Alan Greenspan served five terms as chairman of the Board of Governors of the Federal Reserve System from August 11, 1987, when he was first appointed by President Ronald Reagan. His last term ended on January 31, 2006. He was appointed chairman by four different presidents.

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