Cougar Global Viewpoints

Will the Fed lose its independence?

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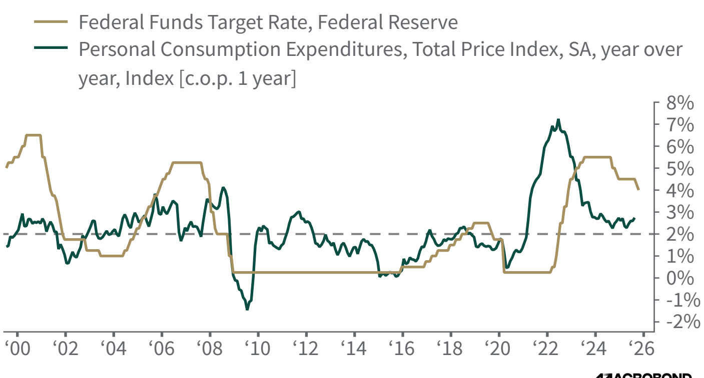
The U.S. Federal Reserve (Fed) lowered the target federal funds rate by a total of 150 basis points to a range of 3.75% to 4.00% between August 2024 and October 2025. However, the Trump administration has repeatedly signaled it wants a dramatic shift toward a highly accommodative monetary policy. President Trump has affirmed his intent to appoint a strongly dovish successor once Fed Chair Jerome Powell's term concludes in May, prompting concerns about the Fed's independence and adherence to its inflation target (see chart below).

U.S. Fed policy rate and inflation



Source: Macrobond, Cougar Global Investments, as of 11/19/25

While the chair is only one of 12 votes on the Federal Open Market Committee (FOMC), there is growing unease that the U.S. administration may be exploring avenues to remove and replace less dovish FOMC members before their terms expire. Meanwhile, the pressure on Powell could intensify if he faces more dissents at policy meetings. It's worth noting that a couple of members dissented at the October FOMC meeting – with Trump appointee Stephen Miran voting for a 50-basis point cut while Federal Reserve Bank of Kansas City President Jeffrey Schmid voted for no change.

It may be premature to assume that the Fed will lose its independence and abandon its inflation mandate. Fed independence is rooted in legislation, specifically the Banking Act of 1935, which consolidated the Fed's independence by giving the FOMC greater authority, reducing direct presidential influence. Since then, only Congress (through new legislation) or the U.S. Supreme Court have had the ability to alter that balance of power meaningfully. Nevertheless, the possibility of the Fed's independence being compromised is not trivial. Therefore, we have included this risk among the events accounted for in the probability of Chaos in our Macroeconomic Scenario Analysis.

What are the ramifications of this for the stock markets? How U.S. Treasuries might react remains a crucial wildcard. The erosion of the Fed's independence, along with signs that the central bank is abandoning its traditional inflation mandate, would drive short-term interest rates lower, but also would strengthen the case for a larger term premium and fuel a pronounced steepening of the yield curve. If this materializes, policymakers will likely need to adopt unorthodox policies, such as an Operation Twist-type strategy, to contain long-term Treasury yields. This approach would involve issuing short-term paper and possibly buying long-term Treasuries. Gold could trend significantly above the $4,000 per ounce mark in this scenario.

In summary: If the Fed pauses its easing cycle, President Trump is likely to maintain pressure to reduce the fed funds rate. The loss of Fed independence and evidence that the central bank is bailing on its traditional inflation mandate likely would lead to massive uncertainty and cause the term premium and Treasury yields to move higher in a disruptive way. We have included the risk of the Fed losing its independence among the events accounted for in our Chaos probability. While we believe the Fed's independence will be mostly preserved, the risk of the opposite outcome can't be ignored.

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An investment in Exchange Traded Funds (ETF), structured as a mutual fund or unit investment trust, involves the risk of losing money and should be considered as part of an overall program, not a complete investment program. An investment in ETFs involves additional risks: non-diversified, the risks of price volatility, competitive industry pressure, international political and economic developments, possible trading halts, and index tracking error. All investments are subject to risk. Asset allocation and diversification do not ensure a profit or protect against a loss. There is no assurance that any investment strategy will be successful or that any securities transaction, holdings, sectors or allocations discussed will be profitable Cougar Global Investments calculates the Macro Economic Scenario (MES) analysis by assigning probabilities to each of the five economic scenarios (Growth, Stagnation, Inflation, Chaos and Recession) over the next 12 months. Macroeconomic scenarios are based on quantitative data sourced from various firms and then weighted and may be adjusted based upon Cougar Global Investments thought capital. MES are subject to change. These are hypothetical examples and are not representative of any specific situation. Actual economic results may vary. Economic forecasts set forth may not develop as Cougar MES indicates and there can be no guarantee that these strategies promoted will be successful. Past performance is no guarantee of future results. Macro Economic Scenarios: Growth – U.S. economy is growing at or above its potential growth rate, Recession – U.S. economy is shrinking (negative quarter over quarter growth rate), Stagnation – U.S. economy is growing at lower than its potential growth rate, Inflation – Consumer Price Index (CPI) inflation rate is higher than U.S. economy's potential growth rate, Chaos – a high impact, low probability event ("Black Swans").

Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful. Small-capitalization companies are subject to higher volatility than those of large-capitalized companies. International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be appropriate for all investors. Stock investing involves risk, including the risk of loss. Investments in emerging market issuers are subject to a greater risk of loss than investments in issuers located or operating in more developed markets. This is due to, among other things, the potential for greater market volatility, lower trading volume, higher levels of inflation, political and economic instability, greater risk of a market shutdown and more governmental limitations on foreign investments in emerging market countries. High Yield/Junk Bonds are not investment grade securities, involve substantial risks and generally should be part of the diversified portfolio of sophisticated investors. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity and redemption features. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. Mortgage-Backed Securities are subject to credit, default risk, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extensions risk, the opposite of prepayment risk, and interest rate risk. Investing in IAU involves additional risks. The market price of the Shares will be as unpredictable as the price of gold has historically been and the price received upon the sale of Shares may be less than the value of the gold represented by them. Government bonds and Treasury bills are guaranteed by the U.S. Government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. The fund's concentrated holding will subject it to greater volatility than a fund that invests more broadly. The fast price swings of commodities will result in significant volatility in an investor's holdings. Precious metal investing is subject to substantial fluctuation and potential for loss. All indexes mentioned are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results. The indexes don't reflect charges, expenses, fees and is not indicative of any particular investment. Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, disease, and regulatory developments.

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DEFINITIONS

Basis points (bps) – Measurements used in discussions of interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%.

Dovish – A monetary policy preference of some central bankers and others who favor maintaining lower interest rates, often with the aim of stimulating job growth and the economy more generally.

Federal funds rate / fed funds rate – The target interest rate set by the Federal Open Market Committee of the U.S. Federal Reserve. The target is the Fed's suggested rate for commercial banks to borrow and lend their excess reserves to each other overnight.

Inflation mandate – One of two over-arching goals that influence the course of monetary policy set by the U.S. Federal Reserve. Those goals are maximum employment and stable prices. Maximum employment is defined as the highest level of employment or lowest level of unemployment that the economy can sustain while maintaining a stable inflation rate.

Inflation target – The rate of price increases that the U.S. Federal Reserve prefers to see to ensure the economy will remain stable. Generally, the Fed's target rate is 2%, as measured by the Personal Consumption Expenditures (PCE) Price Index.

Monetary policy – The decisions made by central banks to raise or lower benchmark interest rates or otherwise tighten or loosen credit to influence an economy's growth, inflation, or employment levels.

Operation Twist – A monetary policy strategy that seeks to lower long-term interest rates by calling on the U.S. Federal Reserve to sell short-term U.S. Treasuries and use the proceeds to buy long-term Treasuries. This change in the composition of the Fed's portfolio is said to twist the yield curve without expanding the Fed's balance sheet.

Personal Consumption Expenditures (PCE) Price Index – A monthly measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The PCE price index, released monthly by the U.S. Department of Commerce Bureau of Economic Analysis, is known for capturing inflation or deflation across a wide range of consumer expenses and reflecting changes in consumer behavior.

Term premium – Compensation that investors in U.S. Treasury bonds require for bearing the risk that interest rates may change over the life of the bond, particularly longer-term Treasuries.

Yield curve – A line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. Yield curve steepening takes place when the spread between short- and long-term interest rates along the curve gets wider. A steepening curve often reflects an expectation of stronger economic activity, rising inflation, and rising interest rates.

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Cougar Global Investments is a global macroeconomic asset allocation manager that believes the goal of investing is to achieve compound annualized returns for clients. We use a disciplined portfolio construction methodology combining post-modern portfolio theory and risk management to pursue our clients' objectives.

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