



# The Fed's Monetary Policy Challenges

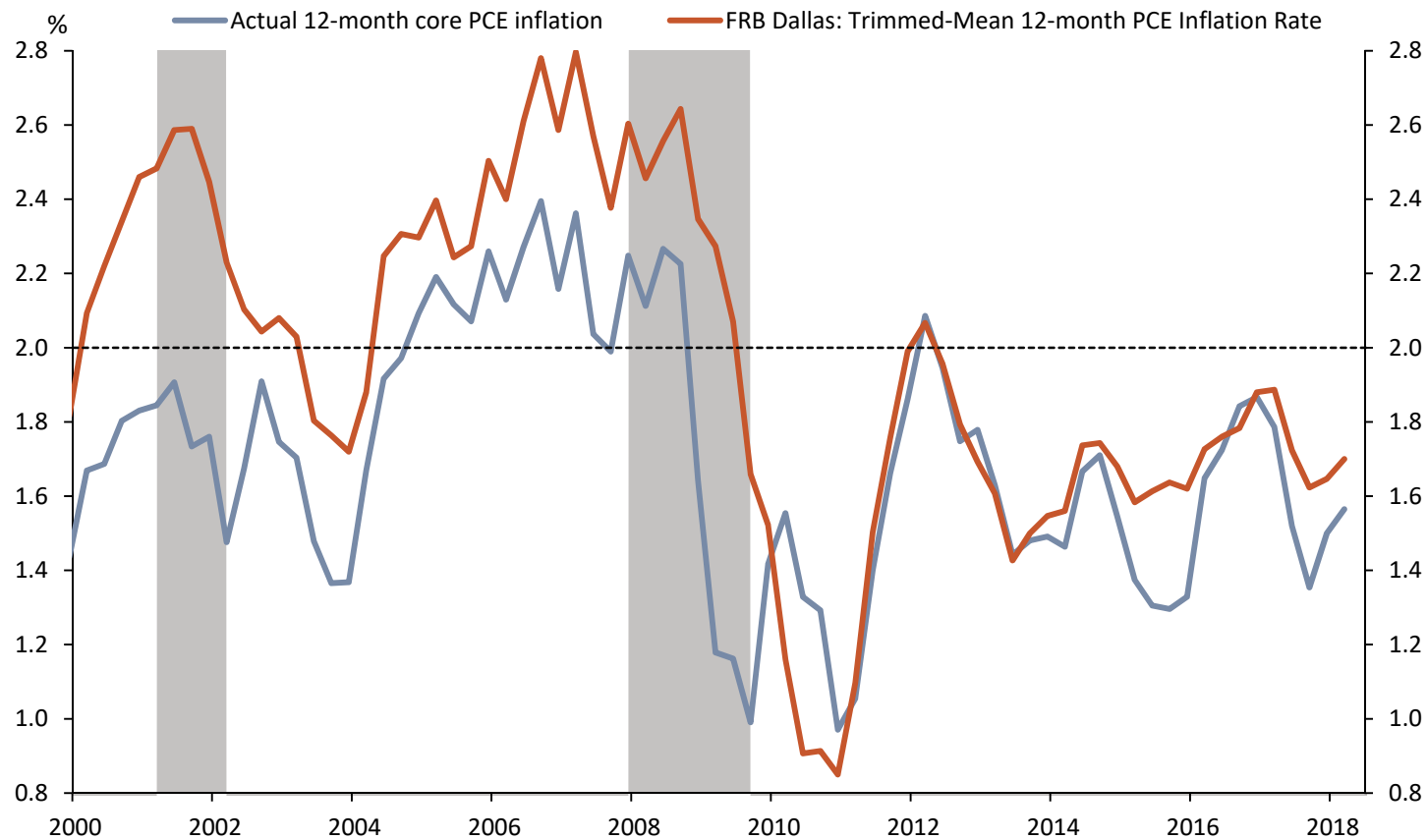
Mickey D. Levy  
Berenberg Capital Markets

Philadelphia Council for Business Economics  
April 5, 2018

*Important disclaimer located on slide 10*

# Core Inflation Moving Towards 2%

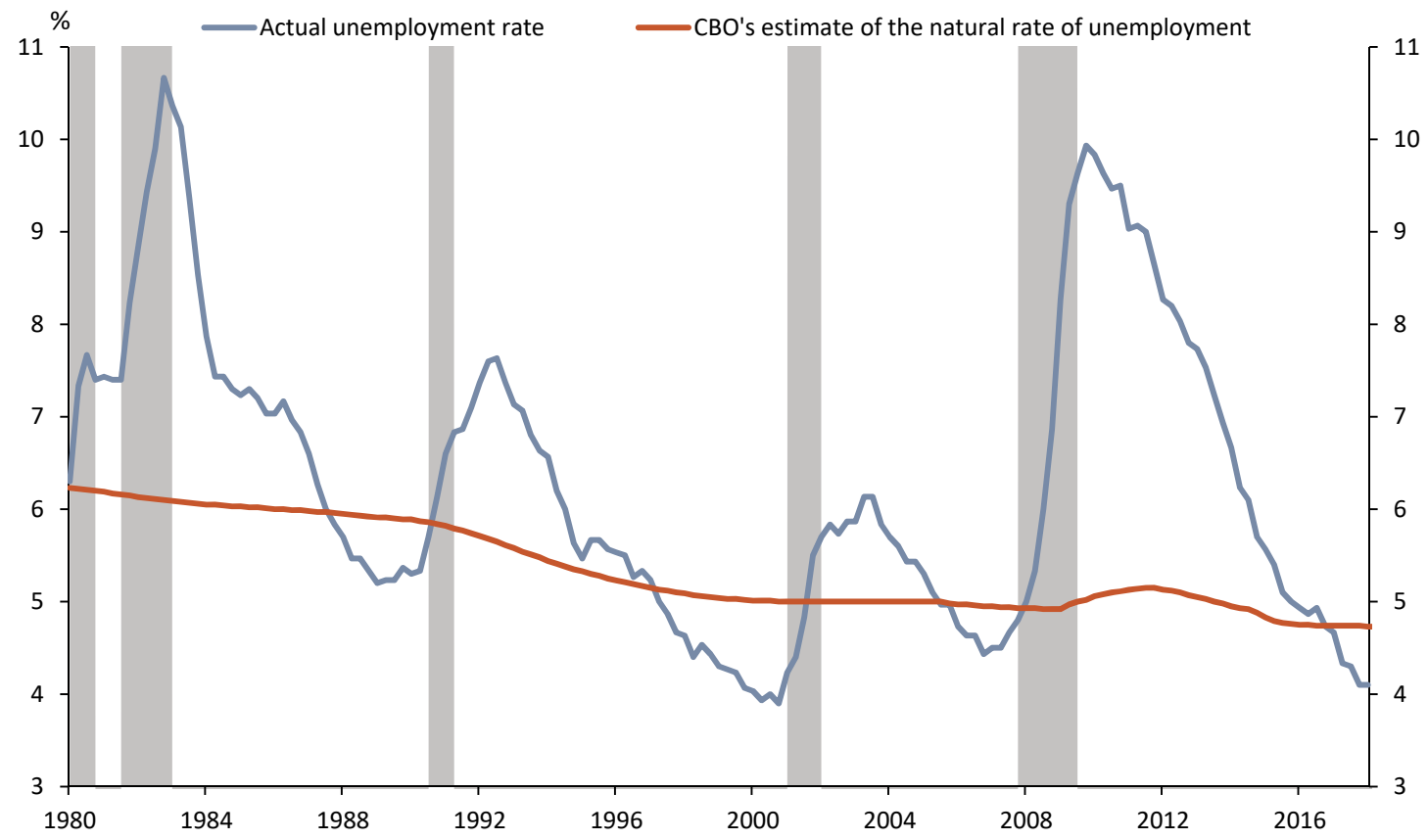
## Core PCE Inflation



Source: Bureau of Economic Analysis, Federal Reserve Bank of Dallas and Berenberg Capital Markets

# Unemployment Rate Well Below Full Employment

Unemployment rate, actual and natural rate



Source: Bureau of Labor Statistics and Berenberg Capital Markets

# Sky-High Confidence

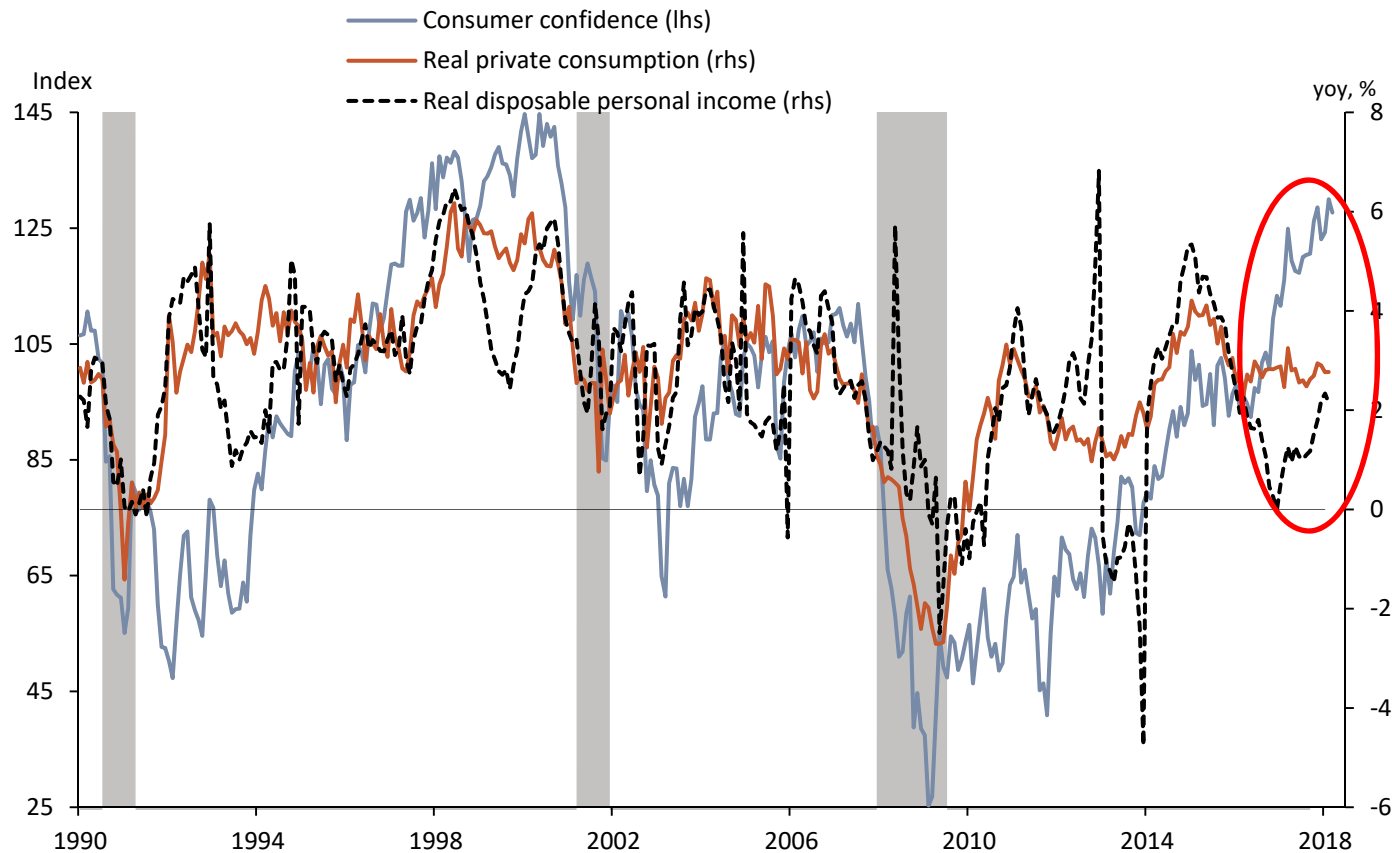
## Key Business and Consumer Sentiment Indexes

<i>(Index)</i>	<b>M ar-18</b>	<b>M ar-18 Percentile*</b>	<b>2016 avg .</b>	<b>Change from 2016 avg .</b>
Texas m fg	53.2	<b>52</b>	49.6	<b>3.6</b>
Em pire State m fg	57.5	<b>93</b>	48.2	<b>9.3</b>
Philly Fed m fg	61.9	<b>100</b>	48.3	<b>13.7</b>
Richm ond Fed m fg	15.0	<b>90</b>	1.6	<b>13.4</b>
KansasC ity Fed m fg	59.6	<b>98</b>	48.5	<b>11.1</b>
ISM m fg	59.3	<b>84</b>	51.4	<b>7.9</b>
ISM non-m fg <sup>+</sup>	59.5	<b>97</b>	54.9	<b>4.6</b>
NFIB Sm allBusinessOptim ism <sup>+</sup>	107.6	<b>100</b>	95.3	<b>12.3</b>
H om e Buildershousing m arket index	70.0	<b>92</b>	60.8	<b>9.2</b>
U M ich consum er	101.4	<b>91</b>	91.8	<b>9.6</b>
Conference Board consum er	127.7	<b>92</b>	99.8	<b>27.9</b>

Note: \*Percentile of the March value of indicators relative to history of each respective series. +As of February 2018. Source: Institute for Supply Management, Federal Reserve Banks of Philadelphia, New York, Kansas City, Richmond and Dallas, National Federation of Independent Business, National Association of Home Builders, University of Michigan, The Conference Board, and Berenberg Capital Markets

# Consumption Solid, Optimism High, Income Picks Up

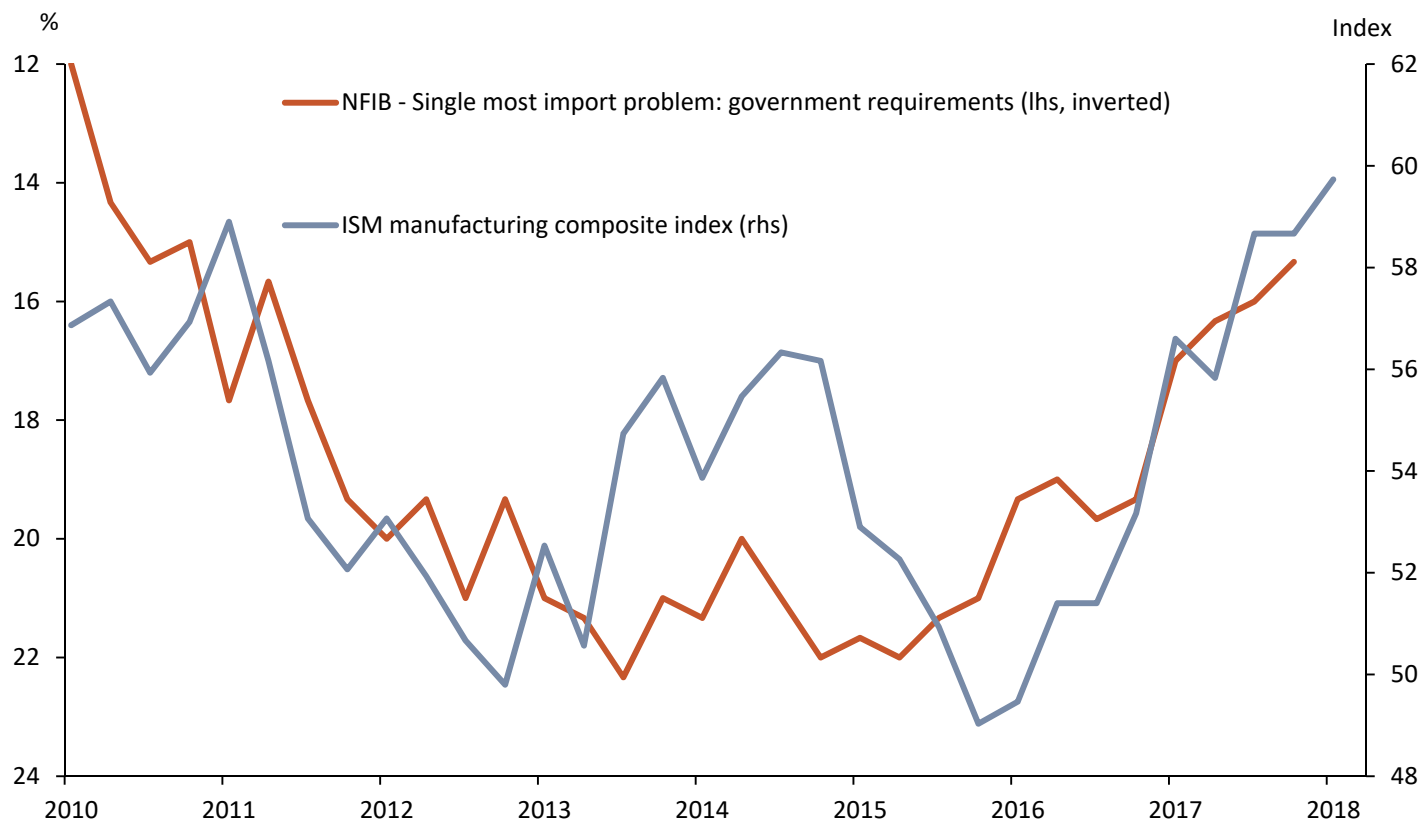
## Consumer Confidence, Real Consumption and Disposable Income



Source: Bureau of Economic Analysis, The Conference Board and Berenberg Capital Markets

# Lighter Regulation Lifts Business Confidence

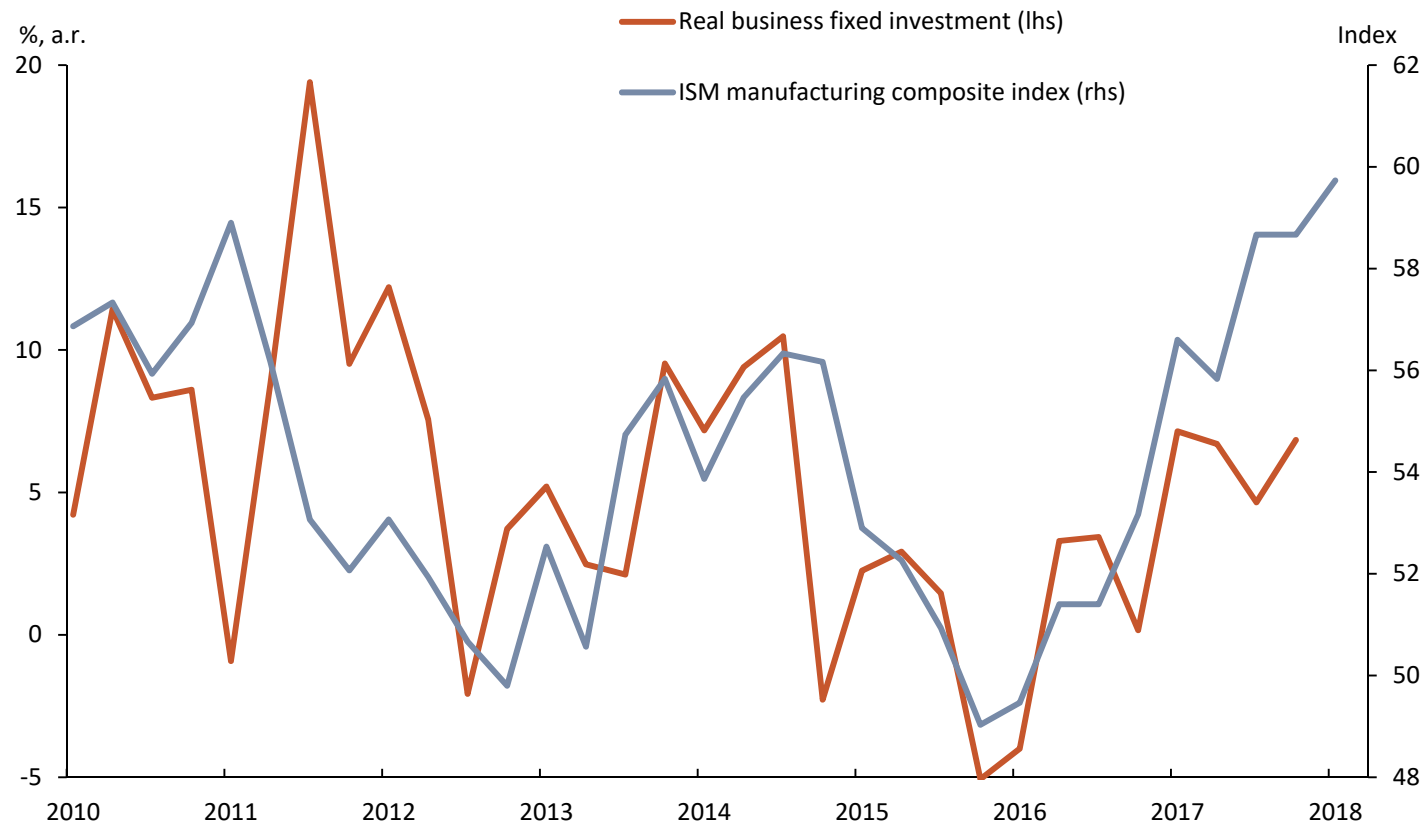
Small business views on regulation and ISM manufacturing sentiment



Source: National Federation of Independent Business, Institute for Supply Management and Berenberg Capital Markets

# Business Confidence: Favorable for Investment

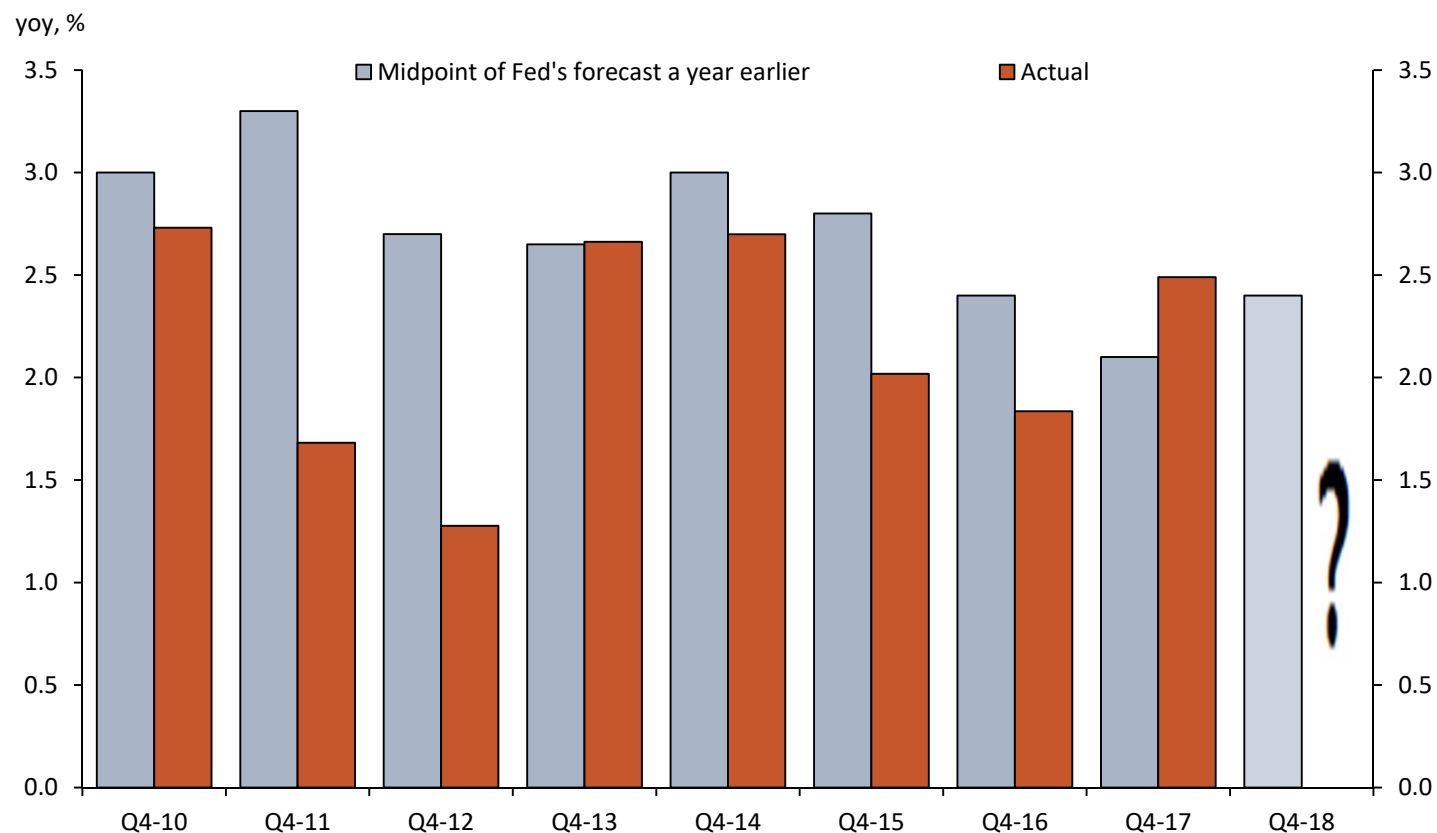
## Real business fixed investment and ISM manufacturing sentiment



Source: Bureau of Economic Analysis, Institute for Supply Management and Berenberg Capital Markets

# The Fed's Forecasts of Real GDP

## Real GDP - Actual and Fed Forecasts

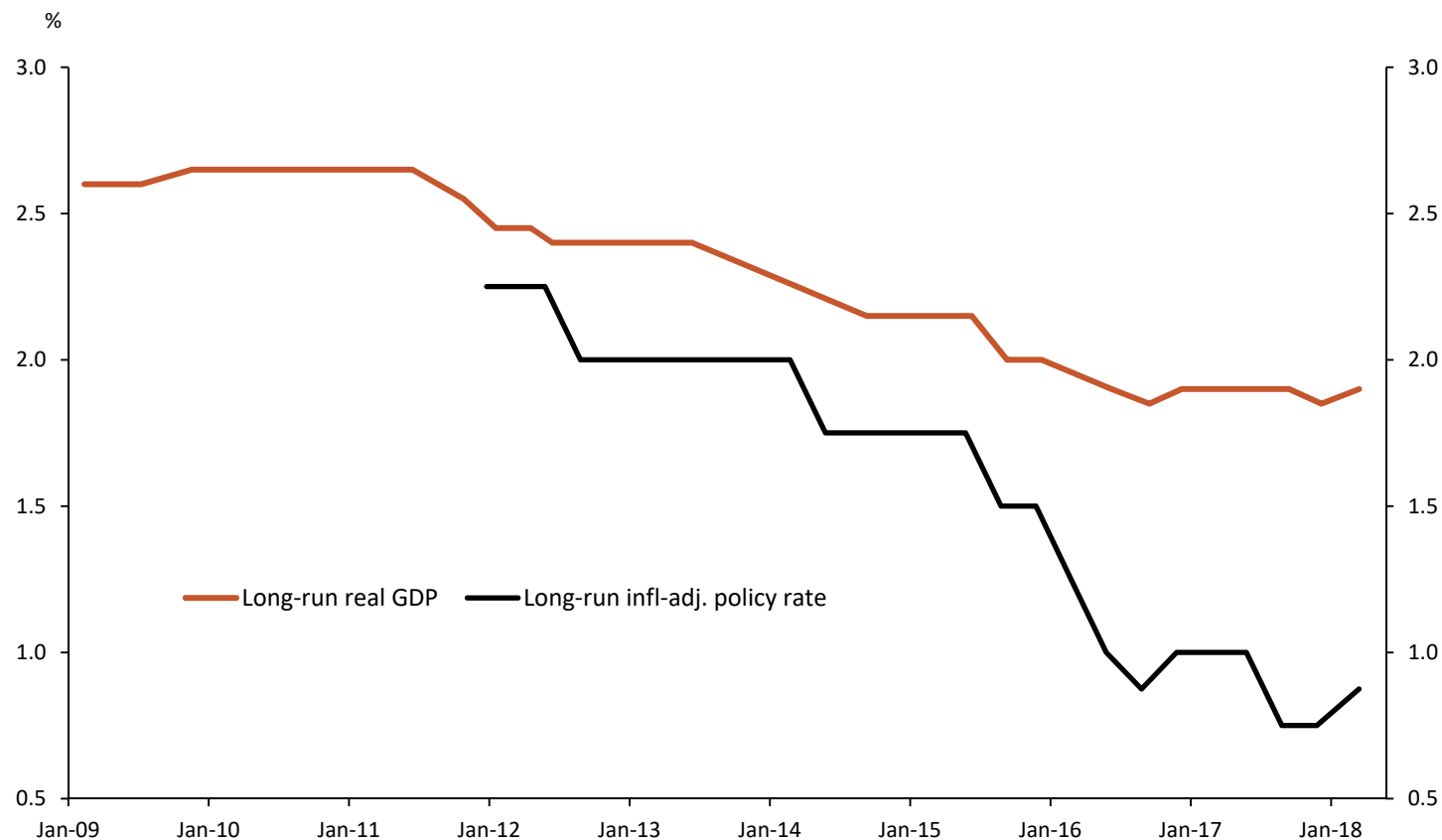


Source: Federal Reserve Board, Bureau of Economic Analysis and Berenberg Capital Markets



# Fed's Longer-Run Forecasts of Potential Growth and $R^*$ adjusted for 2% Inflation

Midpoint of Central Tendency of Fed Long-Run Real GDP and Real Policy Rate Forecasts



Source: Federal Reserve Board and Berenberg Capital Markets

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# Contacts - Research



**BERENBERG**  
CAPITAL MARKETS

JOH. BERENBERG, GOSSLER & CO. KG

Internet [www.berenberg.com](http://www.berenberg.com)

E-mail: [firstname.lastname@berenberg.com](mailto:firstname.lastname@berenberg.com)

## EQUITY RESEARCH

### AEROSPACE & DEFENCE

Ryan Booker +44 20 3753 3074  
Andrew Gollan +44 20 3207 7891  
Ross Law +44 20 3465 2692

### AUTOMOTIVES

Cristian Dirpes +44 20 3465 2721  
Alexander Haissi +44 20 3465 2749  
Fei Teng +44 20 3753 3049

### BANKS

Adam Barrass +44 20 3207 7923  
Stephanie Carter +44 20 3207 3106  
Michael Christodoulou +44 20 3207 7920  
Andrew Lowe +44 20 3465 2743  
Andreas Markou +44 20 3753 3022  
Alex Medhurst +44 20 3753 3047  
Eoin Mullany +44 20 3207 7854  
Peter Richardson +44 20 3465 2681

### BEVERAGES

Javier Gonzalez Lastra +44 20 3465 2719  
Matt Reid +44 20 3753 3075

### BUSINESS SERVICES, LEISURE & TRANSPORT

Roberta Ciaccia +44 20 3207 7805  
Najet El Kassir +44 20 3207 7836  
William Fitzalan Howard +44 20 3465 2640  
Stuart Gordon +44 20 3207 7858  
Annabel Hay-Jahans +44 20 3465 2720  
Josh Puddle +44 20 3207 7881  
Kate Somerville +44 20 3753 3081  
Joel Spungin +44 20 3207 7867

### CAPITAL GOODS

Nicholas Housden +44 20 3753 3050  
Julia Kochendörfer +44 20 3753 3052  
Sebastian Koenne +44 20 3207 7856  
Philippe Lorrain +44 20 3207 7823  
Rizk Maidi +44 20 3207 7806  
Jaroslaw Pominkiewicz +44 20 3753 3035  
Simon Toennesen +44 20 3207 7819  
Ethan Zhang +44 20 3465 2634

### CHEMICALS

Anders Björkstahl +44 20 3207 7871  
Sebastian Bray +44 20 3753 3011  
Anthony Manning +44 20 3753 3092  
Rikin Patel +44 20 3753 3080

### CONSTRUCTION

Zaim Beekawa +44 20 3207 7855

### DIVERSIFIED FINANCIALS

Charles Bendit +44 20 3465 2729  
Chris Turner +44 20 3753 3019

### FOOD MANUFACTURING AND H&PC

Rosie Edwards +44 20 3207 7880  
Philip Patricia +44 20 3753 3039  
Fintan Ryan +44 20 3465 2748  
James Targett +44 20 3207 7873

### FOOD RETAIL

Dusan Milosavljevic +44 20 3753 3123

### GENERAL MID CAP - DACH

Saravana Bela +44 20 3753 3043  
Martin Comtesse +44 20 3207 7878  
Charlotte Friedrichs +44 20 3753 3077  
Gustav Fröberg +44 20 3465 2655  
Alexander O'Donoghue +44 20 3207 7804  
Gerhard Orgonas +44 20 3465 2635  
Henrik Paganetty +44 20 3453 3140  
Benjamin Pfannes-Varrow +44 20 3465 2620

### GENERAL MID CAP - EU core

Christoph Greulich +44 20 3753 3119  
Anna Patrice +44 20 3207 7863  
Trion Reid +44 20 3753 3113

### GENERAL MID CAP - UK

Joseph Barron +44 20 3207 7828  
Calum Battersby +44 20 3753 3118  
Robert Chantry +44 20 3207 7861  
Ned Hammond +44 20 3753 3017  
Omar Ismail +44 20 3753 3102

### GENERAL MID CAP - UK (cont'd)

Antony Plom +44 20 3207 7908  
Edward James +44 20 3207 7811  
Lush Mahendrarajah +44 20 3207 7896  
Benjamin May +44 20 3465 2667  
Owen Shirley +44 20 3465 2731  
Donald Tait +44 20 3753 3031

### GENERAL RETAIL

Thomas Davies +44 20 3753 3104  
Michelle Wilson +44 20 3465 2663

### HEALTHCARE

Scott Bardo +44 20 3207 7869  
Alistair Campbell +44 20 3207 7876  
Klara Fernandes +44 20 3465 2718  
Tom Jones +44 20 3207 7877  
Joseph Lockey +44 20 3465 2730  
Samantha Osborne +44 20 3207 7882  
Michael Ruzic-Gauthier +44 20 3753 3128  
Laura Sutcliffe +44 20 3465 2669  
Charles Weston +44 20 3465 2746

### INSURANCE

Trevor Moss +44 20 3207 7893  
Emanuele Musio +44 20 3207 7916  
Iain Pearce +44 20 3465 2665  
Philip Ross +44 20 3465 2726

### LUXURY GOODS

Mariana Horn +44 20 3753 3044  
Lauren Molyneux +44 20 3207 7892  
Zuzanna Puszc +44 20 3207 7812

### MEDIA

Robert Berg +44 20 3465 2680  
Laura Janssens +44 20 3465 2639  
Alastair Reid +44 20 3207 7841  
Sarah Simon +44 20 3207 7830

### REAL ESTATE

Kai Klose +44 20 3207 7888

### METALS & MINING

Charlie Clark +44 20 3207 3133  
Fawzi Hanano +44 20 3207 7910  
Laurent Kimman +44 20 3465 2675  
Michael Stoner +44 20 3465 2643

### TECHNOLOGY

Josep Bori +44 20 3753 3058  
Georgios Kertsos +44 20 3465 2715  
Tej Sthankiya +44 20 3753 3099  
Gordon Tveito-Duncan +44 20 3753 3100  
Tammy Qiu +44 20 3465 2673

### TELECOMMUNICATIONS

David Burns +44 20 3753 3059  
Nicolas Didio +44 20 3753 3091  
Usman Ghazi +44 20 3207 7824  
Laura Janssens +44 20 3465 2639  
Carl Murdock-Smith +44 20 3207 7918

### THEMATIC RESEARCH

Nick Anderson +44 20 3207 7838  
Oyvind Bjerke +44 20 3753 3082  
Steven Bowen +44 20 3753 3057  
Asad Farid +44 20 3207 7932  
Robert Lamb +44 20 3465 2623  
Paul Marsch +44 20 3207 7857  
Salha Shariff +44 20 3753 3097

### TOBACCO

Jonathan Leinster +44 20 3465 2645

### UTILITIES

Oliver Brown +44 20 3207 7922  
Andrew Fisher +44 20 3207 7937  
Neha Saxena +44 20 3753 3048  
Lawson Steele +44 20 3207 7887

### ECONOMICS

Florian Hense +44 20 3207 7859  
Carsten Hesse +44 20 3753 3001  
Kallum Pickering +44 20 3465 2672  
Holger Schrieding +44 20 3207 7889

# Contacts - Sales



**BERENBERG**  
CAPITAL MARKETS

## EQUITY SALES

### SPECIALIST SALES

#### AEROSPACE & CAPITAL GOODS

Cara Luciano +44 20 3753 3146

#### AUTOS & TECHNOLOGY

Edward Wales +44 20 3207 7815

#### BANKS, DIVERSIFIED FINANCIALS & INSURANCE

Iro Papadopoulou +44 20 3207 7924

Calum Marris +44 20 3753 3040

#### BUSINESS SERVICES, LEISURE & TRANSPORT

Rebecca Langley +44 20 3207 7930

#### CONSTRUCTION, CHEMICALS, METALS & MINING

James Williamson +44 20 3207 7842

#### CONSUMER DISCRETIONARY

Victoria Maigrot +44 20 3753 3010

Emma Buchy-Dury +44 20 3207 7816

#### CONSUMER STAPLES

Molly Wylenzek +44 20 3753 3064

#### HEALTHCARE

David Hogg +44 20 3465 2628

#### MEDIA & TELECOMMUNICATIONS

Julia Thannheiser +44 20 3465 2676

#### THEMATICS

Chris Armstrong +44 20 3207 7809

## SALES TRADING

### PARIS

Vincent Klein +33 158 44 95 09

Antonio Scoutto +33 158 44 95 03

### LONDON

Assia Adanouj +44 20 3753 3087

Charles Beddow +44 20 3465 2691

Mike Berry +44 20 3465 2755

Joseph Chappell +44 20 3207 7885

Stewart Cook +44 20 3465 2752

Mark Edwards +44 20 3753 3004

Tom Floyd +44 20 3753 3136

Tristan Hedley +44 20 3753 3006

Peter King +44 20 3753 3139

Simon Messman +44 20 3465 2754

AJ Pulleyn +44 20 3465 2756

Matthew Regan +44 20 3465 2750

Michael Schumacher +44 20 3753 3006

Paul Somers +44 20 3465 2753

## SALES

### BENELUX

Miel Bakker +44 20 3207 7808

Bram van Hijfte +44 20 3753 3000

### FRANCE

Alexandre Chevassus +33 15844 9512

Dalila Farigoule +33 15844 9510

### SCANDINAVIA

Mikko Vanhala +44 20 3207 7818

Marco Weiss +49 40 350 60 719

### UK

James Burt +44 20 3207 7807

Fabian De Smet +44 20 3207 7810

Marta De-Sousa Fialho +44 20 3753 3098

Jules Emmet +44 20 3753 3260

Robert Floyd +44 20 3753 3018

David Franklin +44 20 3465 2747

Karl Hancock +44 20 3207 7803

Sean Heath +44 20 3465 2742

Stuart Holt +44 20 3465 2646

James Hunt +44 20 3753 3007

Gursumeet Jhaji +44 20 3753 3041

James McRae +44 20 3753 3036

David Mortlock +44 20 3207 7850

## EQUITY TRADING

### HAMBURG

David Hohn +49 40 350 60 761

Gregor Labahn +49 40 350 60 571

Lennart Pleus +49 40 350 60 596

Marvin Schweden +49 40 350 60 576

Omar Sharif +49 40 350 60 563

Philipp Wechmann +49 40 350 60 346

Christoffer Winter +49 40 350 60 559

### LONDON

Edward Burlison-Rush +44 20 3753 3005

Richard Kenny +44 20 3753 3083

Chris McKeand +44 20 3207 7938

Ross Tobias +44 20 3753 3137

## UK (cont'd)

Eleni Papoula +44 20 3465 2741

Bhavin Patel +44 20 3207 7926

Kushal Patel +44 20 3753 3038

Richard Payman +44 20 3207 7825

Christopher Pyle +44 20 3753 3076

Adam Robertson +44 20 3753 3095

Joanna Sanders +44 20 3207 7925

Mark Sheridan +44 20 3207 7802

George Stribert +44 20 3207 7911

Alexander Wace +44 20 3465 2670

Paul Walker +44 20 3465 2632

## GERMANY

Michael Brauburger +49 69 9130 90 741

Nina Buechs +49 69 9130 90 735

André Grosskurth +49 69 9130 90 734

Florian Peter +49 69 9130 90 740

Joerg Wenzel +49 69 9130 90 743

## SWITZERLAND, AUSTRIA & ITALY

Duncan Downes +4122 317 1062

Andrea Ferrari +4144 283 2020

Gianni Lavigna +4144 283 2038

Jamie Nettleton +4144 283 2026

Yeannie Rath +4144 283 2029

## ELECTRONIC TRADING

Jonas Doehler +44 40 350 60 391

Matthias Führer +49 40 350 60 597

Sven Kramer +49 40 350 60 347

Matthias Schuster +44 40 350 60 463

## CRM

Laura Cooper +44 20 3753 3065

Jessica Jarmyn +44 20 3465 2696

Madeleine Lockwood +44 20 3753 3110

Vikram Nayar +44 20 3465 2737

Rita Pilar +44 20 3753 3066

## COO Office

Greg Swallow +44 20 3207 7833

Fenella Neill +44 20 3207 7868

## CORPORATE ACCESS

Lindsay Arnold +44 20 3207 7821

Robyn Gowers +44 20 3753 3109

Jennie Jiriony +44 20 3207 7886

Ross Mackay +44 20 3207 7866

Stella Siggins +44 20 3465 2630

Lucy Stevens +44 20 3753 3068

Abbie Stewart +44 20 3753 3054

## EVENTS

Charlotte David +44 20 3207 7832

Suzy Khan +44 20 3207 7915

Natalie Meech +44 20 3207 7831

Eleanor Metcalfe +44 20 3207 7834

Rebecca Mikowski +44 20 3207 7822

Elen Parker +44 20 3465 2684

Sarah Weyman +44 20 3207 7801

# Contacts - BCM



**BERENBERG**  
CAPITAL MARKETS

BERENBERG CAPITAL MARKETS LLC

Member FINRA & SIPC

E-mail: first.name.last.name@berenberg-us.com

## EQUITY RESEARCH

Donald McLee	+1646 949 9026
Adam Mizrahi	+1646 949 9022
Gal Munda	+1646 949 9021
Patrick Trucchio	+1646 949 9027

## ECONOMICS

Mickey Levy	+1646 949 9099
Rbiana Reid	+1646 949 9098

## EQUITY SALES

### SALES

Enrico DeMatt	+1646 949 9230
Kelleigh Faldi	+1617 292 8288
Ted Franchetti	+1646 949 9231
Shawna Gust	+1646 949 7216
Rich Harb	+1617 292 8228
Zubin Hubner	+1646 949 9202
Michael Lesser	+1646 949 9221
Jessica London	+1646 949 9203
Anthony Masucci	+1617 292 8282
Ryan McDonnell	+1646 949 9214
Emily Mouret	+1415 802 2525
Peter Nichols	+1646 949 9201
Kieran O'Sullivan	+1617 292 8292
Rodrigo Ortigao	+1646 949 9205

### SALES (cont'd)

Ramnique Groa	+1415 802 2523
Matt Waddell	+1646 949 9220

### CRM

LaJada Gonzales	+1646 949 9213
Monika Kwok	+1646 949 9212

### CORPORATE ACCESS

Olivia Lee	+1646 949 9207
Tiffany Smith	+1646 949 9208

### EVENTS

Laura Hawes	+1646 949 9209
-------------	----------------

## SALES TRADING

Ronald Cestra	+1646 949 9104
Michael Haughey	+1646 949 9106
Christopher Kanian	+1646 949 9103
Lars Schwartau	+1646 949 9101
Brett Smith	+1646 949 9105
Bob Spillane	+1646 949 9102
Jordan White	+1646 949 9222

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