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Remembering the ’90s: Can the Fed manage another soft landing?

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What don’t I miss from the ’90s Fed?

I wasn’t a fan of trying to divine what the Federal Reserve would do based on the size of Alan Greenspan’s briefcase

What do I hope to see from today’s Fed?

Back in the mid-1990s, the Fed was able to execute a soft landing for an overheating economy. I hope they can repeat the feat today.

My husband and I recently celebrated our 26th wedding anniversary, complete with a look back at some of our wedding photos with a few of our close friends who were in the wedding party. Now, I must confess that I have never had a great fashion sense, but I think I hit rock bottom in 1996 with my choice of bridesmaid dresses. For some reason, I thought it would be cute and, well, unique to have a nautical motif, complete with sailor dresses for the bridesmaids.

I’ll spare you all the reviews, but there were a few highlights: One attendee wondered aloud if the wedding party looked like the cast from the musical “Show Boat.” On the other hand, another friend thought they looked more like pilgrim dresses, which led to a little confusion as to the theme of the wedding. But as we were reminiscing over the old photos, I realized there were some positive takeaways: First, I have true friends if they were willing to wear sailor dresses at my request. And it’s important to remember, I may have picked a bad bridesmaid dress, but I got the right groom.

Which trends from the 1990s do I want to forget?

After the reviews of my wedding photos were complete, we got to reminiscing about the mid-1990s in general. While I wouldn’t mind getting my youth and smaller waistline back, I don’t want giant cell phones, baggy clothes, or scrunchies back.

Other memories that I hope never make a comeback?

- **Dial-up Internet access.** Working from home wouldn’t be nearly as productive with 1990s-level technology.
- **Lack of communication from the Federal Reserve.** I was not a fan of trying to divine what the Fed would do based on the size of then-Fed Chair Alan Greenspan’s briefcase and a few often-cryptic speeches. I like the current Fed more than that version; while flawed, its attempts to be transparent are helpful. And I think it’s important that its monetary policy path is dependent on the data.
- **Mad cow disease.** No explanation necessary.

What do I remember fondly about the 1990s?

Here are just a few things:

- **Michael Jordan.** He returned to the NBA in the mid-1990s, after a brief retirement from basketball (and an attempt at playing pro baseball), and played like he never left the court. He continued to dazzle until the late 1990s, delivering excellence on the court — and championships.
- **“Seinfeld.”** Simply the best sitcom of all time in my book.
- **The Internet.** The use of the Internet became widespread. In 1996, more email was sent than postal mail was sent in the US for the first time.[1] People and companies began to imagine the possibilities. Feb. 8, 1996, brought us “24 Hours in Cyberspace,” an international one-day event to illustrate how the Internet can positively impact lives around the world.

- **Globalization.** It helped drive prices down and increase productivity. In fact, a recent study found that for every 1% increase in globalization, there was a 0.85% increase in labor productivity.[2]
- **A soft landing.** Back in the 1990s, the Fed was able to execute a soft landing for the economy after instituting a tightening program to help rein in inflation. The Fed raised rates — including a mega rate hike of 75 basis points — between December 1993 and April 1995, but the economy was able to avoid recession.[3] Unemployment fell modestly and stocks actually rallied — in fact, the S&P 500 returned 37.58% in 1995 and another 22.96% in 1996.[4] The Dow closed above 6,000 for the first time in 1996.[4]

Can the Fed execute another soft landing today?

As I look back on the 1990s, what I most want is for the Fed to execute another soft landing today. I think that's unlikely, but I do believe there's still a very good chance of a "softish" landing, one in which the US economy does not go into a full-blown recession but does slow significantly. After all, a significant slowdown that moderates demand is needed to get inflation under control — the high level of inflation we didn't see in the 1990s, which makes the Fed's current undertaking more difficult than the mid-'90s Fed.

Much will be dictated by the Fed's path from here. We will all of course be paying attention to the Jackson Hole speeches this week, although I fully expect Fed Chair Jay Powell and other Fed officials to remain hawkish (channeling their inner Alan Greenspan circa December 1996 — if anyone remembers his "irrational exuberance" speech). Aggressive rhetoric would be very likely to send stocks down globally in the near term, as markets are walking on eggshells, so asset owners should be prepared for short-term volatility.

But what's far more important — what I'm really focused on — is the incoming data and what the Fed will do in September. For what it's worth, I expect a 50 basis point rate hike in September based on the data I have seen thus far. Having said that, we all know I have been wrong before — just think of my bridesmaid dresses. And Sept. 20–21 is a long way away in the world of economic data. All I'm asking for is that the Fed be data dependent, that it be sensitive to incoming data. That will make the blunt instrument that is monetary policy as close to a surgical tool as possible and give the Fed the best chance at providing the appropriate policy prescription for the US economy.

Notes

[1]Source: historyofinformation.com

[2]Source: United States Studies Centre, "Globalisation and labour productivity in the OECD: What are the implications for post-pandemic recovery and resilience?" June 4, 2020

[3]Source: US Federal Reserve

[4]Source: Bloomberg, L.P