

Research Triangle AAI

October 11, 2025

Let's Talk About the Fed: Can Twelve Unelected Bureaucrats Really Know the Right Interest Rate?

John M. Simms, Jr., Ph.D., CFA

**Chief Investment Strategist
Piedmont Trust Company**

John earned a BA from Davidson College and a PhD from UNC-Chapel Hill. He has held faculty positions at the University of Virginia's Darden Graduate School of Business Administration and UNCG's Bryan School of Business and Economics. John's practical experience includes trading commodities for a NYC investment bank and relationship and investment management roles for private wealth and family office firms. He holds the Chartered Financial Analyst designation and is a member of CFA Institute and the CFA NC Society. John serves his community on the Finance and Administration Committee of the United Way of Greater Greensboro and the Board of Family Service of Greensboro Foundation.

Since 1928, Piedmont Trust Company has served as the family office for a large Greensboro-based family now in its sixth generation. Piedmont now works with other multi-generation families to meet their investment management, fiduciary, tax planning, foundation administration, and estate and financial planning needs.

October 2025 Discussion Agenda

Personal Declarations

- Like you, I am an individual investor & am speaking as such, **not for Piedmont**
- I am concerned unsustainable fiscal and monetary policies have created market conditions that will result in potentially significant market turbulence

Key Question #1—when does central planning work? (Bonus points if you remember MITI)

Bottom line—let's give the market a chance

Key Question #2—what's the correct short-term interest rate for the U.S. economy?

Bottom line—rules-based monetary policy may provide more certainty/stability than discretionary policy
↳ "gut feel"

Key Question #3— what's the correct value of the U.S. dollar and who should determine it?

Bottom line— be careful what you wish for (bonus points if you remember (1) the Plaza Accord and (2) October 19, 1987)

Key Question #4—a final thought on valuation—are current values sustainable?

Bottom line— **beginning valuation critical** to long-term **realized** returns

Valuation has been high
for a long time!

Reminders

The volatility of price is greater than the volatility of value.

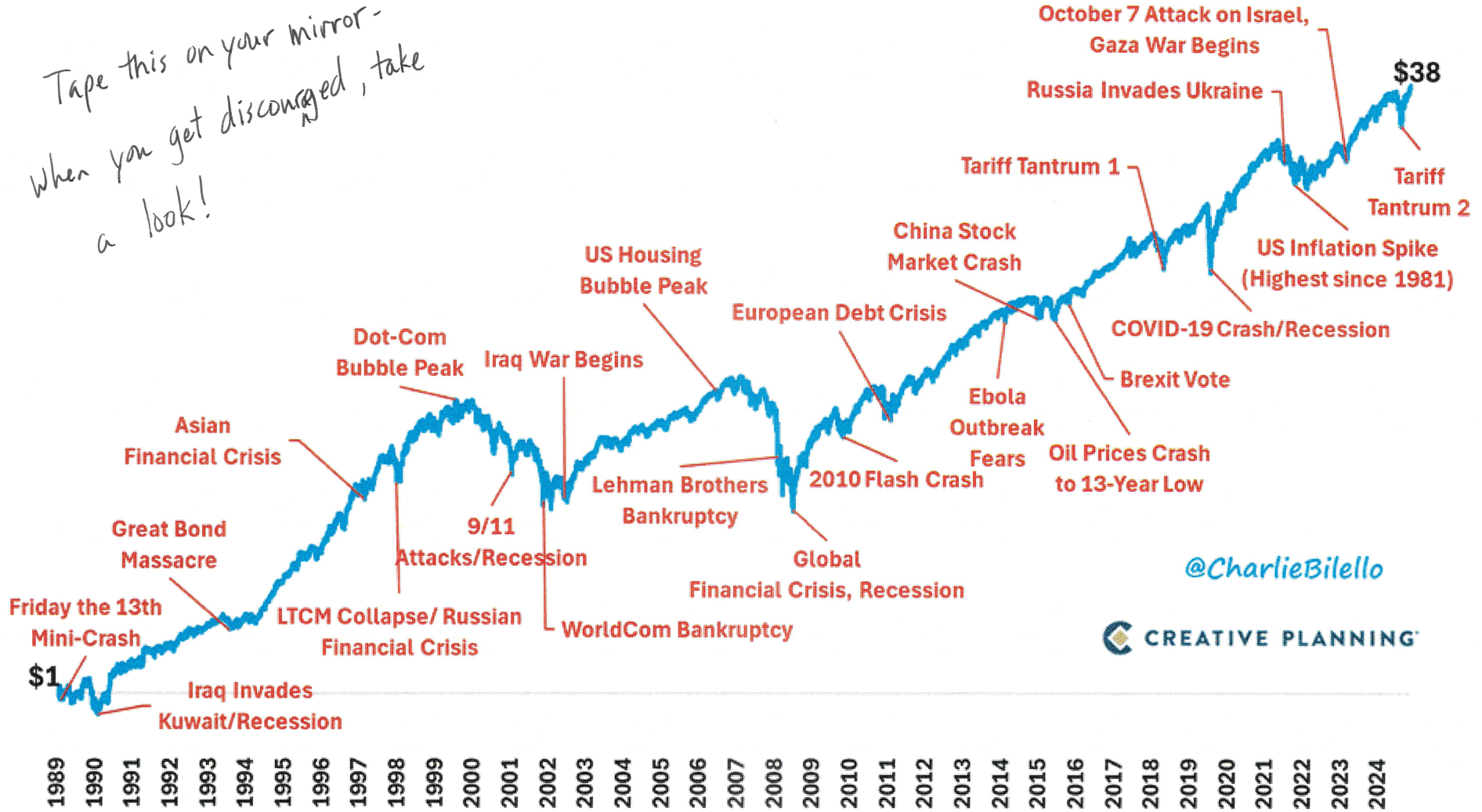
- There are no bad assets, only bad prices. (Howard Marks)
- Just because it's inevitable, doesn't mean it's imminent. (Doug Casey)
- There are no risk-free paths now. (Jerome Powell)

In America, there is no constituency for pain

The NYSE & NASDAQ—the only “stores” that offer 50%-off sales where no one wants to buy

S&P 500 Total Returns: Growth of \$1 (Data via YCharts: Sep 1989 - July 2025)

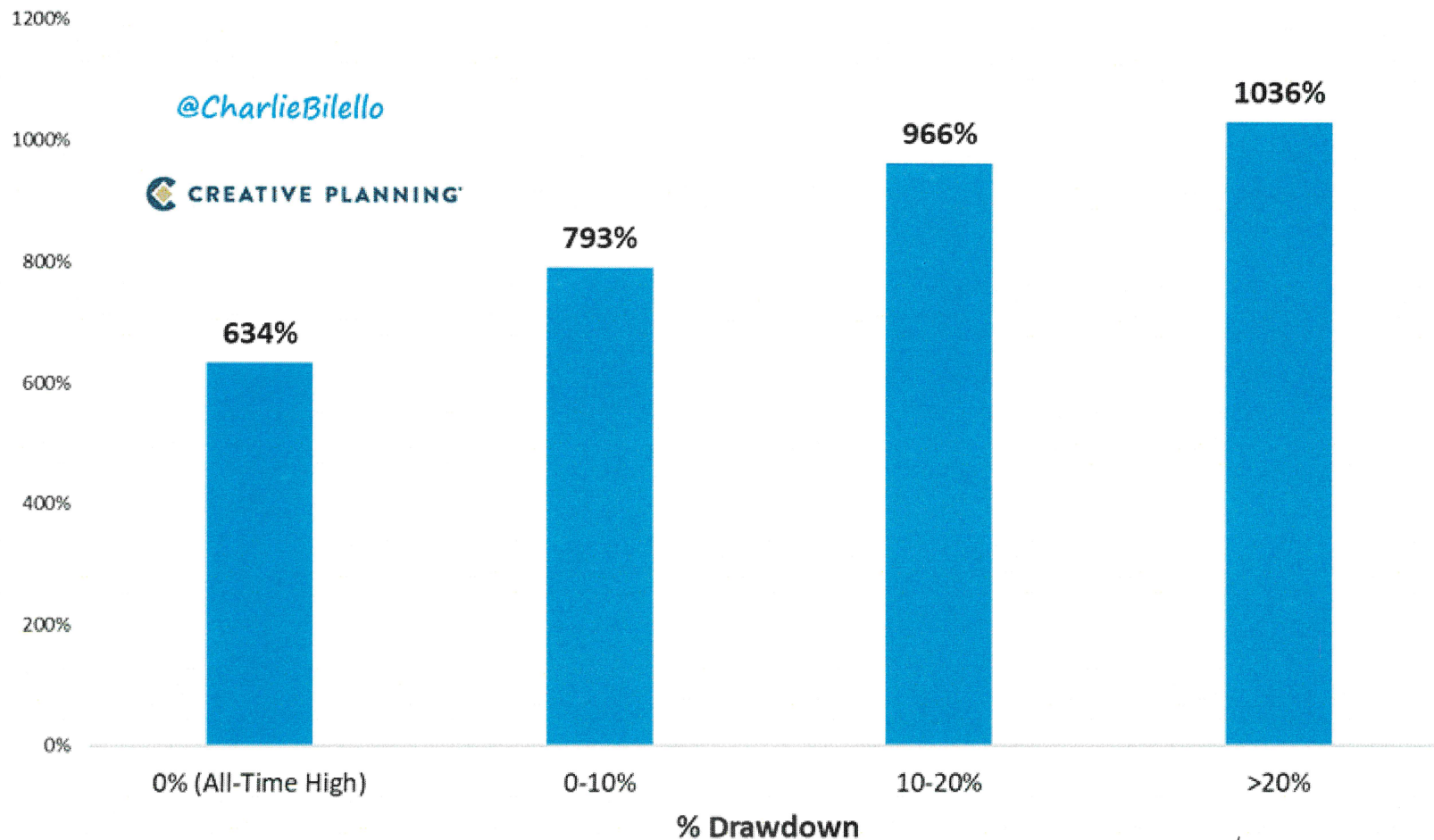
*Tape this on your mirror -
When you get discouraged, take
a look!*



@CharlieBilello



S&P 500: Average Cumulative 20-Year Forward Total Returns (Monthly Data: January 1928 - December 2024)

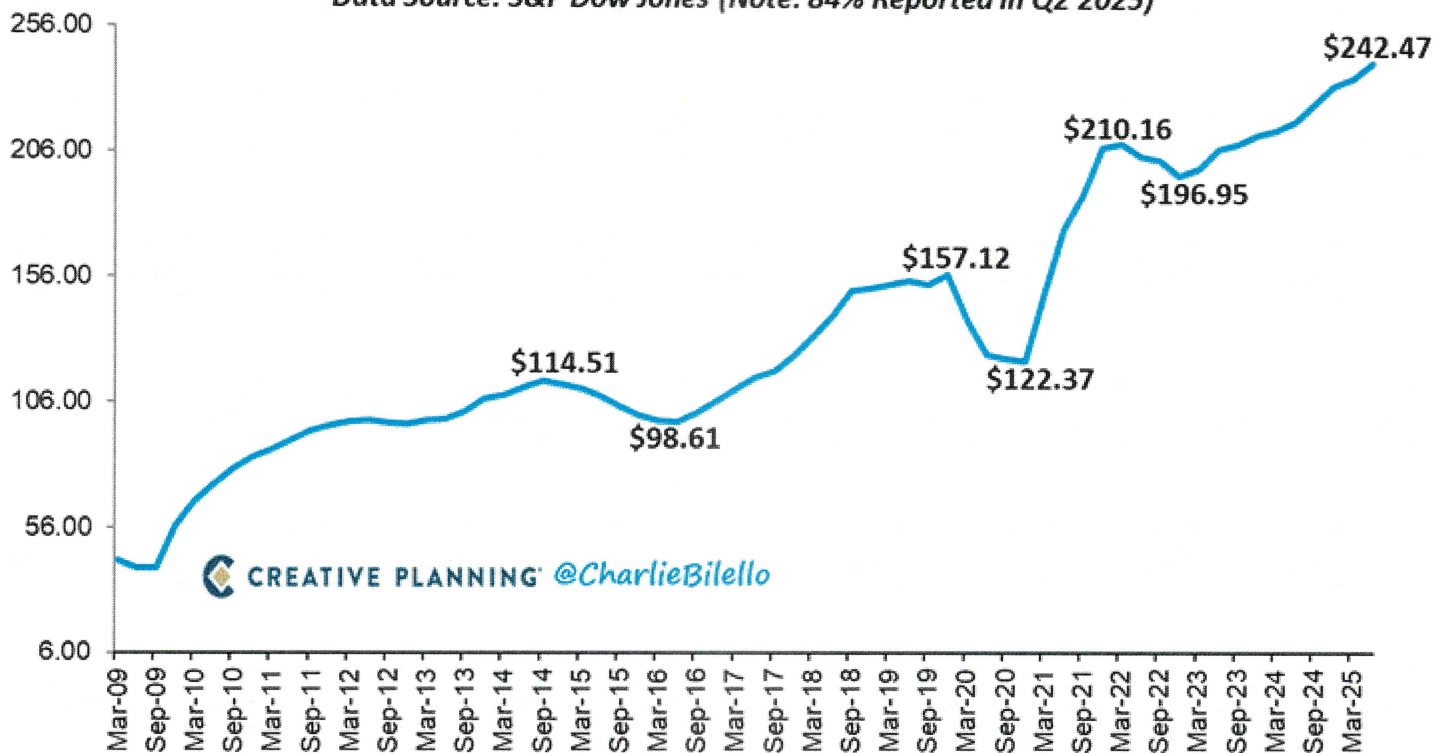


Tape this one on the back of the door!

So far, the earnings have been there, but lately the vast majority have come from AI-related companies.

S&P 500 Operating EPS (TTM)

Data Source: S&P Dow Jones (Note: 84% Reported in Q2 2025)



CREATIVE PLANNING @CharlieBilello

S&P 500 Total Return (^SPXTR) Level / MSCI World Ex USA Total Return (^MSWXUSATR) Level VAL 1.015






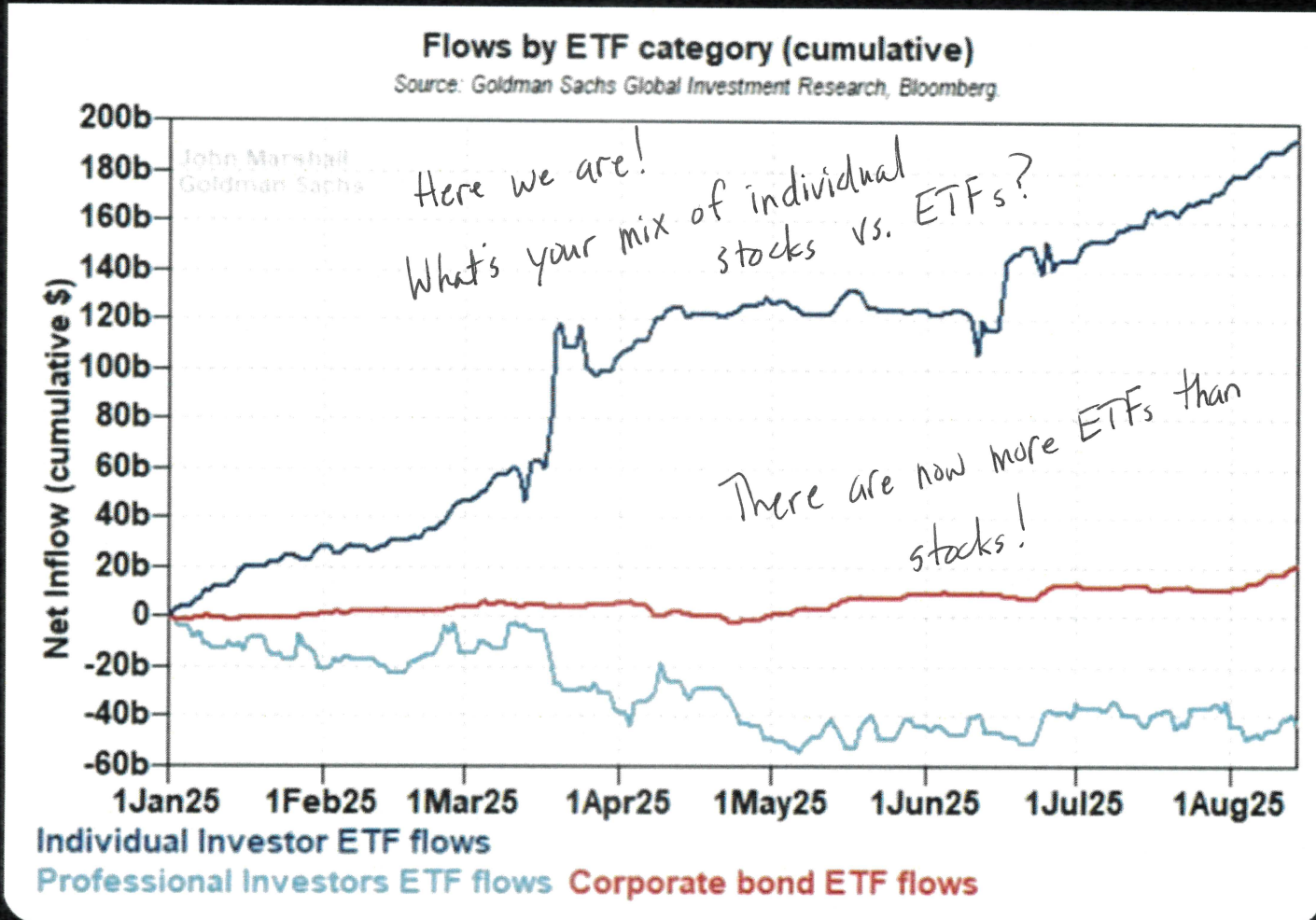
Willem Middelkoop  @wmiddelkoop · Aug 27

Says it All



Ronnie Stoeferle  @RonStoeferle · Aug 27

From the Goldman trading desk: it's all retail driven!



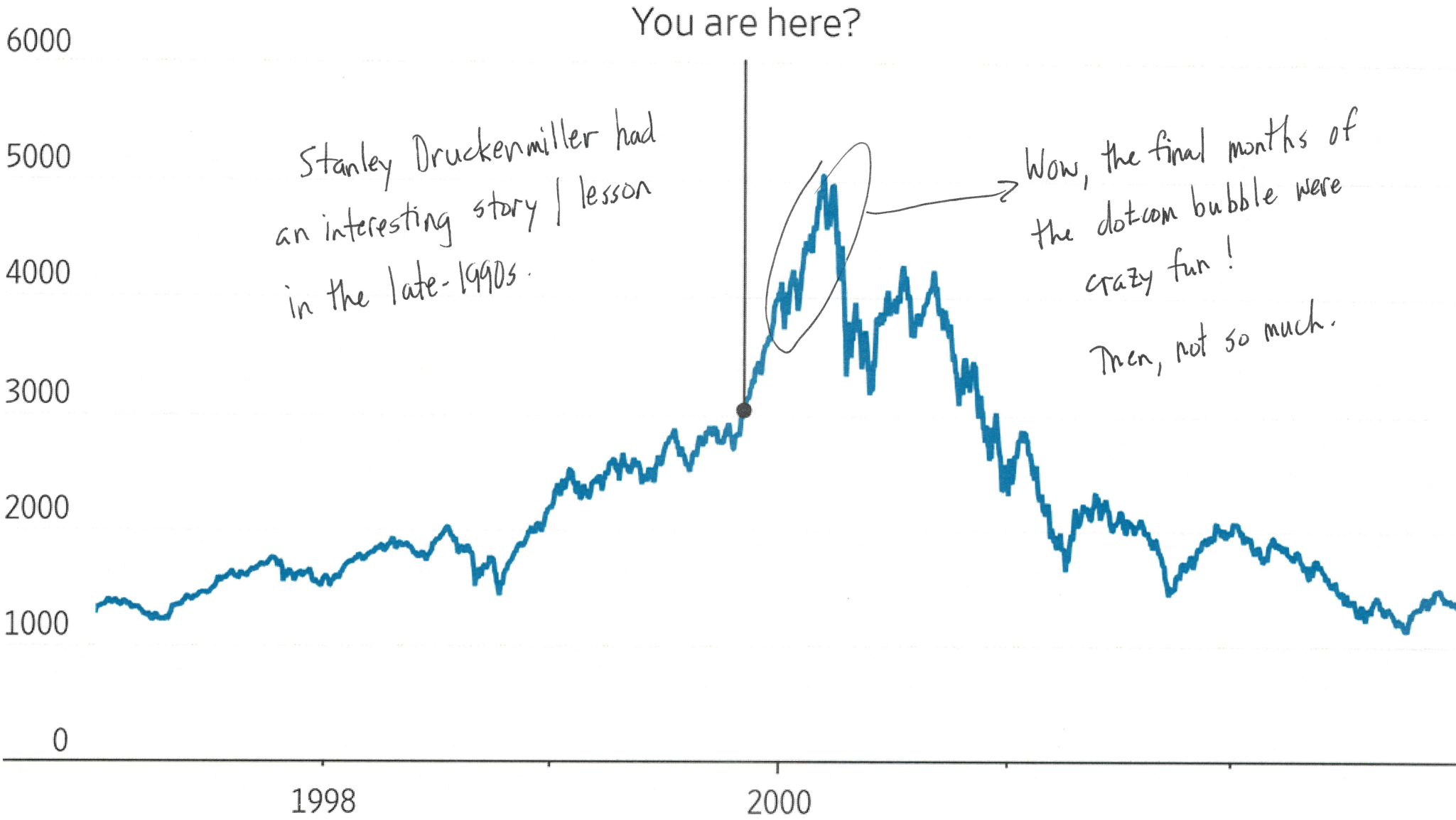
↻ 3

❤ 39

📊 11K



Nasdaq Composite Index

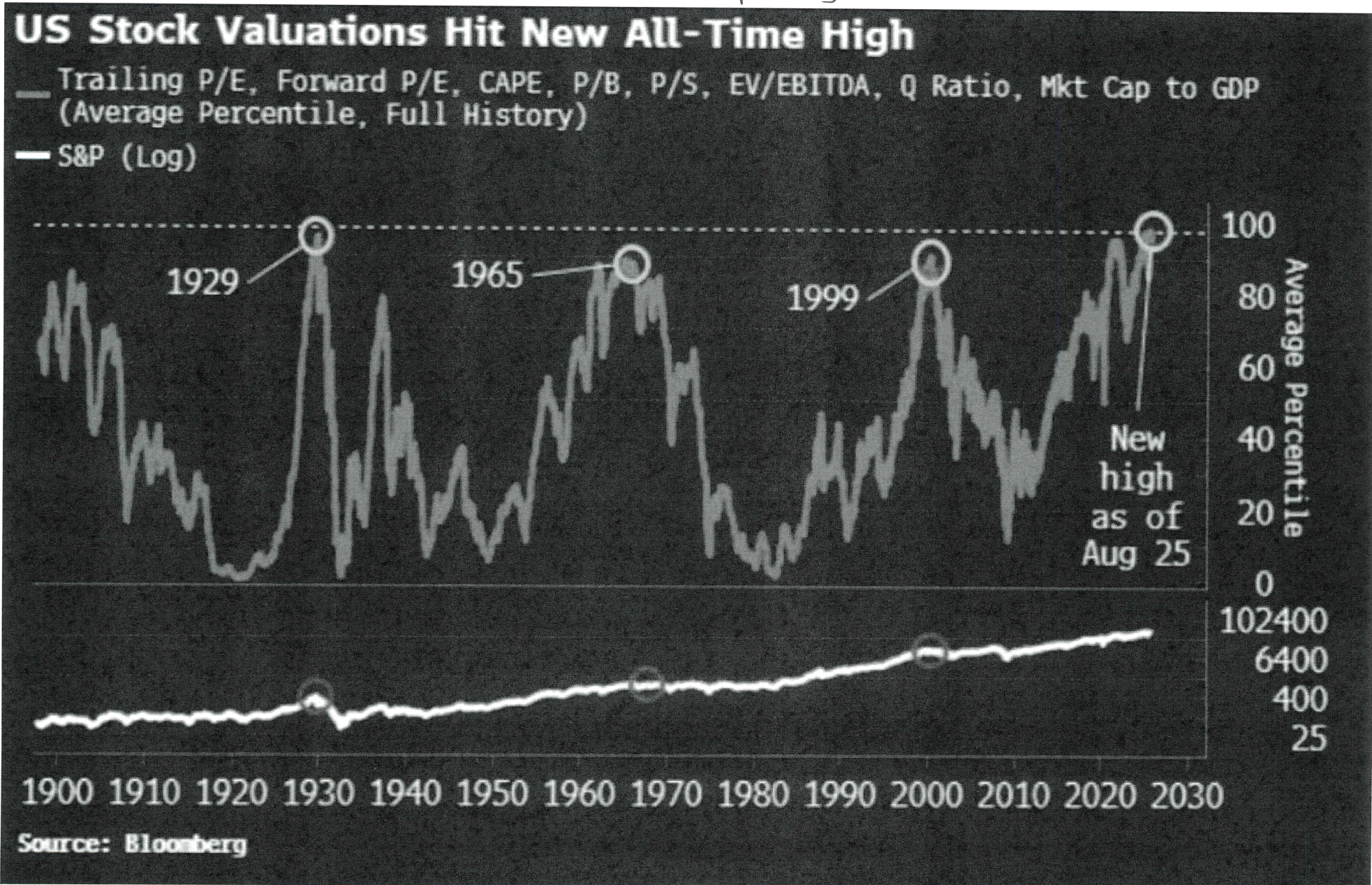


Stanley Druckenmiller had an interesting story / lesson in the late-1990s.

You are here?

Wow, the final months of the dotcom bubble were crazy fun!
Then, not so much.

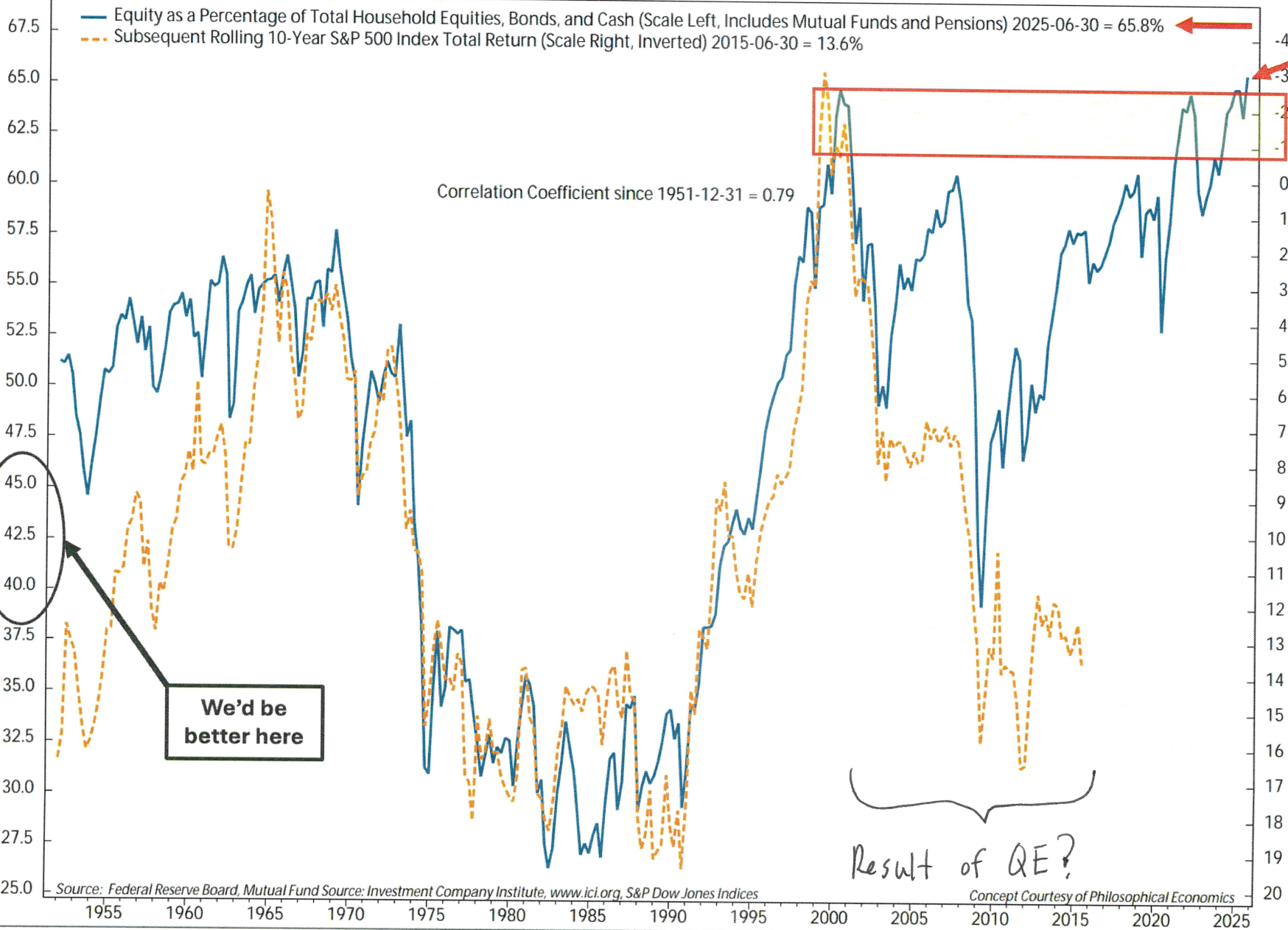
Valuation - not great at timing!
But pretty good at long-term results.



You can't have a bubble without high valuations!

Quarterly Data 1951-12-31 to 2025-06-30

Household Equity Percentage vs Subsequent Rolling 10-Year S&P 500 Index Total Return



We are here 6-30-2025

We'd be better here

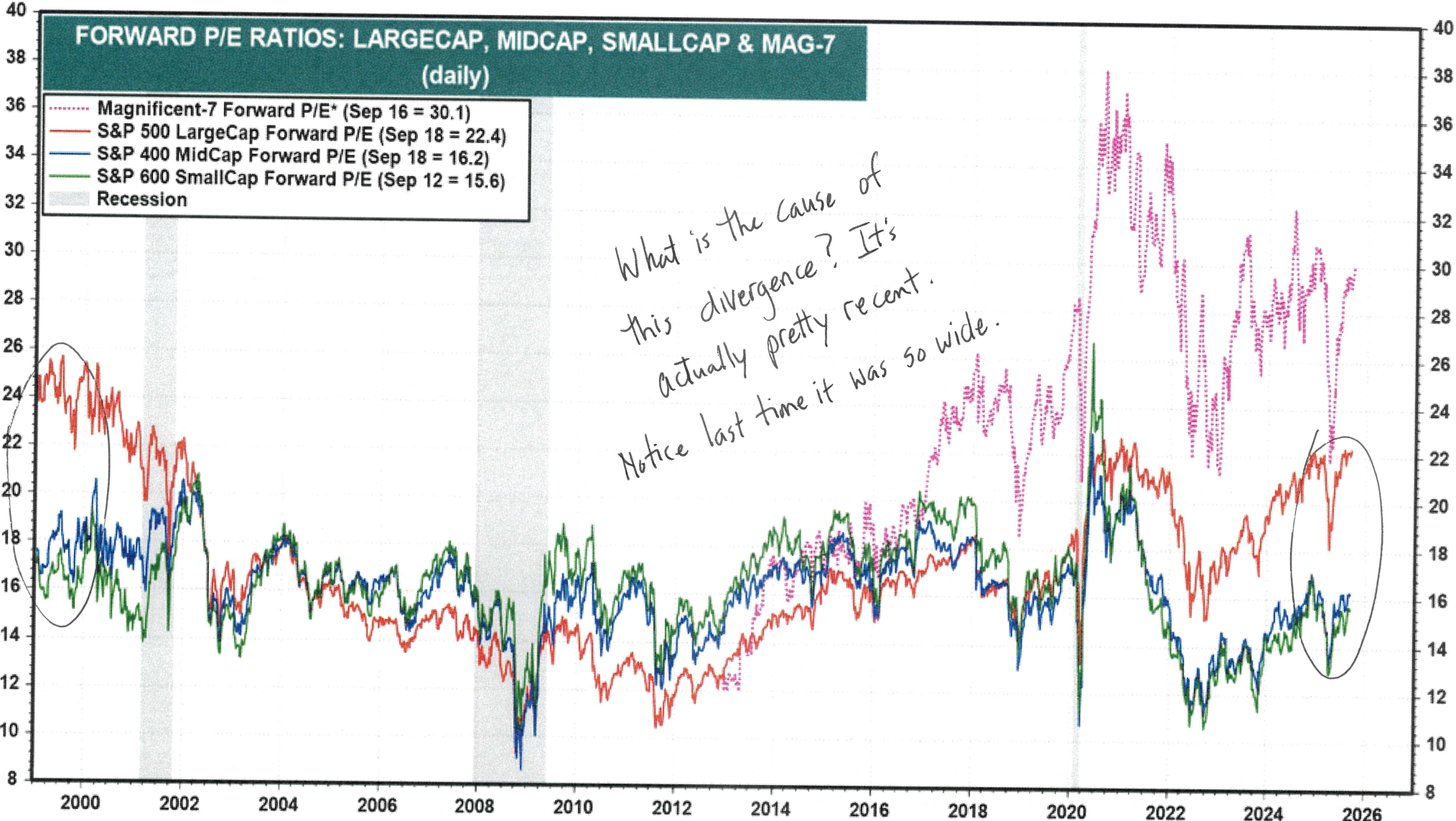
Result of QE?

DAVIS219



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Or, has the world changed?



Source: LSEG Datastream and © Yardeni Research, and Standard & Poor's.

* Magnificent-7 stocks include Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, NVIDIA, and Tesla. Both classes of Alphabet are included.

Bond market has gotten in on the high valuation game.

● US Corporate Master Option-Adjusted Spread VAL 0.74%



● US High Yield Master II Option-Adjusted Spread VAL 2.69%



Enough reward for the risk?

Why has growth slowed?
 Couldn't Greenspan, Bernanke, Yellen +
 Powell do something?

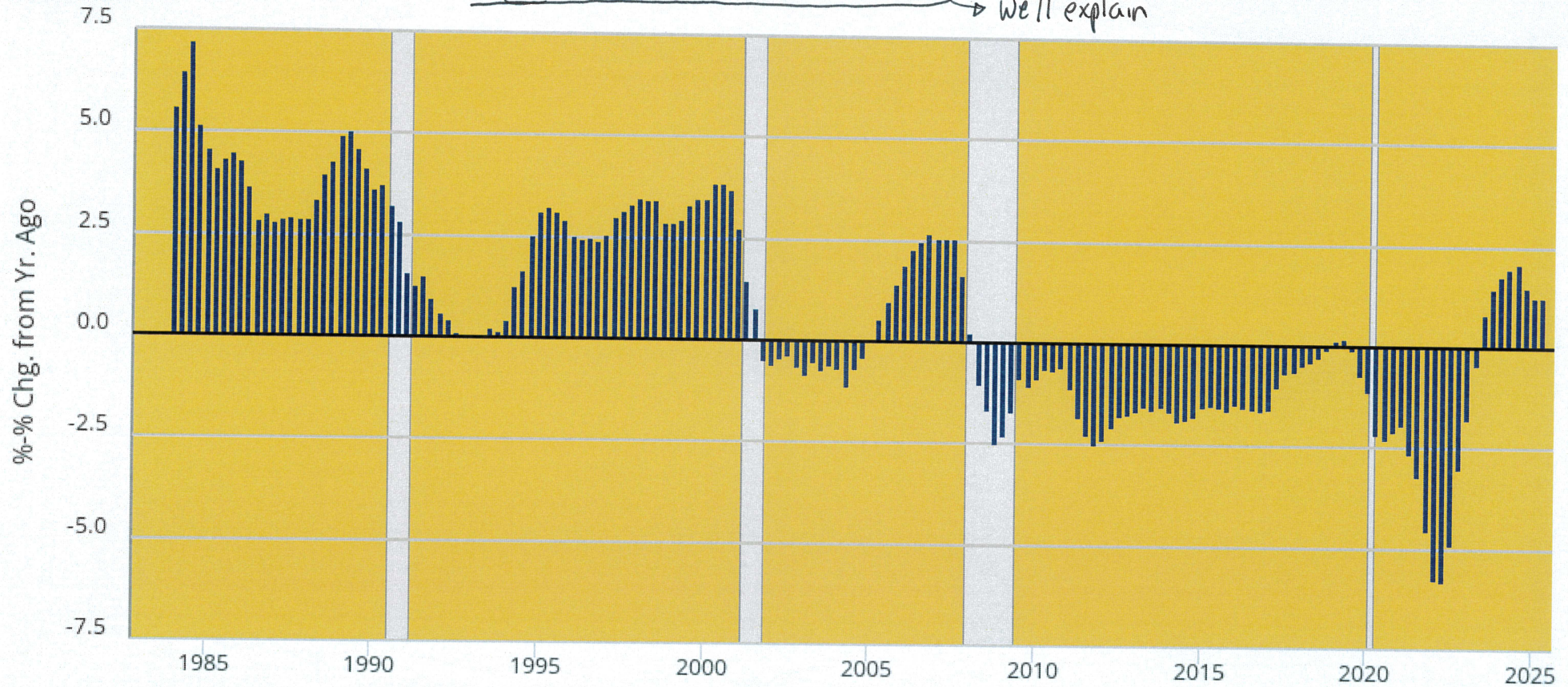
COMPOUNDED ANNUAL RATES OF CHANGE					
BY DECADE	GDP NOMINAL	GDP REAL	GDP INFLATION	POPULATION	GDP PER CAPITA
1900s	5.3%	3.9%	1.4%	1.9%	1.9%
1910s	10.0%	2.9%	7.1%	1.5%	1.4%
1920s	3.0%	3.4%	-0.4%	1.5%	1.9%
1930s	-1.1%	1.0%	-2.1%	0.7%	0.2%
1940s	11.3%	5.6%	5.7%	1.3%	4.2%
1950s	6.7%	4.2%	2.5%	1.8%	2.4%
1960s	6.9%	4.5%	2.4%	1.3%	3.2%
1970s	9.9%	3.2%	6.7%	1.1%	2.1%
1980s	7.9%	3.1%	4.8%	0.9%	2.1%
1990s	5.5%	3.2%	2.3%	1.2%	2.0%
2000s	4.2%	1.9%	2.3%	1.0%	0.9%
2010s	4.1%	2.4%	1.7%	0.7%	1.7%
2020s	6.3%	2.4%	3.9%	0.5%	1.9%
1900-2024	6.1%	3.2%	2.9%	1.2%	2.0%
1900-1949	5.6%	3.3%	2.2%	1.4%	1.9%
1950-1999	7.4%	3.6%	3.7%	1.3%	2.4%
2000-2024	4.5%	2.2%	2.3%	0.8%	1.4%

Oh, wait, they did do something!
But was it the right "something"?

FRED

Federal Funds Effective Rate-16% Trimmed-Mean Consumer Price Index

we'll explain

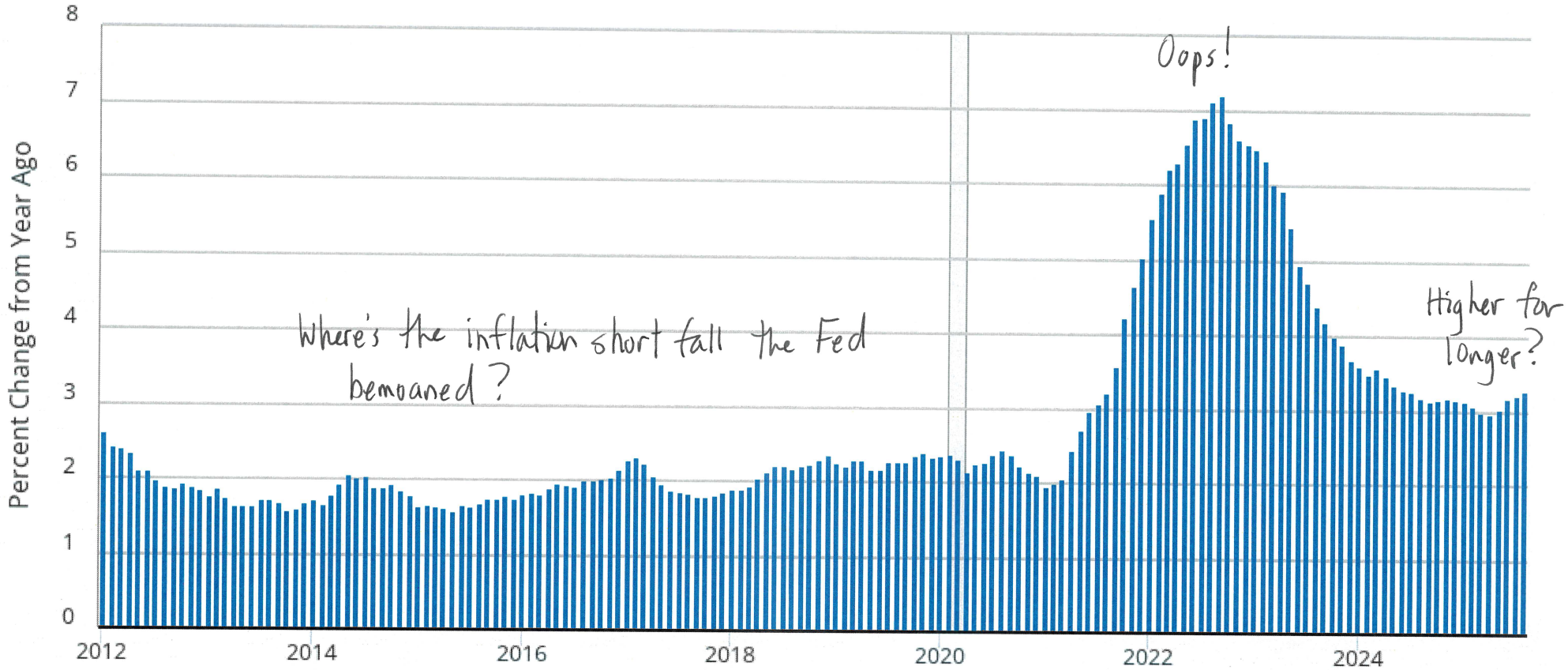


Sources: Board of Governors of the Federal Reserve System (US); Federal Reserve Bank of Cleveland via FRED®

Shaded areas indicate U.S. recessions.

myf.red/g/1L9ci

FRED  ● 16% Trimmed-Mean Consumer Price Index



Source: Federal Reserve Bank of Cleveland via FRED®

Shaded areas indicate U.S. recessions.

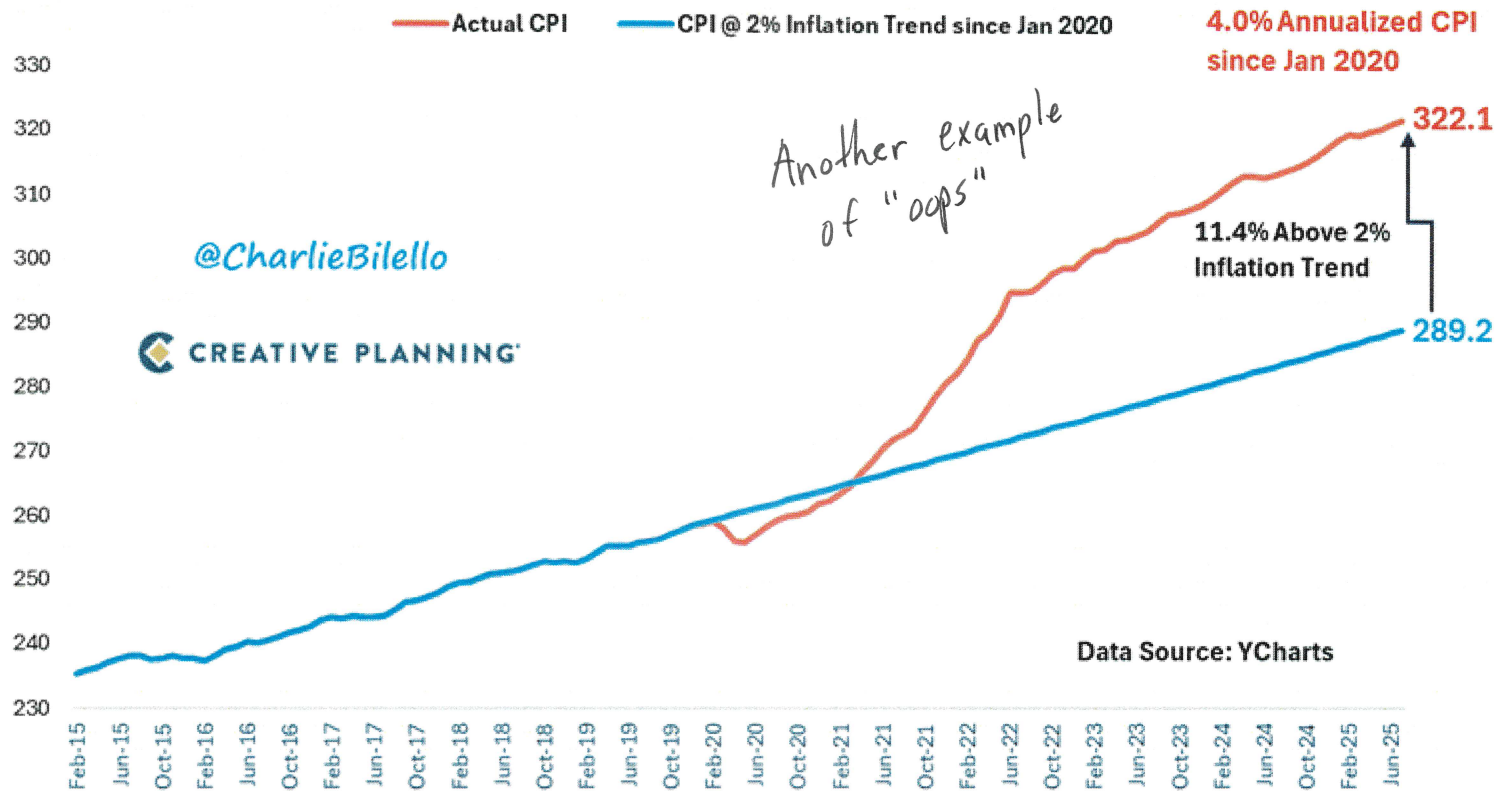
myf.red/g/1Mocs

This is your captain speaking...
Party on!




Tape this to the back of
your door, too!

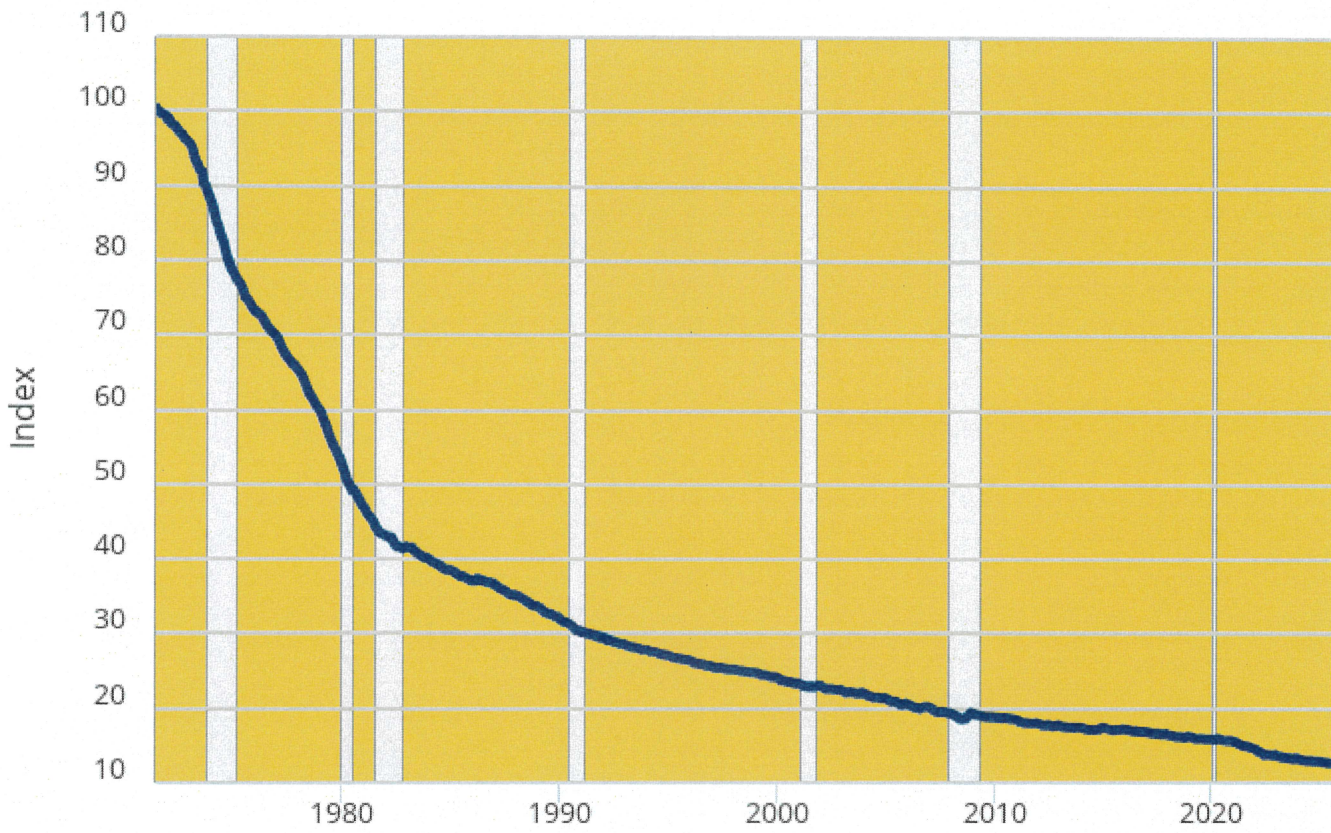
US Consumer Price Index (January 2015 - July 2025)



Should Fed try to engineer deflation to return to 2% trendline?

Thank you so much! The result of unanchored policy + unlimited ability to print!

FRED  Consumer Price Index for All Urban Consumers: Purchasing Power of the Consumer Dollar in U.S. City Average, Jul 1971=100



Source: U.S. Bureau of Labor Statistics via FRED®
Shaded areas indicate U.S. recessions.

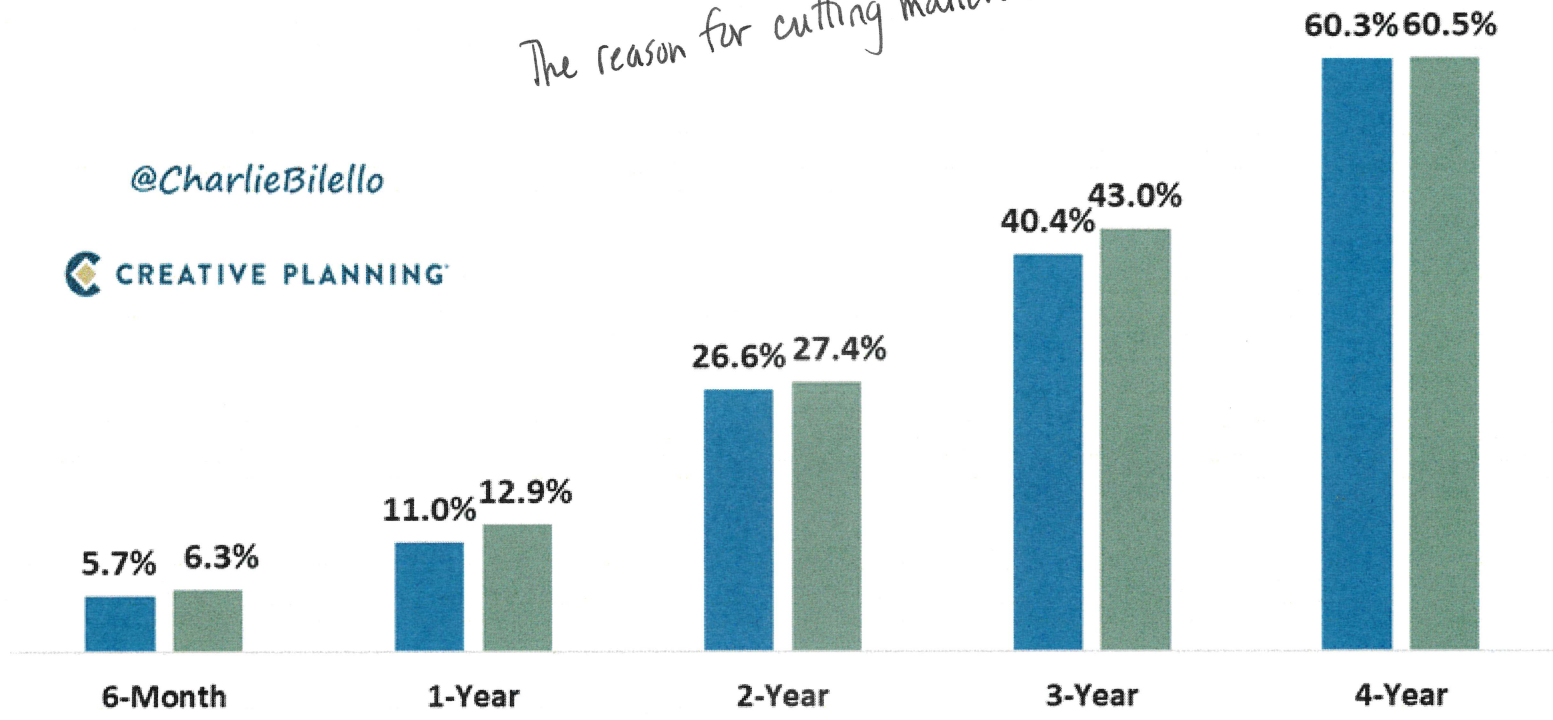
Aren't rate cuts great for stocks?

S&P 500 Forward Total Returns (October 1982 - September 2025)

■ Following Fed Rate Cuts ■ Following All Time Periods

The reason for cutting matters!

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CREATIVE PLANNING



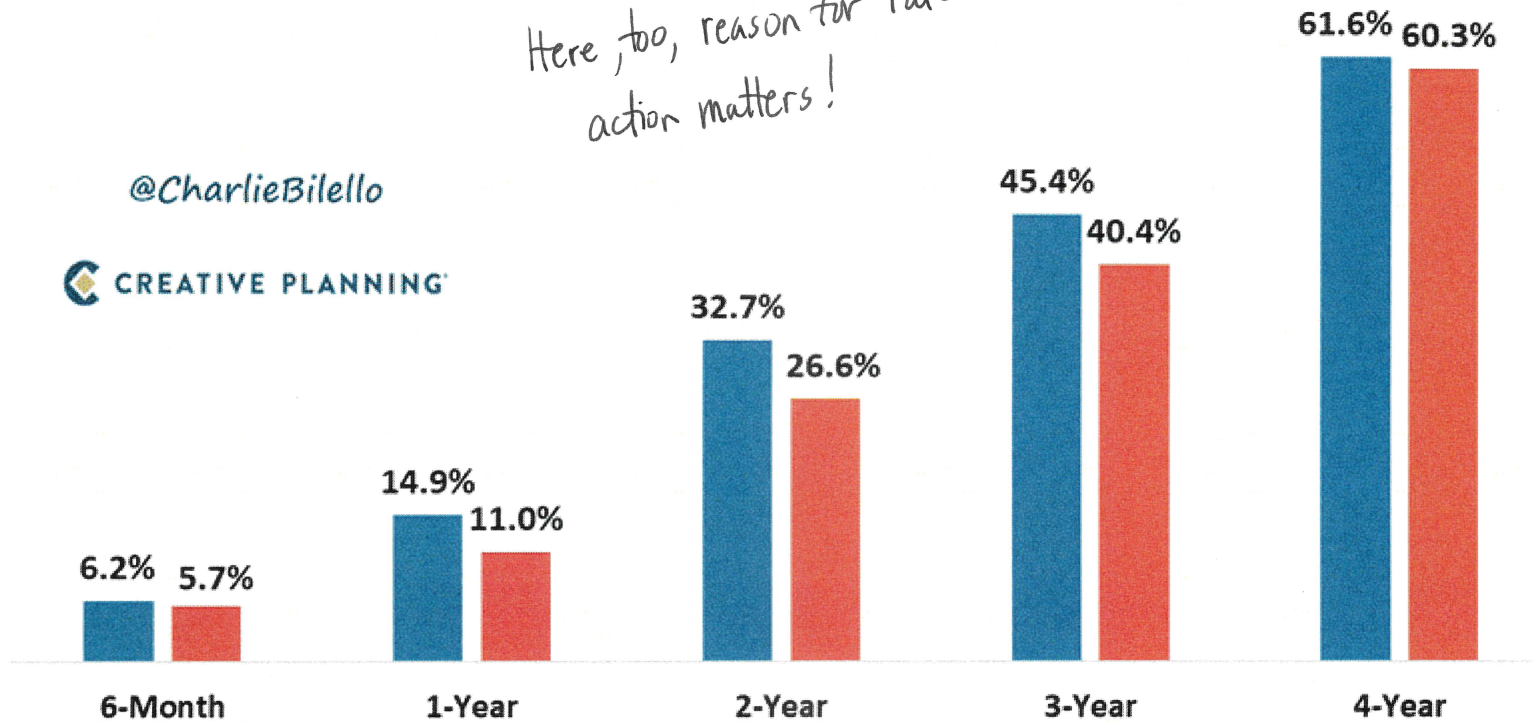
S&P 500 Forward Total Returns

(Data via YCharts/Federal Reserve: October 1982 - September 2025)

■ Following Fed Rate Hikes ■ Following Fed Rate Cuts

Here, too, reason for rate action matters!

@CharlieBilello



What policy actions led to this outcome?

What policy actions would help?

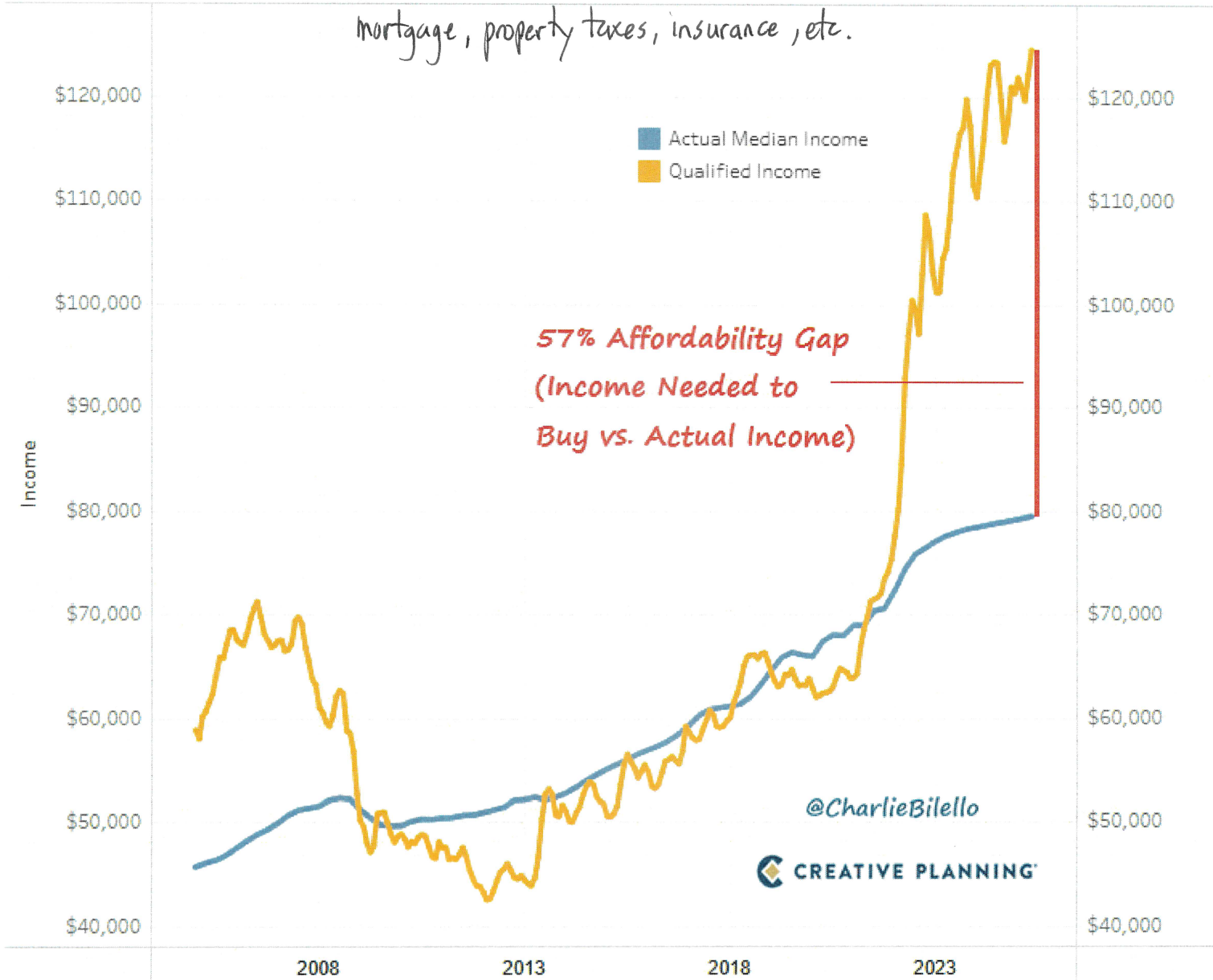
United States

Gap Between Actual Median Household Income and Qualified Income

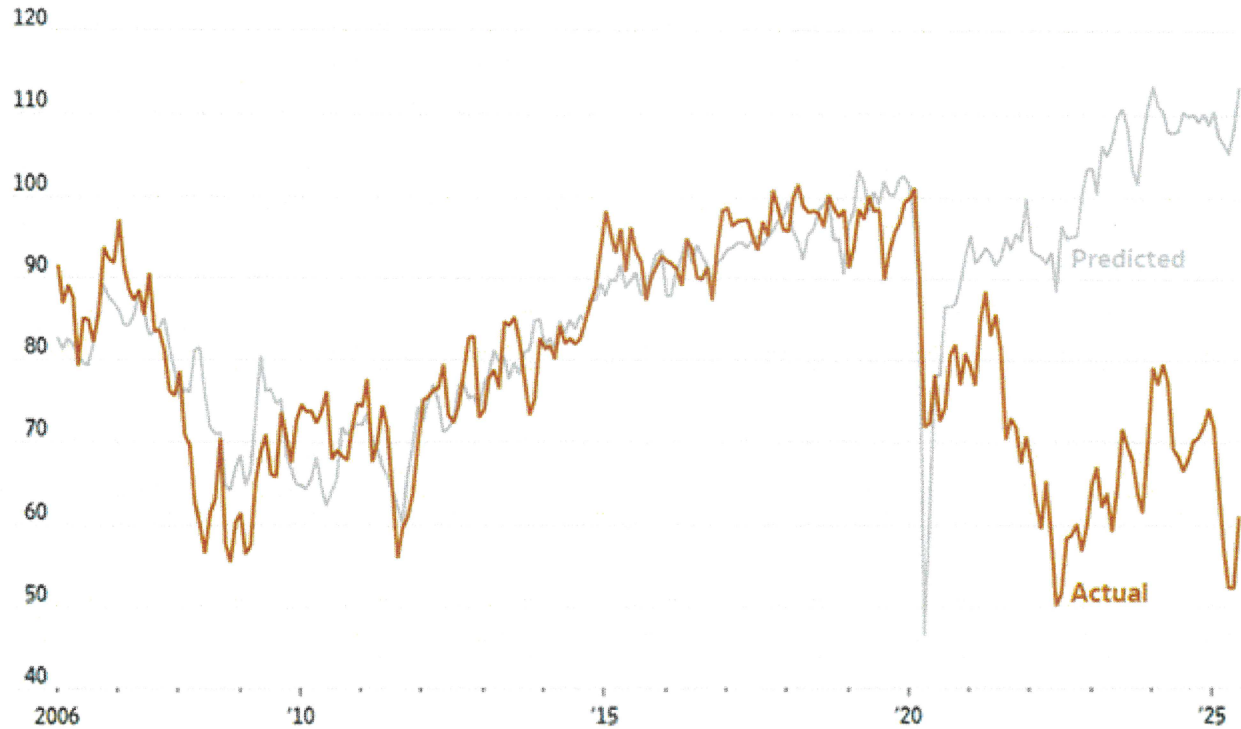
(Qualified Income = Income needed for annual homeownership cost to equal no more than 30 percent of annual income)

Source: Federal Reserve Bank of Atlanta

mortgage, property taxes, insurance, etc.



Actual vs. predicted consumer sentiment

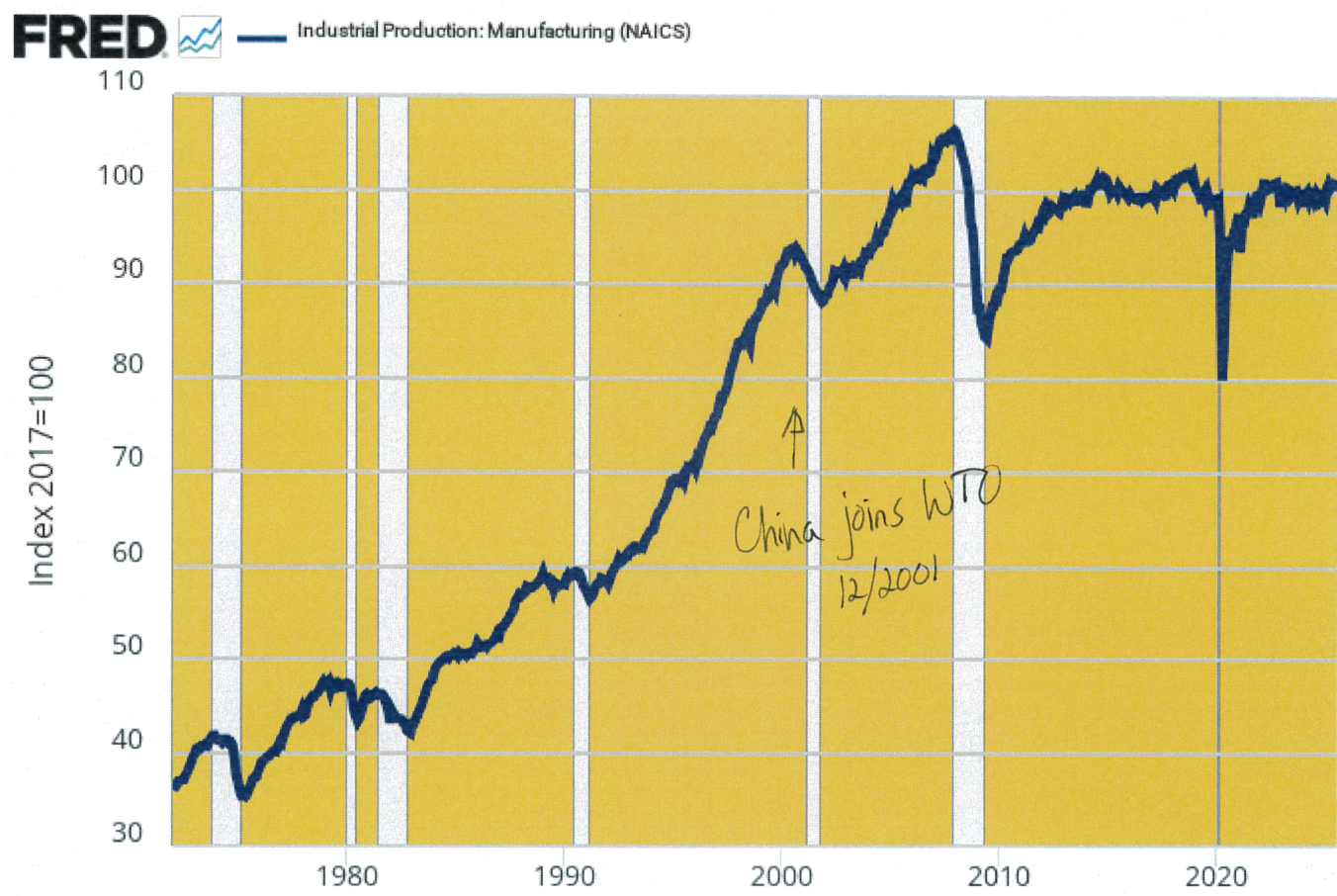


This is very interesting. What has changed?

Note: Predicted sentiment is a weighted measure looking at economic indicators such as the unemployment rate, inflation, consumer spending and stock performance
Sources: Regression model by Cummings and Mahoney (predicted sentiment); University of Michigan consumer survey (actual sentiment)

What will it take to get significant re-shoring of manufacturing? Should we?

Avg Fully Loaded Manufacturing Wages per hour, 2024:

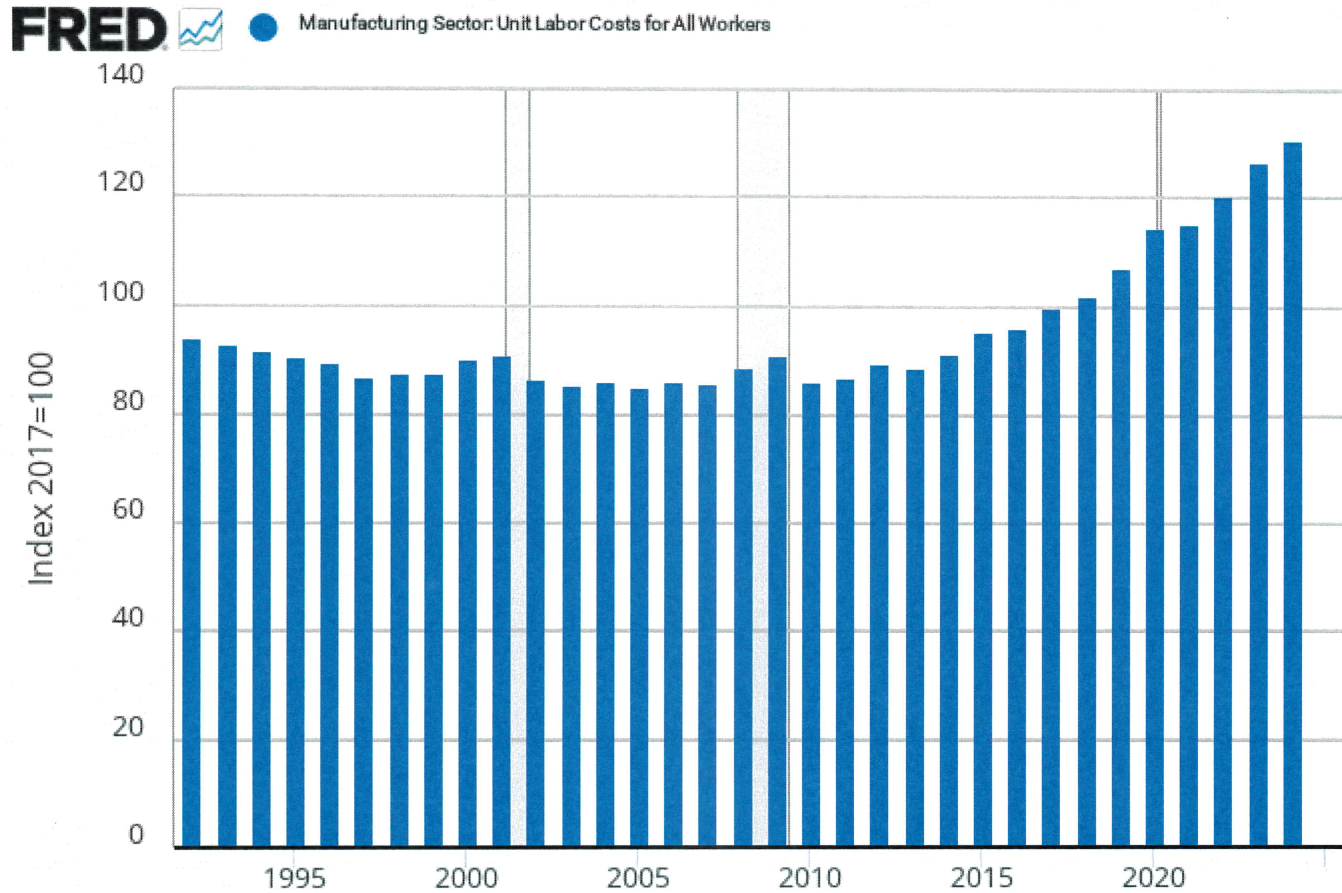


Source: Board of Governors of the Federal Reserve System (US) via FRED®
Shaded areas indicate U.S. recessions.

- Vietnam \$3.50
 - India \$4.50
 - Mexico \$5.00
 - China \$6.00
 - S. Korea \$20.50
 - Canada \$22.00
 - Japan \$28.00
 - UK \$30.00
 - EU-27 \$32.50
 - USA \$44.25
- ↑

What led to this disparity?

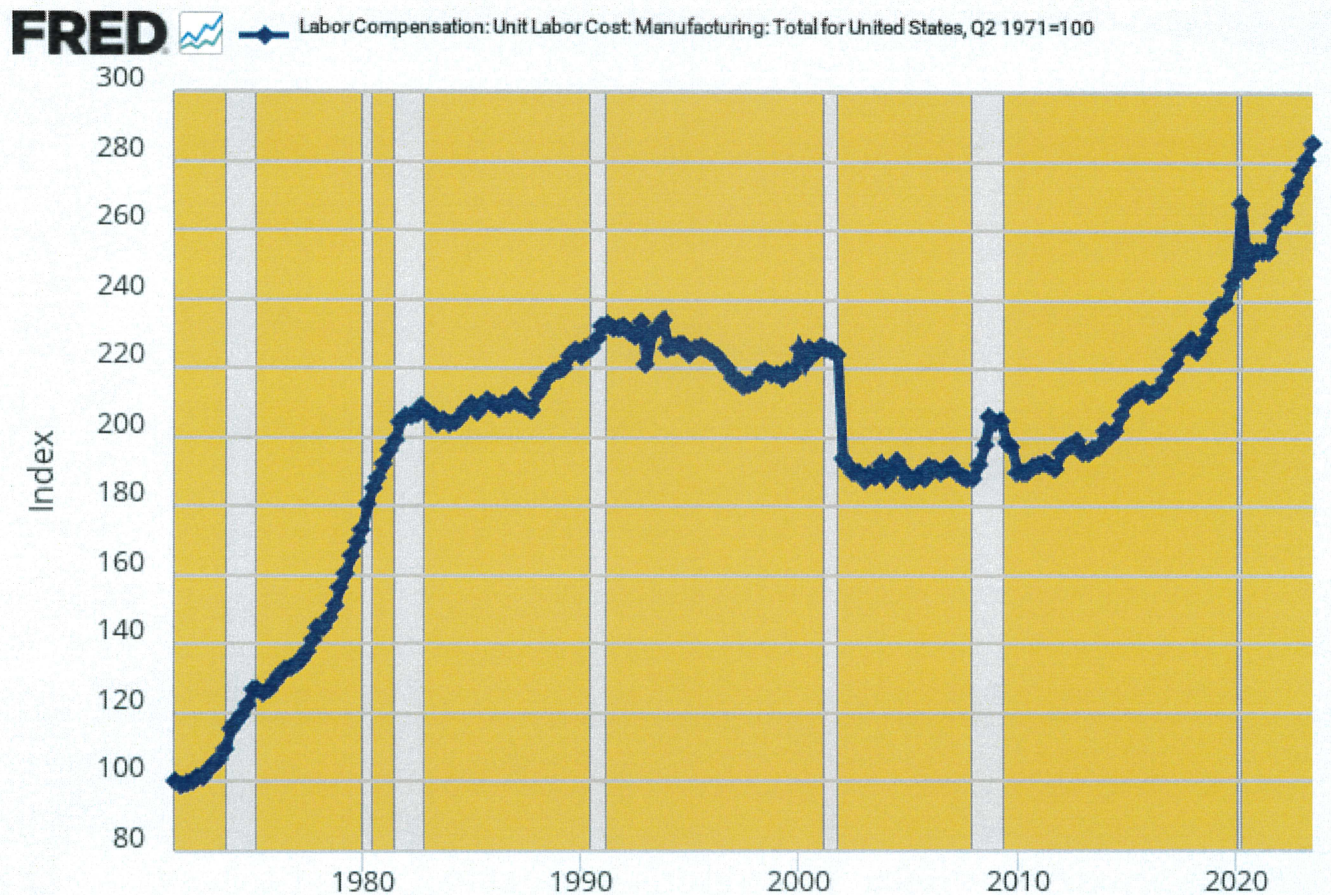
Stable pre-QE period.
Related?



Source: U.S. Bureau of Labor Statistics via FRED®

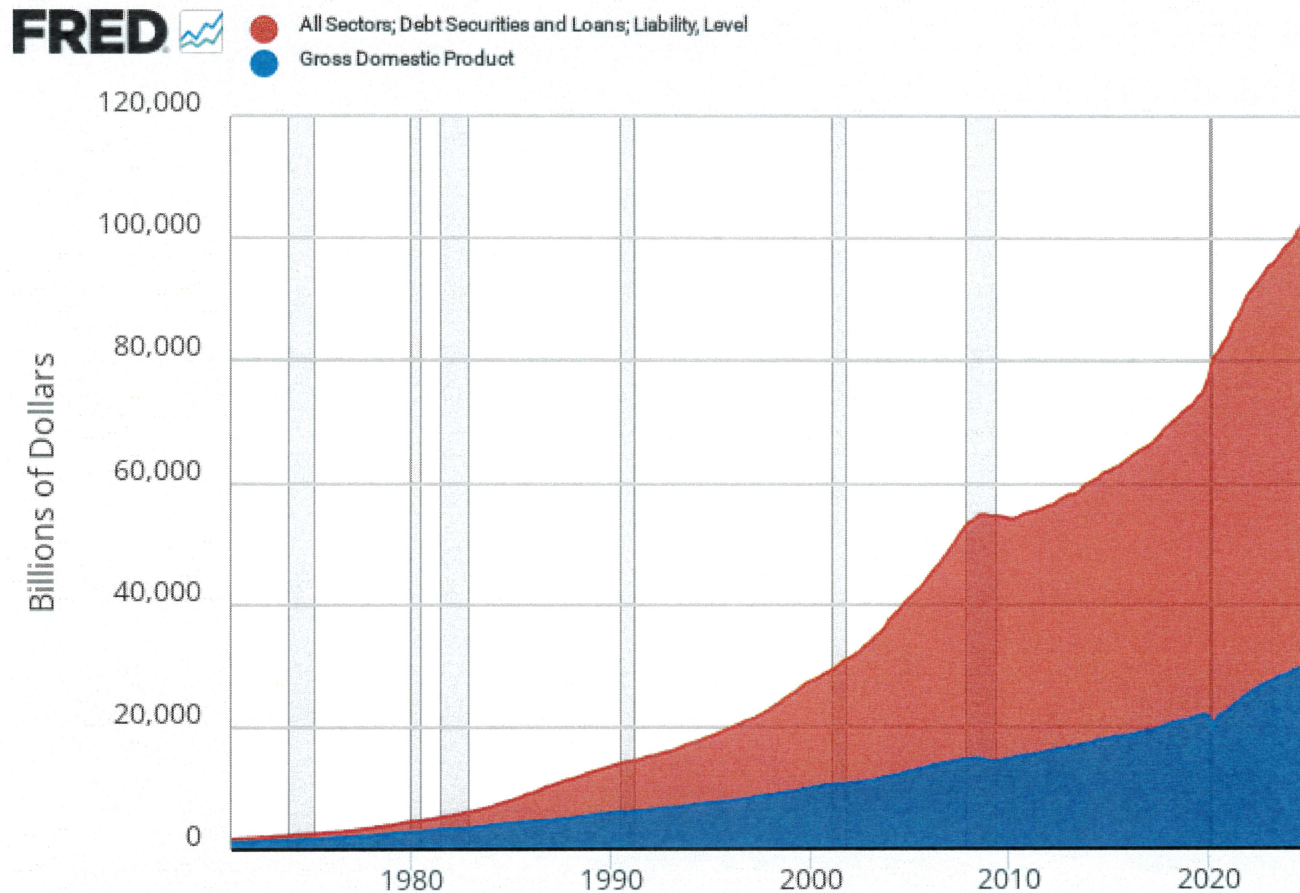
Shaded areas indicate U.S. recessions.

Longer history of manufacturing unit labor costs.



Source: Organization for Economic Co-operation and Development via FRED®

Shaded areas indicate U.S. recessions.



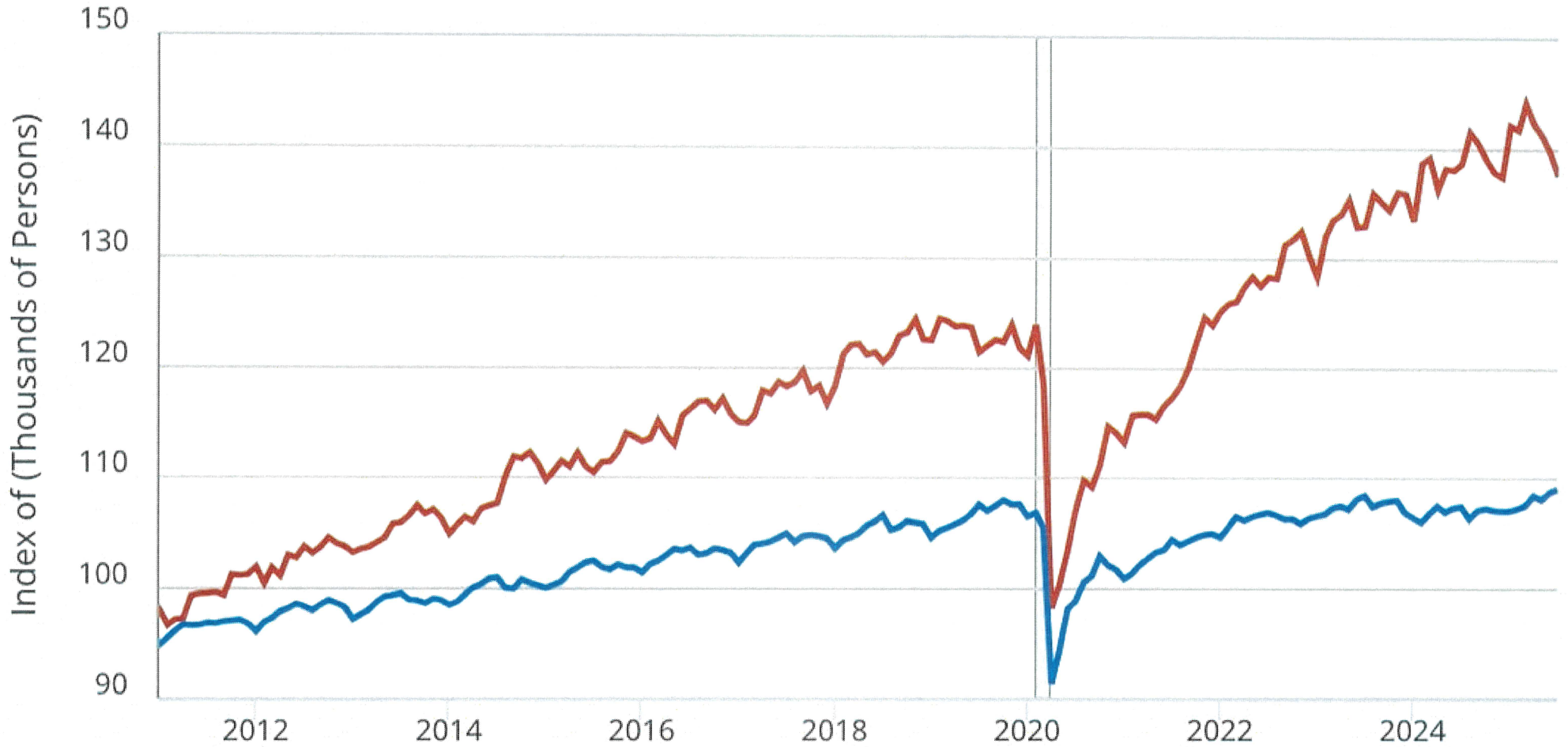
Sources: Board of Governors of the Federal Reserve System (US); U.S. Bureau of Economic...
Shaded areas indicate U.S. recessions.

Some activity
has to generate
the cash flow
required to
service all
this debt.

Are we going
to be
productive
enough to
do it?

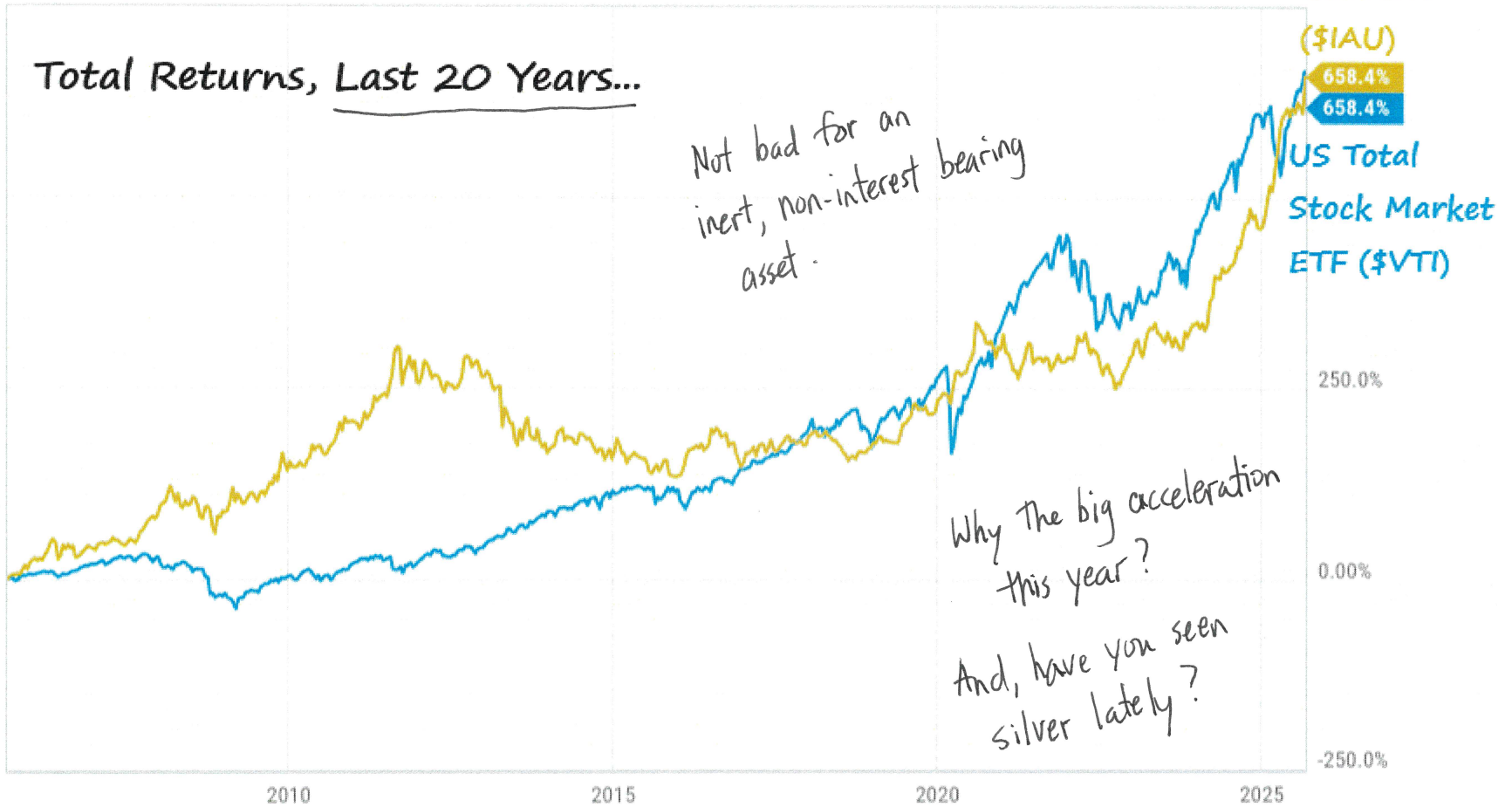
My big issue with immigration reform - We need labor supply!

FRED  — (Employment Level - Foreign Born), Jan 2007=100
— (Employment Level - Native Born), Jan 2007=100



Source: U.S. Bureau of Labor Statistics via FRED®

- Vanguard Total Stock Market Index Fund ETF (VTI) Total Return Price % Change VAL 658.4%
- iShares Gold Trust (IAU) Total Return Price % Change 658.4%



This is interesting.
Note, it's not chronological.

APOLLO

The weight of the biggest stock in the S&P 500



Fascinating for your portfolio... yikes!

U.S. average daily options volume

60 million

50

40

30

20

10

0

*I ask again this year,
is this healthy?*



Source: Options Industry Council