How The Fed's Powers Are Being "Cancelled" And What "Fiscal Quantitative Easing" Means For Investors

By Vineer Bhansali | January 13th, 2026

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When I wrote here last week ("The Year Of The Fire Horse: The Year That Central Bankers Become Largely Irrelevant") I speculated that the Fed will become irrelevant sometime in this Year of the Fire Horse. Little did I know that the speed at which this would occur, even before the Year of the Fire Horse began. Just in the last four days, here are three signposts that investors should pay attention to. We are decidedly on a path where the traditional "monetary quantitative easing (MQE)" has been replaced by "fiscal quantitative easing" (FQE). The monetary and fiscal apparatuses are quickly converging to one.

First, with the edict by the administration directing the agencies to buy $200 billion of mortgages, for all practical purposes the Fed's run-off of their mortgage holdings has been "cancelled" by the government. On balance, this is now, at best, neutral for the mortgage rate and for housing affordability, in my opinion, as lower mortgage rates will end up partially being transmitted into higher home prices. So, unless there is an attempted cap on home price appreciation, which is not entirely out of the realm of possibilities in the new world we live in (hello New York City), a cure to the so-called affordability problem may or may not be possible. To me, this means higher shelter price inflation, and also confirms my opinion that long duration yields in non-mortgage assets will rise, not fall. So, while this may look like a fiscal ease, it might turn out to actually be the exact opposite; i.e. a fiscal tightening, as long yields rise in response. Agencies will more likely than not also have to hedge their increased purchase of mortgage backed securities, which will pressure intermediate to longer term yields higher. All of which ultimately are not good for the real economy.

Second, with the edict that credit card rates be capped for a year, banks and credit card companies just got kneecapped in a big way. One can see some justification in this action from one point of view, and maybe some schadenfreude from those bankers who could not hop on that gravy train. Banks and credit card companies were huge beneficiaries of the revenge spending binge and easy monetary policy after COVID. As the Fed cut rates to zero, and the ECB in turn took rates negative, banks kept lending at high yields, making a massive spread in the process. Even as the Fed cut rates recently, credit card rates have barely budged. Again, the ability of the Fed to regulate the whole interest rate ecosystem was nothing short of dismal, and by this action its oversight of this part of the economy, for good or bad, has also been largely “cancelled”.

Third, and possibly most important, the credibility and perceived independence of the Fed, which is what it banks its reputation on, is also being “cancelled”. While I have no idea whether $2.5 billion is a low or high number to spend on the renovation of a building, it matters little what I think and matters more what the public will think. That, in absolute terms, is a very large amount to spend on anything outside of a nuclear submarine (Virginia-class), especially when the Federal debt keeps increasing. From a pure media perspective, this is not conducive to supporting credibility for an institution in charge of setting the price of money for everyone.

While these three illustrations might be nothing other than coincidences, they appear to be more than that. Fiscal and monetary policy convergence is almost complete. The control of the flow and allocation of money is in the process of being re-designed in a big way. The stock market for now does not seem to care, since it already saw through the charade of Fed independence. Appropriately, precious metals have reacted to this by making new all-time highs. When an institution such as the Fed is on the way to being cancelled, money always takes flight into hard assets.

For investors, the hints are obvious: Keep duration of bond holdings relatively short and look for a much steeper yield curve, hold at least some precious metals and other hard assets, and if holding a lot of equities and other risky financial instruments, hedge downside risk while it is still possible to do so cheaply.

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