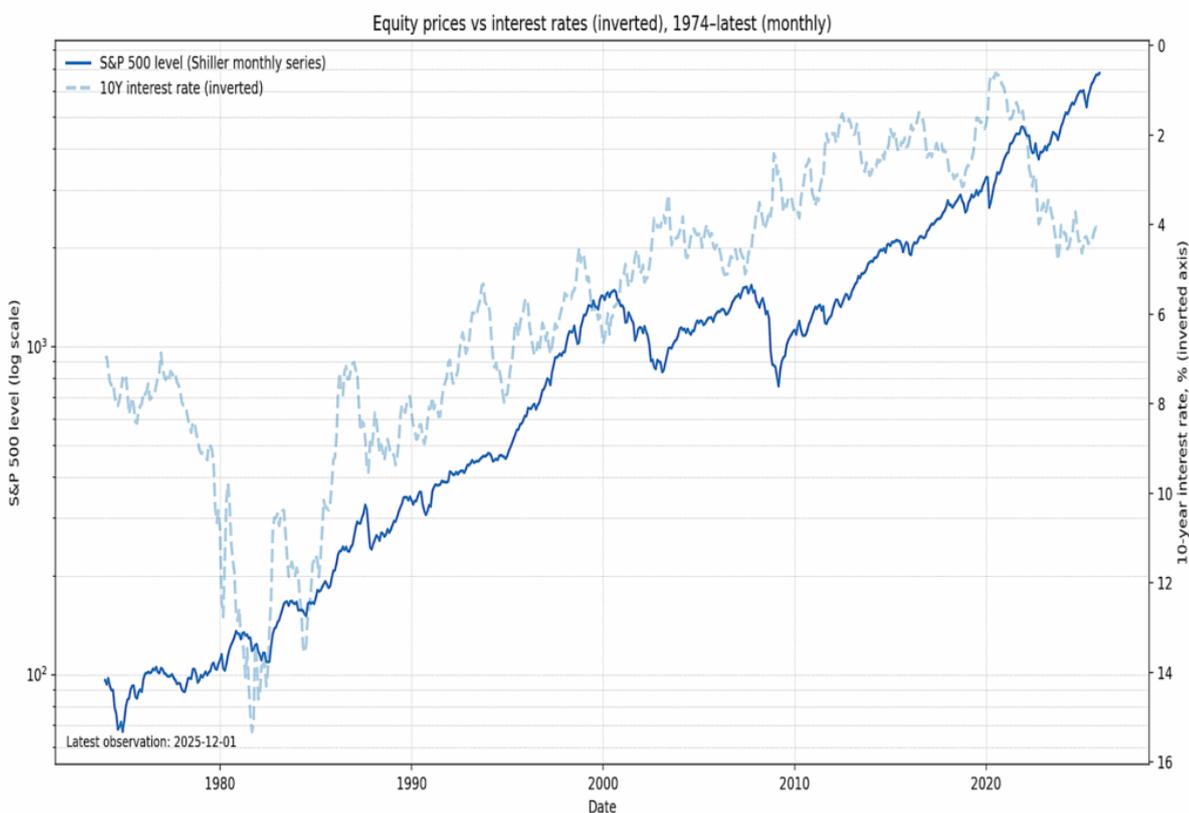


Lower benchmark rates could juice the economy. They reduce borrowing costs, stimulate the carry trade, lower the hurdle rate for financing new ventures, raise the prices of existing bonds and, of course, reduce unemployment and make it cheaper to finance a home or car.

But they're not a free lunch. In 2025, falling rates reduced the value of the dollar against the euro by about 15%, to €0.85 from €0.97. A German car that cost \$60k a year ago might cost more than \$70k today, *ceteris paribus*. Low rates can also stimulate inflation.

The stock markets love low rates. Looser monetary policy is usually a green light for buying equities. Market history shows a fairly consistent reverse-correlation between equity prices and interest rates. (See chart below.) Rising stock prices can help sales of annuities whose returns follow equities, such as all variable or index-linked annuities. Lower interest rates tend to hurt sales of fixed-rate deferred and fixed immediate annuities.



Source: ChatGPT, from U.S. government sources.

Soon-to-be former Fed chair Jerome Powell deserves more credit for his seven years of service than he gets from President Trump or the public. Powell lifted the fed funds rate (to 5.33% in mid-2024 from 0.09% in January 2021) without triggering an equities avalanche. That was huge.

Powell's higher rates, besides blunting inflation, generated record sales of fixed deferred annuities. Gross MYGA and FIA sales were \$127.8B and \$93.8B in the first three-quarters of 2025. (Net annuity sales tend to be closer to zero, given the high rate of surrenders and exchanges.)

Instead of praise for all that, Powell and the Biden administration were blamed for the Covid-era inflation. But that inflation spike, while squeezing many U.S. consumers in 2022, turned out to be temporary and may have prevented a much more painful and longer-lasting asset deflation.

Regarding regulation:

The president, a convicted felon and lifelong scofflaw, opposes regulation. Last January, he mandated the withdrawal of 10 existing regulations for every new one. The deputy Labor secretary for the Employee Benefit Security Administration, Daniel Aronowitz, is an avowed enemy of the regulations on whose basis the plaintiffs' bar brings class-action suits against retirement plan sponsors.

Deregulation in the qualified plan world would remove legal barriers to distributing private market assets, crypto-currencies and deferred annuities through the QDIAs (qualified default investment alternatives) in 401(k) plans, which represent a \$10 trillion market.

Alternative assets and collective investment trusts (CITs) instruments are more lightly regulated than the so-called 40-Act mutual funds in 401(k) investment lineups. Like low interest rates, however, deregulation isn't a free lunch. It can bring higher risk-taking, leading to crashes and litigation.

The point of regulations is often missed. They're often demonized as distortions of Congressional intent by executive-branch bureaucrats. But laws and regulations are the trunk and branches of the same legal trees. Without regulations, regulators can't apply or enforce Congress' laws.

Then there's political risk in Washington:

It's never a good idea to put "all your eggs in one basket." That's Lesson One for new investors. Diversification makes for a smoother, if less exciting, ride. This principle also applies to politics. But, at least until next January, all our political eggs are in the Trump basket.

* * *

Political power in the U.S. today is concentrated in the Oval Office. Instead of seeking consensus, the chief executive appears to make national policy unilaterally—or float trial balloons for new policies—with social media posts and executive orders. The tariffs mess illustrated the president's hubris. The Venezuelan adventure even more so.

With the crises in Ukraine and Gaza still far from resolved, we woke on January 3 to learn that the U.S. had, in effect, taken charge of a country of 30 million people and some of the world's largest untapped oil reserves. The stated goals of arresting and deposing Nicholas Maduro are to stanch the flow of drugs into the U.S. from Latin America and to recover oil rights stolen from U.S. companies decades ago.

An uncertain year just got much less certain.

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