Lame Duck Or Mighty Duck?

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This morning, President Trump announced his nomination of Kevin Warsh as the 17th Chair of the Federal Reserve, following months of speculation and heightened investor anticipation. While any new Chair will continue to operate within the Federal Open Market Committee framework, markets will follow the confirmation process closely for signals around how the appointment may influence the Federal Reserve's credibility and its commitment to a disciplined, data-driven approach to monetary policy—particularly as policymakers balance economic growth and inflation risks in the months ahead. At the time of drafting this note, markets **were not** in unanimous support of Mr. Warsh.

Against this backdrop, we believe it is important to recognize that Jerome Powell remains a stabilizing force during the transition. Powell's term as Chair concludes on May 15, 2026, but his term as a Fed Governor extends through 2028, giving him the option to remain actively involved (although seldom enacted) in monetary policy even as leadership roles evolve. To this end, FOMC board arithmetic affects policy risk. If Powell leaves, the Trump administration can potentially fill two seats and shape Board composition more quickly. If Powell stays, the new Chair must take the near-term vacancy and another governor (notably Miran) becomes the marginal seat. That turns personnel sequencing into an explicit and deliberate market input, not just a political parlor game, and explains President Trump's escalated pressure on the FOMC and Chairman Powell in particular.

In our view, the continuity Powell affords (both during transition and if he stays through 2028) helps anchor expectations at a time when political scrutiny and market volatility is elevated. Hence, this reinforces confidence that policy decisions will continue to be guided by process and data rather than personalities or political pressures.

Powell's communications this week underscore this approach. Rather than offering strong forward guidance, he has emphasized that policy remains "*appropriate*" and responsive to incoming economic data. **This position reflects caution rather than uncertainty, designed, in our opinion, to ensure that future policy adjustments are grounded in economic fundamentals and credibility.** Further, when using phrases such as "*within the rate of neutral*", investors could infer that the FOMC feels much of the easing cycle has been completed. **By avoiding unnecessary commentary on politics or succession, Powell once again reinforced, in our view, the Fed's independence while preserving flexibility for future decisions.**

For investors, the key takeaway is that credibility remains central to the outlook for rates and markets. History shows that policy mistakes on the dovish side often unfold gradually at first, with risks increasing in a nonlinear fashion as inflation expectations drift higher, equity markets reassess long-term growth, and long-term interest rates rise. In this context, patience can be less risky than haste.

While leadership transitions naturally introduce uncertainty, the current setup suggests mindful stewardship rather than disruption. A disciplined handoff—supported by institutional continuity and a data-driven framework helps reduce the risk of sharper market dislocations and supports calmer financial conditions.

We'd love to hear your thoughts.

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