

Thinking Out Loud



Should I Stay Or Should I Go?

4/30/2026

... If I go, there will be trouble...And if I stay, it will be double. – The Clash

Birds of Pray. The FOMC held the federal funds rate at 3.5%–3.75% for a third straight meeting after cutting rates in late 2025, but the decision split 8–4; the most dissents since October 1992. Three of the four dissents centered on forward guidance rather than immediate rate cuts. These three members opted for a **hawkish bias**, opposing dovish language suggesting future easing, citing persistent inflation risks from tariffs and Middle East energy disruptions.

Path of Most Resistance. With the DOJ shelving its probe into the Fed building's cost overruns and assuring Senator Thom Tillis the matter is closed, Kevin Warsh's path to confirmation as Fed Chair is now clear. The Senate Banking Committee advanced Warsh's nomination as Fed Chair on Wednesday, April 29th, and a final floor vote is expected shortly, most likely during the week of May 11th, 2026 with expectations of confirmation along party lines. However, unlike the bi-partisan confirmation of Powell under both Trump (45) and Biden, Warsh's path has been anything but a layup. Further, halting the probe is not equivalent to closure, and a pending DOJ subpoena-ruling preserves the ability to revive subpoena power, even if Tillis has been told otherwise.

Regardless, this leaves the current Fed Chair, Jerome Powell, with one of the biggest decisions of his career: whether to step down from the Fed's Board of Governors when his term as chair ends on May 15—following the path of Greenspan, Bernanke, and Yellen—or stay on the board until his term as a governor runs through January 2028.

One case for Powell staying: his presence on the Board would limit how quickly a Trump-appointed bloc (Waller, Bowman, Miran, and Warsh) takes shape. This would also give capital markets time to read Warsh – both his leadership style and how he interacts with those on the committee not appointed by Trump. Staying through roughly September could also help temper the reemergence of legal issues tied to the Fed's building project (aka Powell's own personal liability). This also helps preserve independence if the Supreme Court ultimately backs President Trump's view that a sitting governor (Lisa Cook) can be removed mid-term. Powell holding his seat would be the clearest statement the institution could make in response.

Further, if Powell stays on as governor after Warsh takes over, it would be the first time a sitting chair didn't leave the Board since Marriner Eccles in 1948. This is not just trivia. Back then, President Truman declined to renominate Eccles as chair in 1948 (replacing him with Thomas McCabe). Rather than resign, Eccles stayed on and became the intellectual ringleader of the Fed's resistance to Treasury-driven monetary policy in the late 1940s. That resistance produced the Treasury–Fed Accord of March 1951 – the foundational document of modern central bank independence in the United States. Without Eccles on the Board, the Accord almost certainly happens later, weaker, or not at all.

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Double Edge Sword. With Powell staying, Trump loses an opportunity to appoint someone who might be willing to cut rates for political gain—especially crucial if Cook is also replaced. Powell remaining could also provide perceived assurances of Fed independence. In our opinion, this would likely produce a flatter yield curve. In this scenario, we believe the short end remains elevated. Yields at the long end would likely remain anchored or even move lower due to lower inflation expectations and a reduced credibility premium from greater Fed independence. In this flattening scenario, we believe both stocks and bonds will initially benefit.

On the other hand, if the short end of the curve remains restrictively elevated, this could eventually bite the real economy. At that point the flat curve stops being a positive signal for risk assets, and starts being a recession signal for the economy. The fine line between these two outcomes is usually only clear in hindsight.

The argument for Powell leaving is about following recent precedent, giving the next Fed chair full authority without interference, and avoiding the awkward optics of a former chair still sitting on the FOMC alongside the new one. As a consequence of Powell's departure, Warsh can instill his new FOMC regime, characterized by a smaller balance sheet, reduced forward guidance, and a dovish view on rates – driven by his AI productivity argument.

As a result, the yield curve could steepen as the short end falls more aggressively while the long end (i.e. 10yr TSY) stays anchored or falls modestly. This steepening dynamic and Warsh's dovish tilt are positive for risk assets, especially perceived overvalued Large Cap Technology names. However, if markets push back on this regime change, the long end could move higher, creating even more dramatic steepening as investors worry that inflation is not contained and the Fed is not truly independent, ultimately creating a recession backdrop.

Whether Powell stays or goes could have very different effects on how independent the Fed is perceived to be, as well as equity market trajectory, bond market dynamics, rate volatility, and Powell's own legal and reputational risk.

We'd love to hear your thoughts.

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