

The “WISHY WARSHY” *Fed Reserve*

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President Donald Trump has nominated Kevin Warsh as the next chair of the US Federal Reserve. The nomination needs to be passed by the Senate, which has temporarily halted all Fed-related confirmations until the Department of Justice investigation into Fed Chair Jerome Powell is resolved. However, should Warsh eventually be approved by the Senate, it introduces the prospect of a more politically sensitive and potentially more dovish central bank.

While historically regarded as a policy hawk, Warsh's selection by a president who has consistently pushed for lower interest rates may appear as a contradiction to investors. Warsh is expected to assume the chair role on 15 May, replacing Jerome Powell.

A Fed defined by ambiguity

The result may be a “Wishy Warshy” Fed regime of uncertainty over monetary policy, which could manifest itself in a blend of rhetorical caution, political influence and a dovish underlying bias.

Investors will closely examine Warsh's early communications to determine whether he will assert independence or align more closely with Trump's preference for accommodative policy ahead of the November mid-term elections. Trump's long-standing push for lower interest rates, combined with his appointment of Warsh, naturally raises questions around the central bank's independence.

Trump may see Warsh's prior criticisms of the Fed as an asset. Appointing someone with hawkish credentials provides political cover while still enabling a tilt toward policies that support growth and, by extension, his administration's objectives. The incoming 2026 FOMC composition reinforces this direction. The next rotation of regional Fed presidents is expected to lean more dovish, increasing the likelihood that even a moderately dovish chair could steer the Committee towards rate cuts.

This broader dovish bias aligns neatly with Trump's long-standing dislike of a strong US dollar. Trump has often suggested that a softer US dollar could benefit US exporters by increasing competitiveness; a more dovish Fed would naturally complement that objective.

Implications for Markets

Historically, equity markets have responded positively to leadership changes at the Fed. From data going back to 1978, with the appointment of George William Miller as the Fed chair, the S&P 500 has delivered an average 7% return in the 12 months following the appointment of a new chair, rising to 11% when excluding the 1987 crash. A Warsh-led Fed would likely reinforce these patterns by lowering discount rates and supporting the most rate-sensitive areas of the market, such as technology.

Market performance one year after new Fed Chair sworn in

Fed Chair	Swear in date	S&P 500 Return	US Dollar Index	10Y US Treasury Yield
Jerome Powell (2nd)*	23/05/2022	4.3%	1.4%	86bps
Jerome Powell (1st)*	05/02/2018	3.4%	7.3%	-9bps
Janet Yellen	03/02/2014	17.7%	15.5%	-78bps
Ben Bernanke	01/02/2006	12.7%	-5.5%	28bps
Alan Greenspan	11/08/1987	-21.2%	-3.5%	63bps
Paul Volcker	06/08/1979	16.5%	-2.0%	189bps
G. William Miller	08/03/1978	14.0%	-7.1%	107bps
Average	-	6.7%	0.9%	55bps

Source: LSEG Datastream / Evelyn Partners, Data as at 8 Dec 2025. *Under President Donald Trump.

In bonds, long-term US Treasury yields have typically drifted higher after a new chair takes office, rising around 0.5 percentage points over 12 months. This reflects higher term premia and inflation expectations. These dynamics that could intensify if investors view the Fed as being more tolerant of political pressure. A dovish tilt would likely encourage a steeper yield curve, as investors demand greater compensation for holding longer dated bonds.

The US dollar has historically shown mixed performance after Fed leadership transitions, rising only about 1% on average over the first year. However, given Trump's tolerance for a weaker dollar and the likelihood of an easier policy stance under Warsh, the bias this time is likely to be toward US dollar softness. This would also support global liquidity and typically benefits emerging markets and commodities.

Conclusion

Kevin Warsh's nomination ushers in the possibility of a "Wishy Warshy" monetary regime. This is one where political pressure, a more dovish FOMC lineup and the Trump administration's preference for a weaker dollar collectively nudge the Fed toward looser policy. For markets, this environment is broadly supportive: equities gain from easier financial conditions, bond curves may steepen, and the dollar could drift lower. But these benefits come with longer-term risks, particularly around inflation expectations and the credibility of a central bank that anchors global monetary policy.

Speak to us

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