Make the FED *cut interest rates again and* AGAIN

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Daniel Casali

Chief Investment Strategist

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Make the FED CUT *interest rates again and* AGAIN

President Donald Trump has confirmed he has chosen the next Chair of the Federal Reserve (Fed Chair), telling reporters aboard Air Force One, **"I know who I am going to pick"** and that an announcement would follow soon. According to Polymarket, which is a decentralised market where users can trade on real world events, current odds strongly favour Kevin Hassett, priced at an 85% chance of securing the role.[1]

Who is Kevin Hassett?

Kevin Hassett is a seasoned economist with deep Republican ties, having advised campaigns for George W. Bush, John McCain and Mitt Romney. During Trump's first term, he served as Chair of the Council of Economic Advisers and now heads the National Economic Council, earning a reputation as a loyal ally. His views are firmly rooted in supply-side economics (i.e. lower taxes and deregulation) and pro-market principles. On monetary policy, Hassett has previously criticised the Federal Reserve (Fed) for being "late to the game" in cutting interest rates and recently said he would be "cutting rates right now." His advocacy for lower borrowing costs aligns closely with Trump's push for aggressive rate cuts to stimulate growth.

FOMC composition and dynamics in 2026

The Fed Chair sets the tone for the Federal Open Market Committee (FOMC), the body that sets US interest rates. However, the Chair does not unilaterally set rates and decisions reflect the majority view of voting members.

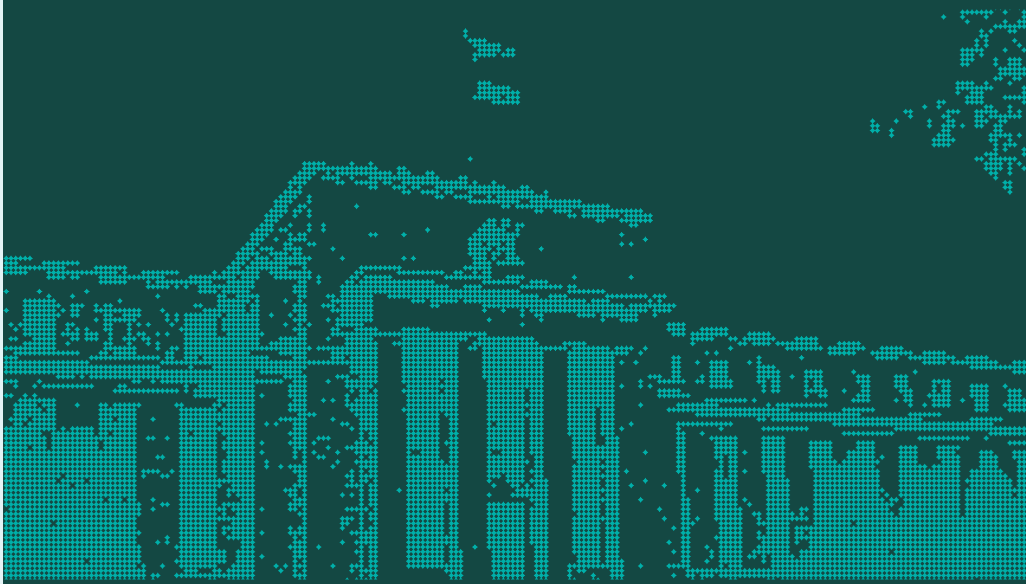
The FOMC consists of permanent voters, which include the Board of Governors and the Federal Reserve Bank of New York, and rotating voters from other regional Federal Reserve Banks.

Board of Governors: Stephen Miran, a new member of the Federal Reserve Board of Governors, is widely seen as a strong Trump ally with a dovish stance, arguing that Trump's fiscal policies are disinflationary and reduce the need for elevated rates. Trump may choose to give Miran a fresh term.

Meanwhile, Lisa Cook, a Biden appointee, faces an ongoing legal battle after Trump sought her removal earlier this year. The case now sits with the Supreme Court, which will hear arguments in January on whether Trump can remove her. If successful, Trump would gain another nomination opportunity, though this would be unprecedented as no president has ever removed a sitting Fed Governor.

Even though Jerome Powell will not get another term as Chair, he can remain on the Board until his term expires in 2028. However, historical precedent suggests former Chairs rarely stay long once replaced, and Powell may step down for a lucrative private sector role. If he does, Trump will gain yet another seat to fill.

Federal Reserve Banks: The rotating voters for 2026 could also influence policy. According to Bloomberg's Fed Spectrometer, which uses AI to analyse speeches and rate forecasts, the incoming group of regional presidents leans more dovish than in 2025. This swing is led by the incoming Philadelphia Fed President, Anna Paulson, who is slightly dovish.



While uncertainties remain, the likely dovish shift of the FOMC in 2026 increases the probability of more interest rate cuts.

Market performance after a new Fed chair

Going back to the late 1970s, history gives some clues of how major asset classes perform after a new Fed chair is sworn in.

- **Equities:** The S&P 500 has typically posted gains, with an average 12-month return of around 7% following a new Chair. However, the gain is 11% if the October 1987 crash is excluded from the data. This brief, generally unforeseen sell-off happened a few months after Alan Greenspan was appointed.
- **US dollar:** A new Fed chair appears to have had a mixed impact on the US dollar. Over a 12 month period, the dollar has been up around 1% against a basket of currencies (as measured by the Dollar index (DXY)).
- **Treasury yields:** The 10-year US Treasury yield has historically trended higher, and over 12-months there have been average increases of roughly 0.5% percentage point

On balance, while outcomes vary, the pattern suggests leadership changes at the Fed have generally come with steady equity performance, a mixed impact (if any) on the US dollar, and moderate upward pressure on longer yielding Treasury bonds.

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 summary

Trump's possible choice of Kevin Hassett signals a pivot towards more monetary easing, reinforcing expectations of a dovish Fed in 2026 and beyond. Investors should prepare for repeated rate cuts that could support equity markets in the short term, even as longer-term risks of inflation, rising yields and volatility remain.

Policy credibility risks

A Hassett-led Federal Reserve would likely prioritise rate cuts, a stance that could have far-reaching implications for markets and the economy. Looser monetary policy may support near-term economic growth and job creation, but this comes with the risk of overheating later, potentially forcing higher interest rates down the line.

Investors will closely monitor a range of financial indicators for early signs that the Fed's independence is being compromised. Key metrics include:

1. A steepening yield curve, which typically signals expectations of stronger growth and higher inflation.
2. Rising breakeven inflation rates, pointing to mounting price pressures and a shift in inflation expectations.
3. Greater compensation for holding long term bonds (i.e. the term premium), indicating that investors demand higher yields to compensate for policy uncertainty.

If the Fed continues aggressive easing despite these warning signals, it risks eroding its credibility and reinforcing perceptions that short-term political objectives are taking precedence over its mandate for price stability. Such a loss of independence would likely weigh negatively on major US asset classes over the long term, including equities, bonds, and the US dollar. This could then spill over to the rest of the world.

Speak to us

Sources

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Author:
Daniel Casali

For further information:
E: contact@evelyn.com | T: 020 3131 5203

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