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Trump's choice for the Fed: **what** **Warsh's nomination means**



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President Trump has nominated Kevin Warsh as the next Chair of the Federal Reserve. The 55-year-old former Fed governor is set to succeed Jerome Powell by 15 May. From a monetary policy, economic and financial market perspective, we highlight eight points.

1. Well-respected professional who is seen as more hawkish

Warsh, a former Fed governor (2006-2011) and Hoover Institution fellow, is respected for his first-hand experience during the financial crisis and his early objections to

extended quantitative easing. Though well connected on Wall Street and within the Trump administration, he is seen as more hawkish and institutionally conservative than other candidates such as Kevin Hassett or Rick Rieder.

2. Orthodox but pragmatic, and a supply-side optimist

Warsh advocates a "narrow central bank" focused on inflation and employment, favouring a smaller quantitative footprint outside crises. He is sceptical of standard macroeconomic modelling and emphasises forward-looking supply-side dynamics, with strong belief in technology-driven growth and productivity gains. He argues that a smaller balance sheet would improve policy clarity and enable lower rates. Furthermore, he considers the post-pandemic inflation surge a policy choice rather than solely an unforeseen supply shock, implying limited tolerance for inflation overshoots. This makes him cyclically dovish but structurally more hawkish.

3. Backs independence, but calls for an institutional reset

Warsh is a strong advocate of central bank independence, which he sees as a means to deliver target-consistent policy outcomes rather than an end in itself. He argues that growing central-bank dominance and mission creep since the financial crisis have contributed to systematic policy errors. To preserve independence and mitigate the risk of further credibility erosion, he favours streamlined communication, less emphasis on near-term forecasting and data dependence, discontinuing explicit forward guidance, and rolling back politically charged interpretations of the mandate, including climate themes or inclusive employment.

4. Limited near-term policy impact

Despite the Chair's prominence, decisions remain committee-driven. Warsh may struggle to convince the FOMC to ease policy unless inflation moves more clearly towards target or the labour market weakens further. With Warsh set to take Stephen Miran's seat, the FOMC also loses its most dovish and Trump-aligned member. We continue to expect a final rate cut in this cycle in Q2.

5. Nomination doesn't mean swift confirmation

Senate confirmation is not guaranteed. Republican Senator Thom Tillis has pledged to oppose confirmation in the Banking Committee until a Department of Justice investigation into Jerome Powell is resolved. As the Republicans have only a narrow majority, this stance could effectively block progress. Nevertheless, we expect Warsh's strong support within Senate Republicans to allow him to take office in May.

6. Political pressure will persist

Despite his cyclical dovishness, Warsh's structurally conservative stance and concerns about the current fiscal trajectory may not fully align with President Trump's preference for significantly lower rates. Any respite from political pressure is likely to be brief. If Warsh fails to meet expectations, tensions could rise quickly, as Powell's experience illustrated. Balancing the President's demands without fuelling inflation or triggering market volatility will be extremely challenging.

7. Institutional resilience and monetary policy independence remain key

Warsh's nomination is a constructive signal, but threats to Fed independence persist. Reshaping the Board of Governors – and by extension the FOMC – as well as the pending dismissal of Governor Cook and legal action against Powell could heighten politicisation. Given the Fed's central role in global liquidity provision, any perception that key tools such as dollar swap lines or the Foreign and International Monetary Authorities (FIMA) repo facility are influenced by politics could undermine trust in the dollar-based system and raise global financial risk. The Fed's experience will serve as a litmus test for the resilience of US institutions more broadly as the administration continues to test the boundaries of executive power.

8. Market implications: less dovish than hoped for

Warsh is the least dovish of the main contenders, implying a potentially less accommodative medium-term policy stance than expected, especially regarding quantitative measures and the Fed's footprint in bond markets. At the same time, his nomination eases concerns about a rapid erosion of Fed independence – a supportive factor for asset markets.

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