

The Fed Tackles Succession Planning

The leadership structure of the Federal Reserve is intentionally designed to promote continuity, independence, and institutional stability across political cycles. Specifically, the seven members of the central bank's Board of Governors serve staggered 14-year terms, while the Chair is appointed to a renewable four-year term by the president and confirmed by the Senate. In this context, the nomination of Kevin Warsh by the Trump administration earlier this year to lead the Fed marks a potential inflection point for U.S. monetary policy leadership. Warsh brings a combination of public- and private-sector experience, having served as a Federal Reserve governor during the Global Financial Crisis, worked in mergers and acquisitions at Morgan Stanley, and later advised policymakers and investors as a fellow at the Hoover Institution and lecturer at Stanford. Warsh's nomination, first announced in late January and now nearing final Senate confirmation, comes as Jerome Powell is set to end his term as Chair in the coming days, concluding a tenure defined by extraordinary economic shocks and aggressive policy responses. Recent developments have effectively cleared the path for this transition, with Warsh expected to assume the role shortly after Powell's term expires, even as Powell has indicated he intends to remain on the Board of Governors through 2028 in a move aimed at preserving institutional continuity. Against this backdrop, Warsh is in position to take the helm of a Federal Reserve that has recently undergone a historic tightening cycle and is now navigating the late stages of the inflation fight, setting the stage for what is likely to be an evolution (rather than a reset) of policy direction.

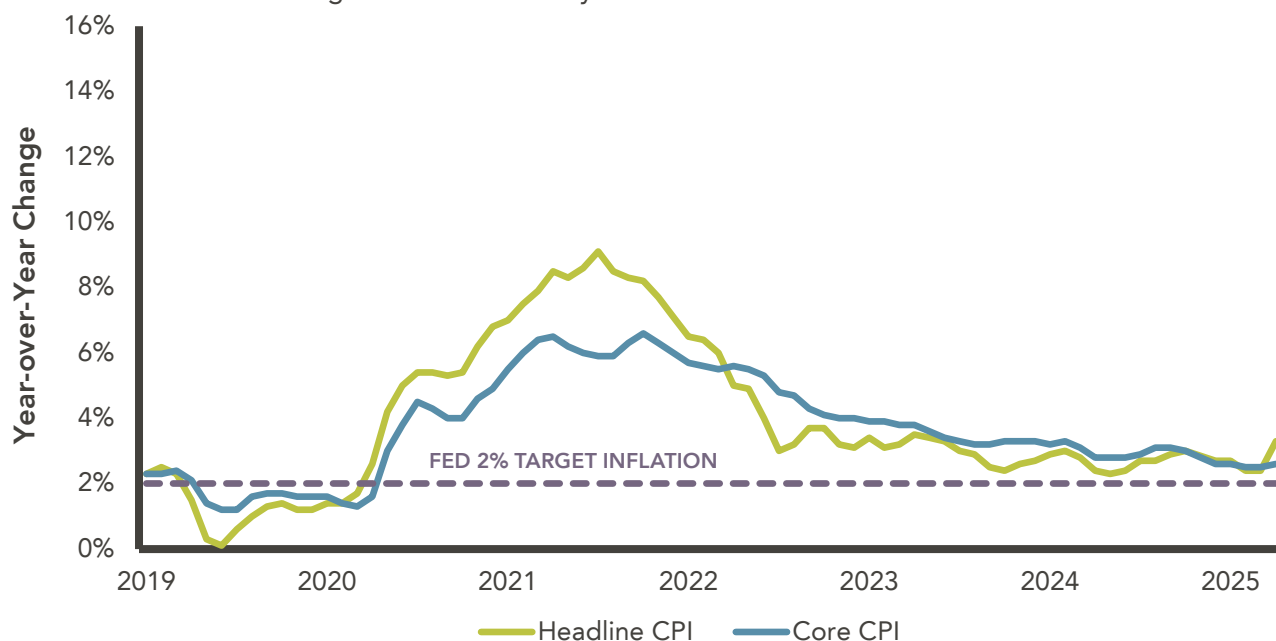
A Warsh-led Fed would likely place a renewed and explicit emphasis on inflation control as the cornerstone of monetary policy credibility. Throughout his career, Warsh has been more skeptical than many of his peers about the long-term efficacy and side effects of sustained low rates and large-scale asset purchases, often warning that such policies can distort market prices, encourage excessive risk-taking, and ultimately complicate the inflation outlook. While recent commentary suggests he is not dogmatically hawkish (acknowledging that rate cuts could be appropriate if inflation continues to trend lower), his broader framework implies a lower tolerance for inflation persistence or policy complacency. In practical terms,



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this could translate into a Fed that is quicker to respond to upside inflation surprises and less inclined to prioritize short-term growth trade-offs if inflation risks begin to re-emerge. Markets may interpret this as a modest shift toward a more preemptive and credibility-focused reaction function, particularly in an environment where inflation expectations remain sensitive to policy signaling. The Fed's stance on these issues will be important to monitor given current inflation dynamics, as March saw an acceleration of headline inflation (2.4% to 3.3% on a year-over-year basis) in large part due to the conflict in Iran and its impact on energy prices. While most forecasts now call for a return to more moderate inflation readings in the months ahead, any signs of additional price pressure (particularly those tied to persistent or supply-driven shocks) could result in a policy response different from that to which markets have come to expect under Powell's leadership.

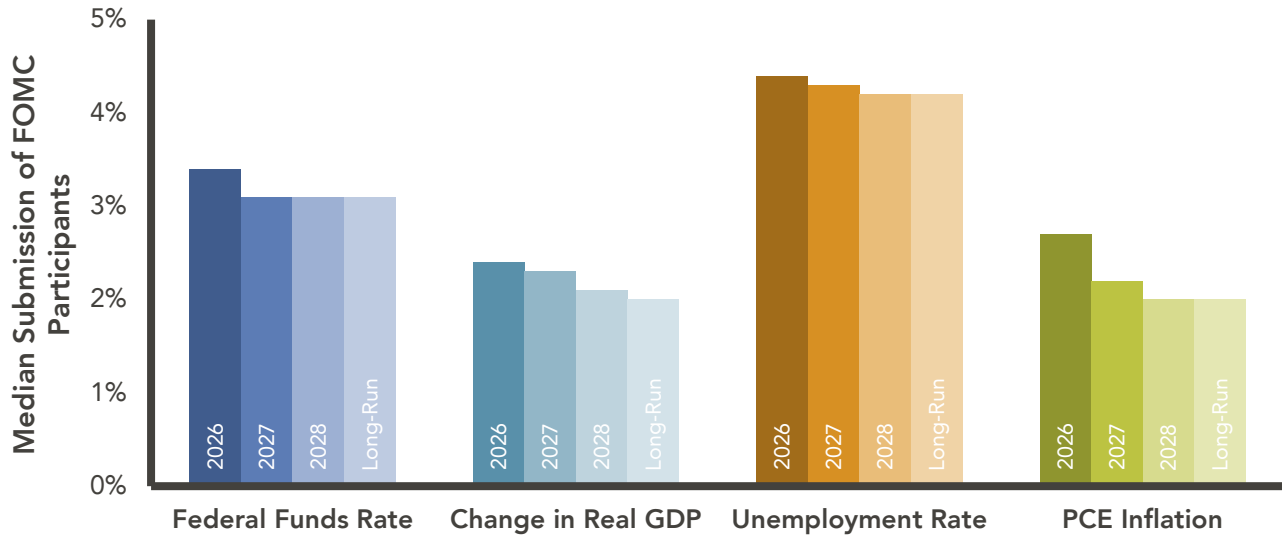
▣ **Exhibit 1:** Headline inflation ticked up in March due to higher commodity prices, but has trended toward the Fed's 2% target over the last few years



Source: Bloomberg, Bureau of Economic Analysis as of March 31, 2026

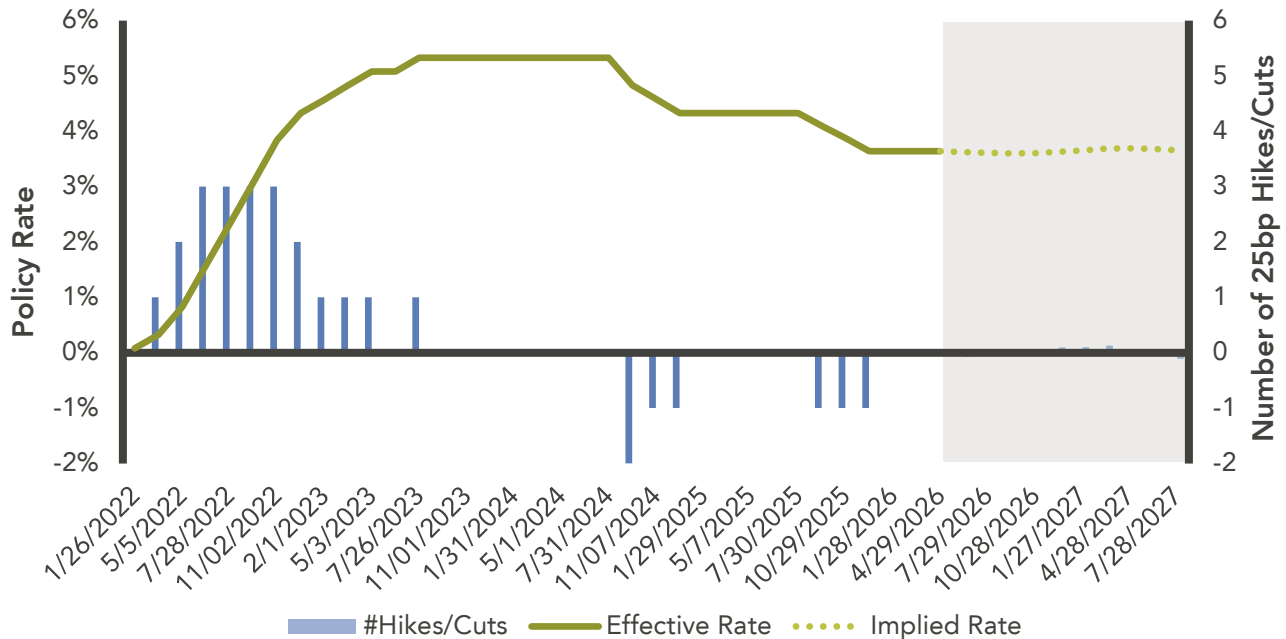
In terms of interest rate policy and implementation, Warsh has signaled a preference for returning to a more traditional, less interventionist monetary toolkit. One notable area of potential change is the Fed's communication strategy. Over the past decade, forward guidance has become a central pillar of policy, with policymakers providing increasingly detailed projections and signaling intended rate paths well in advance. Warsh has been openly critical of this approach, arguing that excessive guidance can box policymakers in, reduce flexibility, and create an overreliance on central bank signaling within financial markets. Under his leadership, the Fed could shift toward a more data-dependent and less prescriptive communication style, placing greater emphasis on real-time economic developments rather than predefined policy paths. While this may enhance policy agility, it could also introduce greater short-term volatility in rates and risk assets as markets adjust to a less predictable policy framework. The most recent edition of the Fed's Summary of Economic Projections, which aggregates policymakers' individual expectations for various macroeconomic variables, called for above-trend growth, unemployment edging slightly lower, and a modest reduction in the effective federal funds rate in the coming years. For context, investors now expect no change to the Fed's policy rate, which currently sits at around 3.75%, over the next 12 months.

Exhibit 2: Federal officials expect moderation in inflation and interest rate levels over the next few years, with a slight reduction in unemployment



Source: Federal Reserve as of March 18, 2025. Long-run projections are defined as representing each participant’s assessment of the value to which each variable would be expected to converge, over time, under appropriate monetary policy and in the absence of further shocks to the economy. “Appropriate monetary policy” is defined as the future path of policy that each participant deems most likely to foster outcomes for economic activity and inflation that best satisfy his or her individual interpretation of the statutory mandate to promote maximum employment and price stability.

Exhibit 3: Investors currently expect the Federal Reserve’s policy rate to remain range-bound throughout 2026 and the first half of 2027



Source: Bloomberg as of May 3, 2026. Gray shading indicates forecasts.

Another key area of focus for Warsh will likely be the role of the Fed’s balance sheet, which is primarily composed of U.S. Treasury securities and agency mortgage-backed securities accumulated through quantitative easing programs. Since the Global Financial Crisis (and especially following the pandemic), the Fed’s balance sheet has expanded dramatically, becoming an integral part of its policy toolkit through

successive rounds of quantitative easing. Warsh has consistently questioned both the scale and persistence of these interventions, suggesting that a large and actively managed balance sheet risks blurring the lines between monetary and fiscal policy. He has advocated for a more deliberate normalization process and has even floated the idea of closer coordination with the U.S. Treasury to rethink the structure and purpose of the Fed's holdings. This could result in a more accelerated or clearly defined path toward balance sheet reduction, as well as a broader effort to limit the Fed's footprint in financial markets over time. At the same time, Warsh has emphasized that the central bank's core mandate should remain narrowly focused on price stability and employment, potentially signaling a reduced willingness to engage in market backstopping outside of acute crisis conditions. As can be seen in Exhibit 4 below, the Fed's balance sheet has gradually been allowed to shrink through passive runoff over the last few years. That said, at roughly \$6.7 trillion, it remains significantly larger than it was prior to the COVID-19 pandemic and continues to influence financial conditions through its composition and size.

Exhibit 4: After peaking at nearly \$9 trillion in 2022 following pandemic-related stimulus, Fed balance sheet assets have contracted in recent years



Source: Federal Reserve Bank of New York as of April 30, 2026

Despite these potential shifts in emphasis, it is important to recognize that the scope for dramatic policy change at the Fed is inherently constrained by both the institutional framework of the central bank and the current macroeconomic environment. The Federal Open Market Committee operates by consensus, and any chair must navigate a diverse set of views among governors and regional bank presidents. Moreover, with inflation not fully at target and growth dynamics still evolving, the near-term policy path is likely to be driven more by incoming data than by any individual's ideological preferences. As such, while Warsh could bring incremental changes to the Fed, the consensus view is that a wholesale departure from the existing trajectory established under Powell is unlikely. Instead, the more likely outcome is a continuation of current policy trends, with differences emerging at the margins in tone, discipline, and execution rather than in fundamentally different policy outcomes. ■

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