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Warsh tapped as Trump's Fed Chairman

 TIAA Wealth Management



Executive summary

- President Donald Trump intends to nominate former Fed Governor Kevin Warsh to succeed Jerome Powell as Chair of the Federal Reserve in May, pending Senate confirmation, bringing prior central bank experience and longstanding ties to the administration.
- Warsh's policy vision centers on two key pillars: shrinking the Fed's balance sheet and pursuing lower short-term interest rates.
- Warsh's nomination likely points to a steeper yield curve, with analysts expecting upward pressure on longer-dated Treasury yields relative to shorter maturities due to expectations of a tighter balance sheet stance alongside lower short-term rates.
- Equity market implications are mixed: potential rate cuts could support stocks, but renewed quantitative tightening or a higher Treasury term premium could weigh on sentiment by tightening financial conditions and reducing liquidity.

On Friday, January 30, 2026, President Donald Trump announced his intention to nominate Kevin Warsh as the next Chair of the Federal Reserve (Fed), marking a significant changing of the guard at the nation's central bank. Warsh, who previously served as a Fed Governor from 2006 to 2011, will succeed Jerome Powell when his term expires in May, assuming Senate confirmation. Warsh brings both Fed experience and close ties to the administration, having advised Trump on economic policy dating back to his first presidential campaign.

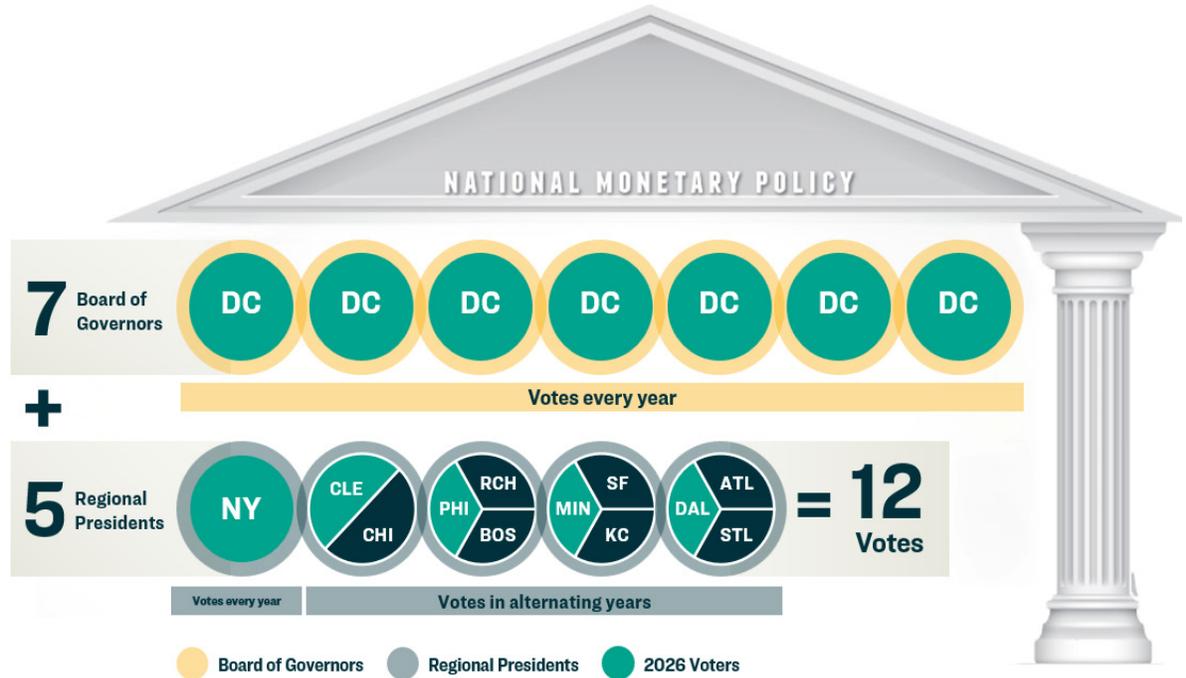
The nomination comes at a pivotal moment for the Fed, as concerns mount about the central bank's traditional independence from political influence. Warsh's recent public alignment with Trump's preference for lower interest rates has raised eyebrows among Fed watchers, representing a notable shift from his historical reputation as an inflation hawk. During his previous tenure at the Fed, Warsh consistently advocated for higher rates and showed deep skepticism about inflation risks. His willingness to embrace the administration's rate-cutting agenda has fueled worries that the appointment could undermine the Fed's credibility and independence at a time when maintaining market confidence is paramount.

Warsh's policy vision centers on two key pillars: shrinking the Fed's balance sheet and pursuing lower short-term interest rates. He has argued that the Fed's post-financial crisis quantitative easing programs subsidized government borrowing, ultimately contributing to fiscal expansion and the inflationary pressures that necessitated subsequent rate hikes. Warsh contends that by more rapidly reducing the balance sheet, the central bank could justify cutting policy rates to support households and small businesses. Additionally, he has expressed bullish views on artificial intelligence's (AI) potential to boost productivity and dampen inflation, suggesting the Fed should "look through" tariff-driven price increases and abandon what he calls the "dogma" that inflation results from excessive economic growth or wage gains. However, implement

ing this agenda will prove challenging, as adjusting U.S. interest rates requires a simple majority vote—at least seven out of twelve members—from the Federal Open Market Committee (FOMC), which comprises the seven Board of Governors, the New York Fed President, and four rotating regional Reserve Bank presidents (Figure 1). Warsh cannot unilaterally shift policy and will need to build consensus among FOMC members who may resist dramatic departures from the current approach, particularly given the committee’s recent unanimous decision to resume asset purchases to maintain adequate bank reserves.

FIGURE 1

How does the FOMC vote?



Source: Federal Reserve Bank of Chicago, TIAA Wealth Chief Investment Office.

Finally, while current Fed Chair Powell’s term as Chair ends in May, his term as Governor extends to 2028. Typically, when a Fed Chair term ends, they do not serve any remaining term as governor. While there remains a significant degree of uncertainty as to what Chair Powell may decide to do, should he decide to step back, the White House would have the ability to fill another vacancy on the Board.

Market implications

For Treasury markets, Warsh’s nomination likely signals a steepening yield curve. Market analysts anticipate that longer-dated Treasury yields could face upward pressure relative to shorter maturities, reflecting expectations that Warsh would pursue tighter balance sheet policy even while advocating for lower short-term rates. This dynamic—combining lower policy rates with a higher term premium on long-dated debt—represents Warsh’s stated goal of rebalancing Fed policy.

The implications of Warsh’s nomination for equity markets are not straightforward. On one hand, further rate cuts would be viewed positively. However, a resumption of quantitative tightening or a significant spike in the Treasury term premium could dent market sentiment by negatively impacting financial conditions and liquidity.

Finally, the preservation of Fed independence is crucial for the U.S. dollar outlook. At the margin, Warsh's perceived alignment with President Trump's preference for lower rates could keep risks to the U.S. dollar tilted to the downside. However, we once again stress that monetary policy decisions are made by committee, and market consensus already expects two rate cuts in the second half of the year – an expectation that is likely already baked into dollar valuations. The looming Supreme Court decision on the ability of a President to fire Fed governors could potentially be more consequential, given the potential ramifications for the broader composition of the FOMC.

It is important to note that the implementation of Warsh's agenda would face substantial hurdles beyond the FOMC voting structure. The FOMC recently voted unanimously to resume asset purchases to maintain "ample" bank reserves, and reversing this course would require majority support from a committee that may resist dramatic policy shifts. Moreover, Warsh's confirmation process itself remains uncertain, with at least one Senate Banking Committee member pledging to block Fed nominations until an ongoing Department of Justice probe into the central bank is resolved, adding another layer of complexity to this consequential transition.



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