



—
Investing for a
world of change

The Fed, Trump and Warsh: A test of independence

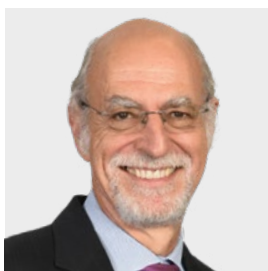


Ruen Naidu
Portfolio Manager,
Fixed Income

The US Federal Reserve (Fed) has long operated at arm's length from politics. But recent events suggest that distance is being tested in unusually direct ways.

What began as a dispute over Fed building renovations has become something far larger: a question of whether political pressure can influence the people, processes and decisions of the global economy's most important central bank.

At the centre of the story are Fed Chair Jerome Powell, President Donald Trump and Kevin Warsh, the man nominated to succeed Powell later this month.



Brian Kahn
Consultant, Fixed Income

Political pressure on Powell

The episode reached a crescendo in January, when Powell addressed a Department of Justice subpoena in a rare Sunday night broadcast.

Officially, the subpoena related to cost overruns on Fed building upgrades. Powell, however, framed it differently. According to him, the subpoena was part of a broader effort by the Trump administration to pressure the Fed into lowering interest rates.

While Presidents have criticised Fed Chairs in the past, what made this episode different was the use of legal pressure alongside public criticism, and whether this could become a new avenue through which to influence the institution itself.

Why independence matters

In simple terms, Fed independence exists to prevent monetary policy from being shaped by short-term political incentives.

A politically influenced central bank would face pressure to keep rates too low for too long. While that may support growth in the near term, it increases the risks of higher inflation, financial imbalances and weaker confidence in the bond market. This makes the attack on Powell more than just a political story. The Fed's credibility anchors US rates, inflation expectations and, by extension, a large part of global asset pricing.

Why Warsh?

Warsh appears to meet two objectives for the administration:

First, he has shown a greater inclination towards lower rates than Powell, aligning with Trump's preference for a more accommodative policy stance. Second, he brings sufficient institutional credibility to be acceptable to markets: he is a former Fed governor, served during a period of financial stress, and is not viewed as a purely political appointment.

In other words, the nominee needed to be dovish enough for Trump but credible enough for markets.

There is also a reform angle. Warsh has been critical of how the Fed operates, particularly around communication, forward guidance and the size of the balance sheet. That likely appeals to Trump because it positions Warsh as someone willing to challenge the Fed's internal culture.

For markets, this makes Warsh not simply a "dovish" pick, but a market-credible reform candidate: someone the administration may expect to be more accommodative, but who also has the background to avoid triggering a loss of confidence in the institution.

Warsh has been critical of how the Fed operates, particularly around communication, forward guidance and the size of the balance sheet.

Powell opts to stay on

Powell has indicated that he intends to remain on the committee until the legal and political pressure on the Fed has eased and the institution's independence is secure. That limits the administration's ability to create another immediate vacancy on the Board.

This matters for Warsh's position. The Fed Chair role is a four-year appointment, but governors serve long, staggered terms of up to 14 years. Those long terms are designed to insulate the institution from political cycles.

In practical terms, Powell's continued tenure helps preserve continuity at a moment when Fed independence is under scrutiny, while also mitigating any perceived pressure on Warsh to adhere to any alternative political agendas.

The FOMC constraint

While the Chair is certainly influential, especially in setting the tone and building consensus, policy is still made by committee. Warsh would be an important voice, not the sole decision-maker.

The FOMC includes 19 participants: seven governors and 12 regional Fed presidents. Only 12 vote at each meeting: the seven governors, the New York Fed president and four rotating regional presidents.

Warsh's nomination does not automatically imply a sharp policy shift. He would be replacing a dovish member, while the broader committee already appears to be moving toward a more neutral stance.

| Warsh's nomination does not automatically imply a sharp policy shift.

How bond markets have responded

The bond market response has not been a simple "Warsh equals rate cuts" story. Markets had previously priced some chance of a cut later this year. That has since shifted, with pricing now pointing more toward the Fed staying on hold, and even a small probability of a hike.

That suggests markets may see Warsh as more aligned with Trump's preference for lower rates, but they are not assuming he will deliver cuts on demand. His credibility partly rests on the possibility that he may be less dovish than some expect.

The risk case is therefore two-sided. If Warsh's earlier hawkish instincts re-emerge, particularly around inflation, forward guidance and the balance sheet, the front end of the US yield curve could come under upward pressure.

What to expect from a Warsh Fed

A Warsh Fed would likely bring a shift in emphasis rather than an immediate policy break. He is likely to favour less forward guidance, meaning the Fed may say less about the future path of rates and place more weight on incoming data.

He is also likely to support a smaller balance sheet, consistent with his long-standing concerns about the Fed's post-crisis balance sheet expansion. But this would be slow, technical and potentially tied to regulatory changes, rather than an immediate lever.

The bigger uncertainty is how dovish Warsh would actually be going forward. He has shown more openness to lower rates recently, but his earlier instincts were hawkish. That means markets may not yet have a settled view of how he would respond if inflation remains sticky or growth slows.

Bottom line

Recent events have offered a unique test of whether the Fed's institutional design can withstand more direct political pressure. For now, the framework appears to be holding. Powell's decision to stay, Warsh's credibility and the FOMC's committee structure all help preserve continuity.

But the boundary between politics and monetary policy is being tested more visibly than ever before. For investors, the key question is not just whether the Fed cuts or holds at the next meeting. It is whether the market continues to trust the process behind those decisions. In our view, while the threat to Fed independence has certainly diminished, it has not entirely been removed.

Important information

The information contained in this Viewpoint is intended primarily for professional investors and should not be relied upon by private investors or any other persons to make financial decisions. All of the views expressed about the markets, securities or companies in this document accurately reflect the personal views of the individual fund manager (or team) named. While opinions stated are honestly held, they are not guarantees and should not be relied on. Investment involves risk, including the loss of capital. Returns are not guaranteed and past performance is not indicative of future results. Ninety One in the normal course of its activities as an international investment manager may already hold or intend to purchase or sell the stocks mentioned on behalf of its clients. The information or opinions provided should not be taken as specific advice on the merits of any investment decision. We do not undertake to update, modify or amend the information on a frequent basis or to advise any person if such information subsequently becomes inaccurate. Ninety One Investment Platform (Pty) Ltd and Ninety One SA (Pty) Ltd are authorised financial services providers. Except as otherwise authorised, this information may not be shown, copied, transmitted, or otherwise given to any third party without Ninety One's prior written consent. © 2026 Ninety One. All rights reserved. Issued by Ninety One.

Contact information

36 Hans Strijdom Avenue
Foreshore, Cape Town, 8001
Telephone: +27 (0)219011000

—

www.ninetyone.com

