

KEY MARKET DEVELOPMENT

Kevin Warsh Nominated for Fed Chair

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Key insights**01**

Kevin Warsh has been nominated to become the next Fed Chair, effective in May.

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He has a hawkish reputation but is pragmatic on policy rates.

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The market impact on rates is likely to be broadly unchanged in the period ahead.

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While the appointment of a new Fed Chair is a major development for global markets, there are many other factors to consider, especially for an investor with a long-term horizon.

President Donald Trump has nominated former Fed Governor Kevin Warsh to become the next Fed Chair, effective in May when Jerome Powell's term expires. Warsh has considerable experience at the Fed, serving on the Board of Governors from 2006 to 2011, and he played a significant role during the Global Financial Crisis helping former Chair Ben Bernanke formulate the Fed's policy responses during this challenging time. Given his past tenure at the Fed, Warsh is perceived as a credible choice. Like his predecessor, Warsh is a lawyer by training.

Warsh is keen to reform the Fed

The White House may have been drawn to Warsh's enthusiasm for implementing deep-rooted reforms at the Fed. In recent months, Warsh has sharply criticized the current Fed leadership for losing its fight against inflation and damaging its credibility. MFS had the opportunity to listen to Warsh live a few months ago where he blamed the Fed for the current cost-of-living crisis, a message that may have resonated with the White House. Warsh seems to believe that the Fed's mandate should be narrower, another point that might have appealed to the White House. It is worth noting that Warsh is known for his hawkish reputation, which would run counter to the White House's desire for easier monetary policy. One important nuance, however, is that Warsh's hawkish bias mainly pertains to the size of the Fed's balance sheet and his distaste for quantitative easing, and less about interest rate policy. In addition, with Warsh at the helm of the Fed, concerns over Fed independence should abate somewhat.

A broadly unchanged market impact in the near term

We view Warsh as a pragmatic policymaker when it comes to setting rates. He may be open to a few more rate cuts in 2026, but he is unlikely to advocate for aggressive policy easing beyond what the market is currently pricing — *i.e.*, two cuts over the next year. This could be perceived as marginally dovish for front-end rates. If, down the road, Warsh goes ahead with some balance sheet reduction, this could ultimately put upward pressures on long-end rates. At the same time, however, his appointment may lead to a decline in the inflation risk premium. On balance, we think the potential effects of his appointment on market rates is likely to be mixed.

Looking beyond the appointment of a new Fed Chair

While the appointment of a new Fed Chair is a major development for global markets, it is important to note there are many other factors to consider, especially for an investor with a long-term horizon. In credit, we believe that spreads will remain well supported given the resilience of the macro backdrop. Likewise in equities, the robustness of the medium-term growth outlook, together with resilient earnings, continues to act as a strong support for risky assets in the period ahead. ▲

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