

Passing the (policy) torch

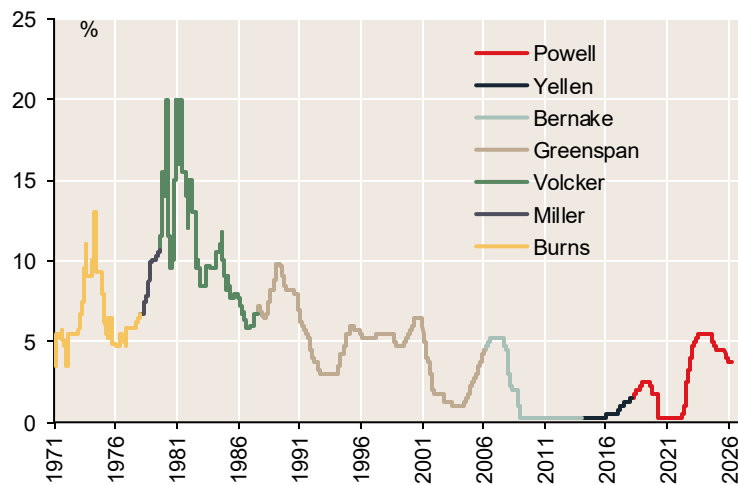
By Ethan Currie & Taylor Schleich

It's time for some renovations at the Fed! Though we're not talking about the ones that led to Jerome Powell's criminal investigation. Today, the U.S. Senate confirmed Trump-nominee Kevin Warsh to the Federal Reserve board. A separate vote (widely expected to pass) will be held to officially ring him in as the central bank's Chair. Warsh will take over from Powell, who, after hosting his final press conference as Chair in late April, will conclude his eight-year tenure at the helm of the FOMC at the end of this week. Governor Miran's temporary Governorship will come to an end (his seat will be filled by Warsh) and with Powell planning to *eventually*

step down, it means that two 'dots' are set to be recast in upcoming meetings.

This *Market View* assesses policymaking under Powell and six of his most recent predecessors and compares the resulting outcomes across the Fed's dual mandate: price stability and full employment. We also contrast financial market performance under each Chair, all with a view to contextualize the inheritance awaiting Kevin Warsh. He is arriving at the most unique of economic/geopolitical times, and has, over the course of his career, sent conflicting signals of his monetary policy stance.

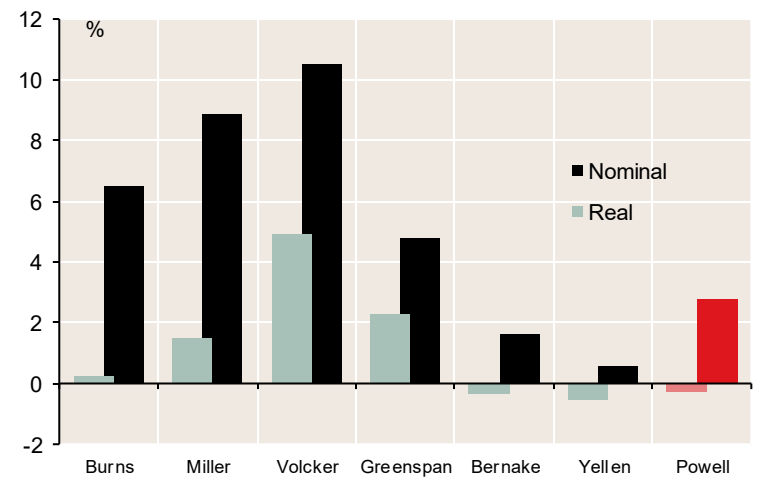
Chart 1: Powell navigated four policy cycles in eight years...
FOMC policy interest rate



Source: NBC, Bloomberg | Note: Upper bound of Fed funds target range

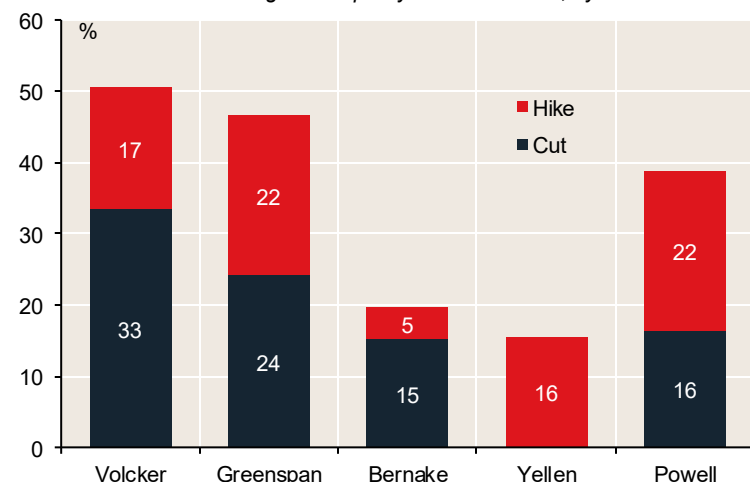
Delivering a hike during his first meeting, Powell's term as Chair was defined by two hiking cycles, and two cutting cycles. Nominally, he was more restrictive than the prior three Chairs—though that's a low bar with rates at zero for half of Bernanke's term, and well below 1% for much of Yellen's. But with inflation elevated during much of Powell's tenure, policy wasn't very tight in *real* terms.

Chart 2: ...and was the most restrictive in the 21st century
Average FOMC policy interest rate: Nominal and real for past 7 Chairs



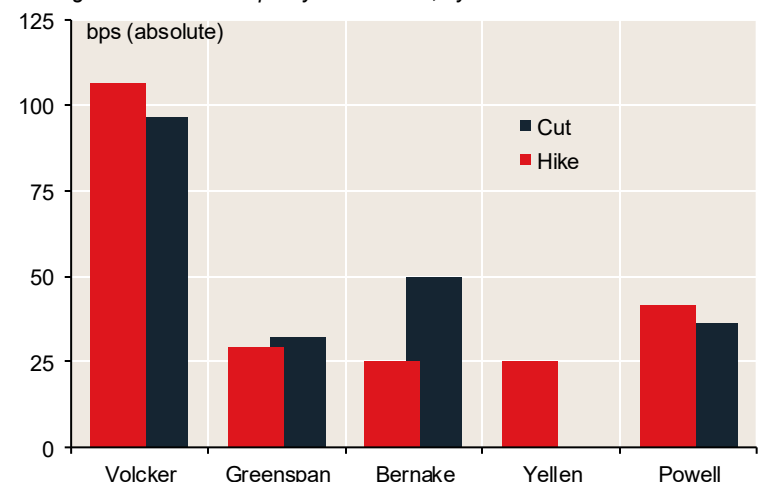
Source: NBC, Bloomberg | Note: Upper bound policy; Real is policy less headline PCE deflator

Chart 3: Over 1/3rd of the time, Powell was on the move...
Share of scheduled meetings when policy was hiked / cut, by Chair



Source: NBC, Bloomberg | Note: Only included for 8 meeting per annum era (1981 onwards)

Chart 4: ... and didn't shy away from outsized moves
Average absolute size of policy hikes / cuts, by Chair

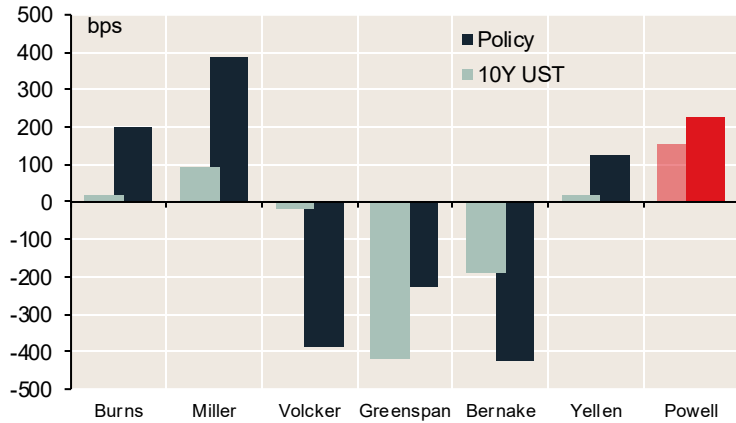


Source: NBC, Bloomberg | Note: Only included for 8 meeting per annum era (1981 onwards)

Spanning 67 meetings (scheduled or 'emergency'), Powell oversaw policy changes in 26 of them, or nearly 40% of the time. That's decisively more active than the prior two Chairs. He also opted for outsized (i.e., >25 bps) moves in 9 of those meeting. On average, when Powell hiked, he did so by 40 bps—with his personal record for a given meeting at 75 bps, a mark he hit three times.

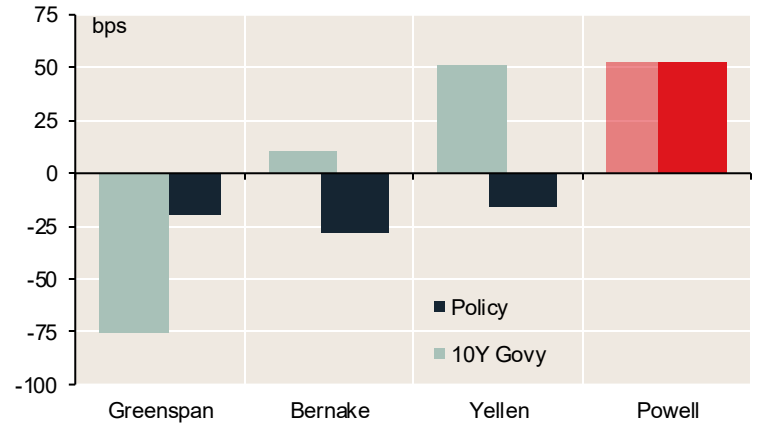


Chart 5: Cumulatively, policy (and yields) higher under JPow
Cumulative change in FOMC policy rate and UST 10Y yield by Chair



Source: NBC, Bloomberg

Chart 6: Cross-border differences pronounced (across curve)
Average FOMC-BoC policy rate gap and UST-GoC 10Y yield spread by Chair

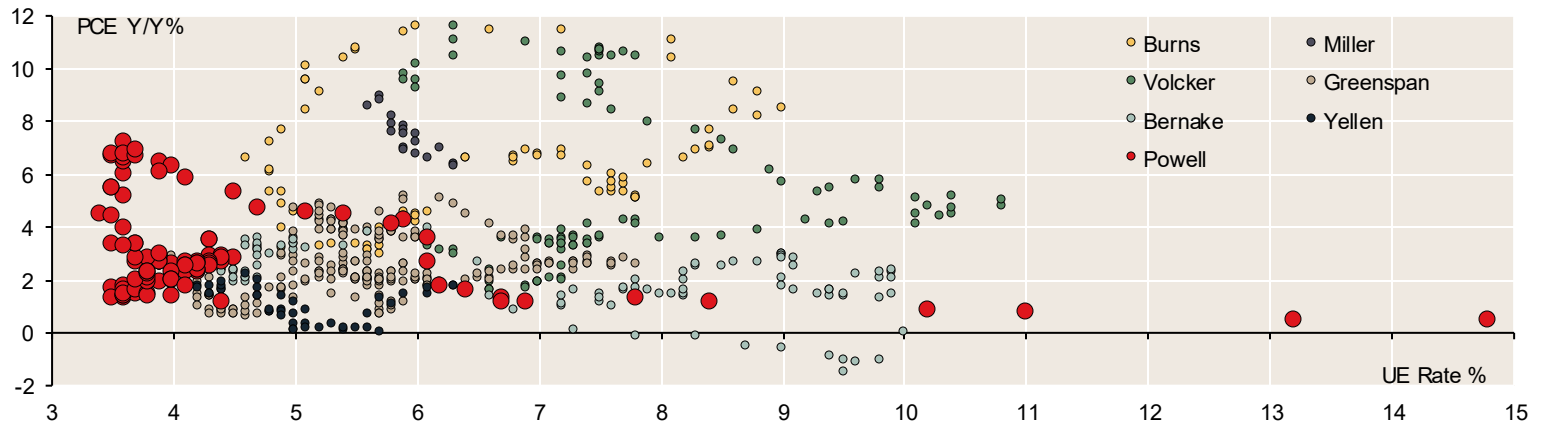


Source: NBC, Bloomberg | Note: For period starting with Canadian data availability

JP is leaving the policy rate 225 bps higher than where he was passed the torch (1.50% → 3.75%). Under Powell, the 40-year structural decline in long-term yields was broken. Today, the 10-year is ~155 bps higher than in 2018 and there's scope for yields to climb higher (see our Fixed Income Monitor). Under Powell, US policy and term rates were ~50 bps higher than in Canada, on average.

Chart 7: Pin the tail on the dual mandate—visualizing the track record of Fed Chairs

Headline PCE and unemployment rate, by month and Fed Chair

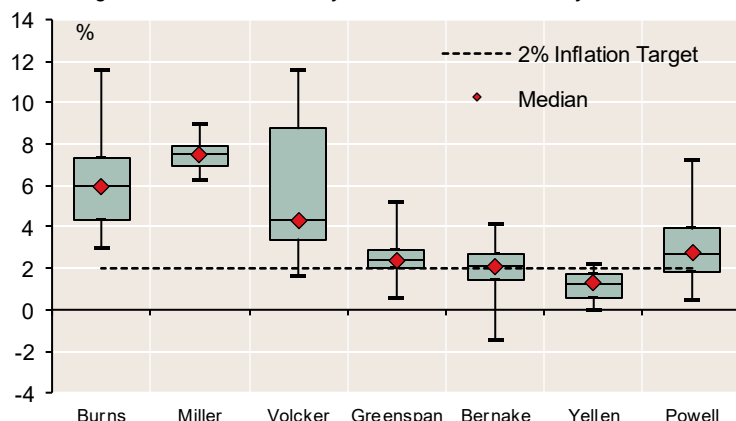


Source: NBC, Bloomberg | Note: Each data point represents one month

Powell's term as Fed Chair was characterized by extremes. While there were periods of goldilocks conditions (i.e., full employment and price stability), his term will always be remembered by a once-in-a-generation inflation spike following the pandemic. He also very briefly oversaw the highest unemployment since the Great Depression. Powell did manage to avoid prolonged periods whereby both sides of the Fed's mandate became disjointed (i.e., top right corner of the chart above), navigating considerable economic uncertainty over his eight-year term.

Chart 8: Inflation stickier under Powell

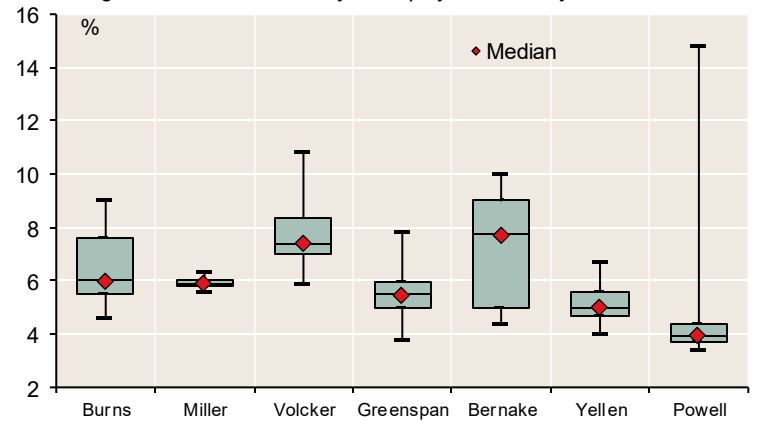
Term range and median of monthly headline PCE inflation by Fed Chair



Source: NBC, Bloomberg | Note: Box shows 2nd / 3rd quartile, whiskers show extent of range

Chart 9: Ex. COVID, jobless rate well contained under Powell

Term range and median of monthly unemployment rate by Fed Chair



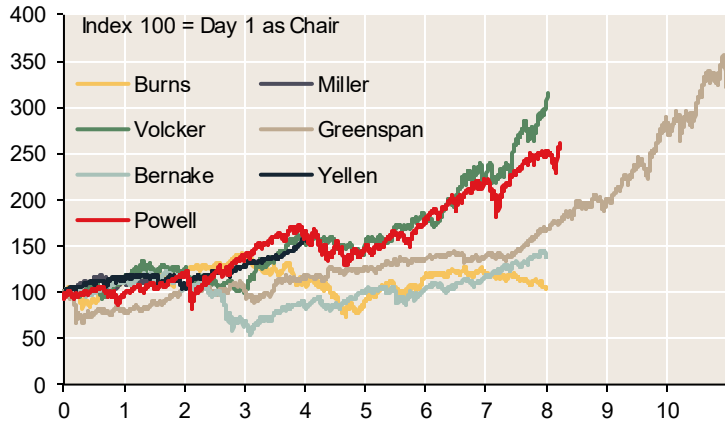
Source: NBC, Bloomberg | Note: Box shows 2nd / 3rd quartile, whiskers show extent of range

PCE inflation ran hotter under Powell than Greenspan-Yellen, at ~3% on average. While Powell quickly brought inflation down from its 2022 peak, it never got back to 2%. He passes the torch with inflation above target for 61 straight months. In 2018, Powell inherited a solid job market and, despite some bumps along the way (i.e., a pandemic), he'll be handing it back in reasonably good shape.



Chart 10: Bumpy ride, but stocks brought higher...

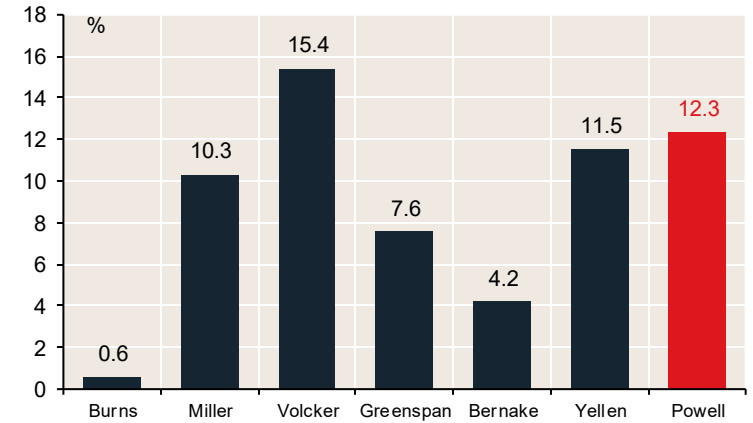
Change in the S&P 500 by Fed Chair term



Source: NBC, Bloomberg | Note: X-axis is year of term

Chart 11: ... as equity growth (nearly) highest under Powell

CAGR of the S&P 500 by Fed Chair term

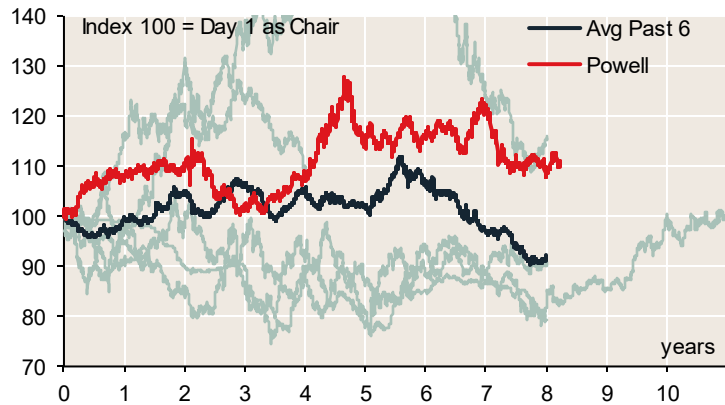


Source: NBC, Bloomberg

Surely, a global pandemic, two wars, multiple rounds of tariffs and threats to Fed independence would weigh on markets, right? Wrong—at least for equities. The S&P 500 managed a gain of 150% under Powell, good for a CAGR of 12%—the second highest appreciation among recent Chairs. Perhaps more surprisingly, it was under Volcker’s stern leadership that stocks performed best.

Chart 12: Powell oversaw an appreciating Greenback...

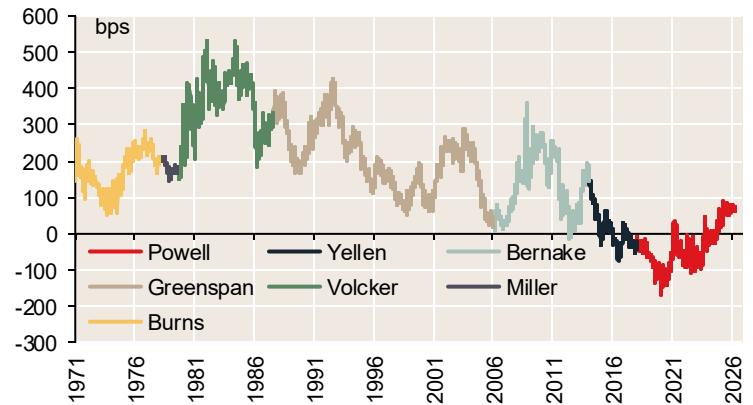
Change in the DXY (broad Greenback) Index by Fed Chair term



Source: NBC, Bloomberg | Note: Light blue lines denote individual prior Fed Chairs; average is calculated using a minimum of three prior Fed Chairs; X-axis is year of term

Chart 13: ... and a rising term premium

UST 10Y term premium (Adiran, Crump, Moench)

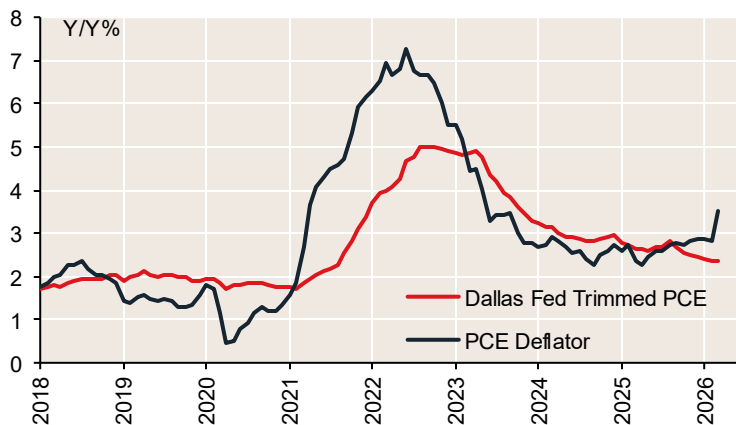


Source: NBC, Bloomberg

Powell is leaving the USD in a stronger position than he found it, though it was beaten down by tariff policy near the end of his tenure. Relatedly, U.S. term premiums have been rising lately after reaching record lows earlier in the Powell era. We don’t see these moderating under Warsh. His proposals to curtail communication and shrink the balance sheet leave risks skewed to the upside.

Chart 14: Some inflation measures aren’t cause for concern

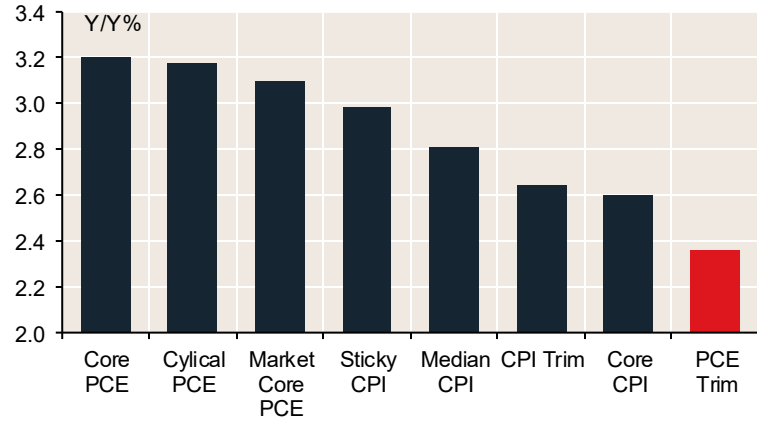
Headline PCE inflation vs Dallas Fed Trimmed PCE (Warsh preferred measure)



Source: NBC, Bloomberg

Chart 15: Cherry picking inflation?

Measures of core inflation tracked by the Atlanta Fed: Latest (Mar-26) reading



Source: NBC, Bloomberg

If uncertainty stemming from geopolitics wasn’t enough, investors will also need to contend with institutional uncertainty at the Fed. Incoming Chair Kevin Warsh has a long-standing reputation as an inflation hawk, but his tone has softened over the past year. Recently, he explained his preferred gauge of U.S. inflation is one of the most benign readings available. It’s not clear which version of Warsh will show up in Washington but if it’s easier policy he wants, we doubt he’d find a receptive committee right now. A dovish bias could be more impactful if/when inflation begins to moderate.



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