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Renovations at the Fed: What to expect from Kevin Warsh

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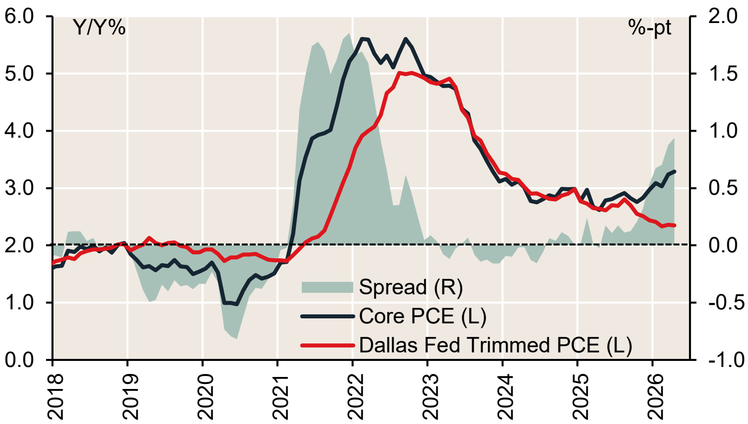
A new era has dawned at the Fed. On Wednesday, Kevin Warsh will lead his first rate decision as Chair of the FOMC, giving markets a better sense of how Powell's successor intends to steer the central bank. Much about Warsh remains uncertain/unclear, including his preferred policy path. But several of his views are well established and, in some cases, unorthodox. In this *Market View*, we outline what is known about the Fed's new first-in-command and what might be expected over his term.

Evolving policy preferences: Warsh served at the Fed from 2006 to 2011, earning a reputation as a 'hawk' even as the GFC was unfolding: In May 2008, **he judged** that "inflation risks [were] evident" and that the Fed should resist the temptation to "trot out the [rate cut] hammer" even if the economy weakened further. He was also skeptical of Treasury purchases. While he never dissented against QE, he later explained that successive rounds of bond-buying led to his resignation. After leaving the Fed, Warsh remained critical of QE and the low-for-long rate policy of the early-mid 2010s. But by 2018, in Trump's first term, Warsh penned an **op-ed** with Stanley Druckenmiller arguing *against* the Fed's tightening campaign. In 2021, Warsh was rebuking the Fed again. He **called** the central bank the "main inflation culprit", accusing them of encouraging and bankrolling fiscal profligacy. A hawkish tilt extended into 2024, when he argued the Fed should *not* be signalling rate cuts. By 2025, in Trump's second term, Warsh suddenly grew less concerned about inflation. He **argued** AI would be a "significant disinflationary force" and that together with tighter balance sheet policy, the Fed may be able to lower rates.

Inflation instincts: Warsh concedes that inflation is too high. But he's questioned if PCE ex-F&E is the best gauge of underlying price pressures and wants to reform how the Fed looks at inflation. He's advocated for 'trimmed' averages and has emphasized these have exhibited a "quite favourable" trend lately. Indeed, the Dallas Fed's trimmed PCE is running well below traditional core measures. For now, all inflation measures are inconsistent with easing. However, Warsh may take a somewhat more sanguine view when speaking to the inflation outlook on Wednesday.

Chart 1: Inflation more benign through a 'trimmed mean' lens
Core PCE (ex-F&E), Dallas Fed Trimmed PCE and resulting spread

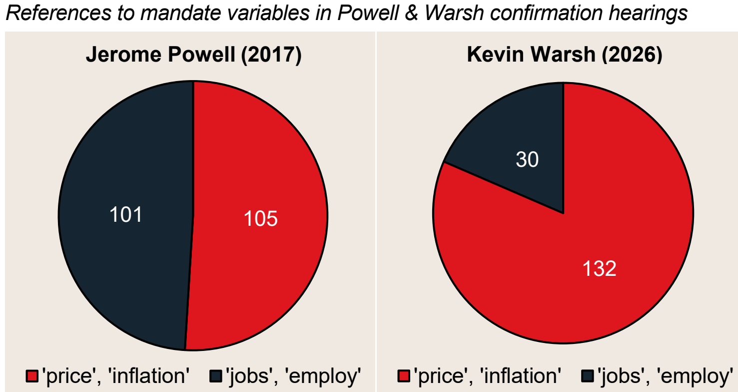


Source: NBC, Bloomberg | Note: Latest data = April 2026

Balance sheet policy: Warsh's policy rate views have shifted over time, but his view on the Fed's balance sheet has not. He's remained steadfast that large-scale Treasury purchases are unwarranted outside of crises and that a large Fed balance sheet fuels fiscal excesses and inflationary risks. But while his leadership would make future rounds of QE far less likely, the scope for material balance sheet reduction today is limited, absent bank regulatory reform. See our earlier ***Market View*** for more.

Mandate musings: Warsh has criticized the Fed's "mission creep" into social, political, climate, and other issues outside its remit (though the Fed has already been narrowing its footprint here more recently). At his confirmation hearing, Warsh affirmed his commitment to the maximum-employment mandate, but the discussion leaned heavily toward price stability. Warsh's first moves at the Fed reinforce that tilt. He brought on Paul Winfree—a former Heritage Foundation fellow and author of ***Project 2025*'s** Fed chapter—as a temporary adviser. Winfree has advocated for eliminating the dual mandate, preferring to focus solely on price stability. We don't see Congress rewriting the Fed's mandate, but a Warsh-led Fed could place marginally less weight on employment when setting policy.

Chart 2: Warsh's confirmation was more inflation-focused
References to mandate variables in Powell & Warsh confirmation hearings



Source: NBC, US Senate | Note: Word count includes Senator questions & nominee responses

Communication cuts: Warsh views post-COVID policy errors as having been compounded by forward guidance. He's argued that regularly publishing economic, inflation and rate projections can anchor officials into a static view that can make them late to respond to changing conditions. He's also suggested that Fed officials speak too often and that policy should be decided "in the room". We're not expecting an abrupt cessation of the SEP/dot plot. Nor will Warsh skip post-meeting press conferences. However, he could be far less forthcoming on the rate outlook than his predecessors. And over time, the Fed may generally become less communicative/transparent. While this may reduce the perceived anchoring bias, it is also likely to produce more rates volatility.

Political pressure: With inflation double the Fed's target, a rate cut isn't in the cards on Wednesday. And it's increasingly difficult to envision looser policy at all this year. That's a problem for the President, who continues to push for lower rates. Will Warsh quickly face Trump's ire? It didn't take long for Trump's last pick for Fed Chair to enter the line of fire. Powell took the helm in February 2018, and by July, the President expressed he was "not thrilled" about the Fed's gradual tightening campaign (highly controversial at the time, but comparatively tame by today's standards). A year later, Trump was calling the Fed "dummies" and of course, in his second term, criticism has been even sharper. Given Warsh was handpicked by the President, he should have some leash… but it may not be very long. For his part, Warsh has ensured he'll be an independent actor, rather than the President's sock puppet.

Good luck, Mr. Chair. You have your work cut out for you. May we suggest logging off of Truth Social for the next few years?

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