U.S. FEDERAL RESERVE

Envisioning a post-Powell Fed: What comes next?

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July 16, 2025

With characteristic directness, President Trump has expressed dissatisfaction in recent weeks with the job performance of Federal Reserve Chair Jerome Powell. Serious or not, this kind of talk has investors speculating on what's next for the U.S. central bank and what a changing of the guard could mean for the economy and markets — whether that change comes at the end of Powell's term as chair in May 2026 or sooner.

Regardless of when Powell leaves, it makes sense for investors to explore the potential scenario for his eventual successor and how new leadership could shape U.S. monetary policy, particular the Fed's ongoing fight against inflation.

The White House has already begun considering candidates and seems keen to pick a chair who will pursue more accommodative policy. The resulting tension has raised questions about political influence on the Fed's independence.

To be clear, we are not predicting that Powell will leave before his term expires. Rather, we are using scenario planning analysis to prepare for different outcomes including tail risks that could move markets.

Roadblocks to reducing the Fed's independence

Given that Trump himself nominated Powell as chair in 2017, investors should be wary of making assumptions about how a new pick will govern. The Senate confirmation process offers som protection against unconventional nominees taking over the Fed board, especially given ho financial markets and the public are likely to react to such a scenario. In Trump's last term, three of his Fed governor picks were not confirmed: Herman Cain, Stephen Moore and Judy Shelton.

Although Powell's current role as Fed chair expires in May 2026, he has the option to remain on the seven-member board of governors until January 2028. In addition, there are five voting members of the Federal Open Markets Committee (FOMC) from regional Fed banks who are appointed by their individual districts. The Fed board has the power to re-elect Powell as chair of the FOMC, which sets interest rates. They could do so regardless of whom the Senate confirms as board chair, although such a move would be unprecedented.

Fed board member	Board term expires	Appointed by
Adriana Kugler	Jan 2026	Joe Biden
Jerome Powell	Jan 2028 (Chair term expires May 2026)	Barack Obama (appointed to board in 2012) Donald Trump (named chair in 2017)
Christopher Waller	Jan 2030	Donald Trump
Michael Barr	Jan 2032	Joe Biden
Michelle Bowman	Jan 2034	Donald Trump
Philip Jefferson	Jan 2036	Joe Biden (appointed to board in 2022, named vice chair in 2023)
Lisa Cook	Jan 2038	Joe Biden

Source: Capital Group, Brookings Institute. As of July 11, 2025.

On the other hand, four out of seven Fed board members may be Trump appointees by mid-2026 since Adriana Kugler's term also expires in January. Trump's last term saw the appointmen of Waller and Bowman, who are the only two FOMC members out of 19 to publicly call for a rat cut in the July 2025 meeting.

As we contemplate the evolution of the Federal Reserve, here are three scenarios we are considering.

Scenario 1: Central bank independence persists

Even under a new chair, the Fed could remain largely status quo. As happened with Powell, the new pick could continue to resist political pressure and maintain the independence of the central bank while adhering to its traditional dual mandate to seek price stability amid full employment.

In this outcome, the economy may not see as much of an immediate boost from sharp rate cuts but could experience more sustainable long-term growth. Inflation could be kept under control through measured rate adjustments and clear policy communication. Market confidence in t central bank's independence should be reinforced, leading to stable investment conditions.

This could lead to a moderately flatter yield curve and wider credit spreads in the near term as markets unwind their expectations of a more dovish Fed.

Scenario 2: Moderate erosion of Fed independence

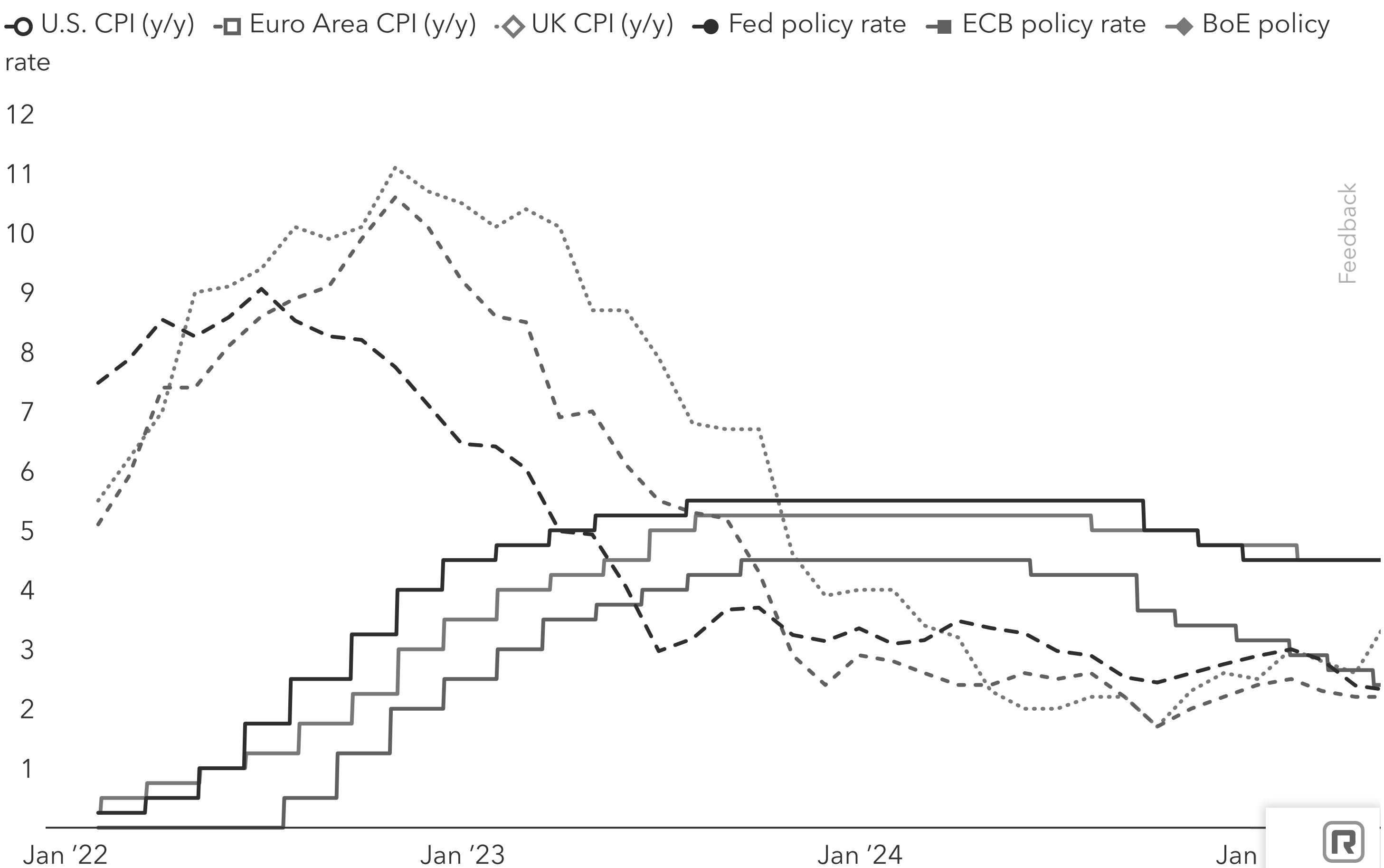
A new Fed chair could take a balanced approach, seeking to placate some political demands while not abandoning central bank independence outright. This could involve more aggressive rate adjustments as well as using balance sheet tools normally reserved for fighting financial instability or recession.

A more dovish Fed might propel the economy to faster growth in the short run, while lifting inflation or slowing its path to its 2% target. The Fed also plays a significant role in financial regulation and could pursue more lax rules for banks, which may also contribute to faster near-term growth. This process has already begun since Michelle Bowman, a longtime advocate for looser regulation, was confirmed vice chair of supervision in June.

Against this backdrop, bond investors should consider positioning for the potential of higher inflation expectations, a steeper yield curve and tighter credit spreads in the short run.

Other central banks have cut more aggressively than the Fed

Inflation vs. central bank policy rates (%)



Source: Capital Group, Bloomberg Index Services Ltd. Figures reflect latest available data as of June 30, 2025.

Scenario 3: Loss of Fed independence

Historical parallels to the 1970s may be a helpful way to set expectations for this scenario. During the period of twin oil shocks and expansion of spending programs, the White House famously put pressure on the Fed to maintain low rates despite rising inflation. After Paul Volcker was named chair in 1979, markets became accustomed to a Fed that would move swiftly to curb inflation. And for most of the period from 1980 until 2008, the yield on 3-Month Treasury Bills was higher than the rate of annual core inflation.

Fed has been committed to controlling inflation since the 1970s

U.S. inflation vs. risk-free rates (%)

Source: Capital Group, Bloomberg Index Services Ltd., Bureau of Labor Statistics, National Bureau of Economic Research. Inflation is represented by the year-over-year change in Personal Consumption Expenditures (PCE), excluding Food and Energy (Chain-Type Price Index). The 3-Month Treasury Bill rate is based on secondary market rates on a discount basis. As of June 30, 2025.

Fast forward to today: A new Fed chair could implement aggressive rate cuts or adopt unconventional monetary policies to stimulate economic growth, while inflation remains above target, per presidential directives.

The economy may experience a short-term boom due to lower interest rates. However, this could lead to long-term instability and diminished confidence in the independence of the central bank. Aggressive rate cuts could also cause a more notable rise in inflation expectations.

If bond yields rise dramatically in response to inflation pressures, we could even see a revival of yield-curve control measures — a monetary policy tool where central banks buy and sell government bonds to control interest rates across different maturities — as the Trump administration seeks to lower borrowing costs for the government, businesses and consumers. A similar scenario unfolded in 1942, when the Federal Reserve helped the Treasury finance war debt by pegging rates on T-bills at 0.375% (this was adjusted higher over time) as well as on longer term Treasuries at 2.5%. This period also coincided with a significant rise in inflation.

Bond portfolio implications are difficult to forecast in this scenario, but we would expect much higher levels of market volatility and a further weakening of the U.S. dollar.

Looking at emerging markets that have experienced interventions in central bank policymaking from the executive branch, a steeper yield curve is not guaranteed. Paradoxically, this has been driven by fears of capital flight and currency depreciation, which in turn have led to more hawkish policy and therefore higher real yields (the return on an investment after accounting for inflation). The U.S. may still be different, but we are reluctant to conclude that a politically driven Fed would generate persistently steeper yield curves in the longer run.

What's the bottom line?

In the years after the intertwining of the Federal Reserve and Treasury during WWII, and since the high inflation period of the 1970s, the Fed established credibility as the watchdog for the world's largest bond market. Any evolution of the Fed's mandate over the coming year will be critical for bond investors to understand. With the economic landscape constantly evolving, we remain nimble in our investment portfolios.

Read important disclosures

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Past results are not predictive of results in future periods.

Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.