

# WEEKLY ECONOMIC COMMENTARY

**IN THIS ISSUE:**

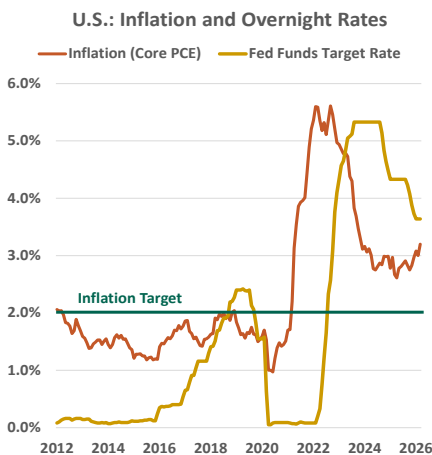
- **Powell’s Legacy**
- **Resolving The Trade Emergency**
- **Japan Steps In on the Yen**

*“Thank you very much, everyone. I won’t see you next time.”*

With those simple words, Jerome Powell departed his final press conference as Federal Reserve Chair. Powell’s eight years at the helm have been anything but simple, however. A review of his tenure includes some hits, some misses, and some important lessons in leadership.

Powell’s appointment in 2018 was not universally applauded. This was no offense to him; Janet Yellen had served ably as Fed chair, and many thought she deserved a second term. Powell was the first Fed leader in more than 30 years to assume the role without a Ph.D. in economics, leading some to question his understanding of the business cycle. Over time, however, he demonstrated command of the key issues facing the institution. Degrees don’t always confer competence.

Powell inherited a minor inflation problem: annual increases in the price level had fallen *below* the Fed’s 2% target for a good portion of the 2010s. This led some members of the Federal Open Market Committee (FOMC) to conclude that monetary policy was unnecessarily restrictive. During a regional listening tour in 2019, Powell was moved by messages that job creation doesn’t often reach underprivileged communities until labor market conditions get sufficiently tight.



Sources: BLS, Haver Analytics



These impressions informed the update to the Fed’s operating framework, which advanced the concept of a “flexible average,” allowing inflation to run a little above the targeted level to compensate for periods where it was below that target. That meant somewhat lower interest rates in many environments.

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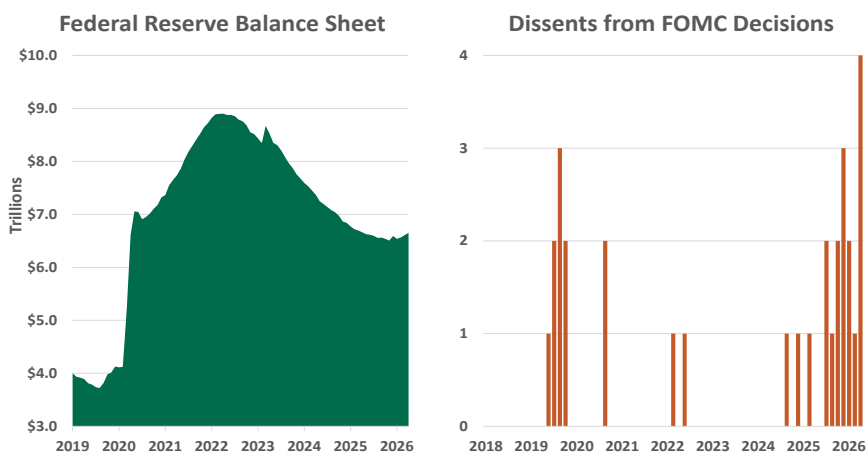
The new outline was released in August 2020, during the depths of COVID-19. At the time, the pandemic presented significant humanitarian and economic challenges. Economic dashboards expanded to include infection and mortality rates. The needs to safeguard public health placed a series of businesses at risk of failure; employment fell by 20 million people in a single month; and U.S. equity markets lost a quarter of their value in the space of four days.

The Fed’s reaction was swift and substantial. Interest rates were reduced to zero in less than two weeks, and quantitative easing was initiated at an unprecedented scale. Support programs for credit markets, drawing on designs developed during the 2008 financial crisis, were rolled out quickly. The result was the shortest recession in American history, covering just two months.

Some have suggested that the Fed went too far, but it didn’t seem that way at the time. Given the stakes and uncertainties facing the country in 2020, the monetary response had to be powerful. Powell and his colleagues moved decisively, and deserve praise for doing so.

The most notable achievement of the Powell Fed was followed by its biggest miscalculation. The Fed’s insistence that post-pandemic inflation was transitory, along with its commitment to its new operating framework, led to policy that was too easy for too long. Conditions were tightened starting in 2022, but four years later, inflation has yet to return to its 2% target. The Fed’s balance sheet remains immense, something that incoming Chair Kevin Warsh has promised to have a look at.

**Powell’s biggest triumph was followed by his biggest disappointment.**



Sources: Federal Reserve, Haver Analytics, Bloomberg

Warsh, if confirmed, will need to manage differences of opinion within the FOMC. Dissents have been more numerous of late, the product of diverging ideologies and inconsistent data. Chair Powell has been very effective at forging consensus; perhaps that is something he can still help with as he steps away from leadership.

Powell’s decisions have been challenged persistently by the President who had nominated him. It started early, but mildly, with a late 2018 observation that the Fed Chair was a golfer who could not putt. Since then, the President has called Powell a “bonehead,” a “loser,” a “moron,” and other indignities. Earlier this week, Donald Trump posted an image of the Fed Chair being deposited into a dumpster.

Pressure from the White House on Fed leaders is hardly new. But the style and public nature of recent criticism is unprecedented. Powell was frequently questioned about the invective at his press conferences, but always took the high road. Last week, he asserted that the name-calling wasn’t troubling to him.

But efforts by the White House to influence the Fed did not stop at disparagement. The second Trump Administration has taken the extraordinary steps of attempting to remove a sitting Fed Governor and opening an investigation of Powell. The latter action prompted an equally unprecedented Sunday evening [video message](#) from the Chair, suggesting that the effort was primarily motivated by a wish to bring monetary policy under the control of the executive branch.

Those efforts ultimately convinced Powell to stay on as a Governor of the Fed at the end of his term as Chair. His term will expire in January 2028, with the option to resign sooner if he is satisfied that legal matters are settled. His support of central bank independence has earned him a series of standing ovations and plaudits from the press. In the long run, this may be his most important legacy.

Powell gave some memorable speeches. His [first address](#) to the Fed's Jackson Hole conference in 2018 questioned the use of long-run interest and unemployment rates (known to economists as r-star and u-star) in setting a course for monetary policy. These ethereal quantities, he argued, are observable only in retrospect; this makes it hard to use them as the basis for policy in real time.

His 2022 Jackson Hole address centered on the concept of [rational inattention](#), the tendency of people to overlook minor developments until they become more major. This explains why long-term inflation expectations in the United States remain well-anchored, despite the myriad price shocks that have occurred in the last five years. For this, the Fed should be thankful.

During his last visit with the press corps, Powell suggested that he would be keeping a low profile in the remainder of his tenure. That is just and proper. But I hope that he will continue to exercise his influence behind the scenes as the Fed works through the challenges that lie ahead.

## The Big Payback

On February 20, the Supreme Court affirmed that tariffs are beyond the scope of the International Emergency Economic Powers Act (IEEPA). IEEPA had been the basis for the majority of trade sanctions in the second Trump term.

The Court's ruling did not offer direction about how to manage the funds that had been paid. Rather than await further litigation, U.S. Customs and Border Protection agency has launched a new portal for payors to request refunds.

A tariff is a tax on the value of an imported good, paid by the importer at the time the good is taken from an entry port. The tariff is absorbed in some combination of price concessions by the exporter, lower margins for the importer or higher final prices.

As tariffs ratcheted up, forecasters feared a renewed round of inflation on goods. Tariff price adjustments did appear anecdotally, but pass-through was incomplete. The bulk of these costs appear to have been borne by importers and elsewhere along the wholesale value chain. Now, some of those participants will see some relief.

The exercise of issuing refunds may sound straightforward, but a full recovery will be a complicated effort. The government estimates that 300,000 importers received over 53 million shipments subject to IEEPA tariffs, totaling \$166 billion. Roughly ten months after the transaction, payments are "liquidated" (finalized) and more administratively difficult to unwind. Any relief will be short-lived and is unlikely to flow to households.

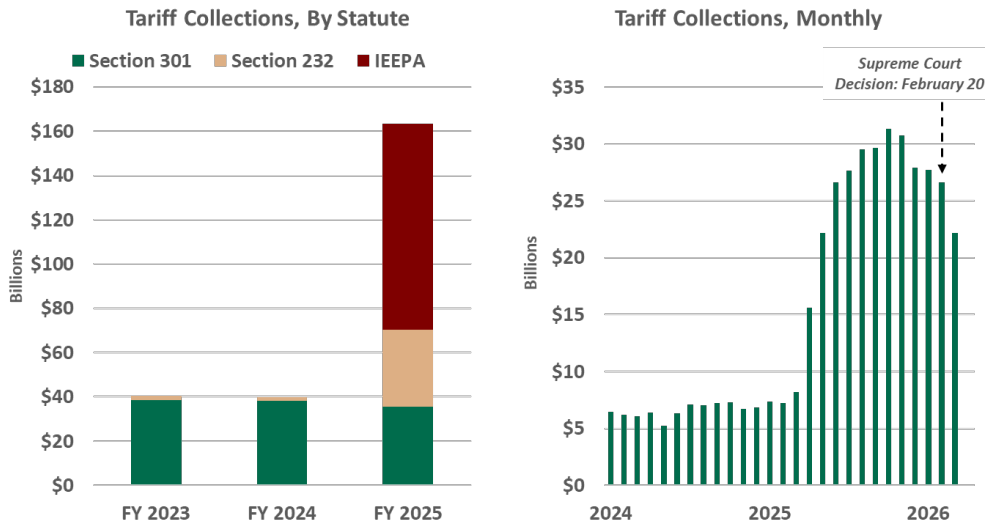
A tariff payment record includes only the name of the importer who took receipt of the goods. Major industrial firms and very large retail chains may import directly. More often, goods are received by

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**His staunch support of central bank independence may be Powell's lasting legacy.**

specialist import dealers who supply intermediate goods to domestic producers or wholesale finished goods to consumer-facing retailers. These importing agents may have passed along their tariff costs in their pricing. As the importers of record, they can now request a tariff reimbursement. But anyone further down the line who paid a higher price is not entitled to any relief.

Retailers hoping to see lower prices may encounter further disappointment. The revocation of IEEPA tariffs is only a brief respite in a relentless trade agenda. Currently, temporary tariffs of 10% under Section 122 are in place. Today’s refund exercise could be repeated the future, as this use of Section 122 is moving down the same path of legal challenges that led to IEEPA’s rejection.



Sources: Cato Institute, U.S. Treasury, Haver Analytics

**Any relief from tariffs refunds will be short-lived.**

New Section 301 investigations regarding excess capacity and illegal production practices in 16 regions commenced in March; they may be completed in time to justify new tariffs as the interim levies expire in the summer. Several product-level national security investigations under Section 232 are also open. Tariffs are here to stay, even though their legal justifications will evolve. Importers will hold prices firm as they anticipate new tariff announcements.

National finances are also in for a modest shock. The government has been counting on tariff revenue to partially offset lower corporate and income taxes. A loss of \$166 billion in tariff proceeds is a strain, but it will not alter the nation’s difficult fiscal trajectory. In the first half of fiscal year 2026, customs duties accounted for 6.7% of all federal tax receipts, up from an old norm of under 2%.

The emergency rationale for tariffs has been overturned. But the announcements, collections, refunding and replacement policies all leave goods markets feeling far from a settled state.

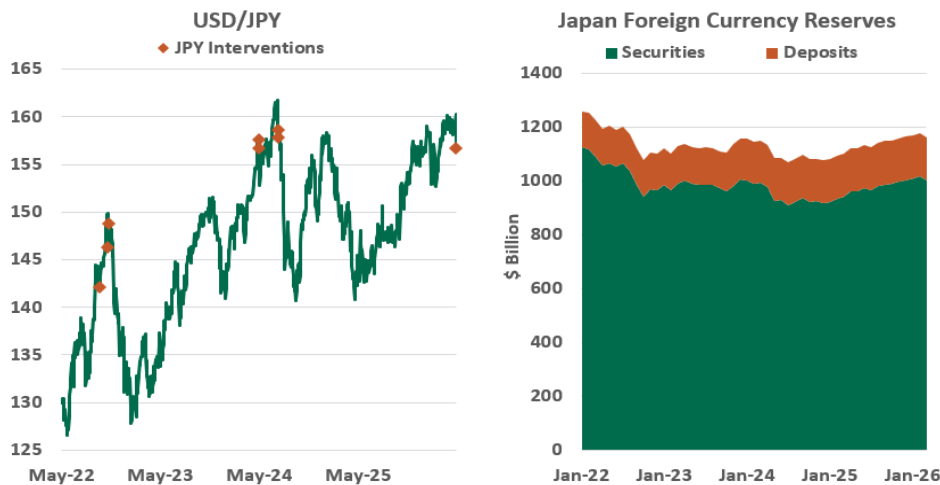
**A Band-Aid**

The Japanese yen has traditionally been viewed as a safe-haven currency, one that appreciates when global uncertainty rises. In recent years, however, that relationship has frayed. The currency has increasingly traded like a risk asset, weakening during episodes of stress rather than strengthening. The latest bout of volatility linked to the Middle East conflict underscores that shift.

The yen has been under persistent downward pressure since March. Last week, it slid past ¥160 against the U.S. dollar, a threshold that has historically prompted official intervention.

Since then, the yen has rebounded sharply. The move was likely aided by intervention estimated at around ¥5.5 trillion (\$35 billion) based on Bank of Japan data, just shy of the \$37 billion deployed in July 2024. Yet, the broader downward bias may persist.

A weaker currency is typically supportive for Japan’s export-oriented economy. But the current episode has become a source of concern for policymakers, as the costs are increasingly visible. Japan’s heavy reliance on imported energy leaves it acutely exposed to external shocks. Higher oil prices raise the country’s import bill, increasing demand for dollars and putting further pressure on the yen. In this context, the currency’s slide reflects geopolitical dislocations more than traditional rate differentials, with Japanese bond yields already near three-decade highs.



Source: Haver Analytics

Intervention remains a tool, but not an infinite one. Japan’s foreign currency reserves total about \$1.2 trillion, of which roughly \$162 billion is held in liquid deposits that can be deployed quickly. Policymakers can supplement this by offloading foreign securities, as seen a couple of years ago. That said, the scale and timing of any further intervention will depend on the pace of depreciation and market volatility. The objective is likely to center on preventing a disorderly move beyond ¥160 per dollar, rather than driving the yen toward a stronger target level.

Buying yen and selling dollars can only offer temporary relief unless the underlying economic drivers are addressed. Until those fundamentals shift, the currency may continue behaving less like a traditional safe haven and more like the risk asset it was once expected to hedge.

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**Policymakers will defend a floor, not target a rebound in the yen.**