



POWELL PLAYS THE LONG (POLITICAL) GAME

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The Federal Reserve is about to enter its awkward phase.

While Kevin Warsh has been confirmed as the new head of the central bank, he is forced to share the stage with former Chair Jerome Powell, who decided to remain on the Fed's Board of Governors. Though it is not entirely unprecedented, Powell is the first to do so since Marriner Eccles in 1948 – marking a departure from the long-standing tradition of Fed chairs stepping down once their term ends.

This appears to be a political decision by Powell, and one that has vast implications for the central bank until his eventual departure.

Despite being a Trump appointee in 2018, the relationship between the two soured in recent years as tensions escalated: from investigations into Fed building renovation costs to constant pressure from the President to lower rates. By staying, Powell prevents the White House from being able to nominate a new governor until his membership term ends in January 2028 – effectively limiting the President's ability to reshape the board's composition in the near term.

Beyond that, Powell's decision underscores his deeper concern for the Fed's independence. At his final press conference, Powell noted that recent legal challenges left him “no choice” but to stay and ensure the central bank could continue to conduct monetary policy without political interference.

At NEPC, we view an independent central bank as the bedrock of the bond market and see no evidence that this is jeopardized today. That said, should investors start to meaningfully question the Fed's independence, we would expect interest rates to rise systemically – independent of day-to-day volatility – as the market begins demanding a higher premium to hold U.S. assets.

Powell's mere presence may also complicate and alter the internal dynamics of the board. Every vote he casts as governor will now be parsed for political meaning and it is easy to imagine the group instinctively looking to him during divided votes. This lingering influence may undermine Warsh's ability to fully take command of the central bank.

On the surface, one can view Powell's presence as offering a sense of stability and continuity that may help assuage concerns during the Fed's leadership transition. However, his decision to stay on has made the Fed and politics more synonymous than ever – a shift that is important to be mindful of as investors. We will continue to monitor the situation, especially as the central bank navigates a challenging backdrop of accelerating inflation* and robust labor market data.

**Footnote: As of April 2026, the U.S. Consumer Price Index (CPI) increased 3.8% annually, while core CPI rose 2.8% over the same time horizon.*

Source: U.S. Bureau of Labor Statistics as of April 2026

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