



Powell Downplays Progress, Risks Becoming Trump's Scapegoat

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Despite mounting evidence of disinflation and a weakening economy, Chair Powell's tone remains too hawkish—and I believe that's a mistake. The latest inflation readings came in soft, money supply growth continues to undershoot, and even jobless claims are inching higher. Yet Powell leaned into elevated inflation expectations and tariffs as a risk, brushing aside the clear progress in real-time data. This isn't 2021. There's no excess demand surge or fiscal flood of pandemic relief measures putting trillions of dollars of extra demand that compounded the initial supply side shock.

Inflation stemming from tariffs will not be demand-driven. The Fed must not treat this as persistent price pressures that require tightening. In fact, the broader M2 money supply has grown less than 4% over the last year—well below the 5.5–6% range I'd consider consistent with long-term inflation targets. Furthermore, long-term inflationary expectations are going down, actually at the 2% Fed target.

Trump's tariff push adds to the downside risk for the economy. While I'm deeply skeptical of the economic rationale behind these tariffs, markets and businesses now must price in the possibility of prolonged supply-side shocks. This is precisely the type of environment where the Fed should be preemptively dovish, particularly with Q1 GDP estimates hovering between 0% and 1%. I believe the odds are greater than 50% that we get a recession with the current policy discourse.

Markets show signs of tension. Tariffs may drive a temporary bump in spending as firms and households rush to front-load purchases, but that demand is borrowed from future quarters. That's not sustainable; it's a warning sign. And once the real price increases filter through to consumer goods, public sentiment will shift quickly.

Earnings are starting to reflect this uncertainty, though much of Wall Street's consensus remains stale, still anchored in pre-tariff forecasts. CEOs should be updating their models now to reflect multiple trade scenarios, especially those most exposed to China or to consumer imports.

Meanwhile, equities continue to reflect the tug-of-war between political risk and monetary expectations. If Powell doesn't cut in June, he risks not only deepening a potential downturn, but also becoming the scapegoat for it. I expect Trump to increasingly blame the 'too slow Powell' for any downsides that materialize from Trump's policies. Powell may be technically secure in his position, but that doesn't mean he's insulated from blame.

Long-term, I remain constructive on equities even if I think it will be difficult to retake the February highs in the short run. Tariffs could knock 5–7% off U.S. per capita real income by reducing trade efficiency. But the U.S. still has structural advantages in innovation, capital markets, and entrepreneurial flexibility. Over time, those forces win. In fact, if you believe tariffs are temporary, and I do, then the current market pullback will become a buying opportunity. You're getting U.S. equities 10–15% cheaper than you were in February. Yet, international markets deserve attention. Many of these economies have lower valuations, solid fundamentals, and will benefit if Trump continues to shift imports away from China. Tariff rerouting benefits Asia ex-China.

Finally, fixed income looks increasingly unattractive in this environment. With no credible deficit control on the horizon and the Fed potentially behind the curve, the real return on bonds remains poor. TIPS are yielding just 2.0%, which I consider inadequate compensation for inflation risk. For income, I continue to favor dividend-paying equities and international exposure over long-duration bonds.

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