

## Chairman in Name Only

Kevin Warsh wants to make some big shifts in monetary policy at the Fed. Unfortunately, unless and until soon-to-be former Chairman Jerome Powell steps down from his regular seat on the Federal Reserve Board, Warsh will be Chairman in Name Only.

One new policy Warsh wants is to shorten up the maturity structure of the Fed's assets, getting it out of the business of holding longer-term securities. Another is to shift away from holding mortgage-backed securities and focus on Treasury securities only.

Even more important, Warsh wants the Fed to unwind Quantitative Easing, a policy he originally supported back in 2008-09 in the midst of the so-called Global Financial Crisis, but apparently later came to oppose – or at least oppose to the extent the Fed has made it a permanent feature of monetary policy rather than a temporary measure.

To successfully unwind QE it's likely the Fed would also have to end the policy of paying banks interest on reserves, which means a Warsh chairmanship holds out the hope of eventually taking us back to a monetary regime where policy is implemented through scarce reserves rather than abundant reserves.

The problem is that even though Warsh will become Chairman soon, Powell has announced he will keep his board seat for at least the time being. Reports suggest he is only doing so temporarily but will depart that seat – which would open-up another position for President Trump to fill – as soon as the Administration commits with “finality and

transparency” to ending the Justice Department's investigation of the Fed.

But as long as Powell stays it will be tough for Warsh to shift policy at the Fed, either the long-term policies we outlined above or even shifts to short-term interest rates. The Fed bank presidents would still be the old Powell-approved presidents and likely with him on policy, not with Warsh. And the Powell faction at the Fed would still have four votes on the Board versus only three for Warsh.

Which brings us to another reason Powell may end up trying to stick around longer, maybe even all the way until January 31, 2028, when his term as a board member fully runs out. If Powell leaves before then and Trump replaces him on the board, the Trump-appointed board majority could then threaten to fire Fed bank presidents who oppose them. Yes, the courts have made it tough for Trump himself to fire board member Lisa Cook, but the courts would have a tougher time protecting bank presidents from a board majority.

In the meantime, Warsh, as official chairman, could try to speed Powell's departure by making his life at the Fed uncomfortable: maybe take away his parking space and staff plus put his office in the basement. But the decision to leave would still be Powell's until January 2028.

Based on Powell's statements about trying to protect Fed “independence” from politics, preventing Trump from getting a board majority may be an ulterior motive for Powell to stay, which means the policy shifts supported by Warsh could be on the back burner for some time to come.

| Date/Time (CST) | U.S. Economic Data            | Consensus   | First Trust      | Actual       | Previous    |
|-----------------|-------------------------------|-------------|------------------|--------------|-------------|
| 5-4 / 9:00 am   | Factory Orders – Mar          | +0.6%       | <b>+0.1%</b>     | <b>+1.5%</b> | +0.3%       |
| 5-5 / 7:30 am   | Int'l Trade Balance – Mar     | -\$60.9 Bil | <b>NA</b>        |              | -\$57.3 Bil |
| 9:00 am         | New Home Sales – Mar          | 0.660 Mil   | <b>NA</b>        |              | 0.587 Mil   |
| 9:00 am         | ISM Non Mfg Index – Apr       | 53.7        | <b>53.8</b>      |              | 54.0        |
| 5-7 / 7:30 am   | Initial Claims – May 2        | 203K        | <b>205K</b>      |              | 189K        |
| 7:30 am         | Q1 Nonfarm Productivity       | +1.0%       | <b>+0.5%</b>     |              | +1.8%       |
| 7:30 am         | Q1 Unit Labor Costs           | +2.5%       | <b>+3.0%</b>     |              | +4.4%       |
| 9:00 am         | Construction Spending – Mar   | +0.3%       | <b>+0.7%</b>     |              | -0.3%       |
| 2:00 pm         | Consumer Credit – Mar         | \$12.5 Bil  | <b>\$8.7 Bil</b> |              | \$9.5 Bil   |
| 5-8 / 7:30 am   | Non-Farm Payrolls – Apr       | 65K         | <b>60K</b>       |              | 178K        |
| 7:30 am         | Private Payrolls – Apr        | 75K         | <b>70K</b>       |              | 186K        |
| 7:30 am         | Manufacturing Payrolls – Apr  | 4K          | <b>-4K</b>       |              | 15K         |
| 7:30 am         | Unemployment Rate – Apr       | 4.3%        | <b>4.3%</b>      |              | 4.3%        |
| 7:30 am         | Average Hourly Earnings – Apr | +0.3%       | <b>+0.3%</b>     |              | +0.2%       |
| 7:30 am         | Average Weekly Hours – Apr    | 34.2        | <b>34.2</b>      |              | 34.2        |