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Policy Note

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In recent weeks, President Trump has become more assertive in his public campaign to fire Fed Chair Powell prior to his term expiry in May 2026. **The window of opportunity for President Trump to preemptively fire Fed Chair Powell may be a narrow one, perhaps peaking in August-September, and declining thereafter.**

With tariff induced inflation pressure likely to build by Q4, and an economy that may be weakening into the 2026 mid-term election year, **the pressure campaign from President Trump to fire Fed Chair Powell by September has been rising**. Going into an election year, the President has said he would like the Fed to reduce its policy rate, currently at 4.25-4.50%, by as much as 3 percentage points. However, if inflation increases in Q4, the case for doing so becomes more complicated.

A preemptive move by the White House to fire Fed Chair Powell, thereby weakening Fed independence, would face institutional, legal and market challenges. **More recently, many of the formidable obstacles to a preemptive firing have been declining.**

Summary of Key Challenges to a Preemptive Firing of Fed Chair Powell by September 2025

Congressional opposition: DECLINING

- Strong support for Fed independence under prior Senate Majority Leader, Mitch McConnell (R-KY)
- Comparatively less support under current Senate Majority Leader, John Thune (R-SD)
- **President Trump recently signaled to GOP lawmakers that he may be moving to fire Fed Chair Powell**
- If Chair Powell was fired, several GOP Senators could slow the confirmation process for Powell's successor, though GOP challenges appear less likely today than months ago
  - Cornyn (R-TX), Paul (R-KY), Tillis (R-NC), Kennedy (R-LA), Murkowski (R-AK), Collins (R-ME)
- The US Senate's August recess could create a timing obstacle for confirming a new Fed Chair (though President Trump is already calling for Senate Majority Leader Thune to cancel the summer recess)

Legal obstacles: HIGH

- **In a May 2025 ruling, the Supreme Court indicated the President could not unilaterally remove a Fed Governor (or Chair) for a policy dispute; rather, such a firing would necessitate "cause" (i.e., malfeasance, dereliction of duty)**
- Virtually no legal case history or precedent for firing a Fed Chair
- President Trump could seek to make the $2.5 bn Fed building renovation, approved in 2017, the "cause"
- Fed Chair Powell would probably counter-sue to protect longer term Fed integrity; and a judicial injunction would follow
- The legal battle would likely extend beyond Powell's term expiry in May 2026

Institutional challenges: FORMIDABLE

- The 12 person FOMC may resist President Trump's efforts, choosing to support Chair Powell and the long term institutional integrity of the Fed
- **Under current law, the "Vice Chair" would assume leadership in the Chair's absence during a protracted legal dispute**
- Philip Jefferson, the current Fed Vice Chair, is a Biden appointee and Powell ally
- The Fed Chair is just one among 12 votes in setting rate policy (and President Trump has only one other seat to replace in his second term - Fed Governor Kugler on Jan 31, 2026)

Economic data: MORE DIFFICULT WITH TIME

- As noted above, the US Senate's August recess could slow the race to move quickly ahead of rising inflation data
- **September could be the last good window to replace the Fed Chair if tariff-induced inflation begins to rise in Q4**
- Sources of US inflation pressure: Aug 1 country and sector based tariffs; fiscal expansion, tighter immigration policy; rising geopolitical risk

Treasury market response: HIGHER YIELDS

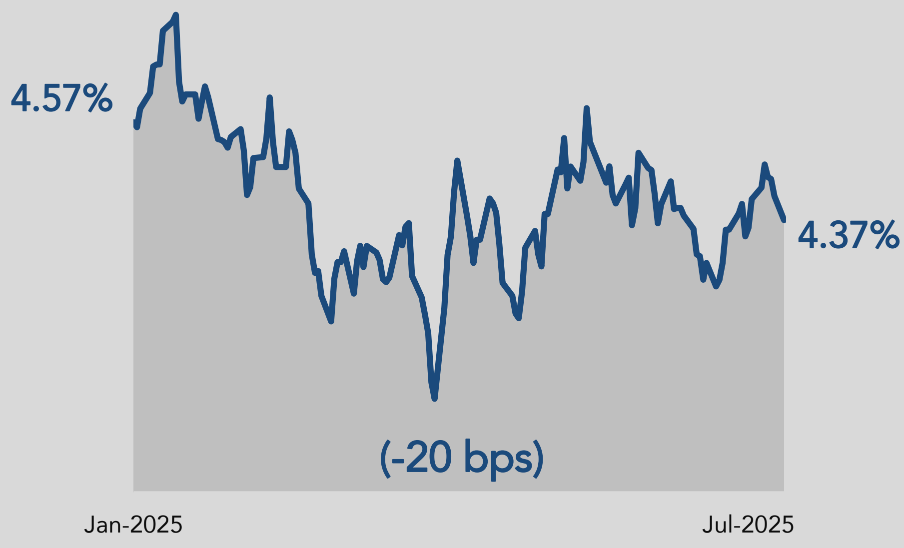
- Even if a new Fed Chair lowers the policy rate, longer dated UST yields could move higher
- **The Fed cut the Fed Funds policy rate 4x (1%) from Sept-Dec 2024, but longer-dated 10 year UST yields rose ~100 bps over the same period (and mortgage rates held steady)**
- Policy confidence and inflation concerns could outweigh Fed policy

Market "confidence" risk: HIGH

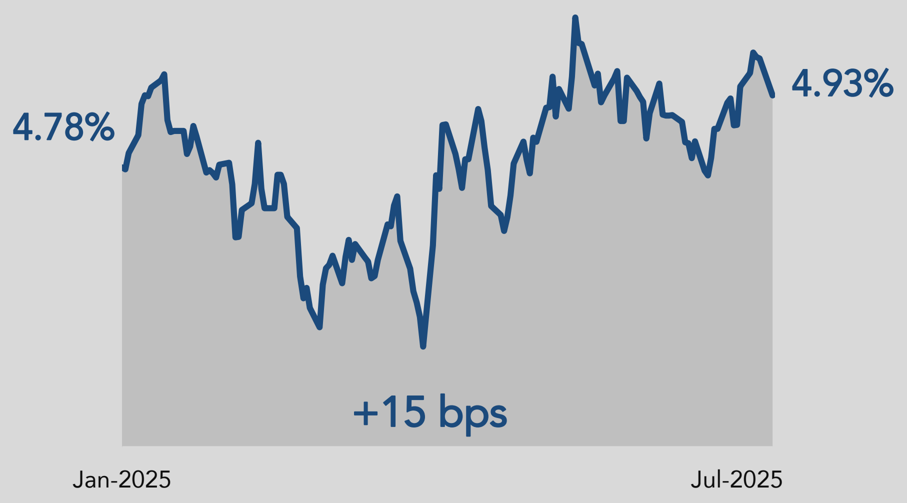
- **Longer duration UST yields:** would move higher (inflation concerns)
- **Inflation break-evens:** reprice higher (already elevated)
- **US Dollar:** more concerted selloff may follow (loss of policy confidence)
- **Gold:** would continue its record climb higher (safe haven alternative)
- **Stocks:** would likely decline (risk-off sentiment)
- **USD credit spreads:** likely wider (risk-off sentiment, inflation risk)

2025 YTD Market Performance

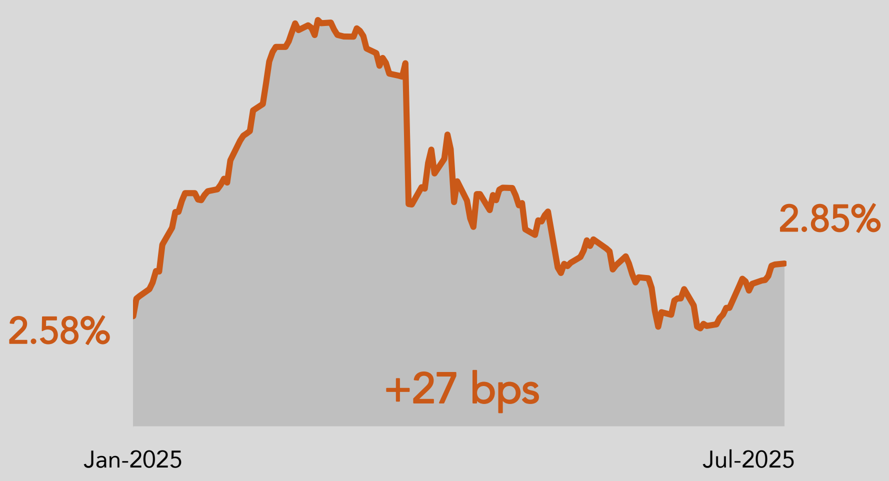
10 yr UST



30 yr UST

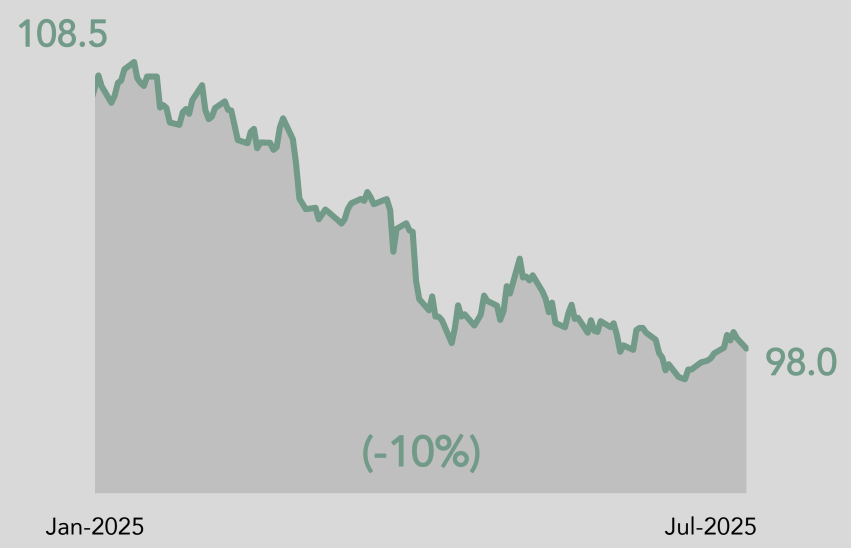


1 yr US inflation breakevens

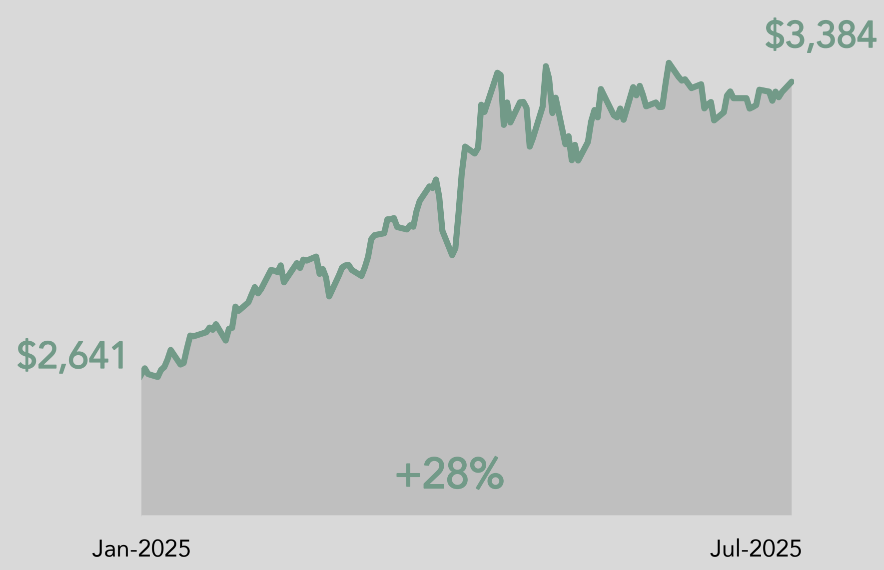


2 yr US inflation breakevens

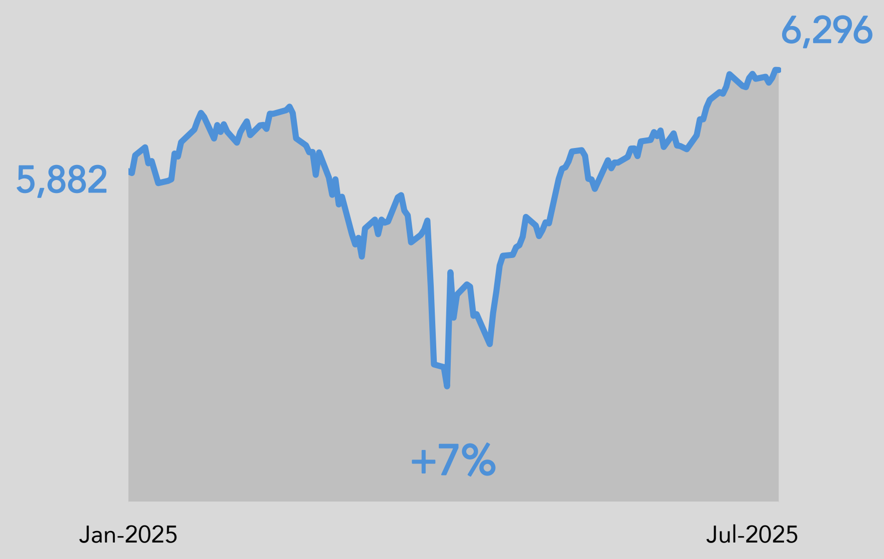
USD index



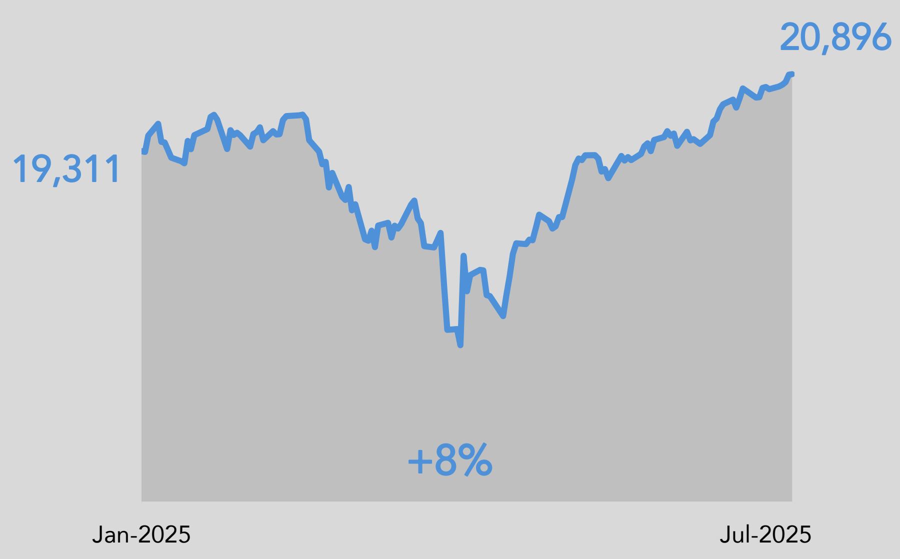
Gold



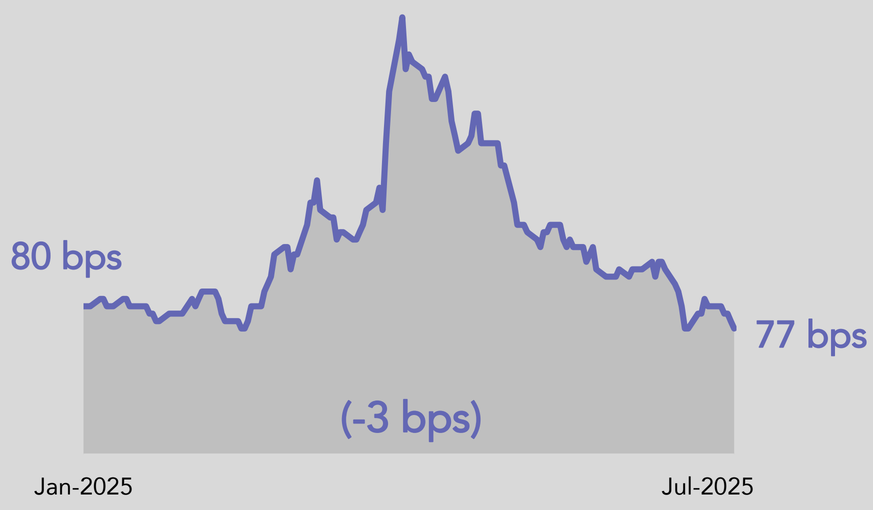
S&P 500



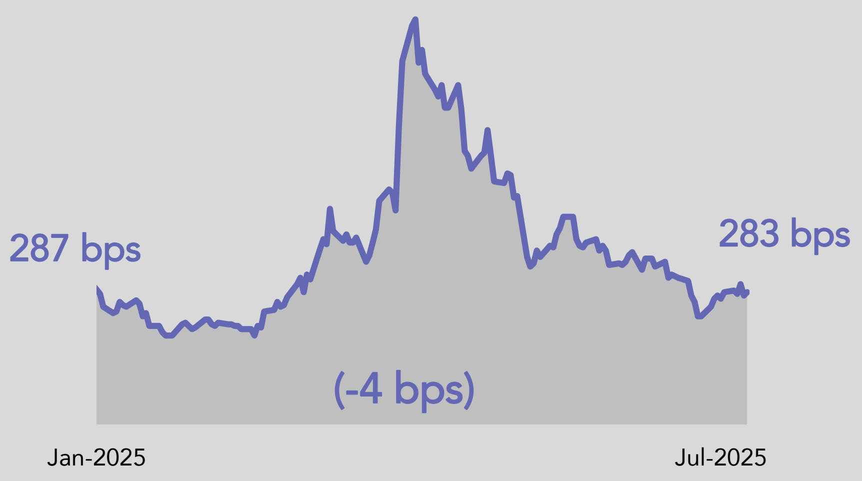
Nasdaq



USD IG OAS



USD HY OAS



Source: (1-10) Bloomberg. Data as of July 21, 2025.

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"Macro stability isn't everything, but without it, you have nothing."