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## WASHINGTON POLICY STRATEGY

# Potomac Perspective

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The Department of Justice (DOJ) has launched an investigation of Federal Reserve Board Chairman Jerome Powell. This action complicates life for whoever is nominated to succeed him. The confirmation process has become more difficult, as has leading the Federal Open Market Committee (FOMC). This note explains why and updates our thoughts on the prospects for the leading candidates.

- **Confirmation Hurdles** – Whoever President Trump nominates to replace Jerome Powell as the Chairman of the Federal Reserve Board will face a tougher confirmation fight in the Senate in the wake of the reports that the DOJ is investigating Powell. Mr. Trump's nominee would need to pass the Senate Banking Committee and then the full Senate. Republicans hold a 13-11 majority on the Banking Committee. One of the committee's Republicans, Senator Thom Tillis (North Carolina), has announced that he would not vote to confirm a replacement until the legal matter is fully resolved. Assuming that all of the committee's Democrats oppose Trump's nominee, Tillis could block the nomination if he votes "no."
  - The math on the Senate floor is not much better. Republicans hold a 53-47 majority. If all Senators are present and vote, and assuming all Senate Democrats oppose the nomination, a group of four Republicans could block the nomination (the Vice President would break a tie). Senator Rand Paul (Republican-Kentucky) voted against Powell's nominations in 2018 and 2022, so he could represent another Republican vote against Trump's nominee.
- **FOMC Leadership** – Whoever is confirmed as Fed Chair could encounter problems at the Federal Open Market Committee. Section 12A of the Federal Reserve Act (FRA) is silent regarding the governance and leadership of the FOMC. By tradition, the Chair of the Fed's Board also leads the FOMC, but the FRA does not preclude the FOMC members from choosing another head. Even if the FOMC follows tradition and selects Powell's successor as Chair of the FOMC, the new Chair could encounter resistance from FOMC members who fear political interference in monetary policy. Also, the pressure that the administration is exerting on Powell might make it more likely he will decide to remain on the Board after his chairmanship ends in May. His term as Governor runs into 2028. The DOJ's investigation would presumably establish "cause" for the President to remove Powell from the Board in case he stays, which makes the Supreme Court hearing on Governor Lisa Cook's removal from the Fed's Board all the more compelling.
- **Candidates** – Mr. Trump has said he already knows who he will pick. We remind investors of our views on the prospects for the top candidates. We previously included Fed Vice Chair for Supervision Michelle Bowman, but we now think she is no longer under consideration.
  - **Kevin Hassett** – The Current Director of the National Economic Council and a Trump loyalist. The markets might see him as the least independent of the field. Because of this, the FOMC members might be inclined to resist any efforts to reduce rates as aggressively as the administration wants. It will be a test to see if a Fed Chairman Hassett can convince hawks to change their minds.
  - **Kevin Warsh** – A former Federal Reserve Board Governor, Mr. Warsh was under consideration for the Fed Chairmanship in 2018 when Jerome Powell was nominated. In addition to his Fed experience, Warsh enjoys a personal connection to President Trump. His father-in-law, Ronald Lauder, is a longtime friend and former college classmate of the President.

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In our view, personal connections matter to Mr. Trump. Markets may feel comfortable with his experience within the Fed.

- **Christopher Waller** – We believe choosing Federal Reserve Governor Waller checks a lot of boxes and makes the most sense. He has experience within the Fed having been on the Board since 2020 and having served as the director of research at the Federal Reserve Bank of St. Louis. He was an early voice regarding the weakness in the labor market. He has advocated for aggressive interest rate cuts given his assessment of the labor market situation. He has also expressed the view that tariffs do not add to inflation over the long-term but can, instead, slow economic activity. Similar to Warsh, his experience at the Fed would probably make him acceptable to the markets.
- **Rick Reider** – Blackrock’s Chief Investment Officer of Global Fixed Income would bring the experience of a market practitioner to the job. However, his lack of policy-making experience or deep ties to Mr. Trump seem to make Reider an unlikely choice, but the President has surprised people before, so he cannot be counted out.
- **Scott Bessent** – Despite the fact that Secretary Bessent has indicated he wants to stay at Treasury, one cannot completely dismiss the possibility that Mr. Trump will pick him. If the President tells Bessent he really needs the Treasury Secretary at the Fed, then he would be hard pressed to say “no.” Also, the fact that Trump has said he knows who he will pick makes us wonder if he is set on Bessent and will pressure him to accept.

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