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We expect that Kevin Warsh, President Trump's nominee to replace Jerome Powell as the Chairman of the Federal Reserve Board, will face some opposition in the Senate. Despite the political drama, it is likely that he will be confirmed. The pick is counterintuitive since Warsh has been a hawk throughout his career and the President wants a more dovish policy, but maybe it's a hawk who can convince other hawks to change their minds.

- **Confirmation process** – The Senate Banking Committee will hold a hearing on Kevin Warsh's nomination at some time in the next few months. If the committee approves the nomination, then it will head to the Senate floor. The Department of Justice's investigation into current Federal Reserve Board (Fed) Chairman Powell could be a problem, however, for Warsh's nomination. Republicans hold a 13-11 majority, so if all Democrats oppose Warsh (a safe assumption) then he cannot afford to lose any GOP votes since a 12-12 tie would not advance the nomination. Sen. Thom Tillis (R-NC) has already said that he will not vote to confirm any Fed nominee until the Department of Justice investigation is resolved. Since Tillis is not running for reelection, he is less likely than others to be pressured into backing down. We think this ultimately gets resolved but we don't know when.
 - Once through the Banking Committee, Warsh's nomination could hit some turbulence on the Senate floor since other Republicans, such as Sen. Rand Paul (R-KY), might oppose the nomination.
 - **We expect that, barring a gaffe or new information, Warsh will be confirmed by the Senate but there could be some political drama along the way.**
- **Nixon goes to China?** – Much has been said about Warsh's hawkish views as well as the President's desire to bend the Fed to his will to lower rates more aggressively. The challenge for Warsh will be convincing the members of the Federal Open Market Committee (FOMC) who tend to be more hawkish than what Mr. Trump wants. If confirmed, Warsh's initial test will be convincing these hawks to moderate their views and to build a new consensus on the FOMC. Maybe it is a hawk who can woo other hawks, just as it was when a fervent anti-Communist, Richard Nixon, opened the door to American relations with China.
 - The Fed's staff plays a key role in shaping policy through the briefs it prepares for the Board and FOMC officials. Since Warsh has said that the Fed needs reform, we will be looking to see how he changes the Fed's staff and possibly uses it as a tool to build consensus around his policies.
- **Banking regulation** – The Warsh nomination is unsurprisingly a positive for banks but one that does not significantly move the needle. Powell has been more deferential to the White House (regardless of party) on banking regulation than monetary policy. We expect that Warsh will continue to be supportive of Trump's deregulatory policy.
- **Powell's future** – Chairman Powell's term as Governor runs past his chairmanship and into 2028. We have no direct insights into what Powell's decision will be, but we think chances are relatively high that he will remain on the Board for at least a few months after his successor is sworn in. This could slow down Trump's and Warsh's effort to redirect the Fed as it would delay an opening on the Board (and by extension the FOMC).

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