

The Fed's New Chair And Shadow Chair

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Jerome Powell will remain on the
Federal Reserve Board of Governors after
his chair term ends

The key outcome of this week's Federal Reserve policy meeting was not any change to policy—there was none. The shift in forward guidance was also marginal, from cautiously dovish to essentially neutral. The official statement retained a dovish bias, but three policymakers voted to drop it, and Chair Jerome Powell indicated most others had shifted toward neutral, though were not yet ready to put that in writing (one does not want to shock the markets with a neutral policy stance?!). Anyway, the Fed is in wait-and-see mode, which we already knew.

The most important outcome of the meeting was Powell's decision to remain on the central bank's board of governors after his term as chair ends on May 15. That means he will retain his Federal Open Market Committee vote and simply hand the gavel to incoming chair Kevin Warsh. This raises the prospect that Powell could serve, if need be, as a "shadow chair". It also reduces the tail risks of the Fed losing its monetary policy independence and shifting its goals toward persistently higher inflation.

While it is unclear how long Powell will remain at the Fed, his motive is clear—to protect the independence and credibility of US monetary policy. Powell explained Wednesday that he had planned to resign from the board at the end of his chairmanship, but he was forced to stay by President Donald Trump's repeated attempts to force him out of office.

Specifically, after the Department of Justice launched a legal investigation into Powell on January 10, the chances of Powell staying rose. Then, when Trump told a news reporter on April 16 that, despite [hating to be controversial](#), he would have to fire Powell if he hung around after his chairmanship ended, it became almost assured that Powell would stay.

Powell plans to resign only after legal
investigations are fully resolved

Powell said Wednesday he will resign after two conditions are met: (i) the legal investigations into his management are definitively settled (they have been put on ice to appease Senator Thom Tillis, who had been blocking Warsh's nomination over the issue, but there is no guarantee they will not resurface), and (ii) when he thinks the timing is appropriate.

The second objective is, of course, highly subjective, and it gives Powell the latitude to stay until he is convinced that Warsh will be the independent chair he pledged to be in his Senate testimony. Powell said he intends to keep a low profile and does not intend to serve as a "shadow chair". When possible, he hopes to support Warsh and help him build consensus. Crucially, however, he then added: "when you can't, you can't". In other words, Powell will dissent when he must.

Powell will likely keep a low profile in public, but any of his dissents or opinions expressed in Fed policy meetings are likely to carry more weight than those of the average policymaker on the committee. After all, Powell has been their leader—and, by all accounts, a respected one—for years. That does not necessarily mean that his opinions will outweigh those of Warsh, but they certainly could, especially if there is any concern on the committee that Warsh is being influenced by the White House.

The appointment of Kevin Warsh has already eased concerns over politicized monetary policy

The clearest market implication is that this is bearish for gold. While impossible to quantify, it seems likely that some of the rise in the gold price over the last three years was due to the perception of a growing risk, if still a tail risk, that Trump might successfully undermine the operational independence of the Fed, and force policymakers to think more about the next election and less about their low-inflation mandate. The nomination of Warsh, rather than alternatives such as Kevin Hassett or Stephen Miran, had already chipped away at that risk and weighed on gold prices (see [A Hawkish Fed Choice](#)). The fact that Powell is staying on to ensure Warsh's independence should further erode that premium. This is one reason why gold prices could easily fall from around US\$4,575 today to US\$2,500 or lower. An evolving rate outlook is another (see [Bearish Gold](#)).

But Warsh will need broad support to justify any interest rate cuts

Powell's continued presence on the committee does not preclude interest rate cuts, but if Warsh wants to get Powell's and other committee members' support, he will need to make the case that the data and outlook justify easing. Notably, one other policymaker voted for a rate cut this week—Stephen Miran, who was appointed to the board by Trump to fill a temporary vacancy. By all appearances, he served that role as an uber dove and political lackey to Trump. He is now stepping down to make way for Warsh. With Miran out, Warsh in, and Powell effectively shifting seats, this reshuffle may not reflect the net dovish turn that many had expected.

Warsh will likely prove to be less of an uber dove and political loyalist than Miran. Unlike Miran, Warsh will not be serving in a temporary post at the Fed while hoping to maintain his employment options at the White House. Like Powell, Warsh will hold a long-term position at the Fed, with the legal protections that entails. That said, the risk remains that Warsh could still prove to be an uber dove and political lackey. In that scenario, Powell would likely be forced into a more active “shadow chair” role. Either way, the FOMC is unlikely to simply do Trump's bidding.