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To the point!

Cross-Asset- and Strategy-Research

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Don’t fight the Fed!

Donald Trump does not seem to be able to resist. He really should.

“Don’t fight the Fed!” is a time-honored rule among financial market participants. Time and time again, those who bet against the Federal Reserve’s monetary policy direction end up on the losing side. Recently, this rule has taken on a new, more political meaning. The man leading the charge against the Federal Reserve is none other than Donald Trump. However, his fight isn't aimed at the institution as a whole – it’s personal. His target is Jerome “Jay” Powell, the Federal Reserve chair Trump himself appointed during his first term.

This scenario aligns with Trump’s well-documented tendency to personalize conflicts. He has little regard for institutions, and his quarrel with Powell is no different. Hardly a week goes by without Trump publicly heaping disdain on Powell, often accompanied by schoolyard insults. Trump has also repeatedly threatened to fire Powell – although there’s no legal mechanism for doing so. He had even a handwritten letter displayed during a press conference, demanding Powell slash rates to 1% – from their current level of 4.5%! This type of attack on central bankers is unprecedented in stable democracies. Outside of Erdoğan’s Turkey, it is unheard of – and it is dangerous.

> If things go wrong, Powell is the designated scapegoat

Trumps press secretary Karoline Leavitt holds up Donald Trump’s letter to Jerome Powell: „Jerome, you are, as usual, too late. You have cost the USA a fortune and continue to do so. You should lower the rate by a lot. Hundreds of billions of dollars are being lost and there is no inflation.”

Source: FoxNews

Jay Powell stands firm

Yet Trump’s threats repeatedly backfire. Markets tend to plunge whenever he brings up Powell’s dismissal, only to recover when Trump retracts his statements. Investors understand what seems to be beyond the President’s understanding: a steep rate cut, despite inflationary pressures and robust employment figures, would drive long-term interest rates higher, increasing the unsustainable burden of national debt. After all, the Fed only controls short-term rates. The bond market sets long-term rates.

Powell, for his part, holds firm. He knows the tariff-related inflationary pressures have not yet fully fed through, and memories of the inflation spike in and after 2022 still loom large. The Federal Reserve, keen to avoid losing its grip on price stability, has remained resolute. Most Fed policymakers also want to steer clear of appearing to kowtow to presidential demands. If anything, Trump's attacks make his yearning for lower rates even less likely to materialize. LBBW Research, for its part, sees no rate cuts coming from the Fed for the remainder of the year.

The Fed stays resilient: no rate cuts ahead!

Succession speculation heats up

Despite this, the race to succeed Powell has already begun. Christopher Waller, a Fed board member and former hawk, is staking his claim by strongly advocating swift rate cuts. Yet Trump's favorite seems to be Kevin Hassett, chair of the National Economic Council and a long-time loyalist. Few survive close to Trump without absolute loyalty, and Hassett has remained part of Trump's inner circle for years. Still, nothing is certain. Trump's fickleness may yet lead to a surprising choice. As the saying goes: "He who enters the conclave as pope sometimes leaves as cardinal."

The Fed is harder to influence than the Supreme Court

The Federal Reserve is not the Supreme Court. Compared to America's judiciary, it is much harder for the Fed to be politically co-opted. Decisions are made by the Federal Open Market Committee (FOMC), a body of 12 members, only seven of whom are nominated by the president and confirmed by Congress. During Trump's term, only two of these seats will become vacant. For now, the Fed's structural independence remains a safeguard against irresponsible monetary policy. In the storm of Trump's rhetoric, that independence remains a quiet glimmer of hope.

Trump can only hijack the Fed to a limited extent

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