

PREVIEW: Fed Chair Powell successor

US President Trump has suggested that he will name the successor to Fed Chair Powell early in the New Year. However, recent guidance from Treasury Secretary Bessent has indicated an announcement in January – either the week before or after Trump goes to Davos (January 19-23rd). The list of candidates has greatly narrowed from the 12 candidates initially. For the most part, NEC Director Hassett was seen as the clear favourite to replace Powell. However, several reports have suggested that insiders are recommending against appointing Hassett as Fed Chair, and his lead as favourite has diminished somewhat.

Trump had previously suggested that the candidates had fallen to two, which markets largely perceived as either Hassett or Former Fed Governor Warsh. However, Trump has since said there was an interview with Waller recently, in which he labelled the Fed Governor, "Great". He also described Bowman as great, but reports from CNBC have touted that there are only four candidates for Fed Chair. The four names still in the hat are NEC Director Hassett, Former Fed Governor Warsh, current Fed Governor Waller and BlackRock Global Fixed Income CIO Rick Rieder. The only internal Fed Chair candidate is Waller.

Governor Miran's term expires in January 2026, but his future is still not clear - Miran himself said he does not know what the situation is, but he will do what Trump feels is best. Meanwhile, Bessent suggested that Miran will probably be back at the CEA in February or March.

2026 will also see a new round of voters from Regional Fed Presidents. Hammack, Kashkari, Logan and Paulson will be replacing Collins, Musalem, Schmid and Goolsbee. Schmid and Goolsbee dissented against the 25bp rate cut in December, although Goolsbee has since noted that his own expectations imply more rate cuts next year than the median 2026 projection. Meanwhile, Hammack and Logan (Hawks) have signalled greater concern about inflation and have been cautious on cuts, while Kashkari also leans hawkish, but Paulson leans on the dovish side, expressing more concern about the labour market. Regional Fed Presidents have also come under scrutiny from the Trump administration, particularly around dissents. Bessent has floated the idea of requiring Fed presidents to reside in their districts for at least three years before appointment — another development to watch this year.

SCENARIO ANALYSIS

Several scenarios could play out, largely dependent on who Trump picks as Chair and whether Powell remains on the board once his Chair term expires. Given that Miran is expected to go back to the CEA in 2026, we are working on the assumption that he will be replaced on the Board of Governors.

1) Trump appoints an external member (Hassett, Warsh, Rieder), Powell steps down as governor In this scenario, Trump will have to appoint two members to the Fed Board - the replacement for Miran and the replacement for Powell. The replacement for Miran could be the Fed Chair, although if Miran stays on, Trump could appoint the new Fed Chair to Powell's seat. If Miran and Powell step down, Trump could also opt to appoint one of the other Chair candidates as Governor for when Powell steps down.

2) Trump appoints an internal member (Waller) to Fed Chair, Powell steps down as Governor In this scenario, Waller will be promoted to Fed Chair, and Trump will have to appoint a replacement when Powell exits the board. Powell's term as Governor is not set to expire until January 2028, but his term as Chair expires in May 2026. Typically, a Fed chair retires when their term as Chair ends.

3) Trump appoints an external member (Hassett, Warsh, Rieder), and Powell stays on as Governor In this scenario, Powell stays on as Governor, and the replacement for Miran becomes Fed Chair. Markets may see Powell remaining on the board as a partial buffer against independence concerns.

4) Trump appoints an internal member (Waller) to Fed Chair, and Powell stays on as Governor If Trump opts to appoint Waller, and Powell stays on the Board of Governors, Trump would only have one appointment to the board - the replacement for Miran, whose term ends in January 2026. It is largely expected that Miran does not stay on any longer at the Fed, and his replacement would likely be Hassett, Warsh or Rieder - but with Waller taking the Chair role when Powell's term as Chair expires in May 2026. Note, markets may judge that Powell would feel more comfortable stepping down with Waller in charge amid broader concerns around Fed independence.

ATTACKS ON POWELL

There is also the possibility that Trump reignites a method to fire Powell from the board, likely over the high costs of Fed renovation, though removal would face significant legal hurdles and likely court challenges. It was recently announced that the DoJ has commenced a probe into the Fed over its renovation costs, and whether Chair Powell lied to Congress in his testimony regarding the scope of the project. Powell normally stays quiet to attacks from the administration, but this time he responded, stating the threat of criminal charges is a consequence of the Fed setting rates based on their best assessment, rather than following the preferences of Trump. According to reports in Axios, Treasury Secretary Bessent told Trump that the investigation has made a mess and could be bad for financial markets. This has also raised concerns about the Powell replacement overall. Republican Senator Thom Tillis, a key member of the Senate Banking Committee, vowed to block any action on Powell's replacement because of the investigation and said the DoJ's credibility is in question. Meanwhile, Bessent reportedly thought that when Trump named a new Chair, Powell would step down from the board of governors, however "now that's not going to happen", according to a source. If Powell decides to stay on as governor, Trump would likely up the ante against Powell.

CANDIDATES

NEC Director Hasset: Close Trump ally and NEC Director, critical of the Fed for being too slow and "too political." Optimistic about growth under Trump's policies, argues tariffs will only cause a one-time price increase. Hasset said recently that the Fed is way behind the curve on rates, and there is lots of room for the Fed to cut rates. However, Hasset's odds have slipped recently as reports suggest insiders are trying to convince the administration to avoid electing him as Fed Chair.

Former Fed Governor Warsh: The former Fed Governor said he'd have supported cuts before July's Fed meeting. Warsh views tariffs as non-inflationary, advocates shrinking the balance sheet, and calls for a "regime change" in Fed policy. Proposes a new Treasury-Fed accord and suggests the Fed should keep out of fiscal and political matters. However, WSJ reported recently that Trump told aides in early December he wasn't sold on picking Warsh as Fed Chair. However, following an interview that Trump labelled as strong, Warsh was back in contention.

Fed Governor Waller: Waller was one of the first on the Fed to vote for rate cuts (alongside Governor Bowman). Waller is seen as the favourite by Wall St. allies and insiders over both the Kevins, and he also had a strong interview. However, the interview by officials was not necessarily an indication he was a favourite candidate for the job, according to CNBC. In recent remarks, Waller said the labour market is soft, inflation expectations are anchored, while inflation is still above target, but he expects it to come down over the next few months. He also suggested that the Fed is 50-100bps over neutral, adding that the job market says the Fed should continue to cut rates at a moderate pace.

BlackRock's Global Fixed Income CIO Rick Rieder: Rieder will reportedly be interviewed on 15th January 2026, with Rieder impressing Treasury Secretary Bessent, while officials suggested it could be a positive that Rieder has never worked at the Fed. Speaking on recent data, and before the Fed's December meeting, he said it was ambiguous, but other signals show it is clear there is no hiring velocity, and they need to get the Funds rate closer to 3% sooner. He does not view Fed dissents as a structural problem, but to him, the data is clear that inflation is a bit elevated today, and productivity and innovation will help with that, while it will also impact hiring. He also noted that overnight funding rates are not as effective a tool as they used to be for moving the economy, but long-term interest rates do matter. However, he notes even as rates are lowered, providing the curve doesn't steepen too much, it can still benefit those on lower incomes, the housing market and small businesses. He sees the 10-year rate at 3.5-4% by the end of 2026, which should see mortgage rates in the mid-to-high 5 per cent range, and said that it doesn't have to go much lower than that.

POTENTIAL MARKET REACTION

Treasury markets have reacted differently depending on perceived Fed independence; reports of Fed's Waller as favourite have been met with some curve flattening, while broader questions over Fed independence - like the appointment of NEC Director Hasset - have steepened the curve. The administration may also be floating extra names to increase pressure on the Fed for rate cuts, while enforcing a credible candidate list to appease market concerns. Hasset is widely seen as the most dovish of the candidates, and he is currently the favourite with prediction markets (Kalshi) assigning a 40% probability of Hasset as next Fed Chair, Warsh at 37% and Waller at 9%. If Hasset is elected, there may be some pressure on the Dollar as participants start to expect more rate cuts, while the Dollar may be supported if others are elected to Fed Chair as markets start to price in a less dovish Fed Chair - albeit all are still expected to push for lower rates, but perhaps not as aggressively as Hasset. Similarly, attacks on Powell from the administration have been met with Dollar selling and curve steepening lead by the long end as investors demand more term premium.

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