



## FEBRUARY 2026

*“The Federal Reserve needs new thinking – its models are unreliable, its policies erratic and its guidance confusing. It is also politically vulnerable.” – **Kevin Warsh, future Chair of the Federal Reserve***

In a much anticipated announcement, President Trump has tapped Kevin Warsh to be the successor to current Fed Chair, Jerome Powell, when his term ends in May. We all know that President Trump has been very outspoken about the Fed lowering rates and goosing the economy through monetary policy. What a shock - “Area real estate veteran wants interest rates lower: story at 11.” What we didn’t know was how this would play out in the assignment of the next Fed Chair. Would he select a puppet governor, who would lower rates at his whim? Would the Fed remain an entity that is independent from government interference? While stocks and bonds have performed very well over the last year, those question of the Fed hung particularly heavy coming into 2026.

### **Who is Kevin Warsh, and what does this mean for interest rates, the economy, and your investments?**

- Warsh served as a governor of the Federal Reserve from 2006 to 2011, a formative experience given the amount of financial turbulence that occurred before, during, and after the financial crisis of 2008.
- He supports lower interest rates but also desires for the Federal Reserve to decrease the size of its balance sheet, which currently stands at \$6 trillion. These two goals may conflict with each other: lower interest rates could promote lending and economic growth, while reducing the Fed’s balance sheet would decrease liquidity in the financial system, which could negatively impact markets.
- He was a candidate for the position during Trump’s first term and likely has been in his ear about policy mistakes that the Fed has made during and after the pandemic.



**Timothy D. Hussar, CFA**  
Director of Investments

Tim is Director of Investments of WhartonHill Investment Advisors. He is also a Partner of the firm and member of the Investment Committee.



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- The New York Times summarizes his announcement well “While Warsh has been seen to align himself with the president’s desire for lower interest rates, he is still viewed by investors as a credible choice to lead the central bank, with little evidence from the markets suggesting that investors are unnerved by the decision. Investors’ expectations for the number of times the Fed will cut interest rates this year barely budged following Trump’s announcement.”

The words “credible choice” seem to ring most clearly in the immediacy of the announcement. Stocks and bonds were effectively flat after the announcement was made. The US dollar appreciated a bit relative to other major currencies. Perhaps most notably, gold prices, which were on a moon shot higher over the last year, declined by 6%. Deciphering hour by hour moves is a bit of a fool’s errand but this reversal in gold may be a vote of confidence that Fed credibility is likely cemented with this pick. Prior to his announcement, expectations were that the Federal Reserve would cut interest rates one or two times this year.

Those expectations have shifted slightly towards there being two interest rate cuts in 2026 but it is still a toss up according the CME’s Fed Watch analysis.<sup>2</sup> The big picture remains that the Fed and other major central banks are generally keeping rates on a glide path lower.

**Exhibit 12: Risk Assets Are Responding Favorably to the Idea of Fewer Tightenings and More Easings**

### Percent of Top 25 Global Central Banks Hiking Rates



Data as at September 30, 2025. Source: Bloomberg.



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### Conclusion

Regardless of who is named to the Fed chairman role, the age old axiom of “Don’t Fight the Fed” remains the same. If the Fed is easing monetary policy, it tends to be a tailwind for investment markets and if they are tightening policy, it tends to be a headwind for investment markets. If there is one takeaway from Kevin Warsh’s history around markets and Fed policy, it is that he has shown flexibility as it relates to pushing Fed policy in either direction. President Trump will continue to push for lower rates from his podium and while the Fed is going in that trajectory both before and now likely after Warsh’s announcement, it seems that a measured approach will remain in place. We will continue to monitor closely his nomination process and, if passed through Congress, his tenure as it will have a direct impact on investment valuations and economic outcomes.

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1: “The Federal Reserve Needs New Thinking” – Kevin Warsh, Wall Street Journal - [https://www.wsj.com/articles/the-federal-reserve-needs-new-thinking-1472076212?gaa\\_at=eafs&gaa\\_n=AWEtSqfx-Lpidu4pSOzfkysatyvPzz7odMBBKnsZBfi8ZZsWZGDQa4wd-jGcBA8EnWc%3D&gaa\\_ts=697cd0b3&gaa\\_sig=oT-Z4V7dN6sxYU1lGAubKHH5yUuERWISG0Eyp2o1t1kiD5R6cU1e3TIZX1\\_3mRU4p92c7OPzA4MWly79WReQw%3D%3D](https://www.wsj.com/articles/the-federal-reserve-needs-new-thinking-1472076212?gaa_at=eafs&gaa_n=AWEtSqfx-Lpidu4pSOzfkysatyvPzz7odMBBKnsZBfi8ZZsWZGDQa4wd-jGcBA8EnWc%3D&gaa_ts=697cd0b3&gaa_sig=oT-Z4V7dN6sxYU1lGAubKHH5yUuERWISG0Eyp2o1t1kiD5R6cU1e3TIZX1_3mRU4p92c7OPzA4MWly79WReQw%3D%3D)

2: CME Fed Watch - <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

Chart via KKR, as of 12/31/2025 - <https://www.kkr.com/content/dam/kkr/insights/pdf/2026-outlook-high-grading.pdf>