



Global Fixed Income Strategy Team

## New Fed governor and chair nominated by President Trump

### Key takeaways

- Kevin Warsh has been nominated by President Trump to become a Federal Reserve (Fed) governor and the next Fed Chair.
- If Warsh is confirmed, we believe he will advocate to push the federal funds rate to a “neutral” level, which most Fed members project is near 3.00%. This expectation is consistent with our outlook for two quarter-point rate cuts in the second half of 2026.

### What it may mean for investors

- We expect short-term interest rates to decline, in line with our targets that call for two, additional quarter-point policy rate cuts by the Fed. Meanwhile, we believe long-term yields will hold or could rise slightly. In light of these interest rate expectations, we would expect the U.S. dollar to rebound, gold and other precious metals prices to be lower, and equity prices to register initial disappointment at modest policy rate cuts but then to rebound on a stronger economy. We maintain our 2026 year-end S&P 500 Index target range of 7400-7600.

---

Kevin Warsh served as a member of the Federal Reserve Board of Governors from 2006 to 2011 and previously advised President Trump on economic policy. Warsh has previously been seen by many in the market to be an inflation hawk (i.e., to pay most attention to inflation) but more recently aligned himself with the president in calling for lower rates. Current chair Jerome Powell’s term as chair expires in May, with an additional two years left on his term as a governor. It remains to be seen whether Powell will resign early or finish out his term with the Fed.

### What happens now?

Warsh is well known by Republicans and was previously confirmed by the Senate as a Fed governor. Warsh will still have to undergo a formal confirmation process in the Senate involving Banking Committee approval and a majority vote in the full Senate. The Department of Justice is currently investigating Chair Powell, and some members of the Banking Committee have warned that any nomination has to await the conclusion of the investigation. However, we expect that this matter can be resolved in time for the end of Powell’s term in May. Moreover, given that the Republicans control 53 seats in the Senate, we expect an eventual Warsh confirmation.

**Investment and Insurance Products: > NOT FDIC Insured > NO Bank Guarantee > MAY Lose Value**

Interest rate decisions are made by the Federal Open Market Committee (FOMC), a group of 12 voting officials from across the Federal Reserve system. In practice, the Fed chair's influence is more about leadership than control. While the chair sets the tone of discussions and represents the Fed publicly, the Chair cannot push through rate changes without broad support from other members. Generally, the Fed chair works by building a consensus with members.

While President Trump has been clear in his desire to have the federal funds target rate moved lower, and we would view Warsh as being hand-picked for that role, we still believe that the actual likelihood of the FOMC moving rates significantly out of sync with economic fundamentals is unlikely. Instead of a focus on lower rates, we believe that Warsh, if confirmed for the Chair, will focus on his history of advocating for a reduced Fed balance sheet, which may lead to closer cooperation with the Treasury.

A recent example of the FOMC's work helps reiterate that, even if a Fed Chair were to want aggressive interest rate cuts, the FOMC decisions are based on consensus of the 12 voting members. At the most recent (January 28, 2026) FOMC meeting only two of twelve voting members objected to leaving rates unchanged calling for additional rate cuts, we see support amongst current FOMC participants for only limited rate cuts. The new Fed chair is likely to face strong opposition from most other FOMC members on any attempt to move rates to a degree unwarranted by the economic fundamentals.

We expect other opportunities for the president to nominate Fed governors. Gov. Stephen Miran's term is due to expire on January 31, 2026. Also, Gov. Lisa Cook has a case before the Supreme Court to challenge the president's attempt to dismiss her as a Fed governor over allegations of mortgage fraud. But, even with two replacement governors who favor aggressive rate cuts, we believe the rest of the committee will support only two more rate cuts, at most.

### What impact could the new chair have?

We believe that some of recent financial and commodity market movements have reflected a fear of increased political influence on the Fed. As that prospect diminishes, we expect to see investors refocus on the theme of a stronger economy, a key element of our 2026 outlook. A dollar that recently has weakened should find support if U.S. short-term interest rates do not fall aggressively. As the dollar gains some traction, we expect gold prices to at least pause, if not pull back. The prospect for lower borrowing costs in a growing economy should keep longer-term yields steady or higher. Equity prices are registering some knee-jerk disappointment on the news of a nomination for the Chair. Yet, the modest rate cuts implied by our target should help contain inflation, while we expect S&P 500 Index earnings to grow more broadly across sectors than in recent years.

### Risks Considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility

Currency risk is the risk that foreign currencies will decline in value relative to that of the U.S. dollar. Exchange rate movement between the U.S. dollar and foreign currencies may cause the value of a portfolio's investments to decline.

### Definitions

**S&P 500 Index** is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

An index is unmanaged and not available for direct investment.

### General Disclosures

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. [PM]-08012027-5174916