With rates cuts set to resume later in the year, quality fixed income offers a way to lock in attractive yields. (UBS)

Why the likelihood of a direct challenge to the Fed's autonomy is unlikely

21 July 2025, 21:28 UTC, written by UBS Editorial Team

President Trump has intensified his criticism of Fed Chair Jerome Powell, amid renewed reports that the central bank chief could be removed before the end of his term. A direct challenge to Fed autonomy could add to the risk premium on US Treasuries and undermine confidence in the US dollar. But CIO view is that the president is unlikely to take this risk.

CIO expects Fed policy to be guided primarily by labor market and inflation data, leading to around 100 basis points of easing by June 2026.

President Trump has expressed dissatisfaction with the pace of Fed rate cuts, and raised the possibility of replacing Chair Powell.

- Trump recently blamed the Fed chair for costing the country "hundreds of billions of dollars" by resisting lower rates.
- Additionally, the president has criticized Powell for the cost of refurbishing the Fed's headquarters.
- While the president said that removing the Fed chief is "highly unlikely," he also said he didn't "rule out anything."

But the chances of a direct challenge to the Fed's autonomy are unlikely, in our view.

- President Trump would, we believe, anticipate a negative market reaction from any move to fire Powell before the end of his term in May 2026—including pushing government borrowing costs higher.
- Since Fed policy is set by a committee of 12 voting members, replacing Powell with a more dovish chair alone would not lead to the rapid easing that Trump has called for.
- Efforts to dismiss Powell would also likely be rejected by the courts, in our view.

So, we don't expect the appeal of US Treasuries to be undermined by worries over Fed independence.

- With Fed decisions still being guided by economic data, rather than political pressure, we expect rates to come down by 100 basis points by June 2026.
- This will further erode the value of cash deposits, adding to the appeal of the durable income offered by quality bonds, including US Treasuries—which we expect to retain their role as the linchpin of the global financial system.

Investment view

High grade and investment grade bonds offer attractive risk-reward proposition, in our view. We do not expect risks to the Fed's independence to change this. With rates cuts set to resume later in the year, quality fixed income offers a way to lock in attractive yields.

Original report - **Will the threat to Fed independence harm markets?, 21 July 2025.**

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