Will the threat to Fed independence harm markets?

UBS House View Briefcase

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Key message

US President Trump has repeatedly criticized the Federal Reserve for taking too long to cut interest rates, raising concerns about Fed independence. A direct challenge to Fed autonomy could add to the risk premium on US Treasuries and undermine confidence in the US dollar. But our view is that the president is unlikely to take this risk. We expect Fed policy to be guided primarily by labor market and inflation data, which we believe should lead to around 100 basis points of easing by June 2026.

House view

01 President Trump has expressed dissatisfaction with the pace of Fed rate cuts, adding to uncertainty about Fed leadership and policy direction.

- The US president has said that the Fed "must substantially lower interest rates now," dubbing the Fed chair "Jerome 'Too Late' Powell."
- While the president said that removing the Fed chief is "highly unlikely," he also said he didn't "rule out anything."
- The president's decision to fire the Bureau of Labor Statistics (BLS) commissioner following a disappointing July labor report underlined Trump's willingness to challenge the autonomy of traditionally independent institutions.

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

- A decision to fire the Fed chair would likely cause a backlash in financial markets, calling into question the long-term outlook for price stability and adding a risk premium to US Treasuries.
- Our view is that the White House would be unwilling to take this risk.
- Removing Powell before the end of his term in May 2026 would face legal challenges.

03 So, we do not expect the appeal of US Treasuries to be undermined by worries over Fed independence, and we continue to view quality bonds as attractive.

- 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, especially following the weak jobs data for July.
- 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.

New this week

President Trump renewed his criticism over Fed Chair Jerome Powell last week. “Fortunately, the economy is sooo good that we’ve blown through Powell and the complacent Board. I am, though, considering allowing a major lawsuit against Powell to proceed because of the horrible, and grossly incompetent, job he has done in managing the construction of the Fed buildings,” Trump wrote on his social media platform.

One liner

While Fed independence has been called into question, we expect the central bank to retain its independence, which should help ensure the continued global role of US Treasuries.

Did you know?

- While the president has the authority to initiate removal proceedings “for cause” against a Federal Reserve governor, the legal standards and their applicability to the chair remain subject to interpretation. No Fed governor has ever been sacked “for cause.” The framework for Fed independence, established by the 1951 Treasury-Fed accord, has endured previous political challenges.
- A move to dismiss the Fed chair could raise questions about the long-term credibility of US monetary policy and the Fed's independence, which has historically been viewed as a key pillar of the financial system.

Investment view

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

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