



CIO believes government bonds in select markets (including the US) offer attractive diversification benefits and should perform well if US growth slows, supporting their inclusion in balanced portfolios. (UBS)

Fed independence concerns ease

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Concerns over the Federal Reserve's independence resurfaced last week. Markets were initially unsettled by comments from President Trump, who called Fed Chair Powell "Mr. Too Late" and said he could be removed "real fast." National Economic Council Director Hassett added that Trump would "continue to study" the possibility of dismissing Powell.

Sentiment improved after Trump clarified that he has "no intention" of firing Powell. The reassurance helped the S&P 500 to rally, partially recovering from earlier losses.

Additionally, comments from Cleveland Fed President Hammack that the Fed could cut rates in June if data warrants, and from Fed Governor Waller indicating support for cuts if tariffs weaken the jobs market, further bolstered market confidence in policy support.

While Trump may continue to publicly criticize Powell, his statement that he has "no intention" of firing the Fed chair helped allay fears about political interference in the Fed's decision-making. It also implies a low risk that Powell is removed from office before the official end to his term in May 2026. But any renewed threats to Fed independence could unsettle markets.

With uncertainty still elevated around trade policy, economic growth, and Fed action, we expect volatility to persist. Hammack's comments sharpened the market's focus on June as a potential interest rate decision point, but also reinforced the Fed's emphasis on patience.

Takeaway: Our base case is that the Fed will cut interest rates by 75-100 basis points this year. In the near term, the Fed's flexibility appears more limited as it balances slower growth risks against concerns over inflation. With yields now elevated, we believe government bonds in select markets (including the US) offer attractive diversification benefits and should

perform well if US growth slows, supporting their inclusion in balanced portfolios. We also see scope to diversify and bolster income through investment grade debt, diversified fixed income approaches that potentially include more growth-sensitive instruments like senior loans, and in equity income strategies in markets where sovereign yields are already low.

Original report - [Does US exceptionalism still hold? 28 April 2025.](#)

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