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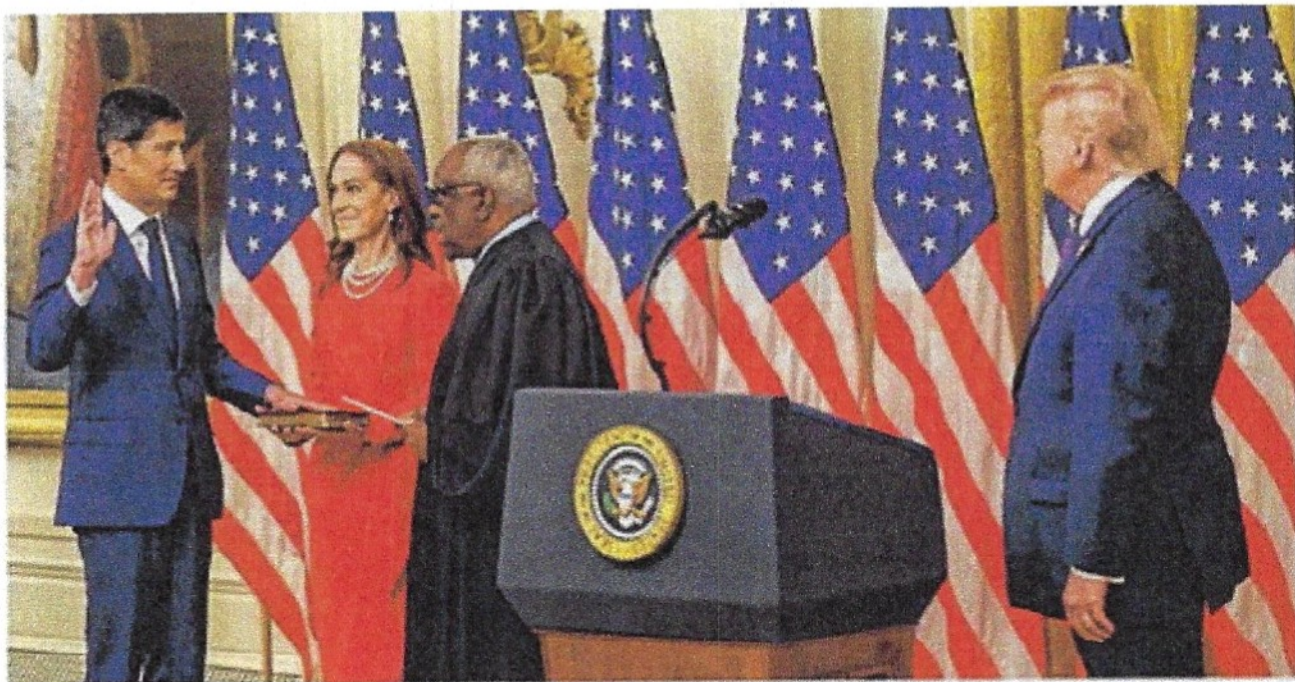
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President Trump clasps Kevin Warsh's hand during his swearing-in as Federal Reserve chairman. WILL OLIVER/ EPA/ SHUTTERSTOCK



Justice Clarence Thomas swears in Fed Chairman Kevin Warsh, as Warsh's wife, Jane Lauder, and President Trump look on. EVELYN HOCKSTEIN/ REUTERS

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Warsh Takes Reins at Fed As Prices Rise

BY NICK TIMIRAOS AND MATT GROSSMAN

Kevin Warsh was sworn in Friday as the next Federal Reserve chairman, with President Trump again pressing the economic case for lower rates even as he said he wanted the central bank's new leader to operate independently.

"I want Kevin to be totally independent," Trump said at the White House. "Don't look at me. Don't look at anybody."

Moments later, the president laid out the view he hopes the new chairman will carry into office: that the economy needn't be reined in, and that strong growth doesn't cause inflation. "We want to stop inflation," Trump said, "but we don't want to stop greatness."

Those dueling benedictions point to the challenge ahead for Warsh, who could find it difficult to persuade his new colleagues that the low rates Trump wants are advisable. The conditions that would support cuts—falling inflation, a cooling labor market—have moved out of reach.

The war in Iran, launched a month after Trump chose Warsh for the job, has only heightened price pressures, and the artificial-intelligence boom is looking like an engine of demand. Long-term bond yields are climbing, and a growing number of investors say the Fed's next move could be a rate increase, not a cut.

The administration has settled on a way to manage the gap between what Trump wants and what the market will allow. Its argument, advanced this month by Trump's two most senior economic officials, is that the inflation keeping rates high is a passing supply shock that the Fed can look through—so cuts are still coming, just later.

"Nothing is more transient than a supply shock," Treasury Secretary Scott Bessent said on CNBC last week.

Kevin Hassett, director of the White House National Economic Council, made the same case days earlier on Bloomberg Television. "We're really likely to see rate cuts this year" because of Warsh, he said.

The markets that set the government's borrowing costs increasingly see it differently. Investors are giving up on Fed rate cuts and pushing up bond yields. That in turn makes borrowing more expensive. - Note

Some economists argue the Fed will have to seriously consider raising rates, not just keep them where they are. If the Fed holds steady but inflation keeps rising, that means the Fed has effectively adopted looser monetary policy just by standing pat.

Warsh said little specific about how he will approach Fed policy in brief remarks Friday. But he invoked Alan Greenspan, sworn in at the same spot in 1987, saying he would fill the role "with energy and purpose, just the way Chairman Greenspan did."

Trump, a Republican, offered an ambiguous answer this past week when asked whether he would tolerate borrowing costs being raised rather than lowered in a Warsh-led Fed. "I'm going to let him do what he wants to do," the president told the Washington Examiner.

Trump's comment widened the range of plausible outcomes anticipated by investors from the Warsh Fed, said James Egelhof, chief U.S. economist at BNP Paribas. "There was earlier a perception among many of my clients that the White House would strongly oppose rate hikes, and that the Fed would therefore be dissuaded from doing them," he said. The president's comment "supported the repricing of bond markets towards hikes."

Other strategists aren't convinced the political constraint is gone. "If Warsh's independence were unquestioned, we would likely be forecasting hikes in late 2026 and into 2027," Steve Englander of Standard Chartered told clients this past week. Instead, he expects rates to stay on hold through 2027.

A White House spokesman said, “Americans can rest assured that Kevin Warsh, with his private sector success and prior experience on the Fed Board of Governors during the 2008 financial crisis, will be able to restore confidence and competence in Fed decisionmaking.”

The Fed sets rates by committee vote, not by automatic deference to the chair. Warsh’s central challenge is winning over the 11 other members who vote on rates.

Trump nodded to that challenge Friday with a rosy prediction. The Fed’s other policymakers “make their own decisions,” Trump said, “but they’ll be listening to Kevin all the way.” Even those “from a somewhat different persuasion,” he said, would defer to Warsh “out of respect.”

Trump spent much of last year attacking previous Chair Jerome Powell for refusing to cut or, when the Fed did cut, for not making deeper reductions. There is unease in Washington and on Wall Street that if Warsh or his colleagues conclude higher rates are warranted, the president who picked Warsh will turn on him the same way.

Warsh’s allies said he can avoid that fate for now. In the run-up to his confirmation hearing last month, Trump took to calling Warsh to ask about the economy, according to three people familiar with the conversations. That relationship, his allies have suggested, could give Warsh an advantage Powell never had: the ability to influence Trump directly, which Powell didn’t see as part of his job.

Complicating matters is that the latest leg of inflation traces to Trump’s decision to strike Iran, which closed the Strait of Hormuz and is keeping energy prices elevated. It is the second time the administration has urged the Fed to look past price pressures tied to its own policies, after earlier arguing the price effects of Trump’s tariffs would prove a one-off.

The economic puzzle facing Warsh might run deeper. Some analysts argue the bond selloff reflects not just inflation fear but a shift to a higher-rate world—driven by wider government deficits and an AI boom that could raise the level of interest rates the economy can sustain.

Because of the Iran war, the Fed might need to raise rates by about 1 percentage point, reversing the three cuts officials made in the second half of 2025, Joseph Lavorgna, chief economist at SMBC Americas, told clients this past week. “I don’t think anybody credible can possibly say the Fed should be cutting rates,” said Lavorgna, who served until earlier this year as a senior adviser to Bessent, in an interview.

Egelhof, the BNP economist, said the early months of Warsh’s chairmanship will be unusually consequential. Warsh spent most of his career warning that central banks must be tough on inflation. The conditions that have boxed in any rate-cutting agenda are the same ones that could let him prove that credibility.

“It is a test,” Egelhof said. “But it is also a tremendous opportunity.”

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3

