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Investors render a verdict on tariffs and politicizing the Fed.

The Fire Powell Market Rout

REVIEW & OUTLOOK

If the White House wanted a test of how firing Jerome Powell would go over in the markets, it succeeded on Monday. U.S. stocks and the dollar plunged while yields on long-term Treasurys climbed after President Trump renewed his attacks on the Federal Reserve Chairman.

Monday was the first full trading day for markets to absorb National Economic Council director Kevin Hassett's comments Friday that the White House is studying if Mr. Powell can legally be fired. On Monday Mr. Trump demanded again that Mr. Powell make "pre-emptive" interest rate cuts to avoid a slowdown. Cue the meltdown in stocks, bonds and the dollar, a trifecta of declining confidence.

Mr. Trump is furious that Mr. Powell has said publicly that tariffs will likely lead to higher inflation and slower growth. Mr. Trump conceded the growth point on Monday, lambasting Mr. Powell: "There can be a SLOWING of the economy unless Mr. Too Late, a major loser, lowers interest rates, NOW."

Markets fear Mr. Trump really might fire Mr. Powell, not that it would do the President any good. He'd have to remove more than the Chairman to change the Federal Open Market Committee, which sets interest rates and tries to satisfy the central bank's dual mandate of maximum employment and stable prices.

Mr. Trump can't fire the regional Fed bank presidents on the committee, and all 12 voting members of the FOMC seem to agree with the Fed's recent policy moves. A Powell replacement would also have a harder time establishing credibility with markets.

The same goes if Mr. Trump were to name a "shadow" Fed Chairman who would be expected to comment on the central bank's every move between now and May 2026 when Mr. Powell's term expires. This is a recipe for more market uncertainty. Whose forward guidance should investors follow, Mr. Powell's or his replacement's?

The Powell Fed's policy is hardly tight in any case. He's in the process of ending quantitative tightening by no longer shrinking the Fed balance sheet, which amounts to easing. His public message is that the tariffs make fulfilling the Fed's twin mandates more difficult. That's undeniably true. The tariffs will cause at least a one-time increase in the price of tariffed goods, which may become more entrenched if the Fed accommodates them by cutting rates. Meanwhile, they are increasing uncertainty for businesses and consumers, which will slow the economy and hiring.

Mr. Powell stands ready to cut rates if the economy shows more weakness, even though inflation is still above its 2% target. The Fed's preferred inflation index of personal consumption expenditures rose 2.5% on an annual basis in February, and 2.8% excluding food and energy. That's not "virtually No Inflation," as Mr. Trump said Monday on social media.

Mr. Trump thinks he can bully everyone into submission, but he can't bully Adam Smith, who deals in reality. Markets know tariffs are taxes, and taxes are anti-growth. The Trump tariffs are the biggest economic policy mistake in decades, and extending the 2017 tax reform and deregulation may not compensate for all the damage.

There are also fears that if tariffs fail to reorder the global trading system, Mr. Trump might impose a fee on Treasury debt as chief White House economist Stephen Miran has proposed. This would amount to a partial U.S. default since it would cut the rate of return. Think Treasury yields are rising now? Watch what happens if a Miran fee is imposed.

All of this is tempting economic fate and contributing to a global "sell America" narrative in financial markets. That's why the dollar is under pressure. Smart Presidents pay attention to market signals and adapt. The adaptation now would be to negotiate a quick end to the tariff barrage. Claim some trade-deal victories, and call it a day.

But markets are spooked because they don't know if Mr. Trump listens to anyone but his own impulses.

