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Fed Chair Jerome Powell Just Issued a Stark Warning to President Trump About the Impact of Tariffs

Story by Bram Berkowitz • 7h • 4 min read 4-21-2025

In just a few weeks, a lot has happened. President Donald Trump issued sweeping new tariff rates that caught most investors off guard, sending stocks plunging at one of the fastest rates in history. A similarly historic rally ensued when Trump announced a 90-day pause on most of the tariffs except for those on China.

Since then, the market has gone back and forth as investors have done their best to understand what will happen with trade negotiations and how tariffs could affect the economy once all is said and done.

Federal Reserve Chair Jerome Powell recently had a chance to weigh in on the matter during a speech he made at the Economic Club of Chicago on April 16. In not so many words, Powell seemed to issue a stark warning to President Trump about the potential impact of tariffs.

The Fed is losing control

While Trump has paused elevated tariff rates for specific countries, there is still a 10% base tariff on goods from all countries except China. Tensions between the U.S. and China have escalated, and Trump has now slapped goods from the world's second-largest economy with 145% tariffs. There are exceptions, though. For example, the administration recently paused tariffs on Chinese-made electronics. Meanwhile, China has not backed down, instead hitting back with 125% tariffs on U.S. goods. Trump has also issued blanket 25% tariffs on imported aluminum, steel, and key automobile parts.

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Since Trump took office, Powell has kept the Fed in a holding pattern, suggesting the agency needs time to see how tariffs and Trump's immigration policies will affect the economy before continuing the rate-cutting campaign that it began last year. However, the size and speed of Trump's tariffs have caught even the Fed off guard, according to Powell:

The level of the tariff increases announced so far is significantly larger than anticipated. The same is likely to be true of the economic effects, which will include higher inflation and slower growth. Both survey- and market-based measures of near-term inflation expectations have moved up significantly, with survey participants pointing to tariffs. Survey measures of longerterm inflation expectations, for the most part, appear to remain well anchored; market-based breakevens continue to run close to 2%.

Powell added that the agency might find itself in "the challenging scenario in which our dual-mandate goals are in tension." What does this mean? Well, the Fed's dual mandate is to achieve maximum employment and stable prices. When prices rise too much, the Fed raises interest rates to slow the economy, bringing prices under control and avoiding runaway inflation.

If unemployment rises and the economy slows, the Fed will want to lower interest rates in order to stimulate the economy. But this might raise inflation further, and inflation could already increase due to the tariffs. This whole situation puts the Fed in a catch-22 and also risks a stagflationary environment where growth stalls, prices remain high, and unemployment rises as well.

Powell called the recent policy changes "very fundamental" and said it's difficult to find a similar event in history. This likely means the Fed will continue to wait and see what happens, much to the displeasure of Trump, who has said numerous times he thinks the Fed should lower interest rates.

What does this mean for the stock market?

The market didn't like Powell's messaging. The **Dow Jones Industrial Average** closed April 16 down 1.6%, while the tech-heavy **Nasdaq Composite** fell 3.1%.

However, Powell's continued resistance to lowering rates and growing concerns about doing so could further incentivize the Trump administration to make deals with the country's largest trading partners. While Trump's initial tariff pause sent stocks soaring on April 9, the market has lost ground since then as an agreement with China still seems far away. Treasury Secretary Scott Bessent recently told Yahoo! Finance that he thinks the administration could have "substantial clarity" about trade agreements with most of the United States' large trading partners other than China before the tariff pause ends.

That said, there will still be much uncertainty in the coming weeks or even months unless trade deals -- including one with China -- materialize faster than expected. Investors shouldn't try to play the volatility.

Make sure that when you are buying stocks, you have long-term intentions. There are certainly bargains to be had in today's market, and Powell did say that long-term inflation expectations are still under control. It might be best to look for stocks less connected to China right now because those could be the most volatile. But in the long term, China and the U.S. are likely to reach an agreement.