

## The Fed's High-Stakes Drama: Politics, Inflation, and Powell's Ultimate Power Play



**“The ultimate paradox: political pressure for rate cuts could make borrowing more expensive.”**

In 2025, the hottest drama in global finance isn't happening on Wall Street—it's unfolding inside the Federal Reserve.

Jerome Powell, the 16th Chair of America's central bank, finds himself in a high-stakes political and economic standoff. At the center of it all isn't just interest rates or inflation—it's the credibility of the Fed itself, with consequences that stretch from Main Street to global markets.

### The Heavyweight Championship: Trump vs. Powell

Powell's term as Chair runs through May 2026, with his seat on the Fed's board secured until January 2028. But with Donald Trump back in the Oval Office, the relationship is under strain.

Trump, who originally appointed Powell in 2018, now claims the Fed is holding back growth. “There's plenty of room to cut,” he says, pushing for faster rate reductions.

Powell, ever the cautious strategist, is reluctant to move too fast. His fear? Cutting rates prematurely could trigger a resurgence of inflation, especially with higher tariffs and new federal spending potentially on the way.

It's a classic clash: short-term political pressure versus long-term economic stability.

### The Shadow Chair Gambit: A Never-Before-Seen Power Play

Treasury Secretary Scott Bessent is now urging Trump to name Powell's successor early—a “shadow Fed Chair” who wouldn't hold formal power but would signal the administration's preferred monetary direction.

This would be unprecedented in the Fed's 110-year history. Supporters say it's a bold move to align markets with future policy. Critics warn it would erode Fed independence and create dangerous uncertainty.

The core question: Would this help markets adjust—or turn monetary policy into political theater?

### Fed's Budget Headache: Optics Matter

At the same time, Powell is facing congressional heat over the ballooning costs of renovating the Fed's headquarters.

Originally budgeted at \$1.5 billion, the cost has jumped to \$2.5 billion. Powell cites necessary

repairs, asbestos removal, and cybersecurity upgrades—but the optics are tough. With many Americans still feeling the pinch of inflation, spending billions on government buildings looks out of touch.

It may seem unrelated to interest rate policy, but it fuels doubts about the Fed's broader accountability.

### Markets React: The Dollar Takes a Hit

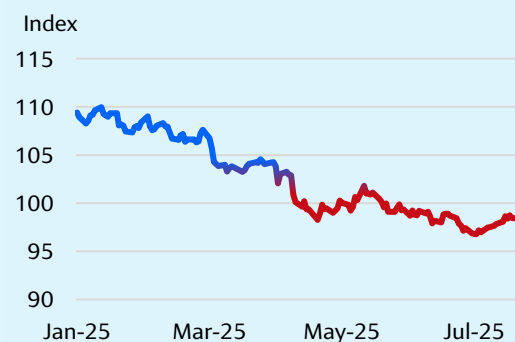
Financial markets have responded notably to these developments. The U.S. Dollar Index has declined more than 10% year-to-date, as investors factor in both potential changes to Fed independence and policy uncertainty ahead.

What markets previously interpreted as "policy deliberation" are increasingly viewed as institutional uncertainty. Investors are adjusting expectations not only for interest rates but also for the reliability of U.S. monetary policy frameworks.

Some bond market analysts caution that excessive political pressure on the Fed—whether through public campaigns or personnel changes—could increase borrowing costs, not because of economic strength, but due to governance-related risk premiums.

The ultimate paradox: political pressure for rate cuts could make borrowing more expensive.

#### US Dollar Index Performance (2025)



Source: Bloomberg

### The Trust Factor: More Than Just Rates

Why does all this matter? Because the power of a central bank depends on trust.

When Paul Volcker tamed inflation in the 1980s, he didn't do it with words, but he did it with credibility. Markets believed he would stick to his

plan. That trust helped anchor inflation expectations and stabilize the economy.

If today's Fed loses that trust, even good policy could fail. And once shaken, credibility is hard to rebuild.

### Ripple Effects Abroad: A Global Issue

This drama isn't just an American story. Many emerging markets rely on dollar stability and Fed predictability for their own economic planning.

If investors around the world begin to question whether U.S. monetary policy is being steered by data—or by politics—the resulting volatility could ripple far beyond Washington.

### Institutional Crossroads: Can the Fed Stay Independent?

The bigger issue here isn't just Powell. It's whether the U.S. central bank can preserve its independence in an era of intense political pressure.

The Chair may survive this storm—or be replaced earlier than expected. Either way, the choices made now will set the tone for the future of central banking in the U.S.

Can the Fed remain a technocratic institution, or is it evolving into something more politically aligned?

### Looking Ahead: Restoring Confidence Starts Now

If Powell were to step down early, his successor's top priority wouldn't be rates—it would be restoring confidence.

That means transparent communication, steady policy grounded in data, and clear resistance to pressures that threaten long-term economic stability.

In central banking, trust isn't just a virtue. It's the foundation. Without it, every policy move is weaker—and every shock hits harder.

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