

WARSH ERA BEGINS, WAR'S EXIT STRATEGY, TRUMP CLOUT



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- Warsh era at the Fed begins
- Next Fed meeting's June 16-17
- War talks continue
- Another test for Trump coattails

With the swearing in of Kevin Warsh at the White House on Friday, he officially began his tenure as chair of the Federal Reserve. His predecessor, Jay Powell, will continue to serve on the board as a regular governor until his term ends in January 2028. Powell is the first chair to stay on the board as a governor since Marriner Eccles in 1948. As an historical footnote: The Federal Reserve building in Washington is the Eccles Building, so it worked out OK.

At the swearing in ceremony, President Trump spoke and addressed the issue of White House interference in monetary policy when he specifically said the Fed is “totally independent.”

The first Federal Open Markets Committee (FOMC) meeting with Warsh serving as chair will be on June 16-17. At this point, it is not clear if Warsh will follow the actions of Powell by having a press conference after the rate announcement. There have been hints that Warsh may try to tone down the role of the chair and change other procedures that the Fed has practiced in recent years with respect to projections of future central bank actions.

The FOMC that Warsh will face next month has members who have been hawkish in recent statements. At the last meeting in April, the only member to vote to lower rates

was Stephen Miran, the former White House chair of President Trump's Council of Economic Advisers. Miran resigned from the board to create an opening for Warsh.

When Warsh served in Bush's White House, and I headed government relations for JPMorgan Chase, I worked with him on several issues. I know firsthand that he has good people skills, but in my view, he will have a steep uphill battle to get the votes to lower rates with the current trend of economic data.

War in Iran

The holiday weekend saw a string of leaks from the White House that an agreement to extend the ceasefire and bring an end to the war was close. The positive news came from the White House but hasn't been followed by similar announcements from the Iranian government. Additionally, Monday night saw renewed military action by the U.S. against Iranian sites deemed threatening to U.S. troops and opening the Strait.

Clearly, the focus of the talks is the opening of the Strait to allow for the free flow of oil from the Gulf states. The leaks from the talks appear to focus on an agreement that would extend the current ceasefire and insure safe passage through the Strait. The reports indicate that further talks between the U.S. and Iran would be required to decide the fate of Iran's nuclear program.

Specifically, the issue appears to focus on the fate of enriched uranium that the Iranians currently have.

The president and Congressional Republicans are under increasing pressure to lower the price of oil and gas at the pump, if they are to have any chance of maintaining control of Congress after the midterm elections.

Another Trump Test

Today is another Republican primary election where Trump has endorsed a candidate. Last week, after weeks of delay, the president endorsed the U.S. Senate bid of Texas Attorney General Ken Paxton who is challenging incumbent Texas Senator John Cornyn. A Paxton win would be another warning to Republicans that

one challenges Trump at their own risk. Senator Cornyn was slow to endorse Trump when he launched his 2024 campaign.

Political pundits believe that candidate Paxton could be an easier target for Democratic Senate candidate James Talarico. In 2024, Trump carried Texas by 1.5 million votes. However, the president increased his Texas margin in 2024 by successfully building his support among the state's growing Hispanic population. Recent polls show that the president's immigration policy has resulted in less Hispanic support, and this could be a factor in November's Texas Senate race.

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