



A WORD ON FED INDEPENDENCE

THE INDEPENDENCE OF THE FED IN QUESTIONS ?

President Donald Trump has been putting heavy pressure on the US Federal Reserve since the start of his term. Here is some insight from Ombretta Signori, Head of Macroeconomic Research, and Yannick Lopez, Head of Fixed Income and Treasury Solutions at Ofi Invest Asset Management, on the potential risks that could arise from a loss of independence of the world's most powerful central bank.

Academic studies based on FOMC⁽¹⁾ meeting minutes have shown that **the Fed has already come under political pressures in the past. One such instance came during the administration of Richard Nixon⁽²⁾**, when Nixon urged Arthur Burns, the Federal Reserve chair, to ease monetary policy in the run-up to the 1972 elections. Such interventions have always occurred behind the scenes⁽³⁾. **What's new today is that pressure is being exerted publicly.**

The Fed had long been criticised in Washington⁽⁴⁾ for its stands on issues such as the climate risk (the Fed left the Network for Greening the Financial System (NGFS) in January 2025) or its support for an inclusive labour market, as voiced in several speeches by Lael Brainard⁽⁵⁾, a former Fed Board member.

Donald Trump has on several occasions exhorted the Fed to lower key rates in order to boost the economy and lower debt-servicing costs. In reaction to the Fed's wait-and-see stance, he first overtly threatened to fire its chair, then tried to dismiss one of its governors (Lisa Cook), and then took advantage of a governor's resignation to nominate the head of his Council of Economic Advisors (Stephen Miran) to the Fed Board.

Why does having political influence over the Fed matter so much to the Trump administration?

Beyond the matter of prestige and power, **controlling the Fed would be one way to act on key rates, with the option of lowering them to boost the economy and reduce the cost of debt-servicing, which is Trump's priority. This would also weaken the dollar, all other things being equal.**

There are also other motivations, such as closer control of the Fed's balance sheet, which currently amounts to 6,600 billion dollars, equivalent to 22% of GDP, about one third of which consists of mortgage-backed securities (MBS).

Less Fed independence could also allow the president to **indirectly steer Fed research and attempt to lighten the financial regulation** introduced with the Dodd-Frank Law (after the Great Financial Crisis of 2008/2009). Dodd-Frank gave the Fed greater supervision powers over banks, among others. Control of the Fed would make it easier to implement such reforms. Keep in mind that bank deregulation is already being debated in Congress.

Some experts go further in suggesting that political influence over the Fed would also facilitate the implementation of the Mar-a-Lago agreement, whose ideas were floated in a 2024 article by Stephen Miran⁽⁶⁾. One of these was that dollar overvaluation could be mitigated through more accommodating monetary policy. The article also suggested greater coordination between the Fed and the Treasury on exchange-rate policies and the Fed's role in stabilising financial markets.

For example, in the event of severe volatility* arising from tariff or exchange-rate policies, the Fed could provide necessary liquidity through swap lines* and/or make use of guidance, which plays a key role in managing the markets' expectations, to reduce volatility on those markets.

*See glossary on the last page.

⁽¹⁾ *Political Pressures on Monetary Policy during the US Great Inflation - American Economic Association*, Charles L. Weise, American Economic Journal: Macroeconomics, 2012. The FOMC (Federal Open Market Committee) is the monetary policy committee of the US Federal Reserve.

⁽²⁾ *« How Richard Nixon Pressured Arthur Burns: Evidence from the Nixon Tapes »*, B. A. Abrams, Journal of Economic Perspectives, 2006

⁽³⁾ *Inside the Nixon Administration « The secret Diary of Arthur Burns »*, 2011.

⁽⁴⁾ *The Fed Faces Criticism as It Wades Into Climate and Equity Issues - The New York Times*.

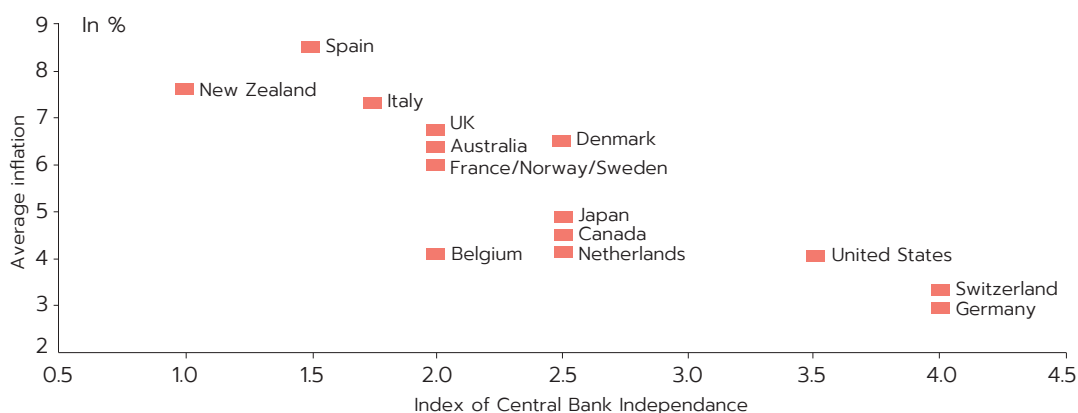
⁽⁵⁾ For example *« Speech by Governor Brainard on achieving a broad-based and inclusive recovery »* - Federal Reserve Board, Federal Reserve, 2020.

⁽⁶⁾ https://www.hudsonbaycapital.com/documents/EG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf, S. Miran, Hudson Bay, November 2024.

Why is a central bank's independence fundamental?

The advantages of an independent central bank are universally recognised, regardless of one's political affiliation. A benchmark article in academic literature, by Alesina and Summers in 1993⁽⁷⁾, demonstrated that **legal central bank independence is an effective strategy for ensuring price stability without undermining growth, given the clear and negative correlation between their independence and inflation.**

CENTRAL BANK INDEPENDENCE AND INFLATION ARE CLOSELY AND NEGATIVELY CORRELATED



Source: Alesina and Summers (1993)

This finding inspired the institutional reforms of the 1990s for the founding of the European Central Bank (ECB) and the major reform of the Bank of England in 1997. Since then, other papers (e.g., Romelli) have explored this finding further and corroborated it⁽⁸⁾. In a 2018 speech, Mario Draghi reaffirmed that a central bank's credibility arose from its independence. More recently, the International Monetary Fund (IMF) reiterated that central bank independence is fundamental. Interestingly, Carriga's⁽⁹⁾ paper on this issue, which reconstructs a central bank independence (CBI) index for 192 countries, shows that major economies such as Japan, India and Australia as of the end of 2023 did not have legally "independent" central banks and that the ECB is one of the most independent central banks, while the Fed ranks in the middle. More broadly, the article shows that there are huge gaps between countries and that there have been many reforms lessening CBI in recent decades. The US Federal Reserve's current set-up aims to protect it from political pressure. It is independent of the three branches of government and does not depend on Congress's budget. Its leaders have long terms (14 years for governors, four years (renewable) for the chair, providing it with continuity beyond electoral cycles. **On the economic front, the main risk is therefore that a loss of Fed independence would undermine its credibility in fighting inflation, which was one of its major accomplishments of the 1990s.** In the wake of academic studies on this issue, an analysis by Peterson Institute for International Economics⁽¹⁰⁾ shows that, although US growth may temporarily exceed forecasts in the short term under an extreme scenario of loss of independence by 2028, US GDP would slow to as much as 1.2% below the baseline scenario and would remain below its long-term potential. Inflation, meanwhile, would stabilise at around 4%, or double the Fed's current target. Drechsel (2025)⁽¹¹⁾ found that an increase in political pressure equivalent to half of that exerted by Nixon for six months would cause prices to rise by more than 8%.

What impact will this have on the financial markets?

Loss of independence leads to political pressure to keep key rates too low, which, in turn, raises inflation expectations and undermines the credibility of monetary policy. This then feeds demand and causes inflationary tensions, i.e., higher wages and prices. Uncertainty on the future trajectory of rates and inflation increases the risk premiums* that investors demand, thus slowing private investment and credit and ultimately reducing potential growth. This results in a combination of higher inflation and weaker long-term growth.

But there would be other consequences beyond domestic assets. This could also undermine the credibility of US institutions and have repercussions on global markets and the international financial system.

*See glossary on the last page.

⁽⁷⁾ Alesina, Alberto & Summers, Lawrence H, 1993. « *Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence* », « *Journal of Money, Credit and Banking* », Blackwell Publishing, vol. 25(2), pages 151-162, May.

⁽⁸⁾ Romelli, D (2022), « The political economy of reforms in central bank design: Evidence from a new dataset », *Economic Policy* 37(112): 641-88.

Romelli, D (2024), « Trends in central bank independence: a de-jure perspective », Baffi Carefin Centre Research Paper No. 217. « *A New Measure of Central Bank Independence* », IMF, 2024.

⁽⁹⁾ « Revisiting Central Bank Independence in the World: An Extended Dataset », A. Carriga, *International Studies Quarterly* (2025) 69.

⁽¹⁰⁾ « *Erosion of Fed independence would slow US economic growth and boost inflation over time* » - PIE.

⁽¹¹⁾ T. Drechsel (2025) « Political pressures on the Fed », university of Maryland, NBER & CEPR, July 2025.



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Completed
on 22/10/2025

Between April and May and then again, this summer, the markets got a glimpse of what could happen. The markets took notice of the danger to Fed independence after Trump repeatedly attacked Jerome Powell, accusing him of all sorts of evil deeds, beginning with a lack of responsiveness in leaving rates unchanged while the ECB continued to ease its monetary easing (it has since stopped doing so).

BETS ON A JEROME POWELL IMPEACHMENT IN 2025



Sources: US Polymarket, (a decentralised prediction market on which users can bet on the result of real events), Macrobond, Ofi Invest AM as of 22 October 2025.

At first the markets mostly shrugged all this off, but then a darker scenario began to take shape early in the summer, after Trump publicly raised the possibility of firing the Fed chairman. Amidst a solid US economy, a “pro-active” monetary easing would stoke inflation. The term premium, which expresses the risk that an investor takes in holding a long-dated security*, has risen, along with long-dated bond yields. The benchmark 30-year yield has once again exceeded 5%; and the 5-30-year slope has reached a new high on the year at more than 100 basis points.

The late-August announcement of Trump’s dismissal of Lisa Cook (which has since been cancelled by a federal judge) caused the same reaction, with a further increase in the 30-year yield to 5% and an abrupt steepening of the curve (to as much as 125 basis points).

Heightened rate-cut pressures triggered broad mistrust of US assets, with declines in equity prices, higher government bond yields, a steepening in the US curve and a weakening in the dollar.

MARKET PERFORMANCES (DAILY CHANGES) DURING DAYS OF HEAVY PUBLICISED PRESSURE ON THE FED

	US 10Y (bps)	US 2-10 (bps)	US 10-30 (bps)	US 5-30 (bps)	DXY (%)	SPX (%)	SX5E(%)
08/04/2025	11	15	4	10	-0.3%	-1.6%	2.5%
10/04/2025	9	14	4	11	-2.0%	-3.5%	4.3%
21/04/2025	9	12	2	7	-1.0%	-2.4%	0.0%
05/05/2025	4	2	1	2	-0.2%	-0.6%	0.0%
20/05/2025	4	4	3	6	-0.3%	-0.4%	0.5%
21/05/2025	11	6	1	4	-0.6%	-1.6%	0.0%
05/06/2025	4	-2	-4	-7	-0.0%	-0.5%	0.1%
02/07/2025	4	2	0	1	-0.0%	0.5%	0.7%
05/08/2025	2	-3	-3	-5	-0.0%	-0.5%	0.1%
12/08/2025	0	4	2	4	-0.4%	1.1%	0.1%
29/08/2025	3	4	3	5	-0.6%	-0.6%	-0.8%
Average	5	5	1	3	-0.4%	-0.9%	0.7%

US 10Y: 10-year US yield; US 2-10: slope between the 10-year and 2-year yields; US 10-30: slope between the 30-year yield and the 10-year yield; US 5-30: slope between the 30-year yield and the 5-year yield; DXY: US Dollar index; SPX: S&P 500 index; SX5E: Euro Stoxx 50. Source: Ofi Invest AM, October 2025.

At this stage, the scenario of loss of Fed independence remains a “tail risk”⁽¹²⁾. Accordingly, the markets’ reactions have been consistent with macroeconomic data. The steep drop in US yields in September and the flattening of the curve were reactions to the weakening of the job market. The markets’ expectation of the terminal rate in this cycle (i.e., about 3%) is aggressive compared with the FOMC’s median projections but not inconsistent with a worsening in the job market and the medium-term inflation trend. Lastly, a weakening in the dollar is consistent with a narrowing in the spread between real US and European rates that we have seen this year.

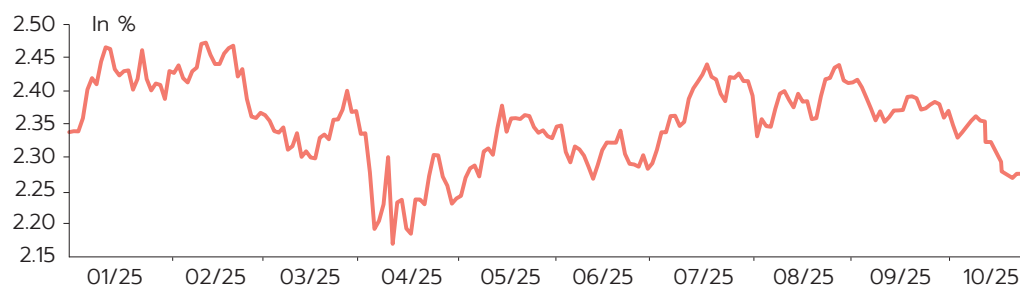
Meanwhile, volatility is still low on long-term inflation expectations, which have generally been anchored in a 2.30%/2.40% trading range since the infamous early April “Liberation Day”⁽¹³⁾. The aforementioned events nudged them briefly above 2.40%, to 2.45%. Keep an eye on a possible upward de-anchoring in the event that the scenario of a loss of Fed independence begins to take greater hold. That is not currently the case.

*See glossary on the last page.

⁽¹²⁾ A tail risk means the risk of rare, but extreme risks located in the tails of yield distribution curves in an asset or a portfolio.

⁽¹³⁾ “Liberation Day” is a term used by Donald Trump for 2 April 2025, the day of major new tariff announcements.

10-YEAR US INFLATION BREAKEVEN RATE



Sources: Macrobond, Ofi Invest AM, data as of 22/10/2025

Have there been any precedents in the past?

Yes, but only in emerging market countries. The most striking and recent case of a loss of independence by a large central bank is Turkey's. In five years, President Recep Tayyip Erdogan has dismissed five central bank chairs and fired several members of the monetary policy committee, mainly because of his opposition to high interest rates. This led to galloping inflation of more than 80% in 2022, a depreciation of the lira, and capital flight, among other things.

What are the risks to the Fed's independence in the near future? What are the key milestones?

The US president nominates Fed governors for 14-year terms, subject to Senate confirmation, and also nominates the Fed chair for a four-year (renewable) term, chosen from among the governors. The Board consists of seven governors and is therefore the Fed body on which the president has the most influence. The law provides for the impeachment of a Board member by the president only "for a valid reason", which means that the president can nominate a governor only when his/her term expires.

FED BOARD MEMBERS

NAME	POSITION	TERM ENDS ON
Stephan Miran		31/01/2026
Jerome Powell	Chair	15/05/2026 (Chair) 31/01/2028 (Governor)
Philip Jefferson	Vice-Chair	07/09/2027 (Vice-Chair) 31/01/2036 (Governor)
Michelle Bowman	Vice-Chair for Supervision	09/06/2029 (Vice-Chair for Supervision) 31/01/2034 (Governor)
Christopher Waller		31/01/2030
Michael Barr		31/01/2032
Lisa Cook		31/01/2038

Source: Ofi Invest AM, october 2025

In 2026, only Stephan Miran's term expires, in late January. Powell's term as Fed chair ends in May 2026, but his term as governor does not expire until January 2028. Although unlikely, Jerome Powell could choose not to resign his governorship and remain on the Board. In such a case, Donald Trump would have only the seat of **Stephan Miran** to appoint the person of his choice to be Fed chair if that person is not already a governor.

Among the governors, Christopher Waller seems to be more in view than Michelle Bowman. Outside of the Board, the most favoured candidates are Kevin Walsh (a former Fed governor) and Kevin Hassett (the current chair of the National Economic Council). Other persons have been called in for an interview, and other names have come up in the media.

Another key consideration: **the attempted dismissal of Lisa Cook. She may remain on the Board until at least January.** But even if the Supreme Court rules in her favour, she could decide to leave in 2026, giving Donald Trump a chance to nominate another governor in his sphere of influence. Under this assumption, and **in the event that Powell resigns, Trump could nominate as many as three governors in 2026, which would give him clear influence on the Federal Open Market Committee.** The FOMC consists of the seven Board members, the chair of the Federal Reserve Bank of New York, and four of the 11 other regional Fed chairs, who sit as voting members based on an annual rotation system, for a total of 12 voting members.

FOMC MEMBERS, OCTOBER 2025

Board of Governors		Regional Federal Presidents (voting members)		President of regional Feds				
				Voting member of the FOMC	2025	2026	2027	2028
 J. Powell, Chair		 J. Williams (NY Fed)		M. Daly (San Francisco)			X	
				A. Goolsbee (Chicago)	X		X	
				S. Collins (Boston)	X			X
M. Bowman	C. Waller	A. Goolsbee	S. Collins	A. Musalem (St Louis)	X			X
M. Barr	P. Jefferson	A. Musalem	J. Schmid	A. Paulson (Philadelphia)		X		
S. Miran	L. Cook			N. Kashkari (Minneapolis)		X		
				L. Logan (Dallas)		X		
				R. Bostic (Atlanta)			X	
				T. Barkin (Richmond)			X	
				J. Schmid (Kansas City)	X			X
				B. Hammack (Cleveland)		X		X

Source: Ofi Invest AM, october 2025

Lastly, **the 12 regional Fed chairs will have to be reappointed or replaced by the end of February 2026. The Fed Board has the last word on this after the decision of the regional Fed.** Seldom has a regional Fed chair not been reappointed, and Board has never refused to reappoint a chair. However, if President Donald Trump manages to impose a radical change on the Board, he could theoretically increase his control over the Fed, at the risk of compromising its independence.

In conclusion, we would stress that independence is not a black-or-white issue. Between the status quo, in which institutional independence and continuity would be maintained, and a loss of central bank independence, with an alignment on the administration's priorities, there is a broad range of intermediate scenarios. These could mean a lesser form of independence, with political compromises and interference, **which could offer more realistic landing points.** The Fed is a body that operates by consensus. The Fed chair has just one vote on the FOMC but carries lots of influence, as his role also consists in seeking out a consensus on the committee. **We have listed the risks and key Fed rotation dates as well as changes that could ultimately exacerbate a lessening of Fed independence. However, we should also point out the checks and balances,** which could cause the US president to reduce the pressure he is exerting on the Fed. **The markets are the main source of checks and balances,** for, as we have shown, such a "revolution" could very well run to the president's goals, such as **lower interest rates.**

Our central scenario

The US economy held up well in the third quarter and is likely to perform under its potential in the coming months, as household consumption is undermined by tariffs. Uncertainty remains high, but a soft landing is likely as domestic demand should get a boost in 2026 from the OBBB⁽¹⁴⁾, monetary policy easing, upcoming deregulation, and greater clarity on tariffs. Tariffs' inflationary impact is likely to continue to be felt in the coming months, as effective tariff rates are likely to continue rising, approaching the theoretical level of 18%, but this impact is likely to be temporary. In this temporary. Against this backdrop, the Fed is more concerned about the risks of higher unemployment than the risks of inflation. As monetary policy is still deemed moderately restrictive, the Fed is likely to continue lowering its rates towards more neutral territory (i.e., another two times this year), and then to 3.25% by the end of 2026.

We are currently neutral on US rates, given the opposing forces acting on Treasuries – on the one hand, fears over short-term growth, and on the other the potential inflationary impact of protectionism and risks to the Fed's credibility. However, we remain alert and tactical on the US yield curve. Any one-off rise could be a good opportunity to extend portfolio duration.

⁽¹⁴⁾ The One Big Beautiful Bill (OBBB) signed by Donald Trump on 4 July 2025, is a budget combining tax cuts, reductions of social welfare spending, and investments in defence and national security.

GLOSSARY

Maturity: the maturity of a financing or due date is the time between the date on which the financing is granted and the date on which principal on this investment is paid off in full.

Risk premium: the additional return that an investor demands in exchange for accepting a risk that is greater than a risk-free investment.

Swap: a derivative through which two parties exchange (or swap) a certain financial flow for another at contractually pre-set maturities and terms.

Volatility: an indicator of change in prices of a financial asset over a given period. It is often used to assess an investment's financial risk, as it expresses the stability or instability of the returns on an asset.

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