Transcript – 02-11-2026

Beyond the Portfolio: Federal Reserve Leadership: The Kevin Warsh Nomination and Policy Implications

Mike Miranda:

Welcome to Beyond the Portfolio. I'm Mike Miranda, Head of Investments for BMO Private Wealth North America. In each episode, we'll bring you expert analysis from BMO's top strategists and economists to help you navigate market conditions and stay informed.

Welcome back to Beyond the Portfolio. Before we begin, I want to set the stage for today's conversation. As many of you know, we've been expanding the format of this podcast, bringing in additional voices from across our platform to moderate and lead discussions. Today is another example of that evolution. I'm excited to introduce Henray Cohen, our Head of Investments for the US, who will be leading today's discussion and sharing his perspectives on the implications for investors. We're going to dig deep into the recent developments at the Federal Reserve, including the announcement of a new Fed chair and what this shift could mean for policy directions, market volatility, and portfolio positioning.

And with that, Henray, welcome and I'll turn it over to you.

Henray Cohen:

Well, thank you, Mike. And I'm excited to be joined by Dan Phillips, BMO's US Chief Investment Officer, and Richard Belley, our fixed income strategist, both of whom deeply understand what's going on in the markets today.

All right, so today we're going to talk about one of the biggest macro stories for 2026 thus far, and that's the recent nomination of Kevin Warsh as the next Fed chair. Now, a leadership change at the Fed can shift all sorts of things, such as interest rates, inflation, and potentially even the direction of the economy.

So before we get into what this might mean, let me just take one minute and talk about who Kevin Warsh is. He was appointed as a Fed governor when he was 35, which made him the youngest ever in that role. Since then, he's been pretty consistent on his views that central banks need to be more disciplined around the things that cause inflation. So he's generally been what most would describe as hawkish. And if you've ever listened to Warsh speak, there's no question that the guy really doesn't like inflation, which is why this nomination is sort of interesting because President Trump has been about as vocal as it gets with wanting lower interest rates, and yet he chose someone who has been historically opposed to easy money.

So that's the backdrop. And with that said, I'll give the first question to you, Richard. What do you think are the most important components of Kevin Warsh's monetary policy views?

Richard Belley:

Thanks, Henray. First of all, just to put things in context, we haven't had a press conference or any commentaries from Warsh since his nominations. So my views are based primarily on what we know so far and what else, as you

said, Henray, is the fact that Warsh isn't new to the Fed. He was a governor before, and he has been relatively vocal about how he thinks the monetary policy should evolve in today's environment. So we already have a good indication of his use, and in my opinion, he has three major policy anchors. First of all, cut rates strategically, shrink the balance sheet, and ultimately reinforce the Fed independence.

So first, Kevin Warsh has long been known as an inflation hawk, as you mentioned, Henray, someone who worries about inflation. During his time as a Fed governor from 2006 to 2011, he repeatedly warned that keeping interest rates too low for too long could distort financial markets, it could fuel excessive risk taking, and we've seen it, and undermine the long-term stability of the markets. But that was at a time when unemployment was high and inflation was below target, a very different environment than we have today. He has been seen as hawkish, but today, honestly, he seems to be more forward-looking, understanding that the structural impact that emerging technologies may have on the economy and inflation. Especially he believes that, and he's not alone in this camp, that artificial intelligence, AI, could be a powerful disinflationary force. It could improve supply side dynamics, and that rising productivity may allow the economy to grow faster without generating inflation. That means that he sees the material policy in a way that it should not simply react to historical data, but be a bit more predictive, anticipating where the economy is going, not where it has been.

Also, it is important to understand when we speak about hawkishness. For him, it's not just about rates. It's very much about the balance sheet. He has been a persistent critique of the Fed expansion of its asset portfolio. He's always been concerned that large-scale bond buying, the quantitative easing, QE, that we've seen in the past, can blur that line between monetary and fiscal policy. It not only increases the Fed footprint in financial markets, but interestingly, it could also expose the institution to political pressure. In his opinion, the balance sheet should be much smaller, used sparingly, and reserved for a period of significant systemic stress. So Warsh support lower interest rates, but not because he's becoming a dove over the years, but because he sees a different economic landscape forming.

Finally, for the Fed independence, he strongly believes in it, but with a bit of a twist. In his mind, independence isn't something the Fed has; it's something the Fed must earn. It has to earn it through discipline and likely a more focused mandate. Warsh has criticized what he considers the Fed drift into broader social and political issues and the excess communication coming out of the Fed, which risk impacting its credibility. He does recommend closer coordination with the US Treasury to clarify the role in debt management and balance sheet structure, which for some, to be honest, may raise some question, but overall, its philosophy is that the central bank needs to protect its credibility by sticking to its core mandate: price stability, financial stability, and some money.

So if I sum it up, Henray, is monetary policy views blend what I would call caution with a forward-looking optimism. He's wary of inflation, very skeptical of oversized balance sheet, open to lower rates, lower rates in a productivity-driven economy, and is committed to the Fed independence and discipline. And that's probably why we haven't seen much reaction in the market since his nomination.

Henray Cohen:

Thanks, Richard. That's a helpful framework. Now, let's compare that to what we're used to. So Kevin Warsh recently wrote an op-ed in the Wall Street Journal titled The Federal Reserve's Broken Leadership. So we can assume

that Warsh is going to approach the job differently than Powell did. Dan, where do you think we will see the greatest differences between Warsh and Powell?

Dan Phillips:

Yeah, thanks, Henray. And as Richard mentioned, Kevin Warsh is definitely viewing this in coming into this role as a reformist. He has some real issues with the way the Fed has been run for some time. Richard highlighted a number of those. I think the best way to describe or maybe reiterate or recap what Richard said with respect to that is the way in which Warsh believes the Fed's mandate should be narrowed. The balance sheet in his mind got well out of control with the amount of quantitative easing that occurred. He believes that the way in which the Fed was buying assets, treasuries, mortgage-backed securities was more manipulating the markets than governing the economy, specifically inflation and full employment, which are the two Fed mandates. And so look for him to certainly bring the Fed's scope back to specifically monetary policy as it relates to the appropriate interest rate for the economy at the present time.

The other part of that is also limiting scope around... And as I think Richard mentioned as well, is around what the Fed's purview is. It's not to do things associated with social issues. Climate change is one of the big ones. It kind of reminds me of Milton Friedman's famous line that corporations are there to do one thing and has to make money, and that there are other venues and forums for societal aims within society at large. But for him, very much keeping the scope of the Fed and keeping the Fed concentrated on what its specific mission is as outlined in its mandate.

Other differences from Powell from a more practical level as opposed to philosophical, I would say is less patience for inflation. Richard talked a bit about that as well. For instance, I think if Warsh were in the Fed share during or after COVID, we would've seen interest rates hiked much more quickly than we saw with Powell and the way in which inflation for likely far too long was described as transitory, and in fact, the Fed had a interest rate still at zero and was still purchasing bonds through quantitative easing as the inflation rate went higher. So he would presumably be, based on what he has said in his past, would've raised rates quicker to nip that inflation in the bud, coming back to, again, what the Fed's true mandate is, which is price stability and full employment.

And then I think the other thing that we'll see out of Warsh versus Powell, and Richard also alluded to this, is a more process, more rules-based approach. He'll be a bit more of a maverick in terms of how he wants monetary policy run, I think, versus Powell, who was more of a consensus builder, was the views of the different Fed members and the governors and the various regional bank presidents. It was more of a discussion and a flexible compromise, if you will, whereas I think Warsh is going to come in with a bit more direction from the Fed chair.

Henray Cohen:

Well, Dan, it'll be interesting to see how those differences play out. And while we're on that topic, something I've heard a number of times over the past few weeks is a comparison between Kevin Warsh and Alan Greenspan. And for our listeners, Greenspan served as the Fed chair from 1987 to 2006 and oversaw a very long period of economic expansion paired with low inflation. Is this a fair comparison and do you think a period of both economic expansion and low inflation can be repeated with the current size of our money supply and government deficits?

Dan Phillips:

Yeah, so it is an interesting comparison to Greenspan. I think the biggest similarity between the two is that they were both sort of drove or Greenspan drove the Fed, and I think Warsh wants to emulate that. As I mentioned, Warsh is probably less of a consensus builder and more directionally leading the Fed through his views, but more specifically around his, again, a more of a rules-based process-oriented approach.

The other, I think, similarity between Greenspan and Warsh is the way in which they respect the market signals. Greenspan respected the market signals and market feedback loops. And it seems as though Warsh would be and will be similar in that nature, i.e., respecting, for instance, what the yield curve is telling the Fed about where appropriate interest rate policy should be.

The differences between Warsh and Greenspan are also evident as well. As we've mentioned, Warsh is more driven by and wants to be more driven by a rules-based, process-oriented approach. That was not the case with Greenspan. Greenspan was much more of a intuition guy in terms of the way in which he went at policy. It wasn't rules-based. It was very much... I don't want to call him an evil genius, but it's sort of a genius approach to things that it was all in his mind and that's what he trusted, whereas Warsh, again, is a bit more rules-based.

I think another difference we'll see is that Warsh wants to be much more direct and transparent and predictable with monetary policy. Again, that kind of goes alongside being more rules-based. The markets, he thinks, should know what the Fed is thinking and where they're headed. Whereas, of course, Greenspan was famously opaque. In fact, many may remember the famous quote from Greenspan, which meant something along the lines of, "If I've made myself too clear, you must have misunderstood me." So he was very much almost wanting to keep the markets guessing, and that's not Warsh's approach. Warsh thinks that predictability is a key component of Fed functioning. So that's another difference.

And then I think the other difference that's important to mention, especially in the world today around where we sit with AI, is less tolerance for bubbles. Greenspan also famously had a quote, something along the lines of, "You can't predict bubbles ahead of time. You can only clean them up afterwards." And I think Warsh's approach is different to that, that he thinks there is more of a responsibility to attempt to avoid bubbles forming in equity markets or other risk asset markets. So certainly, I think a similarity in terms of sort of their, I guess you could call it confidence, but the way in which they go about their job with Warsh versus Greenspan will probably be a little bit different.

Henray Cohen:

Well, I think that's good context, and it's a useful way to think about where Warsh might be different. Thanks for that, Dan.

Now, coming back to you, Richard, I've got another question, which is the million-dollar question everyone wants to know, and that is, how does a Warsh nomination impact our 12-month outlook for interest rates?

Richard Belley:

Well, as I said earlier, I don't think the market... I saw a lot of risk during the announcement of denomination, but I do not think looking at 12 months forward, I do not think it changed the outlook materially, but it may impact a bit

how we get there. And just as a reminder, our base case outlook over the next 12 months is for two to three rate cuts with a 4% target on a 10-year treasury, which means that we're seeing the yield curve to continue to have as deepening bias. So for short-term rates, in my opinion, the Fed under Warsh would be less likely to respond preemptively or aggressively to marginal growth weakness. So as Dan was mentioning, rule-based. And as I said before, he does support lower rates, but if use cuts as normalization more, normalization toward neutral more than stimulus, adding stimulus to the economy or an insurance easing. As a result, the probability of seeing an outsized or front-loaded easing cycle that was kind of feared with other candidates, I think, is moving lower. In practical terms, it reduces the downside risk to short-term rates.

The Fed is still expected to ease, but cuts are more likely to be conditional, data-validated. So this reinforced our view that policy rates move lower, but not dramatically below neutral over the next 12 months. So our two to three rate cuts forecast still holds. Where Warsh may impact our outlook is at the longer end of the curve, as then, and I mentioned, Kevin Warsh's discomfort with an oversized Fed balance sheet and prolonged quantitative easings tells us is that he's probably going to be looking for the opposite of this. He's going to have preference for ongoing quantitative tightening and most likely reducing the overall balance sheet optionality in the future, even as policy rates would be moving lower.

So when we mix the lower policy rates in the tighter liquidity going forward, I think the risk is that it may have important implication for term premiums. So in our view, we see less scope for a sustained rally in long-dated treasuries or long bonds. We think that the treasury supply will remain elevated. It may increase. The quantitative tightening will continue to drain liquidity, and the Fed's credibility on inflation will ultimately limit the need to add longer-duration hedges as we've done in the past. And I think that when we're looking at all these factors, it will most likely keep a floor under long-term yields, which reinforce our 4% target on 10-year treasury. With Warsh, the long end becomes more anchored by fundamentals than by policy accommodation, and the long end of the curves no longer get the automatic reassurances that we used to have from the Fed.

So again, Treasury supply, fiscal headlines, growth, and inflation prints will matter more, and markets will need to price this risk again. Growth may slow down the road in the next quarters, but without a recessionary shock, there is little justification for us to see a material move below 4% on 10-year yields. Having said that, the risk is more for term premium volatility at the long end. And in that context, we see a bit of a risk that 10-year yields could finish the year slightly higher than 4%.

Henray Cohen:

Well, two to three rate cuts this year, coupled with a 10-year treasury yield in the ballpark of 4% would make a lot of people happy. So I hope you're right, Richard.

Dan, last question for you. What does this all mean for our long-term outlook?

Dan Phillips:

Yeah. And so with respect to Warsh, and as we've been alluding to throughout this podcast, it's less of an impetus to cut rates just to cut rates, which was what everyone was expecting from the Trump candidate where many thought that the only question he had for Fed chair candidates was, how quickly are you going to cut rates? It was,

as we've mentioned, a bit of a surprise from that front, but that's not to say we won't see rate cuts. As we've mentioned, we still see the potential for two to three cuts, but it's really more hinging on the fundamentals, the ability for inflation to continue to make its way back down towards 2%, the state of the labor markets and really ultimately where productivity comes in. We've seen some signs that productivity is going higher. AI has the potential to really accelerate that. And it seems as though Warsh is sort of on that page, that that's his premise, his prior, if you will, coming into this, is that there will be disinflationary pressure.

And so again, he may still cut rates, but the rate cuts will be possibly even more powerful than perhaps what a different candidate, a Trump-preferred candidate, if you will, the power of their rate cuts would be. And that ultimately might be, by the way, how Scott Bessent, Treasury Secretary, convinced Trump that Warsh was the right pick, that if the economy continues as they expect, again, higher productivity, there is the ability to cut rates, and because of the greater credibility of Warsh, that those rate cuts will have more meaning, will not push the backend of the curve higher and ultimately will be, again, more effective. So all said and done, again, maybe the risk of fewer cuts or, perhaps, less of a bias towards cutting over not just this year, but as you asked in the question over the longer term outlook, but that those cuts will come with greater constructive impact.

And I think lastly, what I'd mention here when you were asking about Greenspan and comparing to Greenspan and giving some of Greenspan's record, it is true that he did preside over a pretty good economic expansion. His term was from 1987 into 2000s, and of course, that was a period of great technological innovation via the internet. Well, we're sitting today with a similar technological innovation through AI. And the point I suppose I'm getting to is it's really maybe not so much the Fed chair himself as it relates to his success, but likely a lot has to do with the cards they hold, which Greenspan held good cards. Warsh has the potential to hold really good cards. And so it's more corralling what can be a very strong economy as long as policy mistakes aren't made. And I think in that sense, if you think about a Warsh nomination, somebody who is putting very much at the top of the priority list Fed credibility, that you can see him as really the best candidate for this world of high potential, and that can lead to a really favorable growth environment and also inflation staying pretty moderate. So again, Fed chair is a big component of the long-term outlook, but the fundamentals also matter as well.

Henray Cohen:

Well, it'll be very interesting to see how this all plays out. Dan, Richard, thank you both for being here and giving us your perspective. And on that note, we'll wrap things there. Thanks everyone for joining us, and we'll see you soon for the next episode of Beyond the Portfolio.

Mike Miranda:

Thank you for listening to Beyond the Portfolio. You could follow us on Apple Podcasts, Spotify, or your favorite podcast app. Until next time, I'm Mike Miranda.

Disclosure:

For BMO Disclosures, see episode description in your podcast player.