

# MARKET COMMENTARY

## Fed: a hawkish welcome to the new chair

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- **The FOMC turned noticeably more hawkish. Three members dissented against retaining the easing bias, and Chair Powell acknowledged the Committee is transitioning towards a more neutral stance; a shift could materialise as early as the June meeting.**
- **Domestic demand continues to power ahead, underscoring resilience. But uncertainty about the duration of the Gulf war and its economic fallout compounds an uneasy “no hire–no fire” labour-market equilibrium and stubborn inflation. The Fed remains “in a good place” and sees no need to rush decisions.**
- **Powell said he will not step down from the Board until the Department of Justice investigation has reached a transparent conclusion, renewing concerns about persistent political attacks on the Fed.**
- **The hawkish turn will complicate the start of Kevin Warsh’s tenure (approved by the Senate Banking Committee today). Our baseline still looks for a December cut (on a slightly less upbeat view of the economy), but the probability of no cuts has risen materially.**

The FOMC held rates as expected. Sticky inflation and a resilient economy are pushing the Committee in a more hawkish direction. The press release flagged softer hiring but inflation still elevated—“in part reflecting the recent increase in global energy prices”—and heightened uncertainty from the Middle East war. Three members opposed keeping an easing bias, pointing to a longer pause before any cuts (and a remote hike risk). Governor Miran, as expected, dissented for lower rates. The split—the widest since 1992—complicates the handover to incoming chair Kevin Warsh, confirmed today by the Senate Banking Committee, especially given his openly dovish stance.

Powell struck a balanced tone: the economy is still firm, but uncertainty is rising because the scope, duration, and transmission of the Gulf crisis are unclear. The Fed remains constructive: growth is solid, consumption is holding up, and investment is strong even as housing stays weak. “Insatiable” demand for data-centre capacity is lifting capex. Overall, private demand is running above 2% and growth looks broad-based.

On labour, the message was cooling—not cracking. Job growth has slowed, which Powell linked to lower immigration and participation, while labour demand has eased. But layoffs have not meaningfully increased, leaving unemployment (4.3% in March) close to the estimated long-run natural rate. The market remains in an uneasy low-hire, low-fire balance.

Inflation is the sticking point. The Fed estimates March headline PCE at 3.5% and core at 3.2%. Powell said long-run expectations still look consistent with 2%, but he stressed uncertainty about persistence. The baseline view has been that tariffs are a one-off level shift; the Committee now wants to see whether the data confirm that. Energy is trickier: in theory the Fed can look through oil spikes, but inflation

is already above target, and the Fed is already looking through tariff effects. That raises second-round risks—oil feeding into core. There is also an offset: higher gasoline prices squeeze disposable income and can cool demand even as they lift headline inflation. The Fed then is still “working” through the inflation outlook, and the case for waiting is then stronger.

Powell said the Fed is “well positioned” and will move meeting by meeting. Nobody is arguing for higher rates now. Internally, there is an active debate about shifting toward a more neutral bias; several participants wanted to signal that shift at this meeting, and he acknowledged the “centre” is moving that way. But the majority—including Powell—does not want to pre-commit while the growth/inflation effects of the Gulf crisis remain unclear. The disagreement is mainly about timing, and he conceded a shift could come as soon as June. He reminded that the economy was hit by at least four adverse supply shocks during the last six years, and such an unprecedented situation explains why views within the FOMC may differ more widely than in the past. He also argued policy is close to neutral; while noting it is impossible ex ante to know when war-related growth risks will outweigh inflation risk.

Powell also explained why he has not yet left the Board. He said he will stay briefly until the process concludes “with transparency and finality”. He pledged not to act as a “shadow chair”—keeping a low profile, respecting the Chair, and avoiding undue interference. He also reiterated concern about unprecedented political attacks on the Fed, and said the Committee worries they may continue.

Pre-meeting, markets implied roughly 2–3bp of cuts this year; after the decision, pricing shifted to about a 1.4bp increase. The S&P 500 fell 0.2%. The two-year Treasury yield rose 0.1 percentage points to 3.94%.

We are slightly less optimistic than the FOMC, especially on consumption. Our baseline still assumes one cut in December, but today’s hawkish turn materially raises the risk of no cuts in 2026.