

Economic commentary from the Investment Advisory Group

Powell nominated for another term as Fed Chair, Brainard tapped for Vice Chair

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Executive summary: The President has re-nominated Jerome (Jay) Powell as chairman of the Federal Reserve (Fed), and nominated Lael Brainard as vice chair. The moves provide much-needed continuity at the central bank and should soothe markets concerned about a dramatic shakeup at the Fed. Yet, the makeup of the Fed will continue to evolve in the coming months since there are three additional Board of Governors appointments available, along with two regional Fed presidents (Boston and Dallas). These nominations don't change our outlook for how quickly the Fed tapers its bond purchases nor eventually hikes interest rates.

What happened

President Biden re-nominated Jay Powell as Fed chairman, and nominated Dr. Lael Brainard, a current Fed Governor, as vice chair. Both will need to be confirmed by the Senate. Given that both are currently members of the Fed and have been previously been fully vetted, we don't anticipate any surprises with respect to their background checks, etc.

Nominee	Position	Term	Qualifications/comments
Jerome Powell	Chair	January 31, 2026	He been Fed Chair since 2018 and has been a Fed Governor since 2012. Previously, he served as undersecretary of the Treasury (from 1990 to 1993). He's a lawyer by training and was an investment banker earlier in this career.
Lael Brainard	Vice Chair	January 31, 2026	She has a PhD in economics from Harvard and has been a Fed Governor since June 2014. Previously, she served as undersecretary of the Treasury from 2010 to 2013.
<i>Randal Quarles</i>	Vice Chair of Bank Supervision	December 2021	He announced he will step down by December 31, 2021. His term as vice chair for supervision expired in October 2021.
<i>Open</i>	Board of Governors		This would fill Dr. Brainard's unexpired term ending January 31, 2026.
<i>Open</i>	Board of Governors		Has been unfilled; term expires in 2024.

Source: Truist IAG, Federal Reserve Board

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Nominees must get 60 votes in the Senate to confirm these appointments, which is further complicated by an evenly split Senate. In other words, literally one or two Senators could derail either nominee.

Their confirmation hearings will be challenging as both parties rightly debate the nominee's views and qualifications. Both Powell and Brainard are well qualified and hold mainstream views; thus, defending their previous positions should be relatively straightforward. However, it is a politically-charged environment, especially in the midst of negotiations to pass the Build Back Better plan, increase the debt ceiling, and stave off a government shutdown.

In counting votes, 68 of the 84 votes that confirmed Powell as chair in 2018 remain in the Senate. Dr. Brainard was confirmed by a narrow 61 to 31 vote in 2014.

Furthermore, there could be as many as three additional Board of Governors appointments. The first is the vice chair of bank supervision position, which was most recent held by current Fed Governor Randal Quarles. His term as vice chair of bank supervision expired in October and announced he would step down at the end of this year. The other is current Vice Chair Richard Clarida, whose term expires on January 31, 2022, while the remaining position has been open for several years. The White House has said it expects those additional Board of Governors nominations in early December.

Our take

First, we expect that Powell will easily be confirmed. He has broad support within the Senate, including key Democrats, and was strongly supported by Treasury Secretary Janet Yellen, who was Fed chair prior to Powell. We also anticipate that Dr. Brainard will be confirmed, though not as easily.

More importantly, the Powell and Brainard picks maintains continuity among Fed leadership in a time when the pace of inflation and the appropriate response from the central bank are in question. Maintaining leadership should help preserve financial market stability, evidenced by the positive risk tone and upward move in U.S. Treasury yields following the announcement. It also eases concerns over a potential reshuffling of the Fed's priorities established during the Powell era. Furthermore, re-nominating Powell for a second term should assuage fears about the Fed's independence and non-partisan approach to policymaking.

Despite the continuity aspect, President Biden still has the ability to leave a significant mark on the central bank's makeup and policy stance with several key vacancies. We expect these selections to skew to the dovish side, with the new appointments favoring a cautious strategy to tightening policy. We maintain the almost-three 0.25% rate hikes now priced in 2022 by Fed funds futures trading is premature, especially given these two picks.

With respect to the additional Governor picks, the White House will likely tack to the center politically and philosophically. This is especially true in light of the controversial nomination of Saule Omarova for Director of the Office of the Comptroller of the Currency. Dr. Omarova, a Cornell University law professor, underwent a bruising Senate hearing last week from both sides of the aisle.

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