



## Full Discretion Team

# Extra Credit

## A New Era of Fed Leadership: Warsh Does It All Mean?

Below the Full Discretion Team shares its thoughts and insights surrounding the nomination of Kevin Warsh as Federal Reserve (Fed) chairman and potential impacts of this change.

### Trajectory of Fed Policy

In our view, Warsh will need to convince the Federal Open Market Committee (FOMC) that the US economy is on the cusp of entering a strong era of productivity gains in order to gain the votes necessary to substantially lower rates. Our expectations are for a reduced balance sheet, lower US Treasury issuance on the long end of the curve (10 years and out), and an increased issuance in T-Bills. We do believe the risk for inflation to reassert itself later in the year is real and is also currently under priced in the market.

Given the stimulating effects of the One Big Beautiful Bill Act and recent US Supreme Court rulings on tariffs, we expect solid US real GDP growth in the first half of 2026. Any interest rate cuts that are not justified by the Fed's dual mandate and instead lean more towards a fiscal benefit will likely be received negatively by investors, in our view. We would expect the long end of the US interest rate curve to react negatively to any fiscally biased cuts. We see the potential for two interest rate cuts in the back half of this year.

### Independence of the Fed

We view the risk of reduced Fed independence as low given the current construction of the Committee. Should the Committee membership change meaningfully and shift to one that falls in line with Trump's wishes for significantly lower rates front end rates, we would foresee the long end of the curve moving higher, the risk of an overheating US economy growing, the potential for a weaker US dollar and the risk of higher inflation increasing.

## Key Takeaways

- Under Warsh's leadership, we would expect a reduced balance sheet, lower issuance of US Treasuries on the long end of the curve and increased issuances in Treasury Bills (T-Bills).
- We expect the Fed to maintain its independence under the current construct of the FOMC.
- Interest rate cuts made for fiscal purposes would likely be negatively perceived and could cause continued weakness in the US Dollar, in our view.
- We continue to believe inflation will remain 'sticky' and capex spending will continue throughout 2026.

In this instance, the initial reaction from equities and credit might be positive as front-end rates could move lower. However, we think the longer-term ramifications of higher inflation, lower US dollar, higher long-term rates and potential for offsetting rate hikes at some point in the future - post 2028 election cycle - would eventually lead risk assets lower in value.

Given the stated desire for lower rates by Warsh, we would expect the market to continue to price this in on the front end of the interest rate curve, even if it does not appear justified by economic fundamentals. A smaller balance sheet should theoretically put pressure on liquidity as it removes a natural buyer of assets from the market and instead introduces a large seller. We currently do not think there is value in longer-dated key rate duration exposures as the risk of higher yields remains.

### Impact To Our Macro Views

From a macro perspective, our base case continues to be anchored around the belief inflation will remain 'sticky' given our secular views on deficits, demographics, deglobalization and demographics. We believe the capex 'spending spree' will continue throughout 2026 regardless of the change in Federal Reserve chairman. This spending engulfs many industries including construction, real estate, utilities and tech hardware. US real growth looks to be on solid footing in 2026 as our base case is for 2%-2.5% GDP growth. We view the labor markets as possibly recovering in 2026 as well.

As companies adapt to a tariff environment, we believe some visibility should emerge and increased hiring will return with it. We don't foresee a hiring boom, but instead a return to approximately 75k-100k per month in added jobs. The solid backdrop of a healthy late cycle/expansion environment showing stable profits, low default risk in the public high yield market and steady economic growth gives us the conviction to continue to find value in risk assets.

In a downside scenario, we see further shifts away from hiring due to artificial intelligence (AI) fears, tariff uncertainty, renewed immigration restrictions as well as a pullback in capex spending as initial investments show lower profitability than original market analysis. A credit contraction is possible if fears of higher defaults in private credit and lower-rated bank loans are realized. We put a low probability on that scenario, however, and would look to potentially add risk assets into that environment given the pullback in valuations.

### Implications for the US Dollar

The more Warsh can convince the Committee that we are on the cusp of a productivity wave and it lowers the Fed Funds rate without economic justification, we would forecast continued weakness in the US dollar. Higher future inflation expectations as well as diminishing interest rate differentials between the US and other countries would both contribute to a continued decline in the US dollar, in our view.



## Meet the Team

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Associate Investment Director

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Associate Investment Director

## About the Team

The Full Discretion team brings decades of expertise and collaboration to create tailored solutions for their clients.

27

Investment Professionals

23+

Years of Industry Experience  
(Portfolio Management Team)

\$85.6

Team Assets Under Management  
(Billion USD)

## Team Philosophy

We have a legacy of independent thinking and leaning into the market when others may be pulling away. We take a deep-value, equity-like approach to credit selection across global fixed income markets. Our disciplined process helps give us confidence in seeking to identify macro trends, formulate a clear view on market sectors, and invest throughout the credit cycle.

For more than 40 years, we have been applying our distinctive style of bond picking to deliver portfolios designed to provide excess yield potential and have low correlations to traditional benchmark-focused fixed income strategies.

*Source: Loomis Sayles, as of 12/31/2025  
Average years of expertise reflected at portfolio management level*

## Important Disclosure:

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*Market conditions are extremely fluid and change frequently.*  
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