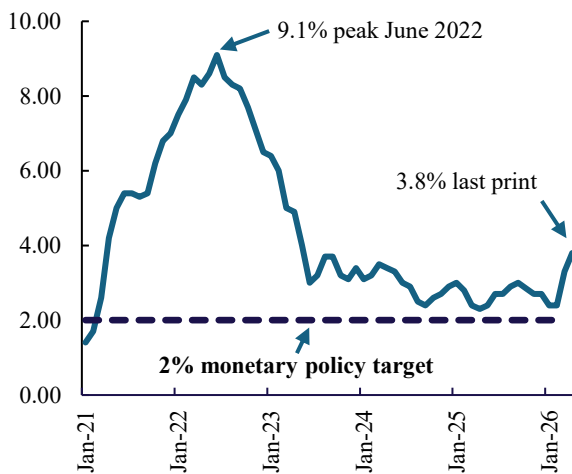


US Federal Reserve changes leadership amid challenging context

The appointment of Kevin Warsh as Chair of the Federal Reserve comes at a particularly challenging time for monetary policy. At the beginning of the year, the US economy was on a path of steady growth and moderating inflation, with expectations building around a gradual easing cycle of policy rates. However, this trajectory was abruptly disrupted by a sharp escalation in geopolitical tensions.

Following the US-Israeli military campaign against Iran, launched on February 28th, Tehran retaliated by effectively closing the Strait of Hormuz – the waterway through which approximately 20% of the world’s oil and liquefied natural gas (LNG) normally flows. The resulting surge in energy prices pushed US inflation close to 4%, nearly double the 2% target of monetary policy, triggering a reassessment of the outlook.

Consumer Price Inflation
 (% , year-over-year)



Source: Bureau of Labor Statistics, QNB Economics

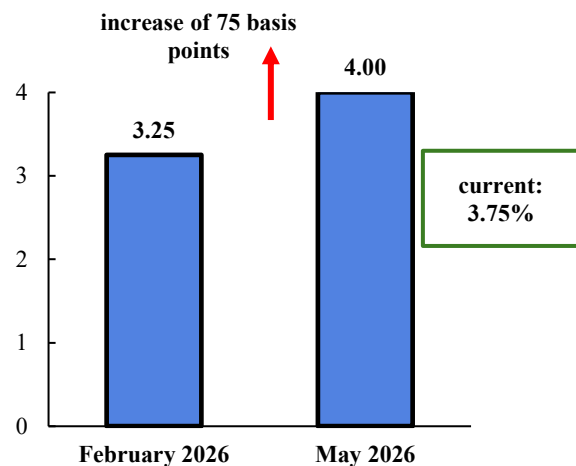
In this context, the policy environment has shifted markedly, with inflation pressures re-emerging, market expectations undergoing a sharp repricing, and key debates intensifying around the appropriate policy framework. In this article, we discuss the main challenges confronting the Federal Reserve under Warsh’s leadership.

First, the outlook for policy rates has shifted significantly since the beginning of the year, reflecting a reassessment of inflation dynamics. At that time, moderating price pressures had led markets

to anticipate a gradual easing cycle by the Federal Reserve, even as Chair Jerome Powell faced increasing political pressure from Donald Trump to lower interest rates more aggressively. However, the surge in energy prices has altered this trajectory, reinforcing upside risks to inflation at a time when underlying price pressures were already proving persistent. Furthermore, consensus forecasts for inflation for this year have increased significantly, from 2.6% in February prior to the conflict to around 3.3% in recent estimates, signalling a renewed phase of price pressures.

As inflation has moved further away from target, markets have repriced the policy path accordingly, shifting from anticipating rate cuts to pricing a prolonged period of restrictive policy, with a high probability now assigned to tightening. In this context, a move towards rate increases could once again face political resistance, adding complexity to the policy outlook.

Policy Rate Market Expectations for End-2026
 (% , upper limit of target range)



Source: Bloomberg, QNB Economics

Second, artificial intelligence (AI) introduces a new layer of complexity to the macroeconomic outlook under the new leadership. Warsh has emphasized that technological advances could exert downward pressure on prices by boosting productivity and lowering unit labor costs. In principle, stronger productivity growth could allow the economy to expand without generating inflationary pressures, allowing for lower policy interest rates. At the same

time, the impact of these technologies on employment remains uncertain, as automation may both displace certain jobs and create new sources of labor demand. Thus, a key challenge lies in assessing the magnitude and timing of these effects. Moreover, there is no clear consensus within the Federal Reserve on the extent to which AI-driven productivity gains will translate into sustained disinflation, with some policymakers already expressing skepticism about the near-term impact of these forces. As a result, the uncertain and potentially uneven consequences of technological change add further difficulty to the calibration of monetary policy.

Third, the size and role of the Federal Reserve's balance sheet represent another key challenge under the leadership of Kevin Warsh. The Fed's balance sheet expanded significantly over the past decade as a result of large-scale asset purchases implemented in response to the Global Financial Crisis and the Covid-pandemic, with holdings concentrated in US Treasuries and mortgage-backed securities. Warsh has previously argued in favor of a faster reduction of the balance sheet, highlighting concerns that its elevated size distorts financial markets and encourages excessive risk-taking.

However, such an approach faces resistance within the Federal Reserve. Concerns over market stability remain central, as a faster pace of balance sheet reduction could lead to volatility in bond markets and disruptions in funding conditions. Additionally, the financial system has adapted, raising the risk that a rapid withdrawal of liquidity could impair market functioning. As a result, while balance sheet normalization remains ongoing, the pace and extent of further reductions are likely to remain subject to debate and differing views within the Federal Reserve.

All in all, the outlook for US monetary policy has become more complex, as the new leadership faces renewed inflationary pressures, evolving structural forces, and debates around the appropriate policy framework. Reflecting these dynamics, market expectations for policy rates have shifted towards a scenario of prolonged restrictiveness, with a likely tightening of 25 basis points by the end of the year, which would raise the benchmark policy rate to 4.00%.

QNB Economics Team:**[Bernabe Lopez-Martin*](#)**Assistant Vice President - Economics
+974-4453-4643**[Aisha Khalid Al-Thani](#)**Senior Associate - Economics
+974-4453-4647

* Corresponding author

DISCLAIMER: *The information in this publication ("Information") has been prepared by Qatar National Bank (Q.P.S.C.) ("QNB") which term includes its branches and affiliated companies. The Information is believed to be, and has been obtained from, sources deemed to be reliable; however, QNB makes no guarantee, representation or warranty of any kind, express or implied, as to the Information's accuracy, completeness or reliability and shall not be held responsible in any way (including in respect of negligence) for any errors in, or omissions from, the Information. QNB expressly disclaims all warranties or merchantability or fitness for a particular purpose with respect to the Information. Any hyperlinks to third party websites are provided for reader convenience only and QNB does not endorse the content of, is not responsible for, nor does it offer the reader any reliance with respect to the accuracy or security controls of these websites. QNB is not acting as a financial adviser, consultant or fiduciary with respect to the Information and is not providing investment, legal, tax or accounting advice. The Information presented is general in nature: it is not advice, an offer, promotion, solicitation or recommendation in respect of any information or products presented in this publication. This publication is provided solely on the basis that the recipient will make an independent evaluation of the Information at the recipient's sole risk and responsibility. It may not be relied upon to make any investment decision. QNB recommends that the recipient obtains investment, legal, tax or accounting advice from independent professional advisors before making any investment decision. Any opinions expressed in this publication are the opinions of the author as at the date of publication. They do not necessarily reflect the opinions of QNB who reserves the right to amend any Information at any time without notice. QNB, its directors, officers, employees, representatives or agents do not assume any liability for any loss, injury, damages or expenses that may result from or be related in any way to the reliance by any person upon the Information. The publication is distributed on a complementary basis and may not be distributed, modified, published, re-posted, reused, sold, transmitted or reproduced in whole or in part without the permission of QNB. The Information has not, to the best of QNB's knowledge, been reviewed by Qatar Central Bank, the Qatar Financial Markets Authority, nor any governmental, quasi-governmental, regulatory or advisory authority either in or outside Qatar and no approval has been either solicited or received by QNB in respect of the Information.*