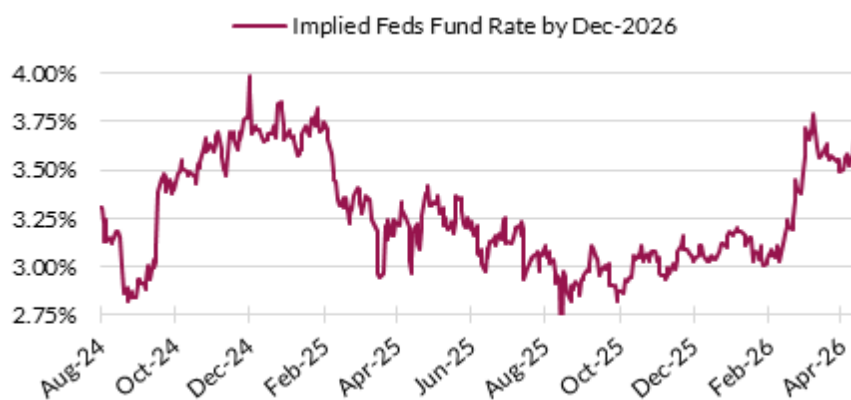


The fight for the Fed's independence intensifies

The Fed held rates unchanged at 3.5–3.75%, but the decision exposed unusually sharp internal divisions, with four dissents reflecting growing uncertainty over inflation amid tariff risks and Middle East tensions. Separately, Chair Powell announced he will remain on the Fed's Board after stepping down as chair, citing legal pressure from the Trump administration and concerns over institutional independence thus delaying an additional Fed appointment by Trump. Looking ahead, despite a leadership transition to Kevin Warsh, we expect policy rates to remain unchanged through CY26, with markets having fully priced out earlier expectations of multiple rate cuts.

30 Apr 2026
 US economics
 FOMC Review

Exhibit 1: Market pricing implies no rate cuts over CY26, a challenge for Warsh



Source: Bloomberg, Axis Bank Research

Rates held steady as expected amid a challenging macro backdrop

While rates were held steady at 3.5–3.75% as largely expected, four of 12 members dissented—three objecting to retaining language signalling an easing bias, and one favouring an immediate rate cut. The split reflects rising uncertainty over the inflation outlook amid new supply shocks from tariffs and Middle East tensions. Over the last two months, headline inflation expectations have risen by >70bps (Fig 2) even as core inflation expectations rose by only 20bps (Fig 3).

Powell to remain on Fed Board, ratchets up fight with Trump over independence

Chair Powell said he will remain on the Fed's Board of Governors after stepping down as chair next month, citing unprecedented legal pressure from the Trump administration that he believes threatens the institution's independence (a theme we highlighted even before Trump took office: [The Fed is on a collision course with Trump](#)). Powell's chair term ends on 15 May, but his separate term as governor runs until early 2028. Traditionally, Fed chairs depart when successors take office, making Powell's decision a significant break from precedent. This decision delays any additional Fed board governor appointment by Trump.

Policy outlook: We expect rates to remain unchanged in CY26

While Kevin Warsh is expected to take over as chair before the next Fed meeting, we do not expect a material shift in the policy-rate trajectory. The markets have priced out rate cuts post the US-Iran war started (Fig 1) vs. expectations of at least 2 cuts earlier. Our view, long before the war started, was that the potential for rate cuts was limited vs. what the market was pricing (See [No clear path to cuts](#) and [we are at 'neutral' now](#)) as inflation was elevated even earlier (Fig 3). The Fed still maintains an easing bias given risks to growth (Fig 5-6), labor markets and financial stability ([link](#)).

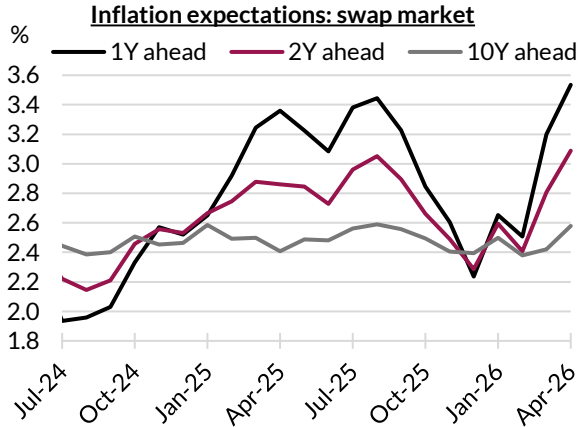
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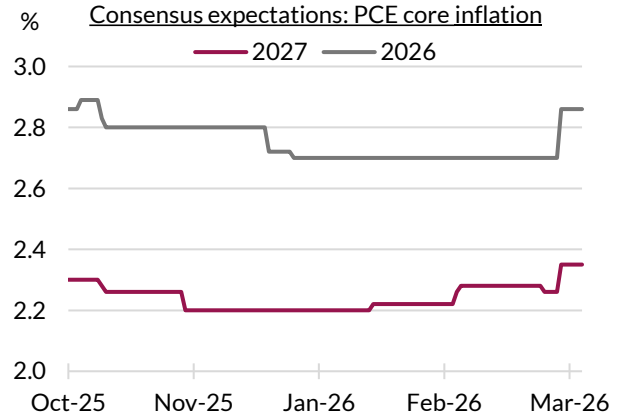
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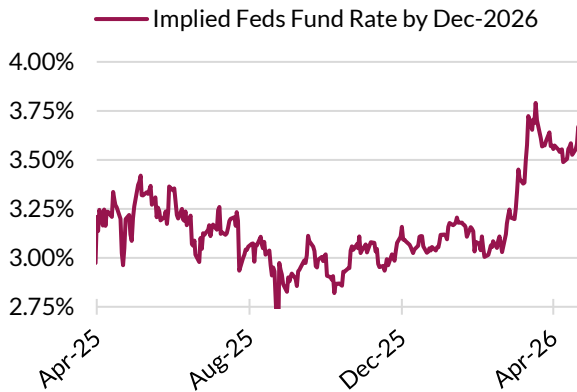
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Story in Charts
Exhibit 2: Inflation expectations in the US for the next 1-2 years have increased sharply over the past two months


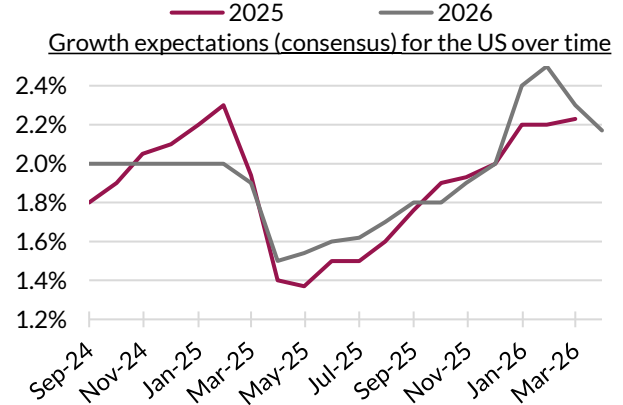
Source: Bloomberg, Axis Bank Research

Exhibit 3: Consensus inflation expectations are up over 70 bps, yet core US PCE is expected to rise only marginally


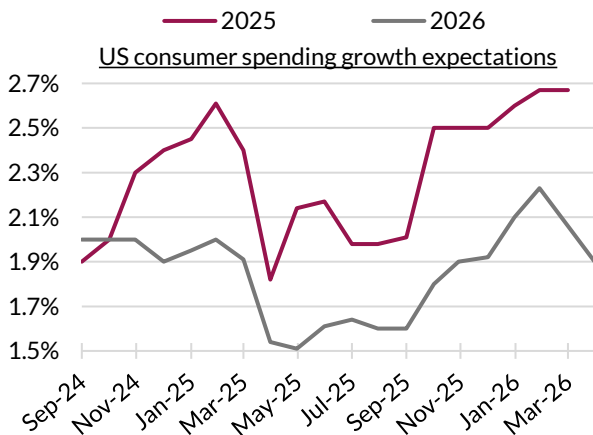
Source: Bloomberg, Axis Bank Research

Exhibit 4: Rising inflation expectations have erased expectations of rate cuts (vs. 2-3 cuts earlier)


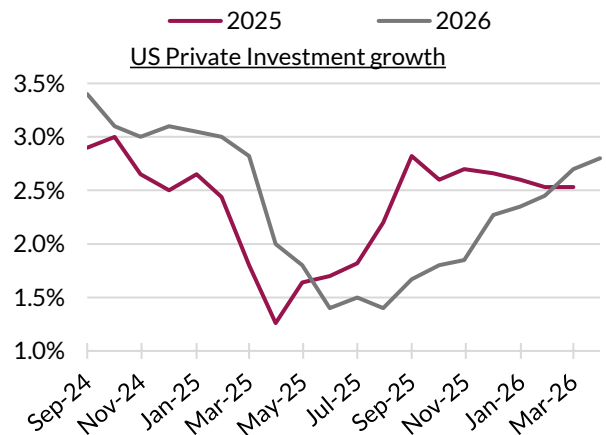
Source: Bloomberg, Axis Bank Research

Exhibit 5: Consensus growth downgrades have been modest so far (2026 GDP growth cut by 30 bps vs Feb-26)


Source: Bloomberg, Axis Bank Research

Exhibit 6: Entirely driven by expectations of a slowdown in consumption...


Source: Bloomberg, Axis Bank Research

Exhibit 7: ...as forecasts for private investment growth have strengthened over the past two months


Source: Bloomberg, Axis Bank Research

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