

THE FUTURE OF THE FED: NEW LEADERSHIP & RATE CUTS

A new Federal Reserve Chair will be nominated next year when Jerome Powell's term ends. What could this mean for interest rates, the economy, and markets?

For long-term investors, the Federal Reserve plays a key role in supporting the economy and financial system. This will be especially important in 2026 since Jerome Powell's term as Fed Chair ends in May, creating an opportunity for the White House to reshape the central bank's leadership and direction. This could have implications for interest rates, the stock market, and portfolios.

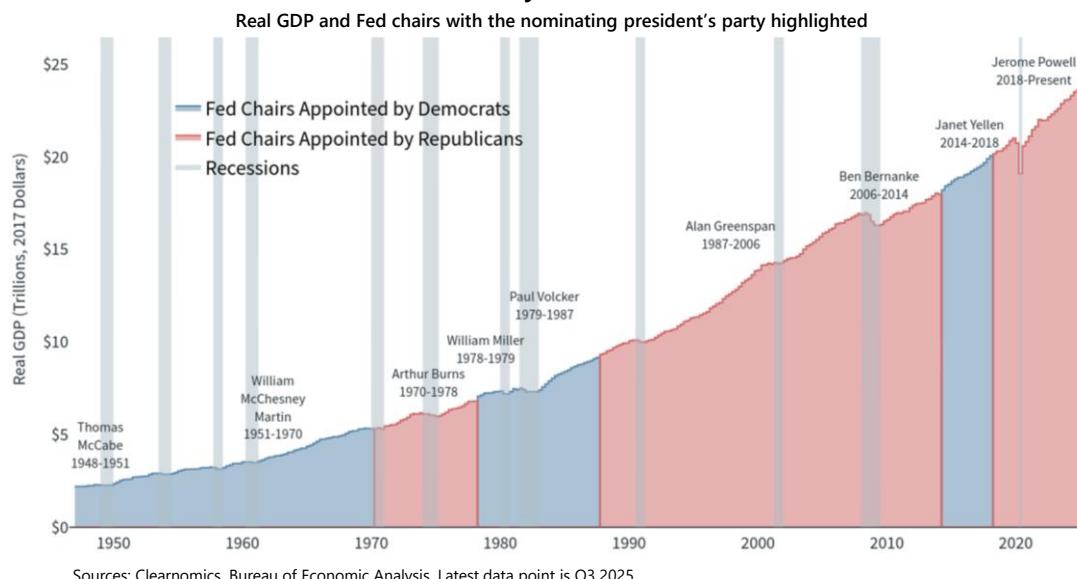
While headlines often focus on the Fed's next rate decision, much of the debate on both Wall Street and in Washington is around what the Fed's role should be. The Fed's mandate has evolved over time in response to financial crises and business cycle trends. This can be a controversial topic, with disagreements over the scope of the Fed's authority and what actions it should take today on interest rates and the money supply. Looking ahead into next year, these topics matter because they shape not just near-term policy decisions, but the future of the Fed itself. What context do investors need as Fed headlines dominate the news in the coming months?

The Fed's Role Has Expanded Over History

The Federal Reserve was established in 1913, with a primary mission to prevent bank panics. Throughout the 19th and early 20th centuries, these panics were common and problematic for businesses and individuals alike. Typically, these crises were made worse when there was a "run on a bank," a situation in which depositors lost confidence and rushed to withdraw their money, threatening both the bank and the broader financial system.

Today, the Fed is tasked with ensuring that banks have enough capital reserves and, more fundamentally, the Fed also serves as the "lender of last resort," acting as a backstop and source of stability in situations when a panic might occur. This was tested most recently during the 2020 pandemic and the 2023 regional bank crisis.

The Economy and Fed Chairs



Over the decades, however, the Fed's responsibilities have grown. Notably, the Federal Reserve Reform Act of 1977 directed the Fed to promote "maximum employment, stable prices, and moderate long-term interest rates." The Fed typically focuses on the first two as its "dual mandate," and sees the third goal as a result of achieving them.

This evolution has evolved and become increasingly complex, since the Fed is now seen as managing not only banks, financial transactions, and the exchange rate, but the state of the economy as a whole. This is why so much attention is placed on each of the Fed's interest rate decisions, not only for the path of rates, but for hints as to how the Fed is thinking about the broader economy.

Fed Independence Involves Tradeoffs

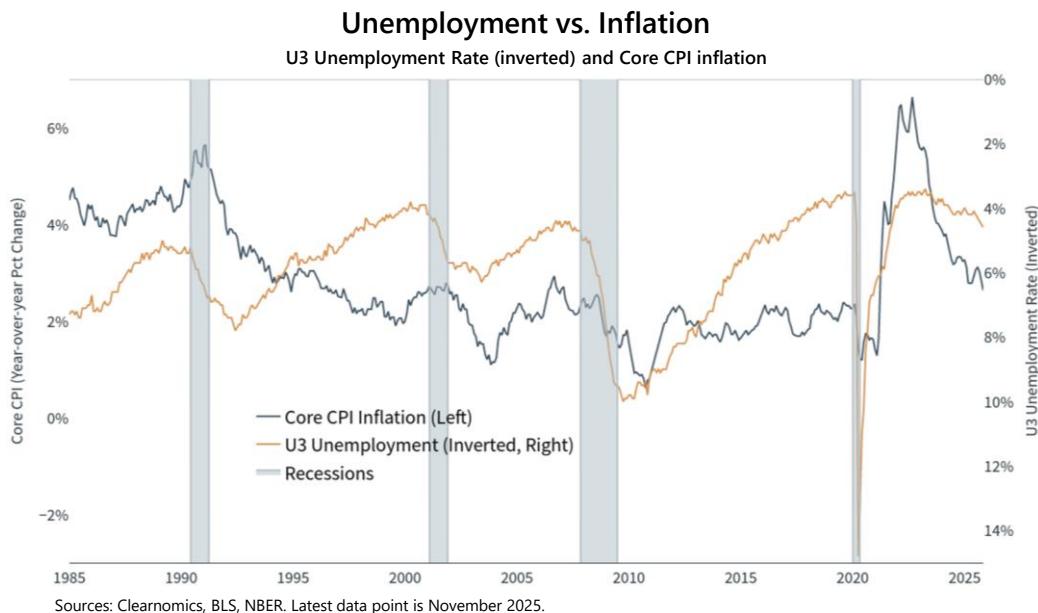
Fed officials are appointed by the president and approved by Congress but are not elected by voters. Critics argue that the Fed amounts to an unelected body with enormous economic power that affects all Americans. Proponents argue that the Fed must often make unpopular

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decisions, including ones that may slow the economy in the short run to preserve growth in the long run. There is truth to both arguments, so maintaining a balanced view can be difficult.

Regardless of their decisions, the Fed's policy tools are limited. The Fed primarily controls short-term interest rates through the federal funds rate. Adjusting a single policy rate, however, cannot solve many of the underlying challenges in the economy. These include supply chain problems beginning in 2020 that drove inflation higher, trade uncertainty due to tariffs, and potential labor market challenges due to artificial intelligence.



The Fed can only indirectly influence longer-term rates, which matter more for mortgages, corporate borrowing, and investment decisions. These rates are determined by market forces including inflation, fiscal policy, and economic growth. So, while the Fed is often viewed as controlling the economy and financial system, it is often influencing markets or reacting to events rather than driving them.

Leadership Changes Could Shape Policy Direction in 2026 and Beyond

With Fed Chair Jerome Powell's term ending soon, the White House is expected to name a replacement early in 2026. The latest projections suggest the Fed may cut rates only once in each of 2026 and 2027, but regardless of who the next Fed Chair will be, it's likely the administration will appoint someone inclined to keep rates lower. This means these projections may change in the coming months.

At the same time, it's important not to overreact to potential changes in policy. While the Fed Chair wields significant influence, the committee includes twelve voting members with diverse views. Historically, the committee has tried to work toward consensus, so even a Chair aligned with the administration's policy goals must sway other committee members with convincing arguments.

Taking a broader perspective is valuable since this is not the first time the Fed has changed leadership. Historically, the economy has grown across different Fed Chairs appointed by both political parties. What matters most is whether monetary policy remains appropriate for economic conditions. Again, the Fed is often reacting to shocks outside of its control, rather than directly steering the economy.

Economic Trends Matter More Than Individual Fed Decisions

While there will be many more headlines around Fed leadership in the coming months, what truly matters is the overall path of the economy. The next Fed Chair may generally prefer lower interest rates, but this will depend strongly on whether the job market remains weak and if inflation continues to stabilize. For investors, the key is to maintain a portfolio aligned to financial goals rather than react to the day-to-day speculation around the Fed.



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