

Fed Chairs and Market Returns

How have markets historically reacted to new Fed chairs?

IN A NUTSHELL



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– With the impending appointment of a new Fed chair in 2026, markets have begun to speculate on the implications of President Trump’s choice on interest rates and on financial markets more broadly.

– Looking back over modern Fed history, we do not observe strong evidence of a bias lower in rates and other financial markets prior to and following the appointment of new Fed chairs. However, short-term interest rates tended to move higher both before and after the new Fed chair took office.

– Historically, there is precedent for political influence over the Fed. Prior to the legal establishment of Fed independence in 1951, the Fed was often used as a tool to provide greater financial flexibility to the US Treasury, which sometimes contributed to inflation, especially when monetary policy remained accommodative for a prolonged period.

– Even following the establishment of Fed independence, there have also been high-profile incidences where the Fed exhibited overt political bias, with the mostly widely documented case having contributed to US stagflation (high inflation, slow growth) in the 1970s.



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As we approach the end of Fed Chair Jerome Powell’s tenure, markets have ramped up speculation as to who the next Fed Chair will be and how the nominee might impact the outlook for interest rates going forward. While it appears likely that the Republican-controlled Senate will approve whomever President Trump nominates for the position—which could mean a more dovish, accommodative (who supports keeping interest rates low to help boost the economy) appointee in 2026, the extent of this dovish bias may vary between the potential candidates.

Looking back at 2018, Chair Powell, a Trump nominee, was originally perceived as a dovish, market-friendly Fed Chair with a professional background not as an economist or academic but as private sector financier (first as a lawyer, then as an investment banker). To the behest of President Trump after his return to the White House, Powell instead has preserved the Fed’s independence from political influence, opting to keep monetary conditions tighter than the president has vocalized, exercising constraint in lowering interest rates too early as inflation has remained above the Fed target level.

Looking back at Federal Reserve history, particularly in recent decades as the Fed has increased its transparency and the frequency of its media communications to the public, a natural question becomes the extent to which, if at all, markets correctly or incorrectly anticipated the macroeconomic and market impact of an incoming Fed Chair. While it’s difficult to separate this anticipated Fed Chair-related influence on financial markets from the impacts of unexpected economic events and investor sentiment, we can try to address a couple important questions:

1. Has there been a bias toward either monetary tightening or loosening prior to the swearing in of a new Fed Chair?
2. After the new Fed Chair assumes office, have markets (particularly rates markets) exhibited momentum (a tendency to continue moving in the same direction) or have they faded the move in rates?

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1 / Fed chairs in the modern era

The Federal Reserve System of the United States was established in 1913 along with the passing of the Federal Reserve Act in response to stresses on the US banking system. "The Fed", as it is commonly referred to, was established as an independent central banking system that could monitor and promote the health and stability of the US economy through its interactions with the financial system. By conducting US monetary system policy, promoting financial system stability, supervising and regulating financial institutions, fostering payment and settlement system safety and efficiency, and promoting consumer protection and community development¹, the Fed has helped to limit financial turmoil but in a proactive and reaction way throughout its history.

As an entity, the Fed is primarily known for congressionally established dual mandate: to promote maximum employment and to promote stable prices. By setting targets to influence short-term interest rates (and more recently, by buying government and government-related bonds to help bring down the medium-to-longer term interest rates and, by extension the cost of borrowing), the Fed has helped guide the US economy toward the equilibrium of these two sometimes conflicting goals: maximum employment and stable prices.

The Fed is composed of 12 Federal Reserve Banks around the US, overseen by the Board of Governors, a committee of seven members nominated by the president of the United States and confirmed by the Senate. This board is headed by the chairman of the Board of Governors of the Federal Reserve System. Since the establishment of the Fed, there have been 16 Chairs of the Federal Reserve, each serving four-year renewable terms as Chair as well as a 14 year no-renewable term as Governor.

Figure 1: Fed chairs over the past 50 years

Chairperson	Start Date	End Date	President
Paul Volcker	8/6/1979	8/11/1987	Jimmy Carter (D), Ronald Reagan (R)
Alan Greenspan	8/11/1987	1/31/2006	Ronald Reagan (R), George H.W. Bush (R), Bill Clinton (D), George W. Bush (R)
Ben Bernanke	2/1/2006	1/31/2014	George W. Bush (R), Barack Obama (D)
Janet Yellen	2/3/2014	2/3/2018	Barack Obama (D)
Jerome Powell	2/5/2018	Present	Donald Trump (R), Joe Biden (D), Donald Trump (R)

Source: DWS Investment Management GmbH.

In recent decades, the position of Fed chair has become increasingly visible to the public and influential on not only the US banking system but on US and international financial markets more broadly. Alan Greenspan, who served as Fed chair from 1987 to 2006, famously fostered a transition of the Fed communication toward frequent and transparency communication to the public². In the modern era of Fed chairs, markets have come to expect detailed forward guidance on the economic outlook and potential reaction of monetary policy.

¹ The Federal Reserve Explained: What the Central Bank Does. Federal Reserve System Publication (2025)..

² Sablik, Tim. The Future of Forward Guidance. Federal Reserve Bank of Richmond (2022).

2 / Implications for markets returns

2.1 Summary and key observations

Speculating around central bank policy and guidance is one of the most popular pastimes for investors and strategists. Gleaning insight into the trajectory of interest rate policy has implications not only for investors in government-issued bonds but across risk markets as well and in some cases with significant impact on the global economy in the medium-to-longer term (in the case of policy missteps). Looking back over recent decades, we can look at the empirical evidence by observing how different asset classes behaved in the 6 months prior to and after a new Fed Chair assuming office.

Although it's nearly impossible to isolate the impact of the new Fed Chair on markets from other macroeconomic variables, we can contrast actual moves in market prices with the qualitative evidence. The important questions, in our view, revolve around whether markets have historically expressed any expectations ahead of the handover of Fed leadership (e.g. anticipated dovishness from the new Fed Chair) and the implications of this outlook on broader markets and whether markets followed this trajectory or reversed course after the Fed Chair assumed office. In part, understanding the political bias or susceptibility (a topic we explore in section 3) to political influence of a Fed Chair or the Fed governors may help inform the expectations for interest rates and markets more broadly to the macroeconomy, with both short term and longer-term implications should the question of credibility and independence come into play. Figure 2 shows changes in market prices before and after each Fed chair assumed office.

Figure 2: Change in market prices 6 months before and after new Fed chair

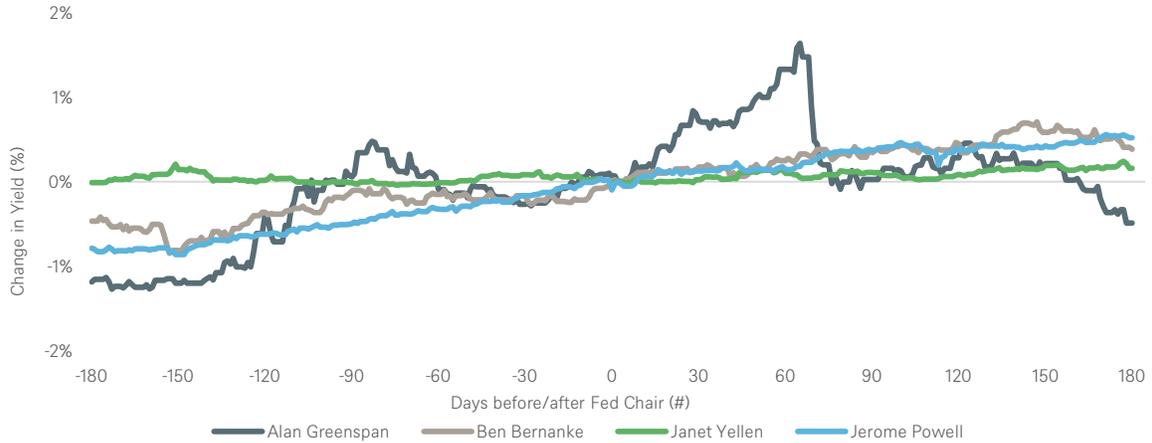
	Asset Class	Fed Chair	Start of Term	Prior 6 months change	Next 6 months change
Interest Rates	2-yr US Treasury Yield	Alan Greenspan	8/11/1987	1.26%	-0.56%
		Ben Bernanke	2/1/2006	0.47%	0.38%
		Janet Yellen	2/3/2014	-0.01%	0.18%
		Jerome Powell	2/5/2018	0.69%	0.62%
		<i>Average</i>		<i>0.60%</i>	<i>0.15%</i>
	10-2 Curve (Nominal)	Alan Greenspan	8/11/1987	0.23%	-0.06%
		Ben Bernanke	2/1/2006	-0.30%	0.04%
		Janet Yellen	2/3/2014	-0.02%	-0.26%
		Jerome Powell	2/5/2018	-0.23%	-0.38%
		<i>Average</i>		<i>-0.08%</i>	<i>-0.16%</i>
	10-yr TIPS Break-even	Alan Greenspan	8/11/1987	N/A	N/A
		Ben Bernanke	2/1/2006	0.14%	0.04%
		Janet Yellen	2/3/2014	-0.13%	0.12%
		Jerome Powell	2/5/2018	0.27%	0.03%
		<i>Average</i>		<i>0.09%</i>	<i>0.06%</i>
	10-yr Real Yield	Alan Greenspan	8/11/1987	N/A	N/A
Ben Bernanke		2/1/2006	0.03%	0.38%	
Janet Yellen		2/3/2014	0.11%	-0.20%	
Jerome Powell		2/5/2018	0.19%	0.22%	
<i>Average</i>			<i>0.11%</i>	<i>0.13%</i>	
Currencies	US Dollar (DXY Index)	Alan Greenspan	8/11/1987	2.15%	-10.22%
		Ben Bernanke	2/1/2006	1.73%	-4.84%
		Janet Yellen	2/3/2014	-1.06%	0.39%
		Jerome Powell	2/5/2018	-4.15%	6.48%
		<i>Average</i>		<i>-0.33%</i>	<i>-2.04%</i>
	Gold	Alan Greenspan	8/11/1987	14.48%	-4.90%
		Ben Bernanke	2/1/2006	30.35%	14.38%
		Janet Yellen	2/3/2014	-3.48%	2.43%
		Jerome Powell	2/5/2018	6.50%	-9.86%
		<i>Average</i>		<i>11.96%</i>	<i>0.52%</i>
Risk Assets	S&P 500 (Price Return)	Alan Greenspan	8/11/1987	21.18%	-24.48%
		Ben Bernanke	2/1/2006	3.00%	-0.30%
		Janet Yellen	2/3/2014	2.04%	11.32%
		Jerome Powell	2/5/2018	6.77%	7.61%
		<i>Average</i>		<i>8.25%</i>	<i>-1.47%</i>

Source: Bloomberg L.P., DWS Calculations. Data from 6 August 1979 to 6 August 2018. Past performance is not a guarantee of future results.

2.2 Interest Rates

Looking at interest rates, we can use the 2-year US Treasury Yield as a proxy for the anticipated trajectory of short-term funding rates. For three of the past four Fed Chairs—with Janet Yellen as the notable exception, short-term interest rates rose between 0.5% and 1.2% in the 6 months prior to the chair assuming office. In three of these four instances, the 2-year yield moved higher in the 6 months following, except for Alan Greenspan where rates initially moved sharply higher but rallied significantly during October’s “Black Monday”, one of the largest one-day percentage declines in US stock market history.

Figure 3: Percentage change in 2-year US Treasury Yield (%) 6 months before and after new Fed chair

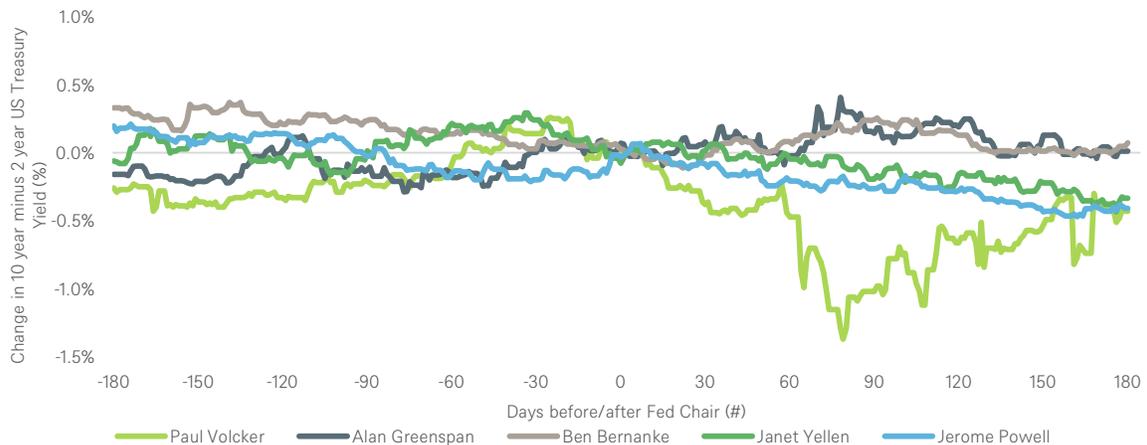


Source: Bloomberg L.P., DWS Calculations. Data from 6 August 1979 to 6 August 2018. Past performance is not a guarantee of future results.

Although it’s difficult to isolate the direction of interest rates from economic trends at the time each Fed chair took office, the bias higher, not lower, in rates indicates at least some degree of independence from political influence. A long-held belief based on Fed history is that the current administration may prefer to keep interest rates lower to support short-term economic conditions but potentially at the risk of medium-to-long-term overheating, a topic we explore in the following section.

The differential between short-term and long-term US Treasury curve became smaller on average both before and after each of the new Fed chairs, with the most significant flattening occurring around Jerome Powell. It is worth noting that three of the four most recent Fed chairs were either at the start of or during the significant buying of government-related bonds to lower longer-term interest rates commonly referred to as “Quantitative Easing”, which has had a net flattening effect on the yield curve by removing supply from long-term Treasuries and Treasury-adjacent bond asset classes.

Figure 4: Percentage change in 10yr minus 2 year US Treasury Yield (%) 6 months before and after new Fed chair

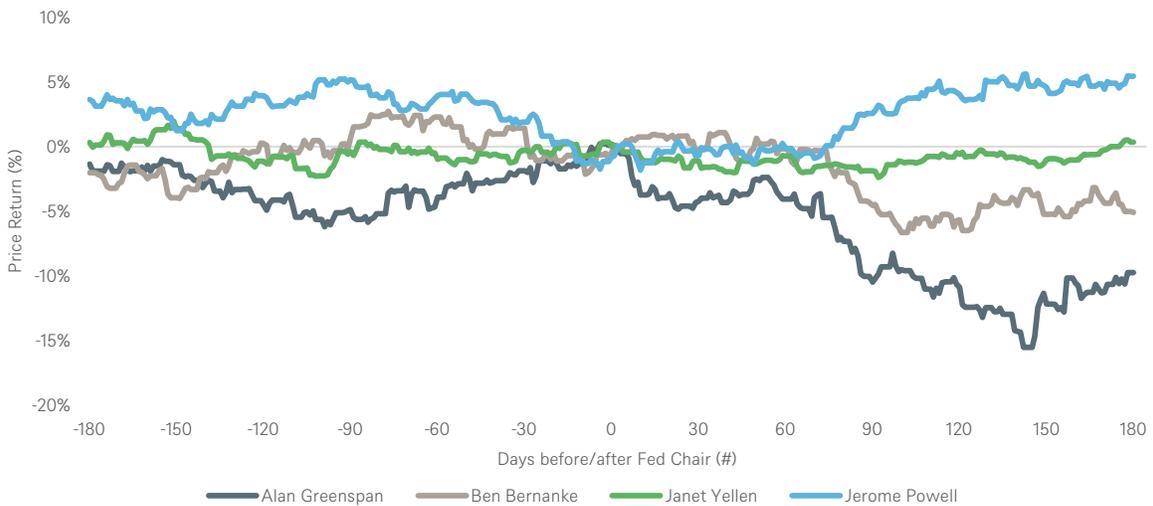


Source: Bloomberg L.P., DWS Calculations. Data from 6 August 1979 to 6 August 2018. Past performance is not a guarantee of future results.

2.3 Currencies and Commodities

Given the previous observation that short-term rate markets have moved higher in most Fed Chair transition periods, it might be reasonable to expect that US Dollar may have strengthened on the back of more advantaged differentials in interest rates between the US and other countries, all else equal. However, US Dollar performance in the 6 months before and after a new Fed chair were more of a mixed bag, with the average return actually being modestly negative after the new Fed chair assumes office. The figure is particularly skewed by Alan Greenspan, when the US Dollar dealt with the implications of the Plaza Accord of 1985 which sought to narrow the growing trade deficit with other major economies by weakening the dollar.

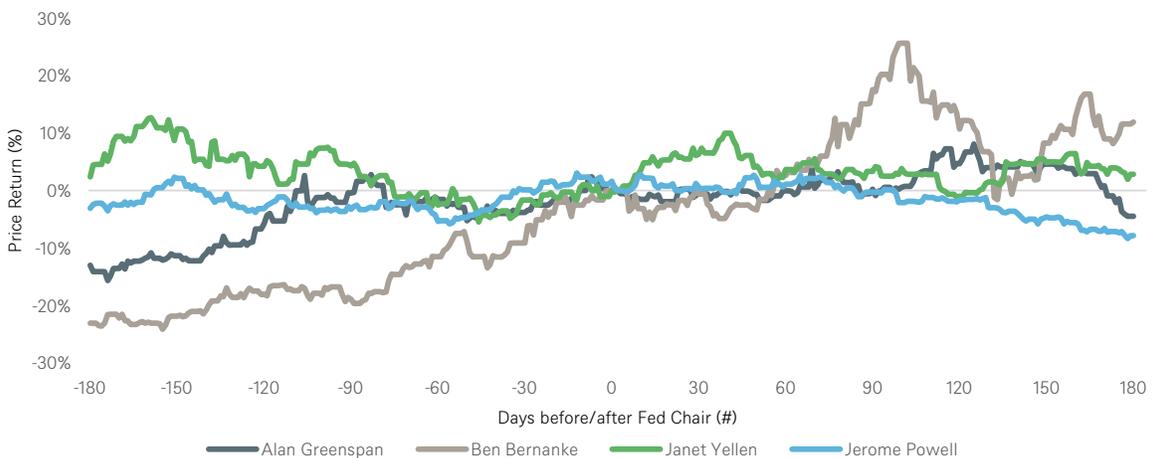
Figure 5: Percentage change in US Dollar Index (DXY) 6 months before and after new Fed chair (12/31/1981 to 12/31/2024)



Source: Bloomberg L.P., DWS Calculations. Data from 6 August 1979 to 6 August 2018. Past performance is not a guarantee of future results.

Looking at gold prices, which have historically exhibited a strong opposite directional relationship to inflation-adjusted interest rates, gold saw strong gains before Greenspan and Bernanke became Fed Chairs even though short-term interest rates were rising at the time. On average, gold prices rose nearly 12% in the 6 months leading up to each Fed Chair appointment, although gold prices moved more modestly after they assumed office as shown in Figure 6.

Figure 6: Percentage change in Gold price 6 months before and after new Fed chair

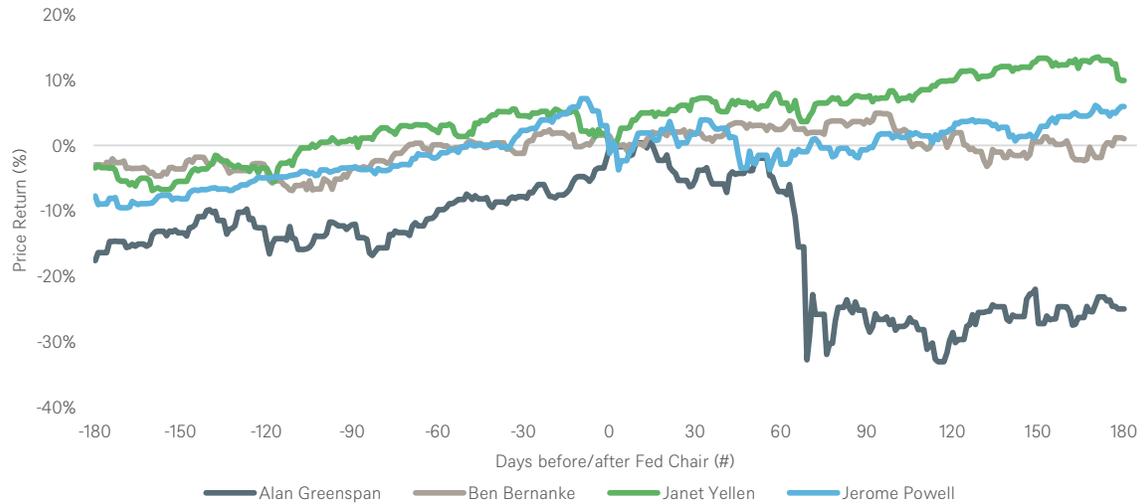


Source: Bloomberg L.P., DWS Calculations. Data from 6 August 1979 to 6 August 2018. Past performance is not a guarantee of future results.

2.4 Risk Assets

Stocks and other riskier investments have tended to be less affected by short-term interest rate changes as compared to other asset classes. Overall, stock prices showed a slight upward trend both before and after a new Fed Chair took office. However, the data is skewed by Alan Greenspan’s term, which coincided with a highly volatile period in financial markets in 1987—market by the stock market crash known as “Black Monday”. Figure 7 shows the percentage move in the S&P 500 price before and after each of the past 4 Fed chairs took office.

Figure 7: Percentage change in S&P 500 price 6 months before and after new Fed chair



Source: Bloomberg L.P., DWS Calculations. Data from 6 August 1979 to 6 August 2018. Past performance is not a guarantee of future results.

3 / Fed independence throughout history

Much of the reason for investors’ speculation prior to the appointment of a new Fed chair is rooted in history. While the Federal Reserve is in theory designed to maintain independence from short-term political pressure, it is practically difficult to have complete autonomy from governmental influence. While the Federal Reserve Board of Governors, are appointed by the sitting US President and confirmed by the Senate, there are certain legal protections afforded Fed governors that help them to remain politically independent and to focus on the long-term objectives for the economy.

The line of political independence, however, can be, and has been blurred at times throughout US history. In some cases, political influence has been subtle, while in some higher profile incidents, the US President was overt in directing political pressure to motivate monetary policy decision making. Figure 8 shows points in US history where the Fed was directly influenced by the Executive Branch and how it influenced monetary policy and the macroeconomic landscape in the ensuing years.

Figure 8: Incidents of political influence over the Federal Reserve

Fed Chair	President	Date	Political Entanglement
Marriner Eccles	Franklin D. Roosevelt (D), Harry S Truman (D)	1942-1948	<p>Prior to 1951, the Federal Reserve and the Department of the Treasury were not independent but instead managed both fiscal and monetary policy in a coordinated fashion. In April 1942, months after the US entered World War II, the Federal Reserve formally committed to keeping both short-term interest rates and long-term Treasury yields low to provide cheaper debt financing to fund the war efforts and support the domestic economic recovery. To achieve the 2.5% target level for long-term US Treasury yields, the Fed engaged in outright purchases of government securities to increase the money supply.</p> <p>Despite its effectiveness, members of the Fed, including then-chair Marriner Eccles, felt that the war should be financed through tax increases instead. As the war ended in 1945, inflation continued to run very high (Consumer Price Inflation was 17.6% from June 1946 to June 1947) while US Treasury yields remaining artificially low. Particularly as the US entered the Korean War in 1950, the Fed and Eccles increasingly felt that inflation was a bigger issue than war funding efforts. The Treasury, with support from President Truman, however, opposed efforts from the FOMC to raise short-term interest rates, and inflation surged to 21% by February 1951.</p>
Thomas B. McCabe	Harry S Truman (D)	1951	<p>In 1948, Truman removed Eccles for his opposition to Truman’s policy to keep Treasury rates fixed, replacing him with Thomas B. McCabe. In February 1951, after a meeting between Truman and the FOMC, the Fed informed the Treasury that it would no longer maintain the implicit interest rate peg. In March, the Treasury and Fed reached an accord that established the central bank’s independence from fiscal concerns, which established the foundation for the modern independent Fed. It was not until 1951 that the Federal Reserve officialized its independence from political influence with the separation of monetary policy functions from the US Treasury’s government debt management mandate</p>
William McChesney Martin Jr.	Lyndon B Johnson (D)	1965	<p>Amid signs of potential overheating following fiscal stimulus from Lyndon Johnson’s “Great Society”, Martin had convinced the Board of Governors to raise interest rates. Johnson felt that monetary tightening measures could cause unnecessary damage to his economic agenda meant to buoy the US economy during the Vietnam War. Johnson called on Martin to his Texas ranch to convince Martin not to raise interest rates, but Martin refused to back down, maintaining conviction</p> <p>While the interest rate hike in 1965 did not derail the economy (inflation would, in fact, rise to an 18-year high of 5.75% in 1969), which was supported by fiscal stimulus and war spending, the political tension between Martin and LBJ lasted through the rest of his term as Fed Chair.</p>
Arthur Burns	Richard Nixon (R)	1970-1971	<p>To replace the aforementioned Fed Chair Martin, whom Nixon believed had cost him the 1960 election (through monetary tightening measures in the late 1950s and the subsequent brief recession in 1960 when Nixon was VP), Nixon appointed economist Arthur Burns. Burns at the time of his appointment was viewed as a well-respected economist who had previously advised Nixon of a likely economic dip in 1960, but perhaps more importantly as a “sympathetic Republican loyalist”³ who briefly worked for Nixon as a White House adviser while awaiting the end of Martin’s term.</p> <p>During Burns’ tenure as Fed Chair, however, he was best known for engaging in expansionary monetary policy in the early 1970s, which contributed to a historically high 11.8% CPI inflation rate in 1974. It was later learned that Burns had been pressured by Nixon to ease monetary policy prior to his 1972 re-election campaign, helping the economy to rebound after the 1970 recession.</p>

Source: DWS Investment Management GmbH, FederalReserveHistory.org, Journal of Economic Perspectives (2006).

³ Abrams, Burton A. How Richard Nixon Pressured Arthur Burns: Evidence from the Nixon Tapes. Journal of Economic Perspectives (2006).

4 / Conclusion

As we approach the end of Chair Powell's tenure at the helm of the Federal Reserve, markets eagerly anticipate how the Federal Reserve Board of Governors will look in a year's time. The composition and leadership of the board, although not as important as the broader economic landscape, could bear important implications for financial markets across rates, currencies and commodities and risk assets, particularly if market participants perceive there to be a directional tendency from the new Fed leadership. The capacity for a central bank to focus on its mandate is paramount for achieving its strategic mandate, in the case of the Federal Reserve, balancing maximum employment and stable prices.

While empirical market prices did not indicate much directional tendency (particularly a bias toward lower interest rates to support growth prior to new Fed chairs) during Fed Chair transitions in modern history, there is historical precedent for political influence from the policymakers to influence monetary policy toward a shorter-term accommodative objective (to keep rates lower to help short-term growth) perhaps at the sacrifice of maintaining longer-term stability. When combined with other cyclical and structural forces, these examples of the Fed sacrificing its independence, if only momentarily, coincided with challenging persistent inflationary environments over the medium term which ran opposite to one of the Fed's main objectives.

Glossary

Black Monday refers to the stock market crash on October 19, 1987.

Doves are in favor of an expansive monetary policy.

The **Fed Chair** or the **chairman of the Board of Governors of the Federal Reserve System** is the head of the Federal Reserve Bank.

Federal Reserve Bank is a regional bank of the Federal Reserve System, the central banking system of the United States. There are twelve in total. Inflation

Forward Guidance is an indication by a central bank to the likely course of future monetary policy.

Government bonds or **Sovereign bonds** are bonds issued by governments.

Monetary policy focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

Quantitative easing (QE) is an unconventional monetary-policy tool, in which a central bank conducts broad-based asset purchases.

The **S&P 500** is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

The **spot rate** is the market price of a financial asset in transactions with immediate settlement.

Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

The **US Federal Reserve**, often referred to as **the Fed**, is the central bank of the United States.

US Treasury yield is the annual return investors can expect from holding a U.S. government security with a given maturity.

The **US Treasury Department** is the executive agency responsible for promoting economic prosperity and ensuring the financial security of the United States.

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk. Downside deviation measures the risk and price volatility of investments by comparing returns that fall below the average annual return to minimum investment thresholds.

Appendix

Representative Indices

Table 1: Each asset class in this publication and its representative index

Broad Asset Class	Asset Class	Representative Index	Index Ticker
Fixed Income	2yr US Treasury Yield	US 2 Year Government Bond Yield	USGG2YR Index
Fixed Income	10-2 Curve (Nominal)	Market Matrix US Sell 2 Year & Buy 10 Year Bond Yield Spread	USYC2Y10 Index
Fixed Income	10yr TIPS Breakeven	US Breakeven 10 Year Inflation Rate	USGGBE10 Index
Fixed Income	10yr Real Yield	US 10 Year TIPS Real Government Bond Yield	USGGT10Y Index
Currency	US Dollar	US Dollar Index Spot Rate	DXY Index
Commodity	Gold	Gold Spot US Dollars Per Troy Ounce	Gold Comdty
Equity	US Equities	S&P 500 Index (Price Return)	SPX Index

Source: Bloomberg L.P.

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