

# Pressure on Fed independence sparks backlash, flagging global risks

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News of a criminal investigation into Federal Reserve (Fed) chair Powell has sparked a backlash from US lawmakers, central bankers and financiers, and added a new degree of caution to the global economic outlook.

Safe haven assets like gold strengthened at the news, while the dollar fell before stabilising. But overall, financial markets have responded with restraint. While headline writers widely interpreted the probe as an attack on the Fed's independence, the muted response on currency, bond and equity markets suggest investors are not swayed.

A strong video statement from Chairman Powell rebuking the investigation, as well as broad popular support for the chair, helped ensure confidence that the Fed would maintain independence. The nomination of Kevin Warsh, a Wall Street financier and previous member of the Federal Reserve Board of Governors, has calmed market fears that the next chair would aggressively cut rates – at least for now.

Nevertheless, in the longer term the message the investigation sends may create a new layer of uncertainty for cross-border businesses. Investors and counterpart institutions emphasise the longstanding role of the US central bank's independence in maintaining global financial stability. Markets continue to expect policy decisions to follow economic data rather than external pressures.

While markets have shrugged off the investigation so far, it does highlight the risk of interference with independent monetary policy. Should markets perceive any weakening of monetary independence, expectations for inflation, corporate funding costs and global trade conditions would shift.

## Inflation and labour data indicate caution

At 2.7%, inflation the US remains above target, but core inflation (excluding volatile items like energy and food) eased to 2.6%, its lowest reading since March 2021. Inflation expectations also remain contained reducing any pressure to raise interest rates. The labour market is showing signs of cooling but remains steady, with moderate hiring and wage growths, and 4.4% unemployment. At its latest meeting, the Federal Reserve left interest rates untouched. With core inflation still elevated and labour indicators firm in headline terms, it is likely that any additional rate cuts will be gradual.

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Lorié, Chief Economist at Atradius. “Its decisions will continue to reflect economic data, with a focus on stable inflation expectations and balanced employment conditions. Current trends suggest policy is likely to remain unchanged in the near term, with a maximum of two further quarter-point reductions anticipated in 2026.”

Businesses also expect monetary decisions to remain guided by economic data. The coming months will be important as fresh inflation and employment figures shape expectations for the next phase of the cycle.

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## Leadership transition may introduce uncertainty

Powell’s term as Fed chair comes to an end in May, regardless of the results of the criminal investigation. He can stay on as a member of the Fed Board of Governors - with voting rights - until January 2028. If he does, it would limit the ability of the White House to influence Fed decisions by changing its composition.

The nomination of Kevin Warsh as the new chair of the Federal Reserve now faces Senate confirmation.

The leadership transition will create a brief adjustment period, and the Department of Justice’s investigation may make the path to Senate confirmation more complex. It might even stall it altogether. One senior member of the Senate Banking Committee has said he will oppose any Fed nominee until the investigation is settled.

Nevertheless, while such transitions often create short periods of institutional adjustment, the broader policy framework typically remains stable. Investors tend to focus on continuity in the committee’s approach to inflation and employment rather than on individual appointments.

## Rates should reflect data

Some in the US administration hold the view that more rapid interest rate cuts could support economic output and ease mortgage costs, as well as reducing the burden of government deficits. Others have expressed the view that the central bank could move further and faster with easing.

By contrast, central bank policymakers note that rapid easing could undermine longer-term progress. Economic projections point to firmer growth later in the year as tax changes support household spending. At the same time, inflation is expected to ease only gradually. This mix makes fast or deep

policy easing unlikely as lower rates would accelerate both trends.

If rapid rate cuts were to occur, not only would the economy risk overheating, but markets might view them as a sign of weaker central bank independence. In that case, trust in US monetary policy and institutions would slip, and with it, to some extent, confidence in global economic stability. Expectations for inflation, government funding costs and global trade conditions could be significantly impacted.

We are far from that situation at the moment. Global growth remains broadly steady, with our own projections predicting 2.8% GDP growth in 2026 and 2.9% in 2027. We expect the US to maintain growth at around 2.0% in both years.

At the same time, inflation expectations are contained and long-term borrowing costs remain stable. Current pricing suggests investors still see policy as anchored by data rather than political events.

## Confidence underpins global trade

Were that to change, the real economy would face headwinds. Confidence is central to the smooth functioning of international markets. As long as participants believe policy decisions reflect economic conditions rather than external influence, financing costs tend to remain stable and exchange rates steady.

“In the real economy, businesses benefit from predictable funding costs, clearer trade terms and steadier buyer behaviour,” says Lorie. “If uncertainty surrounding the credibility of the Fed rises, the expectation of lower interest rates could stoke inflation fears. Companies may delay shipments or reprioritise market exposures. A depreciation of the dollar could raise import costs, leading supply chains to adjust in response to perceived instability.”

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Markets have taken recent developments in their stride and, yet US monetary policy still anchors global commerce. A steady policy framework helps firms manage cash flow, plan investment and maintain confidence when selling across borders.

“As of now, investors in both the equity and bond markets don't anticipate major federal influence on the Federal Reserve,” says Lorie. “But if that changes, then borrowing costs could rise due to a higher inflation and uncertainty premium, and liquidity could also deteriorate, undermining the goal of rapid rate cuts.”

## Stability in an uncertain world

International trade relies on stable funding conditions and predictable policy. Any rise in uncertainty can influence shipping activity, contract timing and currency exposure. In the current geopolitical climate, global supply chains are especially sensitive to shifts in perceived risk.

Recent news about a criminal probe into Fed chair Powell has added an unexpected layer of doubt. No one is questioning the institution's independence, yet the criminal probe appears to be the latest attempt to undermine its credibility, which could unsettle markets and weaken confidence.

Businesses trading internationally can mitigate risk by monitoring bond yields, credit spreads and freight rates for early signs of tightening or volatility. These data points help companies prepare for potential shifts in demand, buyer payment behaviour and financing conditions.

Credit insurance plays a stabilising role in an uncertain environment. It protects companies against non-payment, ensuring cash flow even when buyers default. This security allows businesses to trade confidently, maintain liquidity and access financing more easily, because banks view insured receivables as lower risk.

For now, markets have reacted to the investigation with relative calm. But the message it sends has the potential to disrupt the stability on which cross-border business depends. Should that happen, credit insurance can help companies navigate a difficult moment.

**To explore how to strengthen your own credit risk strategy, [get in touch](#) with us and see how we can help you stay ahead.**