

[Note to Compliance: this piece is for publication if Kevin Hassett is appointed US Federal Reserve chair]

What does the new Fed chair mean for equity markets?

Summary: Donald Trump loyalist Kevin Hassett will take over the mantle of the US Federal Reserve chair from May. Markets may be skeptical of his credentials – but his dovish approach could benefit stock prices.

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Key takeaways

- Kevin Hassett might be keen to lower interest rates towards an easier policy stance, but he cannot operate in a vacuum, and the path of the economy and weight of office could prompt him to consider a more measured approach.
- We think a two-stage market reaction is possible: lower interest rates may boost equities initially, but if cuts are perceived as too aggressive, Mr Hassett risks spooking bond markets, bringing negative spillovers for equities, too.
- Mr Hassett is likely to preside over a hotter economy, enabling a broadening of market leadership beyond IT. We think this environment could favour small- and mid-cap stocks, and cyclicals, including industrials and materials.

Conservative economist Kevin Hassett has been confirmed as the new chair of the US Federal Reserve (Fed). Known for his close alignment with Donald Trump's economic agenda and as a Make America Great Again (MAGA) sympathiser, markets view Mr Hassett as a dovish policymaker who favours lower interest rates and deregulation. His nomination signals a shift towards a Fed that is more synchronised with the Trump administration's fiscal and economic goals than the current chair, Jay Powell. It also raises the risk of a resurgence of inflation and, in the longer term, may threaten the central bank's independence.

Ahead of Mr Hassett's May start, markets will watch for signs of whether he'll uphold MAGA principles or consider a more measured approach. Given his links to the US president, some market participants could be sceptical of Mr Hassett's credentials and would have preferred a more independent-minded chair.

Mr Hassett's power as Fed chair has limits

As chair of the Fed and the Federal Open Market Committee (FOMC), the Fed's primary monetary policymaking body, Mr Hassett will play a pivotal role in shaping US monetary policy through agenda-setting, interpreting economic data, signalling policy direction, and building consensus.

But while influential, the chair's power is not absolute – the FOMC's 12 voting members can dissent, typically favouring tighter policy during inflationary or uncertain periods.

Under a potential Hasset chair, the board's composition remains unclear.

Impact on equity markets: potentially supportive

A more dovish Fed interest rate policy should support equity prices in three ways: via valuations (through lower discount rates¹), earnings (boosted by lower interest costs) and economic growth (as lower rates can support growth).

But benefits are less clear cut during a recession

Interest rate cuts benefit stock prices mainly in soft landing environments because central banks have the flexibility to cut as lower inflation allows it. But if a central bank is forced to cut rates to fight an economic downturn, the impact on equity prices is less clear cut. Equity prices tend to fall initially before starting to recover at a later stage during or sometimes only after a recession.

Hence, a dovish tilt in rate setting by the Fed would likely only be beneficial for stock prices in a non-recessionary environment (our base case expectation).

Current money market pricing is anticipating an interest rate level of roughly 3% at the end of 2026.² This seems an aggressive expectation given inflation is still markedly above target. But a 3% level would still be consistent within a wide range of outcomes where Fed rates could be regarded as neutral. Our view is that 3% is likely at the low end of such a range and the neutral rate is probably higher than markets expect.

Risks if markets think Mr Hasset focuses more on growth than inflation

But it is not only the direction and level of Fed policy rates that have an impact on equity pricing. Investors should also consider the movement of longer maturity Treasury yields (5-7 years and longer) and the US dollar.

Should bond markets conclude that the Fed under Mr Hasset disproportionately cares about achieving a healthy labour market rather than keeping inflation under control (or if he neglects proper risk management of the Fed's inflation mandate), the yield curve could steepen meaningfully, leading to higher bond yields and a headwind to equity prices.

Meanwhile, the US dollar is likely to weaken further if any signals emerge that a Hasset-run Fed is wavering on the inflation target or undermining the central bank's

¹ The discount rate is the required rate of return used to find the present value of a stock's expected future cash flows. A lower discount rate implies lower risk and greater confidence in future cash flows, resulting in a higher present value.

² Source: Bloomberg, January 2026.

independence from the White House. A weaker dollar benefits US companies that sell goods overseas (thanks to their improved competitiveness from the appreciation of foreign currencies against the dollar). Non-US companies and equity markets (primarily in developed markets) would suffer from the dollar's slide. In an extreme scenario of a meaningful erosion of the Fed's credibility, we see the risk of a potential capital flight out of the US, which would also affect the stock market. If investors lose confidence in the US, the potential for outflows is significant, given the strong inflows into US stocks in recent quarters.

A possible playbook: a Fed that treads more carefully than anticipated

We think the most likely starting point for Mr Hasset is that he inherits a Fed with a roughly neutral policy stance, meaning policy is neither stimulating, nor restricting the economy. But challenges will lie in wait: inflation is likely to still be above the central bank's target and risks of rising joblessness remain.

Under these conditions, Mr Hasset may choose to deliver one or two rate cuts (25 basis points each), which could signal a mildly dovish approach without being extreme. Markets would likely welcome the move as it could lower recession fears and create a positive backdrop for Mr Trump before November's midterm elections.

But if a Hasset-run Fed makes further cuts while inflation is still high and the economy is not in recession, markets may react negatively.

As seen in the aftermath of April 2025's "Liberation Day", the government has the willingness and the tools to respond quickly to market stress – and would likely react, especially in the face of a triple whammy of higher bond yields, a sliding dollar and falling equity markets.

With Mr Trump's backing, Mr Hasset may seek to test how far he can push rates lower. However, he would have to reverse course if markets (particularly Treasury yields) show strong resistance.

Given US debt sustainability risks and elevated mortgage rates, we think Mr Hasset will be cautious about pushing the Fed towards a too aggressively dovish stance.

Potential US equity market winners: small- and mid-caps

As it appears likely that a Hasset-run Fed would prefer a hot US economy (with growth and inflation accelerating from current levels), the drivers of growth will likely broaden out beyond IT capex. This shift would benefit small- and mid-caps (which traditionally are positively influenced by easy monetary policy), the equal weighted version of the S&P 500 and cyclical large-cap stocks outside of technology (like materials, industrials, and cyclical consumer stocks). Historically, bank stocks do not do well during declining

interest rates. But they could perform if growth accelerates and yield curves steepen. Insurance stocks may also rise in an environment of rising bond yields and friendly capital markets.

Expect headwinds for sectors like real estate and (regulated) utilities if bond yields remain elevated or rise further.

Markedly lower than neutral interest rates could exacerbate concerns of an asset bubble of technology and AI-driven stocks.

Emerging market equities may be the main global beneficiary

Initially, US equities may benefit the most from the early stages of a Hasset Fed's easing drive. An accelerating economy may confirm the US's growth and earnings supremacy. Emerging market equities may be the main beneficiaries of a depreciating US dollar, although currency correlations will need to be closely monitored.

If the Fed lowers rates more than economic conditions require, a renewed "Sell America" push may take hold. But such an environment may not last long as it could prove unbearable – and politically damaging – for the Trump administration.

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Past performance does not predict future returns. If the currency in which the past performance is displayed differs from the currency of the country in which the investor resides, then the investor should be aware that due to the exchange rate fluctuations the performance shown may be higher or lower if converted into the investor's local currency.

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