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13 January 2026

US Federal Reserve under fire: a relentless president and a tricky CPI print

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The Department of Justice is investigating Federal Reserve Chair Jerome Powell over the $2.5bn renovation of the Fed's Washington headquarters that began in 2022, and his related testimony to Congress. Powell said in a video on Sunday night that the Federal Reserve was served with a grand jury subpoena, but that the probe stems from the President Trump's disagreement with the central bank's policy decisions. He pointed out that the core issue is whether the Fed can keep setting interest rates based on data and economic conditions or instead face political pressure and intimidation. He concluded by stating "public service sometimes requires standing firm in the face of threats. I will continue to do the job the Senate confirmed me to do".

The US president wants lower rates and to deregulate the financial sector in the US

It seems to be a straightforward tactic to pressure the Federal Reserve to reduce rates faster. According to statements by Trump, lower key rates would bring down mortgage rates and make buying a house more affordable. This seems important as the current "affordability of living" and inflation is a top priority of US voters according to national surveys, with less than 10 months before US midterm elections are set to take place.

In addition, it seems likely that the tactic is targeting the aim of the Trump administration to deregulate financial services in the US, a controversial topic discussed at the Board of Governors of the Fed Powell will step down as Chair in May, but he could remain sitting in the Fed board as a "normal" governor— unusual but possible as his term as a governor ends in January 2028. If Powell decided to stay on the board, he could temper efforts by Governor Bowman, a Trump appointee, to deregulate the financial sector. It is also worth noting that Lisa Cook, whom Trump sought to dismiss but was blocked by the courts, is an opponent of a stark deregulation agenda. The Supreme Court announced it will issue a ruling on Cooks case next week. According to experts, it seems likely that the highest US court will protect the Fed and reject President Trump's attempt.

In this scenario, Trump could only fill the seat of Stephen Miran, who is already a Trump nominee, this year, as all other governors—except Powell—can remain in their positions until 2032 or later.

A prominent example was Marriner Eccles, who stepped down as Chair but remained on the Fed board as a governor until his term expired. Eccles explained that he wished to remain on the board to retain a voice against any government attempts to pressure the Fed into lowering rates, which would have reduced the debtservice burden after World War II.

Stripping the US Federal Reserve of its independence could backfire

Yet, the attempt to force Powell leave this year, as his term as Chair ends, could backfire. Several prominent Republicans expressed concerns about the Trump Administration's latest move. Most notably, Thom Tillis (Republican)—the likely decisive vote on the powerful Senate Banking, Housing, and Urban Affairs Committee—stated that the committee should not vote on any personal matters related to the Fed, such as filling vacancies if Powell departs or when Miran's term ends, until the legal issues are resolved. This would effectively prevent the Trump Administration from bringing new candidates to the Fed board.

If Powell left early and no new candidate could be voted in to the Fed Board of Governors, Vice Chair Philip Jefferson would serve as acting Fed Chair until a new one was appointed. Jefferson, a fouryear Fed veteran, is viewed as centrist and has recently urged caution on further policy changes because inflation remains elevated.

So, the move to serve a subpoena to the Fed about their expenses in the reconstruction of the – ironically – Eccles building (yes, "the" Mariner Eccles) could backfire for Trump. This is also true when having a closer look to the US CPI print for December.

CPI print for December – slightly softer than expected but costs of living still rise

The latest consumer price index (CPI) number for December was released and showed a slightly lower Core index (without energy and food prices) than expected, down to 2.6% from 2.7%, while the headline print (including all prices) stayed at 2.7%. The December print was the first release where all the usual data was collected after the shutdown and was therefore closely watched by markets.

The slightly softer-than-expected print led to a modest decline in US Treasury yields, followed by a brief dip in the dollar and a modestly positive move for US stocks. However, Treasury yields and the Dollar rebounded partially as investors appeared unconvinced that the Fed would now be more inclined to implement rate cuts, with the details of the CPI print proving less positive than the headlines suggested.

The costs of living are still rising and particularly prices of food, both at home and in restaurants, accelerated in December with the highest pace in 2025—partially related to the new tariff regime by Trump. The administration is adjusting some food tariffs but is yet to be complete. Additionally, the shelter segment of the index reaccelerated since the last full CPI print in September, and the price pressure in December was the highest in 2025. The ongoing price pressures are also visible in the ever-high inflation rate for Services at 3.3% in December. Hence, this print will likely not disarm the hot topic of inflation on voters' mind and will make President Trump's efforts to lower prices even more necessary. Under these circumstances, we expect Trump to keep pushing for lowering mortgage rates by buying mortgage bonds with the reserves of governmental agencies (Fannie Mae and Freddie Mac) or cap the interest rates for credit card debt at 10%, which are currently averaging more than 20%.

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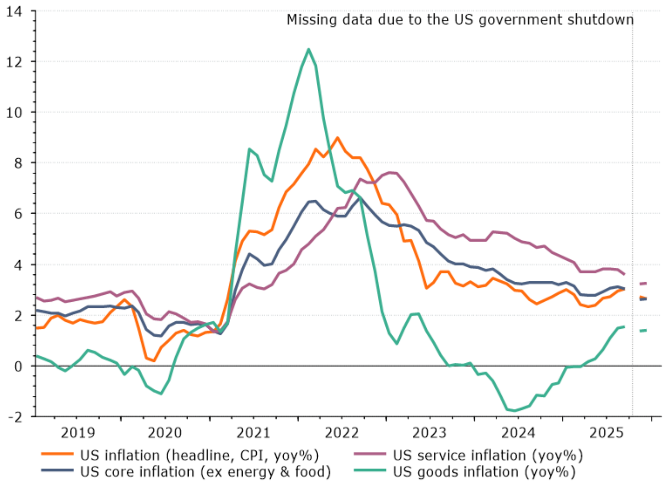
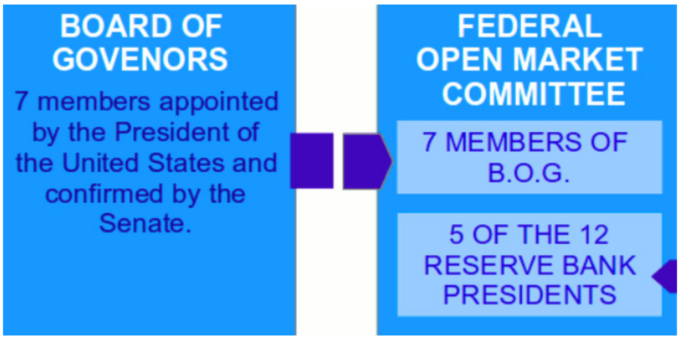
However, the Trump Administration's latest move to challenge the Federal Reserve and Chair Powell could backfire. It may prevent his nominee(s) from being confirmed by the Senate and could prompt the Fed to maintain stable rates to demonstrate its independence to the markets. Reactions from key Republican figures in Washington in defense of checks and balances, combined with the likely upcoming ruling against the dismissal of Fed Governor Lisa Cook next week, are expected to help keep markets calm. However, investors will watch carefully if the Fed can do its job and set key rates in accordance with economic principles instead of political ones. And we will do so too.

Chart 1:
Service price inflation stays at 3.3% and headline at 2.7%



Source: US BLS, LSEG, Syz

Chart 2: The structure of the US Federal Reserve and FOMC governance



Source: Board of Governors of the US Federal Reserve, Syz

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