Powell Should Resist Pressure to Lower Interest Rates

By Kerry Pechter *Fri, Aug 1, 2025*

Today, interest rates in the U.S. are close to long-term averages. As a result, equity and fixed income investors are both rewarded. Lower rates aren't needed now, and may trigger a need for higher rates in the future.

Judging by his social media blasts, President Trump is likely to replace the current Fed chairman next May with someone who will lower interest rates. I don't think that's a good idea. A recent letter to the editor of the U.K.'s Financial Times confirmed my bias:

"In discussing Donald Trump's desire for a Federal Reserve that will deliver low interest rates to help reduce the government's borrowing costs, Claire Jones (FT Big Read. Monetary Policy, July 10) fails to make a crucial point. The US government does not borrow at the Fed funds rate but rather at the longer-end of the US Treasury bond market.

"Any attempt to undermine the Fed's independence risks increasing inflationary expectations and exacerbating the dollar's 10% decline that has occurred since the start of the year. In turn, that risks triggering a Treasury bond market sell-off that would increase rather than reduce the government's interest payment bill.

"Before going down the path of undermining the Fed's independence, Trump would be well advised to take a close look at Turkish President Recep Tayyip Erdoğan's recent sorry experience with forcing the Bank of Turkey to cut interest rates. That experiment contributed to a Turkish currency crisis, sharply higher inflation and increased government borrowing costs."Desmond Lachman of the American Enterprise Institute, a conservative Washington "think tank," signed the letter.

Lower rates subsidized a bull market in stocks and real estate for a decade after the Great Financial Crisis but weakened the life/annuity companies to the point where they either stopped selling retail annuities, abandoned the U.S. market, or accepted domination by big Wall Street firms. Since 2022, annuities (and their purchasers) have gotten a welcome break. And aging Americans need decent yields on safe assets.

Then there's inflation. The Trump tariffs and the "Big Beautiful Bill" could raise prices and increase the money supply, respectively. With new tariffs, consumers will pay more for imported goods (if they still buy them) or for domestic goods (if they switch to them). The BBB, by adding $4 trillion to the U.S. debt over 10 years, adds $4 trillion to the money available to the private sector (not counting the multiplication of dollars when the banks lever their Treasury bonds into new credit-money). Tariffs and the BBB, which evidently make sense to only one person, are likely to be inflationary.

Someone in his mid-30s recently complained to me that interest rates are “at their highest in decades.” He doesn’t remember the 12% (FHA) mortgage rates of the 1980s, or the imbalanced “TINA” (There Is No Alternative) lower-for-longer era in stocks. I and my contemporaries do. (And the Fed was unreasonably immoderate both times, imo.) Today, interest rates in the U.S. are close to long-term averages. As a result, equity and fixed income investors are both rewarded. Lower rates aren’t needed now, and may trigger a need for higher rates in the future.

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