

FRIDAY, FEBRUARY 6, 2026

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Hello and welcome to the Dividend Cafe. I am your host, David Bahnsen, and today we are going to have as much fun as you can possibly have in the Dividend Cafe because we are going into the subject of monetary policy, which is one of my favorite things to discuss.

And we're doing so because the President of the United States, Donald J. Trump, has appointed Kevin Warsh to be the next chairman of the Federal Reserve. This was announced last week just after we had recorded Dividend Cafe, and I spent some time over the weekend thinking about it. I did a couple TV interviews and some other things like that, but I decided to devote this week's Friday Dividend Cafe entirely to the subject because I think it's a big story.

I think it's a bigger deal than people realize. And there are so many things that I have to be critical of from time to time when it comes to the juxtaposition of policy and markets, and every now and then, when you think you might possibly have something that is a good indicator in one of these arenas, it deserves to be covered with a positive critique because I so often have to do a not-positive critique. And I am very reasonably optimistic about this appointment, and I want to be able to share why.

So today, if I do my job right, I'm going to explain why I believe the President picked Kevin Warsh to be the next Fed chair, why I'm happy about that, what I think it means in terms of some of the policy ramifications within the Fed and their administration of monetary policy, and then we're going to talk about why it matters to investors—all of us.

As far as why he got the pick, I understand that the President made the comment in announcing Kevin that he came straight from central casting, and he alluded to the idea—and there are plenty of sources that said some of this stuff in the press—about the aesthetic of the whole thing. Kevin looks the part and whatever. I don't really know what it means that someone looks like a central banker, but I'll take everyone at their word that they believe certain people don't look like a central banker and Kevin does. That's all fine.

It isn't big news that the President has a certain kind of aesthetic aspiration in some of the picks he makes and key policy roles. But I also think it is fair to say that the President does know, for the sake of credibility in financial markets, that he needed someone who had been at the Fed before, who knows the machinations of the Fed, and would be able to come in and hit the ground running—not as an outsider—but at the same time would be respected as an economic and finance mind and not as a merely political pick.

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And I think there was a risk or a chance of some of the potential selections being viewed as an overtly political pick. People could debate if that would've been fair or not fair based on which candidate we're talking about, but I think that Kevin does meet the criteria. Kevin Warsh does meet the criteria of someone who has the Federal Reserve experience and institutional connectivity to be effective in the job quickly without a big learning curve, and at the same time is a finance and economic person—albeit not exactly one without the political skills that will be needed for the job.

The reason I say that last part is he wouldn't have got this job if he didn't have certain political skills. He had to maneuver in a way that showed political heft that I think led to him getting the job in a lot of ways.

Why do I like the pick, regardless of why I think the President made the pick? There are certain elements that I'm going on a little bit of faith and past experience. I've mentioned before that Kevin was an economist at Morgan Stanley for a portion of the time that I was there as a managing director. And I have read Kevin quite thoroughly for all of his years in public life, and I am a fan of much of what I've read.

I wouldn't say I'm coming into this blindly, but at a high level, my enthusiasm is, first of all, in contrast to the other people who I thought were being named that I do not think were going to be good selections, if they were ever serious to begin with. And I think one of them was—and the President, I think, wisely moved past that. But I won't belabor that point or dance on anybody's grave.

I think the contrast to others is a big factor because you don't have the option of saying who you think the perfect Fed chair would be if that person is never going to be considered for Fed chair. And so, within the realm of possibility, Kevin, on a relative basis, I think was the best pick, and I think he was the best pick by a wide margin.

But there's a sort of ideological component here that I want you to understand why it matters to me, but I think should matter to you, which is: Warsh's claim to fame is not going to end up being—and I'm going to talk in a moment about, I think, the exaggeration behind this idea that he's a hawk, that he really favors very tight monetary policy.

I think it's a reasonably absurd claim, and I'm going to tell you in a moment why I think people are saying it and why I think it's going to help Kevin that they're saying it. But his policy prescriptions—what he may or may not do specifically on the Fed funds rate or on quantitative easing—is less material to me than the fact that Kevin has, I think, articulated a vision for a reform mindset at the Fed.

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And by reform, he does not merely mean certain elements of corruption or bad governance. To the extent there are certain opportunities to tighten up the ship, I'm all for it. But I think what we're referring to is a Fed whose role in the economy has moved exponentially higher in my adult lifetime, and exponentially higher even in just the last 15 years of my adult lifetime.

I think Kevin sees that as a big problem, and I think he wisely and cogently identifies what has happened to build that and what needs to be done to incrementally undo it.

All that to say, I think that Kevin is committed to price stability, and I think all central bankers should be, but I don't think his commitment to price stability comes by confusing growth with inflation. And I believe that this is a very important part: him wanting to see the Fed have less of a footprint in the economy is an important ideological prerequisite for reform at the Federal Reserve.

But at the same time, if someone says, "Look how reform-minded they are—they're just tightening monetary policy or loosening monetary policy," it's being done outside of the right framework, the right understanding of how an economy works. And I think that Kevin works outside of the mindset—the Phillips Curve mindset—that has governed so much Federal Reserve modeling for decades, that views growth as a sort of inverse corollary to price stability; that, in other words, believes that growth and inflation are positively correlated.

And I believe that there is absolutely such a thing as non-inflationary growth, and that by getting additional levels of productivity in our output, you have the ability to see the economy grow above trend without it becoming inflationary. And this mindset from Kevin is not one I have confidence that many other appointees would've had, and it's a philosophical point that I believe with every ounce of breath in my body.

So what does it mean in terms of the policy? The easy part? Let's just get the interest rate stuff out of the way. The current expectation is for two to three rate cuts in 2026, and the rate right now is in between 3.5% and 3.75% in the Fed funds rate. There's about a 70% likelihood of that getting down to 2.75% by the end of the year.

And my own view is that the President of the United States was never going to appoint somebody who was not going to be cutting rates. And I think Kevin is going to be cutting rates, and I think he's going to do it for a somewhat different reason than the President. And that's okay by me.

But that really is the easy part. Like, the federal funds rate is coming down with a Kevin Warsh, and people can agree with it or disagree with it. And he may very well stop cutting after 50 to

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75 more basis points, as I kind of hope he will. But I don't have any problem with that for reasons I'll get into in a moment. Getting to 2.75-ish sounds about right to me.

Now, the harder part is where Kevin comes in on the balance sheet of the Federal Reserve, which sits right now at about \$6.6 trillion. And it is my view that what Kevin has said about quantitative easing has been among the most astute observations he's had through this whole ordeal.

You will recall that when Kevin first was appointed to the Fed by President George W. Bush, before the financial crisis, the balance sheet sat somewhere around half a trillion dollars. And under Chairman Ben Bernanke, the balance sheet of the Fed moved up to \$4.5 trillion.

Warsh was initially a proponent of QE to the extent that it was meant to be a liquidity tool in the immediate aftermath of the financial crisis, but ultimately obviously became a means of interest rate manipulation, and Kevin became very critical of that.

So the notion of moving from QE as an urgent tool for liquidity within the banking system in the 2008 financial crisis to a permanent mechanism for holding borrowing rates lower—I think Kevin was very wise to critique that mission creep, or that creep in the objective of the tool itself.

And I think that the trade-off has been excessive risk-taking from investors and, most certainly, excessive borrowing from Congress. And that the additional means of QE bringing rates down further was done as a policy aim that ended up having consequences that Warsh sees as undesirable, and so I'm very much in line with him now.

I will suggest that it's not going to be very easy to reduce the balance sheet, but I also will say that I was wrong about how Jay Powell was able to get \$2.5 trillion off the balance sheet over the last three and a half years. From the middle of '22 to the end of '25, we reduced the balance sheet from \$9.1 trillion to \$6.6 trillion and really did so without any major disruptions in the credit markets or financial market liquidity.

So I don't know that he will be able to drastically reduce it, and I think that he has to be very careful. I don't even believe he is going to reduce it in the sense of getting off of an ample reserves policy framework. The Fed has adopted a framework of wanting there to be ample liquidity via excess bank reserves in the financial system.

I think we're going to find that he has a different way in which he can manage the liquidity concern, all the while reducing the Fed's footprint in this, but replacing it with greater privatization. And I'm going to explain what I mean by that here in a moment.

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Before I get to some of the granularity of what I believe is a possible policy tool for Kevin Warsh to use to manage the QE function at the Fed, I have a longer quote than I normally do as an excerpt in Dividend Cafe, but I want to read the whole thing because this, to me, is a very important part of why Kevin Warsh deserves our support and why I have, at least for the time being, a high degree of confidence going in.

Peter Boockvar wrote a piece this week. Peter's a friend and someone I enjoy reading a great deal. He said—and I want to be very clear—I'm in 1,000% agreement with Peter about this:

One more thing on Kevin Warsh, why I think he's the right person for this job is his experience in markets working for Stan Druckenmiller, his knowledge of the markets before he even got to the Fed. I saw Kevin speak about 10 years ago, and he told a story of when he first got to the Fed in 2006 and arrived at his office at the building for the first time and requested a Bloomberg Terminal so he could follow the markets, but immediately learned that there was just one Bloomberg Terminal in the entire building until one was eventually hooked up for him about three weeks later.

He used Yahoo Finance to get his market quotes, which at the time, of course, did not even provide him credit default swap markets. I'll add, this was in 2006, and the credit market started showing shaky legs when market signals started to emanate that something was going on.

The market knowledge and having an ear out for market messaging and signals is also why I've appreciated the opinions of other market savvy former Fed officials like Richard Fisher, who ran a hedge fund; Bob Kaplan, a Goldman Sachs alum; Peter's former boss, Larry Lindsey, who ran a macro and market consulting firm for 25 years. And we do have a current Fed Governor, Beth Hammack, who's a Goldman Sachs alum as well.

They were not interested in running monetary policy just by econometric modeling. They instead integrated a broader matrix of knowledge, which markets were an important part of.

I bring this up in part because I heard Fed Governor Steven Miran on CNBC's Money Movers on Friday who, when asked what he thinks about the rising price of gold, said the increase was not informative to him. As a monetary metal for thousands of years, ignoring what gold does is a mistake, I firmly believe, and not an answer Kevin Warsh—or the others I mentioned—would have ever given.

The point he's making there is that while he is an economist and an Ivy-trained, academic-minded, very serious pedigree—although not a PhD holder—Warsh believes that market signals matter and at least views them as data inputs in his overall process.

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The notion that we would ignore all market indicators, not even have access to credit default swaps in 2006—some of this stuff could be anecdotal. And I'd say this about Greenspan: he was definitely an academic economist, but for much of his career he was a macro guy who did very much value market signals.

I think at the end, a lot of what he did to damage his legacy was that it was revealed that he wasn't a market guy, but he reversed course and decided to ignore market signals in terms of how he allowed monetary policy to get into credit markets, and specifically housing markets, in the events that led up to the financial crisis.

But Ben Bernanke is about as textbook an academic theoretical economist as comes to mind. I think he's very smart in a lot of ways, but I believe that he lowered the relevance of market and price signals to his own peril.

Janet Yellen is the textbook definition of status quo and boring. Jerome Powell was a bit of a capital markets guy. He had come from Carlyle private equity firm, but then he really spent most of his time at the Fed governing as more of an econometric and model-driven guy.

And I just believe that Warsh is going to provide some room for input and informational utility out of the messages from markets, and I see this as a very positive thing.

Now, some are saying Warsh is a hawk. He really believes in this constantly tight monetary policy. It's a pretty preposterous accusation. I think it's being done to try to troll President Trump a little: "Oh, are you sure you got the right guy? Because he's going to come in and raise interest rates when you want them cut," and so forth.

Warsh has definitely had periods where he favored higher rates. He's definitely had periods where he favored lower rates. It seems to me that makes someone neither a hawk nor a dove, but someone who's looking at the nuance of the moment to make a decision as to what rate policy ought to be.

But where I think people are helping Warsh with this is in Senate confirmation. Someone's going to come in and say, "Are you going to lower rates just to appease President Trump?" And he could say, "Wait a second. I thought I'm a big bad hawk. Which one is it?"

So they're creating a narrative that goes against the idea of him being a compromiser of Fed independence. Look, when someone at different times in different economic cycles believes in both higher rates and lower rates, I don't think that's a hawk or a dove. I think you want nuance.

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Even his own views now of lower rates, but in a reduced Fed balance sheet—I see this as neither hawkish nor dovish, but rather something that could theoretically be a very wise policy mix and certainly transcends a kind of pedestrian compartmentalization.

The final thing I want to be able to leave you with is some conversation about a term I want to use called privatization of the Fed's balance sheet. And I didn't make it up, but I believe that you're going to hear it a lot more—not only from me and the Dividend Cafe, but I think that more and more are going to talk about this idea of getting the banks to increase their balance sheets and holdings of Treasury bonds, even as you reduce the Fed's balance sheet.

Essentially, all we did before with QE was reverse that. You had a lot of private actors that reduced their holdings of Treasury securities; then the Fed became that buyer.

And I think that you can decrease the Fed's footprint in the economy by lowering their relevance in the Treasury market, but I think you can do so by upping the private sector—and particularly the commercial banks'—participation in this.

But to do that without moving interest rates is tricky. And the mechanism that I would suggest the Fed chair has at his disposal to do a quasi-privatization of the balance sheet in a non-disruptive way—non-disruptive to interest rates and non-disruptive to liquidity function in the market—is with deregulation.

Through the reserve requirements banks have to have, with things like the supplementary leverage ratio, with things like the minimum liquidity ratio that's required—these may seem like abstract policy tools, but they directly impact the amount of Treasury securities the commercial banks are incentivized to be buying and holding.

Using a deregulatory framework to incentivize more Treasury buying could very well allow for a replacement of some of the Fed balance sheet into private sector holdings. And I think that removes Fed footprint in the economy and then becomes more commercially optimal as a byproduct.

Future policy expectations: the deregulation element is a tool that the Fed chair has available. Allowing that to impact the balance sheet is a policy tool he has available with the future of interest rates.

I mentioned before, I do not believe that another reduction of 25, 50, 75 basis points is contradictory to the Fed's target of inflation. I do not believe that we have inflation above 2% right now.

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When I see disinflation in housing and rents, that is not yet captured. The higher levels of inflation not being monetary—being in auto insurance, being in health insurance, being in property and casualty insurance, being in some of the more heavily tariffed items like steel and aluminum—I believe that the Fed interest rate is not germane to that type of price issue.

And at the same time, I fear the Fed going too far. In other words, the next 50 to 75 basis points of rate cuts are a means of not jeopardizing price stability, but also trying to be in front of what could end up undermining their full employment mandate and overall economic growth and health, whether it be in housing, commercial real estate, or other aspects of the real economy.

I don't see a big concern there. However, when you go down 75 basis points and then decide to do another 75—in other words, overshoot—which I think is generally an expectation, you're wise to have that concern. Federal Reserve chair folks tend to go too far, and that would be my bigger concern, but not in the immediacy of where we're going to head next.

So I think that you're going to see Warsh get confirmed. He, by the way, was not nominated for Chairman Powell's seat yet. He was nominated for Steven Miran's seat, which expired at the end of January. He goes and gets Senate approval there.

Then let's assume Chair Powell steps away entirely, as every Fed chair whose chair term ended has done since 1948. And then President Trump puts him forward as chairman, and he has to get reconfirmed for that seat in the Senate. But then that opens up the other seat, and maybe Steven Miran comes back in the fray. Maybe there's a new appointee. We will wait and see.

I certainly believe he's going to get confirmed, and get confirmed quite easily.

I do not believe he's going to come in with a rules-based framework, which is what I ultimately would advocate. I am a big nominal GDP targeting guy, and yet, at the end of the day, some rules-based framework is what I advocate.

I think he's going to be a reform-minded Fed chair, and that is the best thing you can hope for at this stage in time. And keep in mind the alternative: there's nobody who's talking about a rules-based framework for affecting monetary policy, but there is someone talking about reform and a marginal reduction of Fed footprint in the economy. That person's Kevin Warsh, and I think that's the best you're going to get.

But you've got to understand that we're talking about this in the context of having decades behind us—recent decades—where the goal of the Fed chair in the economy was positively messianic, that it was an elevated view of the Fed chair that has to change.

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And I don't believe Warsh is going to do shock-and-awe change to that. I don't think anybody can. I think he will do marginal and incremental change and be effective.

And at the end of the day, I really do pray he doesn't make me eat my words, but truth be told, they usually do. We shall see.

I'm going to put up a chart here real quick just to give you an idea of why this is the chart of the week in Dividend Cafe, and we're going to say goodbye on this note. The chart you see up here is showing the bank holdings of Treasury debt as a percentage of the total amount of debt. It's picked up a little bit from \$700 billion seven or eight years ago to almost \$2 trillion now, but it was about 50%.

Total Treasury debt was held by banks after World War II, and the number came down to gosh darn near 0%, and is not even at 5% now.

This notion of using deregulation for a privatization of Fed balance sheet, all the while not undermining liquidity and financial market function, but restoring some degree of economic normalcy without a heavy Fed footprint—this is the opportunity that the reform-minded Kevin Warsh has.

I hope this makes sense to you. I hope you'll reach out with any questions you have, and at least for now, have a little optimism that maybe we got this one appointment right. And we'll see how things go in the years to come—months to come, years to come.

Thanks for listening. Thanks for watching. And thank you for reading the Dividend Cafe.