A Look Back at Jerome Powell’s Tenure as FOMC Chair

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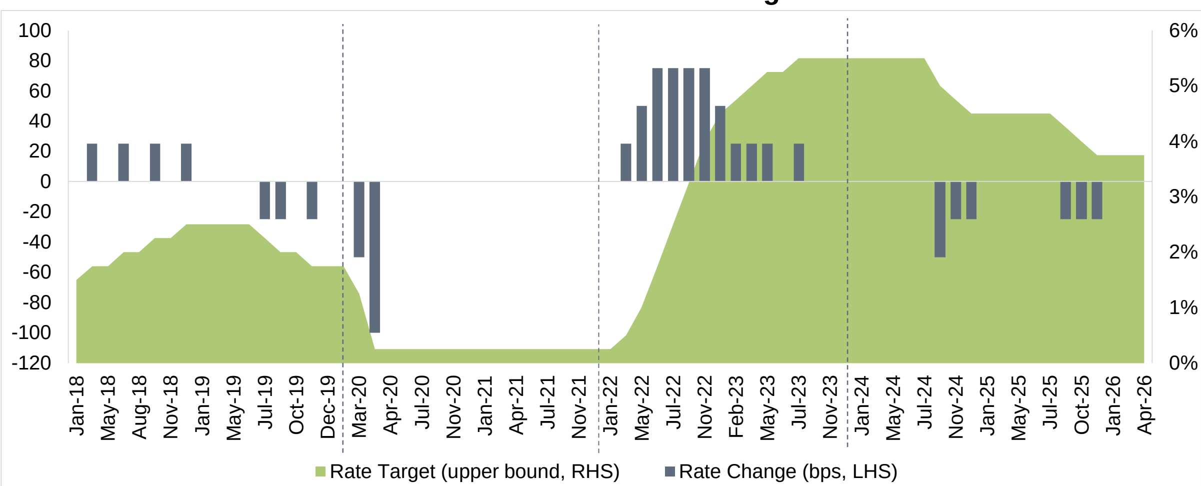
Key Takeaways

- During the eight years of Jerome Powell's tenure as FOMC Chair, which spanned February 2018 to May 2026, he navigated COVID-19, a 40-year inflation high, the fastest tightening cycle in modern Fed history, and regional banking stress.
- The pandemic response was unprecedented in scale. The Fed cut rates to near-zero, launched open-ended asset purchases, and expanded the balance sheet from $4.2 trillion to a peak of $8.9 trillion in effort to stabilize markets.
- The 2022-2023 tightening cycle was the most aggressive in modern Fed history. After holding rates near zero through 2021, the FOMC initiated 11 consecutive rate increases totaling 525 basis points over 16 months. The federal funds rate peaked at 5.25%–5.50% in July 2023, marking the most restrictive policy stance since the early 2000s.
- The baton passes to Kevin Warsh with the next challenge framed as building a durable long-term framework rather than crisis response.

Jerome Powell served two terms as Chair of both the Federal Reserve and the Federal Open Market Committee (FOMC) from February 5, 2018 through May 15, 2026. His tenure spanned two presidencies, three Treasury Secretaries, and 68 interest-rate decisions. All things considered, the monetary policy era under Powell has been one of the most challenging periods in the Federal Reserve's modern history.

Since his start, Powell and the FOMC navigated a sequence of extraordinary macroeconomic disruptions: the COVID-19 pandemic, the sharpest inflation surge in four decades, supply chain breakdowns, regional banking stress, and persistent geopolitical uncertainty. While the overarching objective of the dual FOMC mandate (maximum employment and price stability) remained constant, monetary policy under Powell evolved dramatically from historically accommodative monetary intervention during the pandemic to one of the most aggressive tightening cycles since the early 1980s.

Chart 1: FOMC Rate Decisions and the Federal Funds Target Rate



Source: The Federal Reserve

Pre-Pandemic Normalization (2018–2019)

Upon taking the helm, Powell continued the gradual rate-hike path initiated by his predecessor, Janet Yellen, raising the federal funds rate four times in 2018 and bringing the target range to 2.25%-2.50% by December 2018. The goal was to gradually normalize the rates environment after nearly a decade of near-zero rates post-2008 financial crisis. The rate hikes were in response to strong GDP growth reaching 4.2% in 2Q18, unemployment near 50-year lows (dropping to 3.7% by late 2018), core PCE inflation hovering near the Fed's 2% target, and robust consumer spending and business investment.

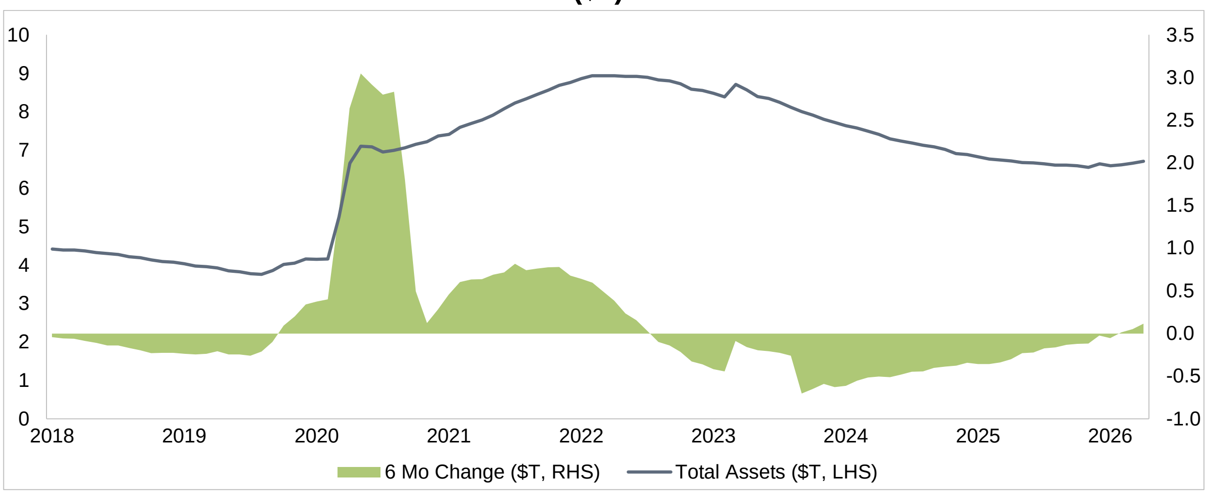
Responding to slowing global growth and trade-war uncertainty, the FOMC then reversed course in 2019, delivering three cuts of 25 basis points each resulting in the target range of 1.50%-1.75%. Powell described these adjustments as a recalibration against ongoing global risks, rather than the beginning of a prolonged easing cycle.

COVID-19 Emergency Response (2020–2021)

The onset of the COVID-19 pandemic triggered one of the most dramatic policy responses from the Fed in modern history. Between two unscheduled emergency meetings in March 2020, the FOMC cut the federal funds rate by a total of 150 bps to a target range of 0%-0.25%, effectively reintroducing a zero-interest-rate policy framework. The U.S. unemployment rate surged from 4.4% in March 2020 to 14.7% in April 2020—the highest level since the Great Depression.

The Powell Fed closely coordinated with the Mnuchin Treasury Department to stabilize financial markets, restore liquidity, reduce borrowing costs, and support employment recovery. Alongside rate cuts, the FOMC launched an expansive program of large-scale asset purchases. The Fed purchased U.S. Treasury securities and agency mortgage-backed securities (MBS) at an open-ended pace, ultimately expanding the balance sheet from $4.2 trillion pre-pandemic to a peak of $8.9 trillion in April 2022. These purchases were designed to compress long-term interest rates, ease financial conditions, and backstop credit markets across the economy.

Chart 2: The Federal Reserve Total Assets ($T)



Source: The Federal Reserve

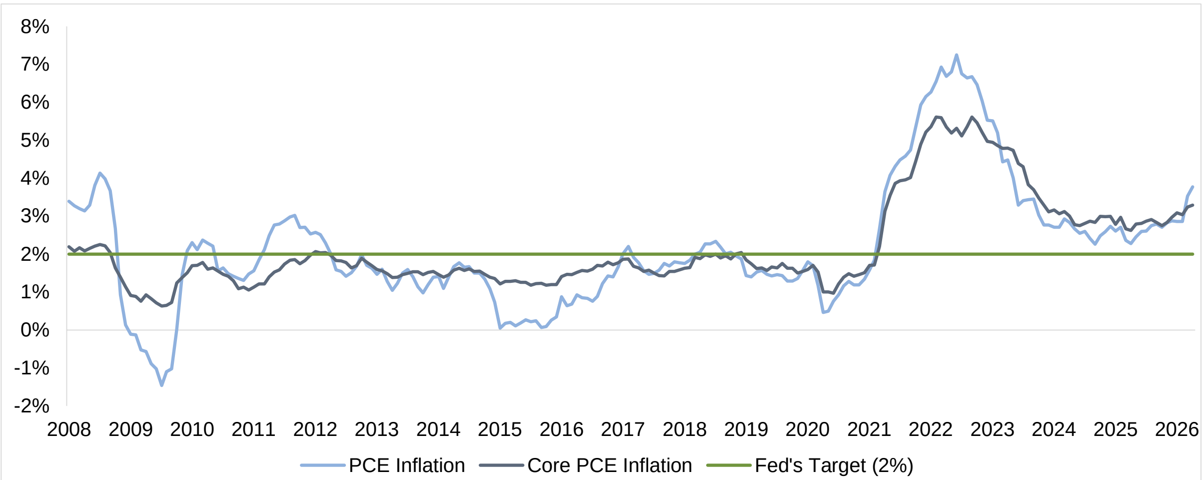
The COVID-19 recession lasted only two months, the shortest on record, and markets rebounded dramatically, vindicating the swift and aggressive emergency response. However, for the following two years, rates remained at historic lows and the balance sheet doubled to $8.9 trillion.

In August 2020, the Powell Fed adopted a landmark revision to its monetary policy framework, formally introducing Flexible Average Inflation Targeting (FAIT), otherwise referred to as Average Inflation Targeting (AIT). Key elements included:

- Allowing inflation to run “moderately above” the 2% target “for some time” following periods of below-target inflation to achieve an average rate of 2% over time
- Shifting the employment mandate to focus on “shortfalls” from maximum employment rather than “deviations,” removing the implicit assumption that low unemployment automatically triggers inflation risk
- Forward guidance explicitly committing to near-zero rates until both employment and inflation objectives had been substantially met, with no preemptive tightening

This framework — a meaningful departure from prior Fed behavior — was designed to address the persistent below-target inflation of the prior decade. However, following the pronounced rise in inflation post-COVID, the framework was criticized as being one-sided, with no formal period for averaging inflation “overshoots” with “undershoots.”

Chart 3: PCE Inflation and the Federal Funds Target Rate



Source: Bureau of Economic Analysis (BEA)

Inflation Surge & Historic Tightening (2022–2023)

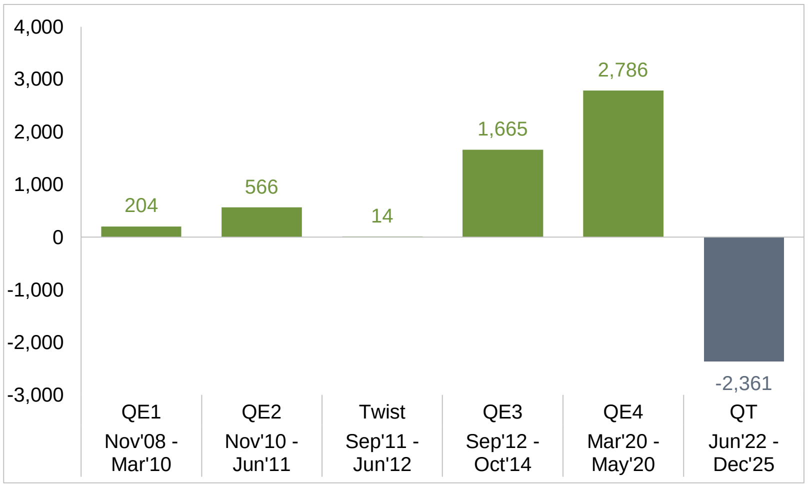
As inflation began accelerating sharply in early 2021, driven by pandemic-related supply chain disruptions, expansive fiscal stimulus, and a rebound in consumer demand, Powell initially characterized price pressures as “transitory.” But inflation was further stoked by global conflict: Russia's invasion of Ukraine in February 2022 sent global oil and energy markets into turmoil, with gasoline prices hitting record highs of $5.06/gallon in June 2022. Energy prices were a significant contributor to the inflation surge, but food prices and shelter costs also rose sharply. By June 2022, the PCE Inflation had reached 7.2% Y/Y, a 40-year high, while core PCE Inflation rose to 5.3% Y/Y.

The FOMC initiated its tightening campaign in March 2022, delivering 11 consecutive rate increases totaling 525 basis points over 16 months, the fastest tightening cycle in modern Federal Reserve history. The use of four consecutive 75-basis-point increments (June through November 2022) was unprecedented in the modern era and took the Fed Funds target range to a peak of 5.25%–5.50% by July 2023, bringing it to the most restrictive policy stance since the early 2000s.

Simultaneously, in June 2022, the FOMC commenced Quantitative Tightening (QT), allowing maturing Treasury and MBS securities to roll off the balance sheet without reinvestment. At peak pace, this reduced holdings by up to $95 billion per month ($60 billion Treasuries + $35 billion MBS). From June 2022 peak of $8.9 trillion, the balance sheet was reduced by roughly $2.4 trillion over three years. In December 2025, Powell announced the FOMC would restart balance sheet expansion to maintain “ample reserves,” a pivotal departure from prior targets and formally concluding the QT cycle after it became the largest quantitative tightening program undertaken by the Federal

Reserve. The implementation of “ample reserves,” rather than targeting a fixed numerical dollar amount, introduced a framework to keep bank reserves high enough that short-term funding markets remained stable and interest rates stayed under the Fed’s control. (For now, the FOMC remains split on whether a precise definition of “ample” would offer clarity or potentially lead to excessive risk-taking by leveraged investors.)

Chart 4: The Federal Reserve Balance Sheet: Changes in Total Assets Held ($B)



Source: The Federal Reserve

In March 2023, the failures of Silicon Valley Bank and Signature Bank — stress directly attributable in part to the rapid rise in interest rates and resulting unrealized losses on fixed-income assets — caused policymakers to fear broader financial stability. The FOMC launched the Bank Term Funding Program (BTFP), a targeted liquidity facility allowing banks to borrow against securities at par value. Critically, the Fed maintained a clear distinction between this emergency liquidity support and the underlying monetary policy tightening cycle, continuing rate hikes even as it backstopped the banking system.

Easing Cycle & Late-Tenure (2024–2026)

As inflation retreated from its peak, the FOMC adopted a deliberate “higher for longer” posture through most of 2024, maintaining the 5.25%-5.50% target range to ensure inflation was sustainably returning to the 2% objective. Powell emphasized a “data-dependent” approach throughout, repeatedly signaling a willingness to tolerate slower economic growth to restore price stability.

The pivot arrived in September 2024 with a larger-than-expected 50-basis-point cut, followed by multiple additional reductions. The Fed’s move was driven by two converging forces: core PCE inflation had fallen substantially from its 2022 peak above 5.5%, giving the Fed confidence that price stability was no longer at risk, and more urgently, the labor market had shown unexpected weakness as unemployment had risen to 4.4% in August 2024 from a low of 3.1% in April 2023. Meanwhile, the Bureau of Labor Statistics' annual benchmark revision revealed that nonfarm payrolls had been overstated by approximately 818,000 jobs over the prior year. With inflation risks receding and employment emerging as the dominant concern under the Fed's dual mandate, the committee opted to front-load its easing cycle rather than risk falling behind. The committee cut rates a cumulative 175 basis points through 2024 and

2025. Core PCE inflation declined from above 5.5% in 2022 to approximately 3.0% by early 2026. At Powell's final FOMC meeting on April 29, 2026, the target range was held at 3.50%-3.75%.

In August 2025, Powell introduced a revised "Statement on Longer-Run Goals and Monetary Policy Strategy" that was passed unanimously by the FOMC. Most significantly, the new framework eliminated the Flexible Average Inflation Targeting provision — the allowance for inflation to "run moderately above" the 2% target — and returned to a more symmetric, traditional inflation-targeting approach. This revision was a public acknowledgment that the 2020 FAIT framework had contributed to the delayed tightening response and the inflationary episode that followed.

Economic Consequences and Legacy Assessment

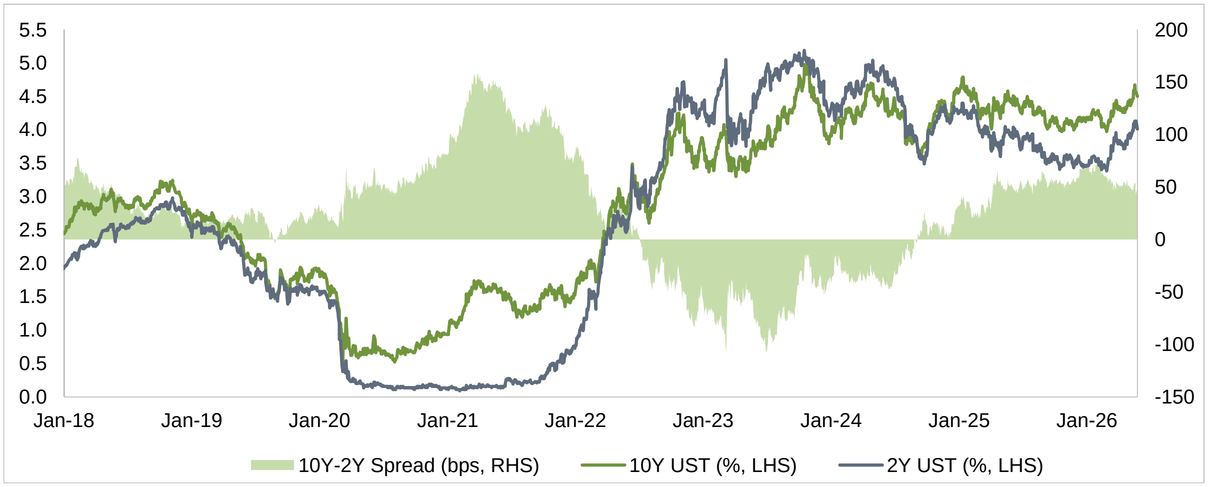
Powell's legacy ultimately will be judged not by any single policy action, but by whether the Federal Reserve successfully restored price stability, preserved financial stability, and sustained the conditions for long-term economic growth during one of the most challenging periods in modern monetary policy history, including the largest inflation shock since the Volcker era and the most substantial economic disruption since the Great Depression.

The defining features of the Powell era included expansive monetary accommodation, rapid policy reversal, aggressive inflation control measures, and ongoing efforts to balance economic stability with price discipline. Many argue that the Federal Reserve successfully prevented a catastrophic pandemic-era financial collapse and later managed to reduce inflation substantially without triggering a severe recession or crisis. Labor markets also remained historically resilient through much of the tightening cycle, and broader economic activity, namely employment, proved stronger than many analysts initially expected. Others contend that the Fed maintained excessively loose policy for too long during 2021, contributing to the inflation surge that later required aggressive corrective tightening, with subsequent increases in rates that imposed significant stress on the housing sector, increased borrowing costs across the economy, and contributed to regional banking instability during 2023 due to unrealized losses on fixed-income assets.

Looking Ahead

Presently, geopolitics continues to drive much of the increase in inflation expectations, leading to rising Treasury yields and speculation that even tighter policy will ultimately be required.

Chart 5: US Treasury Yields: 2Y vs 10Y



Source: US Treasury

Though Powell currently remains at the FOMC as a Governor through 2028, attention now turns to the new chair, Kevin Warsh, former Special Assistant to the President of the National Economic Council and former Fed Governor. Against a backdrop of a robust labor market and still persistent inflation, Warsh inherits a Federal Reserve whose next challenge may be less about responding to crisis and more about establishing a sustainable framework for monetary policy in a more inflation-prone and geopolitically fragmented world.

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