Kevin vs. Kevin: Markets Are Betting on the Next Fed Chair

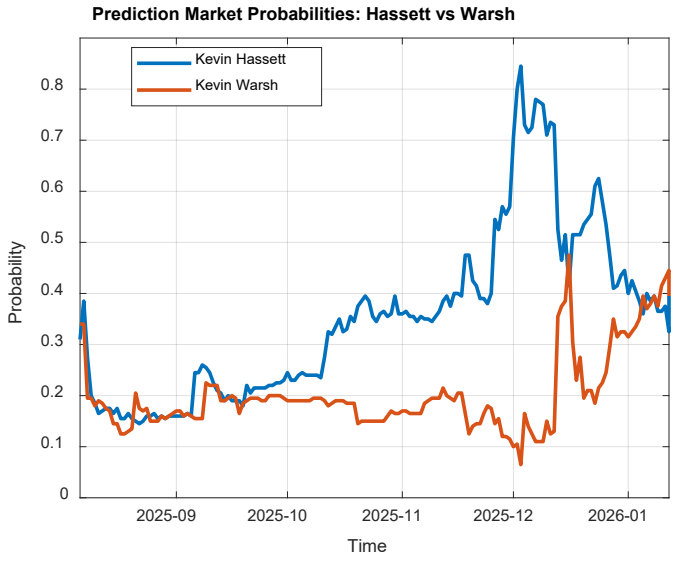
By *Gill Segal*

For the past few years, the Federal Reserve has been the undisputed engine of market sentiment. Every syllable uttered by the FOMC has moved billions in capital. *Expectations* about interest rates have become the macro headline that crowds out almost every other macro narrative. But as we approach 2026, the market's gaze is shifting from the *policy* to the *person*.

Current Chair Jerome Powell is expected to step down when his term officially expires on **May 15, 2026**. His departure opens the door for a successor who, if President Trump has his way, will look very different from past chair. Trump has been vocal about his dissatisfaction with Powell. In late December, he posted that he wants a Fed Chair who lowers rates when markets are doing well—and added a line that investors immediately translated into "independence risk":

"Anybody that disagrees with me will never be the Fed Chairman."

That quote matters because the Fed's core asset isn't a building or a balance sheet—it's credibility. According to **Polymarket**—the decentralized prediction market where traders bet on real-world outcomes with real capital—the race to replace Powell has narrowed to a dead heat between two men. It is the battle of "Kevin vs. Kevin."



The Contenders

- **Kevin Hassett:** The former Chairman of the Council of Economic Advisers (CEA) under Trump. Hassett is a known quantity in the White House, perceived as a loyalist

who aligns closely with Trump's pro-growth, low-rate philosophy. He isn't just a Republican economist: he's an active participant in the administration's policy messaging and strategy.

- **Kevin Warsh:** A former Federal Reserve Governor (2006–2011) with deep ties to Wall Street (formerly of Morgan Stanley). Warsh is viewed as the "institutional" pick—more independent, arguably more hawkish historically, but recently seen as a pragmatic bridge between the administration and the markets. In a twist that signals "independence" to markets: reporting has indicated Warsh has advised Trump against trying to remove Powell before his term ends.

Until recently, Hassett was the clear frontrunner on Polymarket. However, in recent weeks, the odds have tightened significantly, resulting in a virtual tie. This shift offers a unique opportunity to analyze what the "smart money" thinks each candidate brings to the table.

What the Data Says: The "Kevin Premium"

To understand the market's pricing of these two candidates, I analyzed daily data from Polymarket between October 25, 2025, and mid-January 2026. I regressed the probability of each candidate winning against three key market indicators: the likelihood of inflation exceeding 3% in 2026, the probability of aggressive rate cuts (3+ cuts) in 2026, and the VIX (volatility) index.

The results paint a starkly different picture for the US economy under each "Kevin."

1. Kevin Hassett: The Inflationary Dove

A 1 percentage point (pp) increase in Hassett's probability of becoming Chair is associated with:

- **Higher Inflation Expectations:** A **0.57% increase** in the probability that inflation will exceed 3% in 2026 (t-stat 4.15).
- **Aggressive Rate Cuts:** A **0.33% increase** in the probability of 3+ rate cuts (t-stat 8.26).
- **Elevated Volatility:** A **1.34 point increase** in the VIX, although this relationship is statistically insignificant.

The market perceives Hassett as the "super-dove." His appointment is associated with looser monetary policy, but it comes at a cost: significantly higher inflation expectations. The VIX link is directionally consistent with the "independence risk" narrative (even if not statistically strong here): if investors worry policy becomes more politicized, uncertainty tends to rise.

2. Kevin Warsh: The Stabilizer

A 1 pp increase in Warsh's probability of becoming Chair is associated with:

- **Disinflationary Pressure:** A **0.98% decrease** in the probability that inflation will exceed 3% (t-stat 6.67) and a **0.23% decrease** for inflation exceeding 4%.
- **Moderate Policy:** A **0.11% decrease** in the probability of aggressive rate cuts.
- **Market Calm:** A massive **7.17 point decrease** in the VIX (t-stat 2.23).

Warsh's rise in the polls correlates with a dramatic drop in fear (VIX) and a suppression of inflation expectations. While he is less likely to slash rates as aggressively as Hassett, the market seems to interpret his potential tenure as a return to stability and independence.

The Verdict: What Do Investors Want?

The choice presents a classic trade-off: Do investors want the "sugar high" of aggressive rate cuts (Hassett) or the stability of a credible, independent watchdog (Warsh)? Ex ante, it's not clear. Faster rate cuts (Hasset) lead to lower discount rates and support equity valuations. But stronger credibility signal (Warsh) lower inflation tail risk and volatility, also supporting valuations.

When correlating daily S&P 500 returns with these probabilities, the preference is subtle but clear. A 1 pp increase in Warsh's odds is associated with a **0.91% increase** in the probability of a strong market day (returns in the 80th percentile), with a significance level bordering on 10% (t-stat 1.70). Hassett's impact on returns is statistically insignificant.

The Bottom Line: While both candidates are viewed as pivoting away from the current regime, they represent two divergent paths. Hassett is the "more dovish" bet, but with higher implied inflation and more uncertainty. For now, the market seems to be weakly whispering a preference for lower uncertainty, but in any case, investors should closely monitor the outcome.