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Roll With The Changes

By Trace Dixon

We have a new Fed Chair (feel free to hold off on sending up the white smoke or setting off fireworks!). As with most impactful roles in government, the keys to the kingdom pass without much comment or consideration from the general public. But in the little financial corner of the world where we occupy, this appointment is making waves along with an event we want to unpack this month as we set the stage for a new era of US Federal Reserve policy.

For starters, let's answer one very important question: *Why does this matter to me?* In days past, this was a bit trickier a question to answer; however, with the tossing and turning of the economy in the last six years, we all have a bit more first-hand experience with being on the receiving end of the US Federal Reserve's decisions. The Federal Reserve, its Board of Governors, and its Chairperson have a dual mandate they are required to follow:

1. **Help keep unemployment as low as possible, and**
2. **Maintain price stability by keeping inflation under control.**

Think of the Chair as the pilot of the US economy. They don't control the weather or the conditions they fly through, but they have the ability to plot the course, adjust the flight plan when conditions get rough, and determine how smooth they can keep the

flight through stormy weather. In real life, that looks like market-wide employment opportunities and stable prices at the supermarket. Additionally, their decisions can impact interest rates when buying a house or a car. Since we, as ordinary people, know how it feels when we're hunting for a job, filling up a shopping cart, or taking out a loan, we intrinsically know the trickled-down decisions from the Fed and who is piloting the plane.

Over the last eight years, the leader of the Fed was Jerome Powell. It's safe to say very few chairs in the over 100 year history of the Fed have had more obstacles to navigate through: A global pandemic, the fastest interest rate hiking cycle in 40 years, and a whopping surge of inflation and gradual recovery all mark the man stepping down from the top and passing the baton. That was, if he was fully stepping down. That's right folks, this time around instead of the usual transition marked with exciting comments about interest rates and economic indications, this time there's a bit of drama surrounding the changing of the guard, and it has raised many questions as to how this transition is going to go.

This all stems from the fact that the Chairman of the Fed isn't the sole head of the Fed, but the leader of a committee of 12 members called the FOMC (the Federal Open Market Committee) who follow that same dual mandate and as a body vote on US mone-

tary decisions. The Chairperson is the most powerful of the 12 and has considerable sway in how the other 11 vote and operate but is not the only person in the cockpit in keeping with our analogy. Historically, the Chairman of the Fed fully resigns from all duties once he or she has finished their term as the Chair. Jerome Powell, however, will be the third Fed Chair in history to step down from the Chairmanship but stay on the FOMC as a Governor. Put another way, the pilot is stepping away from the controls but is remaining in the cockpit and has the ability to tell the new pilot how he thinks the plane should be flown.

So, who is the new pilot facing this potential backseat driving issue on top of the shopping list of economic issues the US faces today? The man stepping behind the controls is Kevin Warsh. Warsh first joined the Fed back in 2006 at 35 years old as the youngest Governor ever appointed. As a Governor and FOMC member, he participated in every major decision of the 2008 financial crisis and was reported to be a high-ranking decision maker amongst the 12 committee members. Warsh believed that the Fed holds interest rates too low, expands its balance sheet too freely, and overreaches its mandate too often. His extremely conservative views led him to resign from the Board in 2011 over those convictions, and he returns today inheriting a balance sheet that has done just what he warned against: grown 51.8% larger than when Powell began. It is expected that he will continue to hold to those same values, meaning he will be taking us a very different direction than the path we're on now.

Current expectations are that Warsh would like to reduce the Fed's Balance Sheet meaning mortgages



and car loans over the long term would rise, runaway home prices would be reduced, and overall inflation would be tamed alongside the rising of the cost of a trip to Walmart. He also is expected to change how the Fed measures inflation and the way the Fed choreographs meetings, expressing a desire from more open deliberation and organic decision-making among committee members. This move could help keep any tensions low between him and Governor Powell. Lastly, he has expressed an interest in stripping any non-monetary issues from the Fed's decision-making agenda. This would remove any focus on climate and diversity policies and shine the spotlight fully on the all-important dual mandate to keep unemployment low and inflation at the target of 2% annually.

What we at Southern Capital keep in mind throughout all of this is that, regardless of who is leading the Fed and how their policies impact us, our job is to keep your money working for you on behalf of your best interests. The markets fluctuate and companies react to Fed decisions in ways that best position them to grow. Thus, diversification is a core principle of our management which addresses such fluctuations. It enables us to deal with the volatile swings in the market both on the up and down sides.

Historically, the strategy of staying in the market through changes in the Fed have paid off with the market having overall growth of +219.6% under Paul Volcker (1979-1987), +284% under Alan Greenspan (1987-2006), +35.8% under Ben Bernanke (2006-2014), 58.6% under Janet Yellen (2014-2018), and so far approximately 183.2% under Jerome Powell (2018-2026). All faced turbulence, all changed the landscape around their role as Fed Chair, but the market adapted under each, and our expectations are that it will do the same under Warsh.

2026 Update Reminder

2026 IRA and Roth Contribution limits are now increased to \$7,500. If you are 50 or older, your limit is \$8,600.

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