Independence? (Not the Scottish one)

A Legacy of Autonomy

Since the 1951 Accord that formally separated the U.S. Treasury from the Federal Reserve (Fed), the central bank has operated with a high degree of independence. This structural firewall was designed to insulate monetary policy (the action a central bank can take to influence how much money is in a country's economy and how much it costs to borrow) from political interference, enabling the Fed to focus on long-term economic stability rather than short-term electoral gains.

Historically, this independence has paid dividends. Central banks with strong autonomy, like those in the U.S., Germany, and the U.K., have been more successful in controlling inflation and maintaining economic equilibrium. The painful lessons of the 1970s, when political meddling contributed to stagflation, underscore the importance of keeping monetary policy above the political fray.

2025: A Turning Point?

Fast forward to today, and in America, that firewall appears to be cracking. President Donald Trump's renewed public criticism of Fed Chair Jerome Powell, coupled with threats to replace him, have reignited fears of politicised monetary policy. While the likelihood of Powell being fired is slim, given the legal protections in place and the short time until his Chair position expires, the mere perception of political pressure is enough to make bond markets uneasy.

As a result of these concerns, some central banks are already adjusting their portfolios, with many reducing exposure to U.S. assets and continuing to increase their gold reserves, often repatriating them from U.S. vaults.

Why does it matter?

If the Fed is perceived as a political tool rather than an independent institution, it could undermine the credibility of U.S. monetary policy, unsettle global markets, and erode the dollar's status as the world's reserve currency. While the Fed's legal autonomy remains intact, the battle for its perceived independence is far from over.

I recently attended a conference where Dr Tim Leuning spoke, who was Economic Adviser to Sajid Javid and Rishi Sunak when each served as Chancellor of the Exchequer. During his talk, a pertinent comment he made is that the number one question he gets asked is what will happen to the economy over the next 12 months? His reply, "I don't know." The takeaway is that often there are several factors that mean predicting what will happen over the next week, month, quarter, and year are difficult calls but predicting what will happen over the next 5 or 10 years is slightly easier.

Taking Dr Tim's advice, we believe an underweight stance to U.S. assets (not just equities) is justified when looking out over the next 3-5 years. A full removal seems extreme given that there are several reasons for U.S. assets to still perform well in the short term, of which some of those reasons may not be even known to us yet. While tariff pauses and trades deals have led to some equity indices reaching all-time highs, the outlook of tariff implementation, recent unemployment reports (particularly from the U.S.) and inflation expectations leaves an environment that demands caution and patience.

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7 August 2025

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