

**Federal Reserve****US prosecutors launch criminal investigation into Federal Reserve's Jay Powell**

Chair says probe follows central bank's refusal to bow to White House push for much lower interest rates

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Published JAN 12 2026 | Updated JAN 12 2026, 18:36

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Fed chair Jay Powell: 'The threat of criminal charges is a consequence of the Federal Reserve setting interest rates based on our best assessment of what will serve the public' © Federal Reserve YouTube

US prosecutors have launched a criminal investigation into Jay Powell over a \$2.5bn renovation of the Federal Reserve's headquarters, sharply escalating the Trump administration's attacks on the central bank.

Powell, Fed chair, on Sunday said [the central bank](#) on Friday received grand jury subpoenas and a threat of criminal indictment from the justice department relating to his testimony before Congress last summer about the renovation.

In a video statement, Powell strongly rejected the “unprecedented action” from the DoJ, saying it was a pretext to rein in the Fed's independence to set interest rates and part of a series of threats and pressure from the White House.

“This new threat is not about my testimony last June or about the renovation of the Federal Reserve buildings,” Powell said.

“The threat of criminal charges is a consequence of the Federal Reserve setting interest rates based on our best assessment of what will serve the public, rather than following the preferences of the president.”

It comes as US President Donald Trump has repeatedly attacked Powell, calling him a “[stubborn mule](#)” for declining to cut borrowing costs more aggressively.

Gold [rose to a record high](#) on Monday following the news of the investigation, gaining 1.8 per cent to trade close to \$4,600 a troy ounce. Bullion tends to rally when Fed independence is perceived to be under threat.

The dollar fell 0.4 per cent against a basket of half a dozen peers. The S&P 500 share index inched about 0.2 per cent in afternoon trading. The yield on the 10-year Treasury, which moves inversely to the price, climbed 0.016 percentage points to 4.2 per cent.

The president is expected to announce his nominee in the coming weeks to replace Powell, whose second term ends in May.

Kevin Hassett, the director of the White House's National Economic Council who is seen as a frontrunner to succeed Powell, said he would support the investigation if he became Fed chair.

“[It] seems like the justice department has decided that they want to see what’s going on over there with this building that’s massively more expensive than any building in the history of Washington,” Hassett told CNBC on Monday. “And if I were Fed chair, I would want them to do that.”

Trump denied any involvement in the probe.

“I don’t know anything about it, but he’s certainly not very good at the Fed, and he’s not very good at building buildings,” the president told NBC News on Sunday evening, claiming the investigation had nothing to do with Powell’s refusal to slash rates.

The probe will deepen investors’ concerns about the independence of the world’s most important central bank, a cornerstone of US economic policy that is widely viewed as vital for financial markets.

Krishna Guha, vice-chair at Evercore ISI and a former New York Fed official, called the move “a deeply disturbing development”.

Eswar Prasad, a professor at Cornell University, said: “The Trump administration is leaving no doubt about its determination to directly and heavy-handedly influence the Fed’s policy actions through every avenue possible, including legal threats.”

Powell, whom Trump has repeatedly said he would “love” to fire, said on Sunday he would not quit the Fed over the investigation.

“Public service sometimes requires standing firm in the face of threats,” he said. “I will continue to do the job the Senate confirmed me to do, with integrity and a commitment to serving the American people.”

Blake Gwinn, head of US rates strategy at RBC Capital Markets, said: “Markets will start to price in greater inflation expectations, inflation risk premium, and term premium if the Fed’s independence comes under further attack.

“We don’t appear to have hit it yet, but every action is another step closer to it.”

Grand juries determine whether prosecutors have presented enough evidence to indict an individual. During their investigations, prosecutors sometimes notify subjects before they seek an indictment in order to give them a chance to testify, justice department guidelines show.

The subpoenas are thought to contain requests for information on Powell's preparations for the testimony along with internal documents relating to the renovation of the headquarters.

The administration has used [the renovation project](#), which has run substantially over budget, as a line of attack against the central bank and Powell, whom Trump has labelled a "numbskull" over his refusal to slash interest rates to 1 per cent.

Powell, who is set to step down as chair in May, has previously rebutted claims from [Russell Vought](#), a close Trump ally who heads the Office of Management and Budget, that he misled Congress over the renovation.

The Fed chair said Vought's accusations, that he had either lied to lawmakers or failed to inform planners, were incorrect as the changes were not substantial enough to warrant disclosure.

Thom Tillis, a Republican member of the Senate banking committee who has been one of the few in Trump's party to diverge from the president, on Sunday said: "If there were any remaining doubt whether advisers within the Trump Administration are actively pushing to end the independence of the Federal Reserve, there should now be none."

Tillis said he would oppose the confirmation of anyone Trump nominated as Powell's replacement "until this legal matter is fully resolved".

Trump has attempted to [fire Fed governor Lisa Cook](#) over allegations of mortgage fraud, which are under investigation. She has denied the allegations and is embroiled in legal action against the president.

The Supreme Court has taken up what is expected to be a landmark case on the executive branch's powers to sack senior central bank officials, and will hear arguments later this month.

The DoJ did not immediately respond to a request for comment.

*Additional reporting by Stefania Palma in Washington and William Sandlund in Hong Kong*