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## **MONETARY AFFAIRS:**

**Preview: Fed to Leave Rates Unchanged in June.**

**Can Warsh Convince Trump That “Hold is the New Cut?”**

**by**

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**16 June 2026**

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### Executive Summary

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- ✦ **Expected Decision:** *We expect the Fed to keep rates unchanged in June.* In line with consensus, we expect the Fed to maintain its target Fed funds range at 3.50% - 3.75% in June. The meeting will mark Kevin Warsh's first as Fed Chair and provide an early indication of his approach to monetary policy communication. For him the key challenge will be convincing Trump that “*Hold is the new Cut.*”

During his Senate confirmation hearing, Warsh called for a shift toward greater “strategic ambiguity,” criticising the Fed's reliance on forward guidance and arguing for fewer public interventions by policymakers, signalling a potential departure from the communication framework adopted in recent years. He favors fewer public interventions and less emphasis on forecasts and the dot plot. As a result, Warsh is expected to stress uncertainty and data dependence over explicit policy signalling, marking a departure from the highly transparent approach of recent Fed leadership.

Regarding *balance sheet policy*, in May last year the FOMC decided to slow down the pace of QT.

- ✦ **Policy Discussion:** *The Federal Reserve is widely expected to leave interest rates unchanged this week, but policymakers are likely to adopt a more hawkish tone as inflation remains elevated and economic activity proves resilient.* Updated projections may point to higher inflation and a greater willingness to tighten policy if price pressures persist. The FOMC may move away from its current easing bias of rate cuts ahead and take a more neutral stance. In his first press conference as Fed Chair, Kevin Warsh is expected to favour greater “strategic ambiguity,” downplaying forward guidance and emphasizing uncertainty rather than signalling a clear policy path.

Despite weak GDP growth in late 2025 and early 2026, the US economy has been supported by strong job creation, AI-related investment, resilient consumer spending, and rising energy exports. Meanwhile, inflation rose to 4.2% in May, driven largely by higher energy prices linked to the Middle East conflict. While markets have increasingly priced in the possibility of a rate hike later this year, the Fed is likely to look through the energy-driven inflation shock and keep rates steady. Investors will also watch for signals on Warsh's longer-term goal of shrinking the Fed's balance sheet, while a relatively hawkish policy stance is likely to continue supporting the US dollar.

- ✦ **Changes to Economic Forecasts:** *Updated economic projections are expected to reflect a more challenging inflation outlook, with elevated energy prices and lingering supply-side pressures keeping inflation above the Fed's target,* while growth forecasts remain relatively resilient thanks to a strong labour market, continued business investment, and solid consumer spending. The updated SEP may signal a more hawkish policy path, with the dot plot showing more officials expecting rates to remain higher for longer or even rise further by year-end.

Recent comments from New York Fed President Williams support this view, as he expects headline PCE inflation to remain near 4% and core inflation above 3% in the coming months due to tariffs and higher energy prices, while stressing that longer-term inflation expectations remain anchored and the labor market continues to show resilience.

### Key Picture: US Federal Reserve Forecasts – 2025-2028

	2026f			2027f		2028f		Longer Run	
	Latest Reading	June Report	March Report	June Report	March Report	June Report	March Report	June Report	March Report
GDP ( <i>real growth, y-o-y</i> )	2.7	2.2	2.4	2.3	2.3	2.1	2.1	2.0	2.0
Unemployment rate (% <i>y-o-y</i> )	4.3	4.3	4.4	4.3	4.3	4.2	4.2	4.2	4.2
PCE Inflation (% <i>y-o-y</i> )	3.8	3.9	2.7	2.2	2.2	2.0	2.0	2.0	2.0
Core PCE Inflat. (% <i>y-o-y</i> )	3.3	3.3	2.7	2.2	2.2	2.0	2.0	-	-
Federal Funds Rate (%)	3.75	3.62	3.4	3.4	3.1	3.1	3.2	3.1	3.1

Source: Federal Reserve 'Summary of Economic Projections' March 2026 and December 2025. Note: 1. GDP reading for Q1-2026; 2. Unemployment rate as of May 2025; 3. PCE and core PCE inflation as of April 2026; 4. Projections reflect the median of FOMC projection

### Analysis

✦ **EXPECTED DECISION:** *On June 17, we expect the US Federal Reserve's FOMC to keep its Fed funds range at 3.50% - 3.75%.* New US Federal Reserve chair Kevin Warsh will oversee his first meeting of the interest rate-setting committee this week, who has promised "regime change" at the Fed. The meeting will also provide an early indication of how he intends to reshape the Fed's communication strategy. During his Senate confirmation hearing, Warsh advocated a shift toward greater "strategic ambiguity," criticizing the Fed's reliance on forward guidance and questioning the value of frequent press conferences and speeches by policymakers. Thus, there is a much ambiguity concerning the Fed's communication framework.

While updated projections may point to a more hawkish outlook, Warsh is likely to downplay the importance of the SEP and dot plot, emphasising uncertainty and data dependence rather than providing explicit guidance on the future path of rates. Markets will also watch for any indication that the Fed is moving away from its previous easing bias, though Warsh is unlikely to commit to a specific tightening path at this stage.

Fed held rates steady at its January, March and April meetings, after cutting by 25bps at each of the final three meetings last year to cushion the labor market. Since then, the Iran war has driven up energy prices and significantly clouded the economic outlook, reinforcing the Fed's cautious stance. Markets are aligned with this caution, with the CME Group pricing in a near-certain pause at the next meeting.

Regarding *balance sheet policies*, the Fed in May last year decided to slow down the pace of QT from June. The Committee will continue reduce the size of its balance sheet made of Treasury securities, agency debt, and agency mortgage-backed securities holdings. Starting in April, the Committee slowed the reduction of its securities holdings by lowering the monthly Treasury redemption cap from \$25 billion to \$5 billion, while keeping the agency debt and mortgage-backed securities cap at \$35 billion.

✦ **POLICY DISCUSSION:** *The Fed is widely expected to leave interest rates unchanged this week, but policymakers are likely to adopt a more hawkish tone as inflation remains elevated and economic activity shows renewed momentum.* Updated projections may signal a greater willingness to tighten policy if price pressures persist. In his first press conference as Fed Chair, Kevin Warsh is expected to avoid strong forward guidance, instead emphasizing that current economic conditions do not justify rate cuts despite President Trump's calls for lower borrowing costs.

The real question is whether Kevin Warsh can convince President Trump that "Hold is the new Cut". In an environment in which inflation is rising, growth is still strong, and other major central banks, such as

the ECB, are already raising rates, the Fed is now expected to increase rates by year end. If Warsh manages to convince the FOMC that the Fed is better off looking through this inflation spike (assuming is not too persistent), it would already pull off a major success. Pushing further for rate cuts by Trump would really look like a stretch, and this would bring the issue about the independence of the Fed back into even further public scrutiny.

The US economy has proven more resilient than expected despite weak GDP growth in late 2025 and early 2026. Strong job creation, expanding business activity, AI-related investment, resilient spending by higher-income households, and rising energy exports have supported growth and helped cushion the effects of the Middle East conflict. However, the recovery remains uneven, with employment gains concentrated in government, healthcare, education, and leisure sectors, underscoring the increasingly "K-shaped" nature of the expansion.

Inflation accelerated to 4.2% in May, its highest level in three years, largely due to higher energy prices linked to the Middle East conflict. While core inflation has also edged higher, easing housing costs, subdued wage growth, and fading tariff effects suggest broader inflationary pressures remain relatively contained. As a result, the Fed is expected to look through the energy-driven inflation spike and maintain rates despite growing market expectations of future tightening.

Markets have increasingly priced in the possibility of a rate hike later this year, reflecting the combination of resilient growth, elevated inflation, and strong asset market performance. Nevertheless, policymakers may be reluctant to respond to what they view as a temporary energy shock, particularly as underlying demand conditions appear softer than headline indicators suggest.

Investors will also be watching for signals on Warsh's long-standing proposal to shrink the Fed's balance sheet. He has argued that the central bank's asset holdings, which have risen from roughly 5.5% of GDP before the global financial crisis to around 21% today, should be significantly reduced. While any large-scale balance sheet reduction remains speculative, the issue could become an increasingly important part of the policy debate under his leadership.

For financial markets, a hawkish Fed is likely to provide continued support for the US dollar, although the outlook will depend heavily on the evolution of energy prices, inflation dynamics, and Warsh's communication strategy in the months ahead.

- ✦ **CHANGES TO ECONOMIC FORECASTS:** *Updated economic projections are expected to reflect a more challenging inflation outlook, with elevated energy prices and lingering supply-side pressures keeping price growth above the Fed's target.* At the same time, policymakers are likely to maintain relatively resilient growth forecasts, supported by a strong labour market, continued business investment, and solid consumer spending despite rising downside risks.

While the Fed is widely expected to leave interest rates unchanged, the updated SEP may point to a more hawkish policy path. The dot plot could show a greater number of officials expecting rates to remain elevated for longer or even move higher by year-end, reflecting concerns that inflation may prove more persistent than previously anticipated.

Recent comments from New York Fed President John Williams reinforce this outlook. Williams expects headline PCE inflation to remain near 4% and core inflation above 3% in the coming months due to tariffs and higher energy prices, but believes these pressures will gradually ease as energy markets stabilize and tariff effects fade. He also noted that longer-term inflation expectations remain well anchored and that the labour market continues to show resilience.

- ✦ **MACROECONOMIC ANALYSIS:** *GDP growth in Q1 was revised down to an annualized 1.6%, though corporate profits recorded their strongest year-over-year increase since 2021.* In Q1, GDP growth was revised down to an annualized 1.6% from the initially reported 2.0%, reflecting weaker consumer

spending and inventory accumulation than previously estimated. Consumer spending, which accounts for more than two-thirds of economic activity, rose 1.4%, while strong AI-related investment continued to support growth, with equipment spending surging 17.2%. Economists expect economic momentum to weaken in the second quarter as the Iran conflict fuels inflation and pressures household finances.

Consumer inflation accelerated to 4.2% year-on-year in May, the highest level in three years, driven largely by a surge in energy prices, which rose 23.5% annually. However, underlying price pressures remained more contained, with core inflation increasing 2.9% y-o-y and 0.2% on the month, below expectations. Food and shelter inflation eased, while core goods prices declined slightly, suggesting that the inflation spike was primarily energy-driven rather than broad-based.

NFP rose by 172K in May, well above expectations of 80K, while the unemployment rate remained steady at 4.3%. Job growth was led by leisure and hospitality (+70K), local government (+55K), and healthcare (+35K), while wage growth remained moderate at 3.4% year-on-year. Upward revisions to March and April payrolls further underscored the resilience of the labor market despite elevated inflation and energy prices.

The S&P Global U.S. Composite PMI eased to 51.5 in May from 51.7 in April, signaling modest private-sector expansion as stronger manufacturing activity offset softer services performance. Business confidence dropped to a 13-month low, and firms faced the strongest rise in input costs in a year. The Manufacturing PMI rose to 55.1 from 54.5, marking its strongest expansion since May 2022, driven by higher production, robust new orders, and increased stockpiling amid concerns over rising costs and supply chain disruptions linked to the Middle East conflict. Meanwhile, the Services PMI edged down to 50.7 from 51.0 but remained in expansion territory, extending its recovery from the March contraction.

✦ **MARKET IMPLICATIONS:** *Markets will eagerly watch the press conference to get any indication on the Fed's future intentions under the new Warsh's leadership.* Recently, US Treasury yields have edged higher, as escalating geopolitical tensions and the prolonged Hormuz deadlock pushed oil prices up and reignited inflation concerns.

To put things into context, *in the fixed-income space*, as of 15 June, and since the last meeting in April, the 2y UST rose by 9 bps to 4.03% (+56 bps y-t-d), while the 10y UST was broadly flat, edging up 3 bps to 4.44% (+28 bps y-t-d); both tenors, however, round-tripped within the intermeeting period, reaching cycle highs in early June — the 2y at 4.17%, the 10y at 4.55% — before the weekend's US–Iran framework agreement triggered a sharp rally, the 2y shedding some 5 bps and the 10y over 4 bps on Monday alone as receding inflation risk prompted markets to trim the residual Fed rate-hike pricing ahead of Warsh's first FOMC. *In the currency space*, the dollar eased to a ten-day low and was headed for a weekly loss as the prospective reopening of the Strait of Hormuz sent crude tumbling — WTI down some 5% to around \$80, Brent off more than 4% to near \$84 — and revived risk appetite; the dollar index slipped to around 99.5 (+1.1% y-t-d, modestly firmer since the April meeting), while EUR/USD held just above 1.16, on track for a 0.5% weekly gain (-0.9% y-t-d). *In the equity space*, US stocks surged on the détente, with the S&P 500 climbing 1.65% to 7,554.29 and the Nasdaq Composite advancing 3.07% — its strongest session since late March — while the Dow closed at a record 51,671.03; the rally was broad, led by technology and the chip complex, with SpaceX extending its post-IPO gains by nearly 20%. As of 15 June, the S&P 500 has risen by roughly 5.6% since the April meeting to 7,554.29 (+10.3% y-t-d).

✦ **APPENDIX (Macro Background): US GDP growth revised lower for first quarter.** In Q1, the US economy expanded to an annualized 1.6% (c: 2.0%; p: 0.5%). Consumer spending increased 1.4%, slightly below the 1.6% advance estimate, driven primarily by services spending (1.8%), while goods consumption remained weak (0.4%). Gross private domestic investment rose 7.0%, below the initial 8.7% estimate, with strong gains in equipment investment (17.2%) and intellectual property products (11.6%) offset by declines in structures (-5.4%) and residential investment (-6.2%). Net trade weighed on growth (-1.25 percentage points) as exports rose 13.1% and imports surged 21.1%. Meanwhile, government spending increased 4.4%, matching the initial estimate and rebounding from a 5.6% contraction in the previous quarter.

**Business indicators signal a modest expansion in private sector activity.** In May, the S&P Global US Composite PMI stood at 51.5 (p: 51.7). The Manufacturing PMI rose to 55.1 (c: 55.3; p: 54.5), marking strongest expansion since May 2022. Service PMI edged down to 50.7 (c: 50.9; p: 51.0).

**The US unemployment rate drops despite economic uncertainty.** In May, the unemployment rate remained at 4.3% (c: 4.3%; p: 4.3%). NFP rose by 172K (c: 85K; p: 179K). Wage growth increased by 3.5% in April (p: 3.8%). The U-6 unemployment rate, which includes those marginally attached to the labour force and those working part-time for economic reasons, fell to 8.1% (p: 8.2%).

**Headline Inflation rose to the highest since April 2023.** In May, the *personal consumption expenditures (PCE)* – the Fed’s preferred inflation gauge – rose by 3.8% y-o-y (c: 3.8%; p: 3.5%). The *core-PCE* – which excludes volatile energy and food prices – increased to 3.3% y-o-y (c: 3.3%; p: 3.2%). In May, headline and core inflation rate jumped to 4.2% y-o-y (c: 4.2%; p: 3.8%) and 2.9% y-o-y (c: 2.9%; p: 2.8%) respectively.



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