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**Review: The FOMC Keeps Rates on Hold,
As Warsh Revamps The Federal Reserve**

by

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Brunello Rosa and Nato Balavadze***Review: The FOMC Keeps Rates on Hold, As Warsh Revamps The Federal Reserve*****17 June 2026****Executive Summary**

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- ✧ **Decision Made:** *The Fed kept US interest rates unchanged in June.* The FOMC unanimously kept its target Fed funds range at 3.50% - 3.75%. At Kevin Warsh's first meeting as Fed chair, policymakers removed language signalling a bias toward future rate cuts, issued a significantly shorter statement, and revised the dot plot to suggest that a rate hike remains possible. Any forward guidance was removed from the statement. Warsh abstained and did not submit his forecasts. The dot plot showed a hawkish split, with nine of 18 officials anticipating a rate increase by year-end. In terms of *balance sheet policies*, the Fed also reaffirmed its "ample reserves" framework, signalling no immediate plans to accelerate the reduction of its \$6.7 trillion balance sheet despite Warsh's support for faster quantitative tightening.
- ✧ **Policy Discussion:** *Beyond the rate decision, Warsh used his first Fed meeting to begin reshaping the institution's policy framework.* He announced five task forces to review communications, balance-sheet policy, data usage, productivity and labour-market dynamics, artificial intelligence, and the Fed's inflation-targeting framework, signalling a broader effort to modernise the central bank and reassess how it conducts and communicates monetary policy.

The reforms reflect two themes that emerged during Warsh's first press conference: less reliance on forward guidance and a stronger emphasis on inflation credibility. The FOMC removed language suggesting a future easing bias and shortened its post-meeting statement from 341 to 130 words. Warsh argued that markets function more efficiently when they respond to economic data rather than Fed signalling, while stressing that the commitment to returning inflation to the 2% target is "strong, unanimous and unambiguous."

The shift was also evident in Warsh's decision not to participate in the Summary of Economic Projections. Confirming that he was the missing participant in the dot plot, he cited long-standing reservations about the framework and broader forms of forward guidance. His stance has fuelled speculation that he may seek to reduce the prominence of the SEP or even eliminate the dot plot altogether. Markets interpreted the changes as hawkish, with Fed funds futures bringing forward expectations for the next rate hike from December to October.

- ✧ **Changes To Economic Forecasts:** *Market pricing broadly aligns with the FOMC's outlook, with no rate cuts expected in 2026 and a 25bp hike priced in by year-end.* Reflecting greater uncertainty, policymakers removed their previous expectation of a rate cut from the dot plot and pushed any easing into 2027-28. The median projection showed the federal funds rate at 3.8% by year-end, while nine of the 18 officials submitting forecasts anticipated a rate hike. The long-run policy rate estimate remained unchanged at 3.1%.

The FOMC also raised its 2026 inflation forecasts to 3.6% for headline inflation and 3.3% for core inflation, while lowering its GDP growth forecast to 2.2%. Although Warsh has argued that policymakers should largely look through supply-driven inflation and that AI could exert longer-term disinflationary effects, the combination of elevated inflation and a resilient labour market, payrolls rose by 172,000 in May while unemployment held at 4.3%, has complicated the case for lower rates.

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>)	2.8	3.6	2.7	2.3	2.2	2.0	2.0	2.0	2.0
Core PCE Inflat. (% <i>y-o-y</i>)	3.3	3.3	2.7	2.5	2.2	2.1	2.0	-	-
Federal Funds Rate (%)	3.75	3.8	3.4	3.6	3.1	3.4	3.1	3.1	3.1

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

Analysis

- ✦ **DECISION MADE:** *On June 17, the US Federal Reserve's kept its Fed funds range at 3.50% - 3.75%. The FOMC voted unanimously to keep its benchmark overnight borrowing rate. The federal funds rate has remained unchanged since the Fed cut rates by 75 basis points in late 2025.*

Kevin Warsh's first Federal Reserve meeting ended with interest rates unchanged, the removal of language signalling a bias toward future rate cuts, and a significantly shorter policy statement. Any forward guidance was eliminated by the statement. In their closely watched dot plot, Fed officials dropped their previous projection for a rate cut this year and instead signalled that a rate hike is possible, though not guaranteed. The projections were submitted by one fewer policymaker than usual, as Warsh did not provide a forecast.

Notably, the FOMC removed forward guidance from the statement, with Warsh arguing that such communication tools were ill-suited to the current environment of heightened uncertainty. The change reinforces his broader scepticism toward detailed policy signalling and economic forecasting.

Regarding *balance sheet policies*, the statement also reaffirmed the Fed's commitment to maintaining an "ample reserves" framework, suggesting no immediate plans to shrink its \$6.7 trillion balance sheet more aggressively, despite Warsh's support for faster balance-sheet reduction.

- ✦ **POLICY DISCUSSION:** *Chairman Warsh used his first Fed meeting to begin reshaping the institution's communications framework, shifting away from forward guidance and toward a more data-dependent, inflation-focused approach.* In his first major initiative as Federal Reserve chair, Kevin Warsh announced the creation of five task forces to review key aspects of the central bank's operations, including communications, balance-sheet policy, data usage, productivity and labour-market dynamics, the impact of artificial intelligence, and the Fed's inflation-targeting framework. The move signals an intention to reassess both how the Fed conducts monetary policy and how it communicates its decisions. According to Warsh, the reviews are intended to ensure that the institution remains focused on its core mission, adapts to structural economic change, and is better prepared for future challenges.

The reforms are closely linked to two themes that emerged during Warsh's first press conference: a reduced reliance on forward guidance and a renewed emphasis on inflation credibility. Beyond the widely expected decision to leave rates unchanged, the FOMC removed language that had been interpreted as signalling a future easing bias and sharply shortened its post-meeting statement. The

communiqué was reduced to just 130 words, down from 341 words in April, offering only a brief assessment of economic conditions and reaffirming the Fed's commitment to price stability. Notably, the statement was approved unanimously, unlike in April when three regional Fed presidents dissented over forward-guidance language.

Warsh defended the decision to remove guidance on future rate moves, arguing that financial markets function more efficiently when they respond to incoming economic data rather than attempting to anticipate policymakers' reactions. He suggested that market participants should focus on evaluating the strength of economic indicators and pricing assets accordingly, rather than relying on signals from the central bank. At the same time, he stressed that the Fed's commitment to returning inflation to its 2% target was "strong, unanimous and unambiguous," acknowledging that the institution had failed to communicate that resolve clearly enough during the past five years. Together, these remarks point to a communications strategy centred on fewer policy signals, greater data dependence, and a stronger emphasis on price stability.

The shift was also reflected in Warsh's decision not to participate in the Fed's Summary of Economic Projections (SEP). He confirmed that he was the missing participant in the dot plot, explaining that while he encouraged other policymakers to continue submitting projections, he chose not to provide his own because of his long-standing reservations about the framework. Warsh has repeatedly criticised the dot plot and other forms of forward guidance, including the Fed's projections for inflation, unemployment and GDP. His decision has fuelled speculation that he may eventually seek to reduce the prominence of the SEP, or potentially eliminate the dot plot altogether, as part of a broader overhaul of the Fed's communications strategy.

Market expectations shifted in a hawkish direction following the Fed meeting, with CME Group's FedWatch tool showing a 60.7% probability of a rate hike in October. Prior to the meeting, traders had not expected the next rate increase until December, suggesting that Warsh's remarks and the latest economic projections prompted investors to bring forward their expectations for policy tightening.

- ✦ **CHANGES TO ECONOMIC FORECASTS:** *Market pricing broadly aligns with the FOMC's outlook, with no rate cuts expected in 2026 and a 25bp hike priced in by year-end.* Reflecting heightened uncertainty, Fed officials revised their policy outlook in the dot plot, removing their previous expectation of a rate cut in 2026 and pushing any easing into 2027 and 2028. The median projection showed the federal funds rate at 3.8% by year-end, slightly above its current level, indicating that a rate hike remains a possibility. Policymakers continued to estimate a long-run policy rate of 3.1%. However, nine of the 18 Fed officials who submitted projections expect a rate hike by the end of 2026.

The FOMC also raised its inflation forecasts, projecting headline inflation at 3.6% and core inflation at 3.3% in 2026, up sharply from 2.7% for both measures in March. At the same time, officials lowered their GDP growth forecast to 2.2% and reduced their unemployment projection to 4.3%. The revisions reflect concerns that the inflation surge triggered by the Iran war could prove more persistent than initially expected.

Despite inflation reaching 4.2% in May, Warsh has argued that supply-shock-driven price increases should generally be looked through and has suggested that artificial intelligence could exert longer-term disinflationary effects through higher productivity. However, a resilient labour market has complicated the case for lower rates, with nonfarm payrolls rising by 172,000 in May and unemployment holding at 4.3%.

- ✦ **OUR TAKE: "Hold is the New Cut":** Loyal to the mantra that "hold is the new cut," Warsh managed to steer the Committee to not increasing rates at this juncture, and we believe he will succeed also in July. Come September, the situation may change, and the Fed will start seriously weighing the possibility of

a rate increase, which eventually may be delivered by December 2026, as the task forces conclude their jobs.

✦ **MARKET REACTION AND IMPLICATIONS:** *Markets appeared to react primarily to the Fed's hawkish projections.* Investors subsequently turned their attention to Warsh's post-meeting press conference. US stocks were mixed on Wednesday as investors digested the Federal Reserve's latest policy decision and rising oil prices. *In the fixed-income space,* bond yields moved higher as investors priced in a more hawkish policy path. UST yields rose after the Warsh decided to remove language suggesting a bias toward future rate cuts, while several policymakers signalled that rate hikes remain possible in 2026. The 2Y Treasury yield climbed 9 basis points to 4.13%, reflecting the market's reassessment of the Fed's outlook. The benchmark 10Y yield rose nearly 4 basis points to 4.47%, while the 30-year bond yield increased less than 2 basis points to 4.95%. In money markets, the rates implied in 3-months SOFR futures rose up to 18bps for the December 2026 contract. OIS-based expectations signal that a rate increase is fully priced in by October, with a 85% change by September 2026. *In the currency space,* the DXY surged from the high 99s to above 100, as investors reassessed the Fed's policy path and priced in a more hawkish outlook. At the time of the writing, dollar index trades around 100. EUR/USD fell from 1.1600 to 1.1480 before recouping some of the losses. *In the equity space,* the S&P 500 trimmed its decline to 0.2%, while the Nasdaq Composite and Dow Jones Industrial Average were little changed by mid-afternoon trading. Earlier in the session, the S&P 500 had fallen nearly 0.9%, the Nasdaq almost 1%, and the Dow more than 200 points, as investors reacted to the Fed's hawkish policy outlook.



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