



ROSA & ROUBINI
ASSOCIATES

MONETARY AFFAIRS

Kevin Warsh and His Fed Priorities

By

Nato Balavadze



9 July 2026

Nato Balavadze

Kevin Warsh and His Fed Priorities

9 July 2026

Table of Contents

	Page	Page 2
Executive Summary	3	
The A New Era at the Fed.....	4	
Who is Kevin Warsh?.....	4	
A Hawkish Start	5	
Reforming the Institution.....	5	
Rethinking the Fed’s Balance Sheet.....	6	
The A Challenging Economic Backdrop.....	6	



Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 75 King William Street, London EC4N 7BE, United Kingdom.

For information about Rosa&Roubini Associates, please send an email to info@rosa-roubini-associates.com or call +44 (0)20 7101 0718.

Analyst Certification: I, Nato Balavadze, hereby certify that all the views expressed in this report reflect my personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates’ business, nor by personal or client relationships. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the views expressed in this report.

Disclaimer: All material presented in this report is provided by Rosa & Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct “investment research” as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide “advice about securities” as defined in the Regulation of Investment Advisors by the US SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author’s judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates’ written permission.

Nato Balavadze

Kevin Warsh and His Fed Priorities

9 July 2026

Executive Summary

New Fed Leadership

- ✦ Kevin Warsh succeeded Jerome Powell after a period of heightened tensions between the White House and the Federal Reserve
- ✦ He has pledged to preserve the Fed's independence while arguing that AI-driven productivity gains could create room for lower interest rates
- ✦ Geopolitical tensions and persistent inflation may constrain his ability to pursue a more accommodative policy

A Hawkish Start at the Fed

- ✦ Warsh's first FOMC meeting delivered a more hawkish message than expected with a unanimous hold, a streamlined statement and a renewed emphasis on price stability.
- ✦ Updated Fed projections signalled higher inflation and a greater likelihood of future rate hikes, although easing inflationary pressures support our expectation of an extended policy pause.

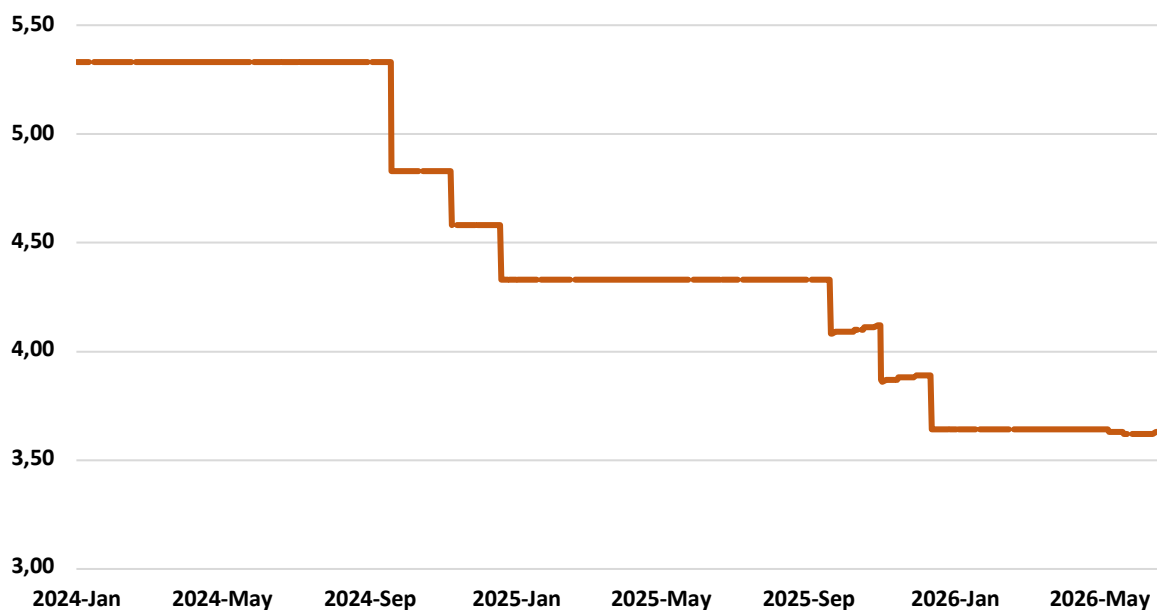
Reforming the Institution

- ✦ Warsh launched five task forces to review the Fed's communications, inflation framework, balance-sheet policy, data and productivity analysis in one of the most ambitious institutional reform programmes in decades.
- ✦ Early changes point to a simpler communication strategy and a broader overhaul of the Fed's policymaking framework, with experienced career staff playing a central role in implementing the reforms.
- ✦ Warsh advocates gradually shrinking the Fed's balance sheet, arguing that quantitative easing should remain an exceptional crisis tool rather than a permanent feature of monetary policy.

A Challenging Economic Backdrop

- ✦ Persistent inflation, resilient economic activity and Middle East-related supply shocks leave the Fed with limited scope for near-term monetary easing.
- ✦ Markets expect the Fed to remain cautious, with some analysts forecasting further rate hikes despite political pressure for lower interest rates.
- ✦ Warsh's credibility will ultimately depend on maintaining price stability, even if doing so requires tighter monetary policy than the administration anticipates.

Key Picture: Effective Federal Funds Rate



Source: FRED

A New Era at the Fed

Kevin Warsh was sworn in as Federal Reserve Chair on 22 May, succeeding Jerome Powell after a period marked by unusually tense relations between the White House and the central bank. Throughout President Trump's second term, Powell faced repeated criticism over interest-rate policy, while investigations into both Powell and Governor Lisa Cook further fuelled concerns about political pressure on the institution.

Against this backdrop, Warsh has sought to project continuity rather than confrontation. At his swearing-in ceremony, both he and President Trump emphasised the importance of preserving the Fed's independence, despite the administration's preference for lower interest rates. During his confirmation hearings, Warsh argued that productivity gains from artificial intelligence could eventually create room for lower rates by expanding the economy's productive capacity. Whether this proves achievable remains uncertain, particularly as geopolitical risks and supply disruptions continue to pose upside risks to inflation.

Who is Kevin Warsh?

Kevin Warsh brings an unusually strong financial markets background to the Federal Reserve. A former investment banker at Morgan Stanley, he served as a White House adviser before joining the Fed's Board of Governors in 2006, where he played a prominent role during the 2008 financial crisis as the Fed's liaison with Wall Street. He supported measures that enabled investment banks to access Federal Reserve liquidity, helping stabilise the financial system during the crisis. Since leaving the Fed in 2011, Warsh has worked with billionaire investor Stanley Druckenmiller, one of his long-time mentors.

Warsh has consistently advocated a more rules-based and disciplined approach to monetary policy. He was an early critic of quantitative easing, arguing that prolonged asset purchases distorted capital allocation, encouraged excessive fiscal deficits, and expanded the Federal Reserve's role beyond its core mandate of maintaining price stability. He has also argued that the Fed should concentrate on inflation and financial stability rather than broader objectives such as climate policy or income inequality.

A Hawkish Start

Warsh's first FOMC meeting on 16-17 June offered an early indication of his policy approach. The Committee unanimously left interest rates unchanged, but the overall message was considerably more hawkish than markets had anticipated. The statement was shortened substantially, removed much of the previous boilerplate language and concluded with a clear commitment to restoring price stability.

[The updated Summary of Economic Projections \(SEP\) reinforced that message.](#) Nine of eighteen policymakers now expect at least one rate hike this year, compared with none in March, while the median projection points to one additional increase in 2026 before gradual easing thereafter. Warsh declined to submit his own interest-rate projection, consistent with his long-standing criticism of forward guidance and the Fed's "dot plot."

The Fed also revised its macroeconomic outlook, raising its forecast for core PCE inflation while remaining relatively optimistic about growth. Although this stance is likely to generate friction with the White House, Warsh has argued that preventing second-round inflation effects is essential to anchoring inflation expectations and ultimately lowering long-term borrowing costs. Markets initially priced in additional tightening following the meeting. However, we continue to expect an extended policy pause as easing energy prices, moderating wage growth, slowing rents and fading tariff effects gradually reduce underlying inflationary pressures.

Reforming the Institution

More significant than the June policy decision may be Warsh's attempt to reshape how the Federal Reserve itself operates. Shortly after taking office, he [announced five task forces](#) to conduct a comprehensive review of the Fed's communications strategy, balance-sheet policy, economic data, inflation framework and the implications of artificial intelligence and productivity for monetary policy. Framing the exercise as a return to "first principles," Warsh described the review as an effort to ensure the central bank remains fit for purpose in a changing economy.

The initiative represents one of the most ambitious internal reviews undertaken by a Fed chair in decades. Early reforms have already appeared in the FOMC statement, which has been streamlined by removing much of the accumulated boilerplate language and forward guidance. Future changes could extend to the Fed's dot plot, press conferences and broader communications framework.

Unlike his campaign rhetoric, which frequently criticised the Fed's "credibility deficit" and called for "regime change", Warsh has pursued these reforms through consensus-building. Rather than relying primarily on outside advisers, he has increasingly turned to the institution's own expertise. Following the appointment of external advisers Paul Winfree and Daniel Heil during the transition, Warsh recently named veteran Fed economists Daniel Covitz and Eric Engstrom as senior advisers. Their appointments suggest that experienced career staff will play a central role in designing and implementing the reform agenda.

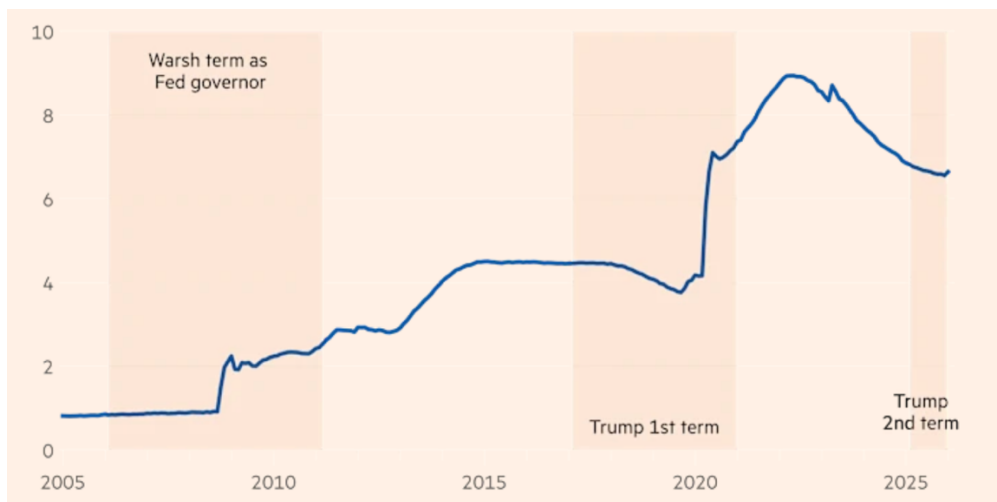
Some observers have questioned whether establishing five separate [task forces](#) risks fragmenting the review process, arguing that each ultimately serves the Fed's single overriding objective: maintaining price stability. Nevertheless, the breadth of the initiative signals that Warsh's ambitions extend well beyond setting interest rates. His early months as chair suggest he intends not simply to conduct monetary policy differently, but to rethink how the Federal Reserve itself formulates, communicates and implements policy.

Rethinking the Fed's Balance Sheet

Warsh's views on the Federal Reserve's balance sheet have been shaped by his experience during the 2008 financial crisis, when he served as a Fed governor and acted as a key liaison between the central bank and financial markets. Although he supported extraordinary crisis measures at the time, he has since become a prominent critic of the Fed's prolonged reliance on quantitative easing and large-scale asset purchases.

Warsh argues that an expanded balance sheet has blurred the distinction between monetary and fiscal policy, weakened market functioning and distracted the Federal Reserve from its primary objective of maintaining price stability. He has consistently advocated a gradual return to a smaller balance sheet, viewing asset purchases as an exceptional crisis tool rather than a permanent feature of monetary policy. Reducing the Fed's market footprint is therefore expected to be a central pillar of his broader institutional reform agenda, although any balance-sheet normalisation is likely to proceed cautiously to avoid disrupting financial markets.

Figure 1: Federal Reserve Balance Sheet (\$tn)



Source: [FT](#)

A Challenging Economic Backdrop

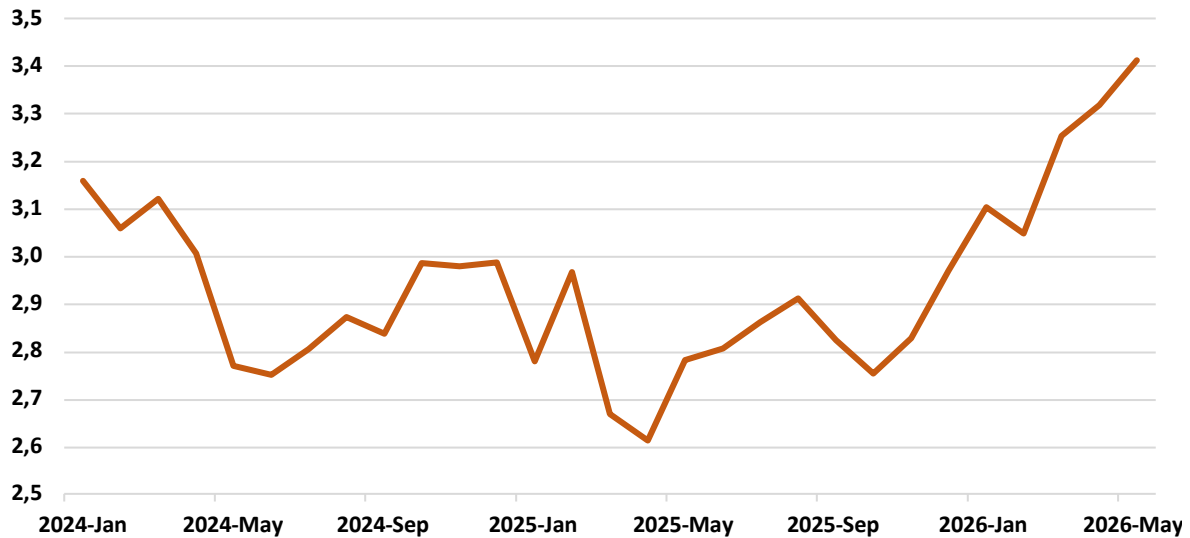
Kevin Warsh takes office at a particularly difficult moment for US monetary policy. Although President Trump selected him partly in the expectation of a more accommodative policy stance, the macroeconomic environment may leave little room for near-term easing. Inflation has remained above the Federal Reserve's 2% target for five consecutive years, recent data point to renewed price pressures, and inflation expectations have begun to edge higher. At the same time, the economic effects of the Middle East conflict, including higher energy prices and renewed supply-side disruptions, have added further uncertainty to the inflation outlook.

While the US economy has remained relatively resilient, policymakers face an increasingly delicate balancing act. Strong labour markets and resilient demand argue against premature easing, whereas tighter financial conditions risk weighing on investment, corporate earnings and broader economic activity. Recent FOMC communications suggest the Committee is firmly in a wait-and-see mode, prioritising price stability over calls for lower interest rates.

Some analysts believe further tightening may still be required. TS Lombard argues that the Federal Reserve could prove to be the most hawkish among major central banks, with policy rates potentially rising by as much as 100

basis points to 4.5–5.0% by the end of next year. Such an outcome would represent a sharp departure from expectations that Warsh would quickly pivot towards monetary easing.

Figure 2: Core Inflation Rate Hit 3.4% In May, Highest Since October 2023



Source: FRED

The broader global environment further complicates the outlook. The World Bank projects global growth to slow to 2.5% this year—the weakest pace since the pandemic—as higher energy prices weigh on advanced and emerging economies alike. At the same time, the Iran conflict is accelerating geopolitical fragmentation in the Middle East, increasing the risk of renewed supply disruptions and adding another layer of uncertainty to the global inflation outlook.

This creates the defining challenge of Warsh's chairmanship. He enters office with important institutional advantages, including President Trump's public commitment to respect the Federal Reserve's independence and a more constructive relationship with an institution he had previously criticised. Ultimately, however, his credibility will depend less on institutional reform than on his willingness to maintain restrictive monetary policy, or tighten further, if inflation proves more persistent than expected. Should price pressures accelerate again ahead of the midterm elections, Warsh could find himself raising interest rates rather than delivering the monetary easing many within the administration had anticipated.