

Fed Watch

THE WARSH OF WALL STREET



Alexa Sinsheimer^{AC} and Max Motz^{AC}

FED WATCH TEAM

Key Takeaways

- The Fed held its benchmark rate at 3.50% to 3.75% in a unanimous 12-0 vote
- Easing bias gone; statement stripped to a few sentences ending in "The Committee will deliver price stability." The roll call of who voted and how is also missing
- The dot plot's median rose to 3.8% from 3.4% in March, with nine participants seeing higher rates by year-end, nine seeing a hold or cut, and Warsh abstaining
- Warsh launched five task forces reviewing core Fed functions: communications, the balance sheet, data sources, productivity and jobs, and the inflation frameworks
- No commitment to a press conference after every meeting. Warsh said they're worth holding only when there's something important to say, leaving the Fed's communication cadence an open question

The rate decision was the non-event everyone expected. The Fed held its benchmark rate steady at 3.50% to 3.75%. The statement and the dots got the immediate market reaction, but the more consequential development was what Warsh announced

alongside them: five task forces to overhaul core Fed functions, with a mandate to start from first principles.

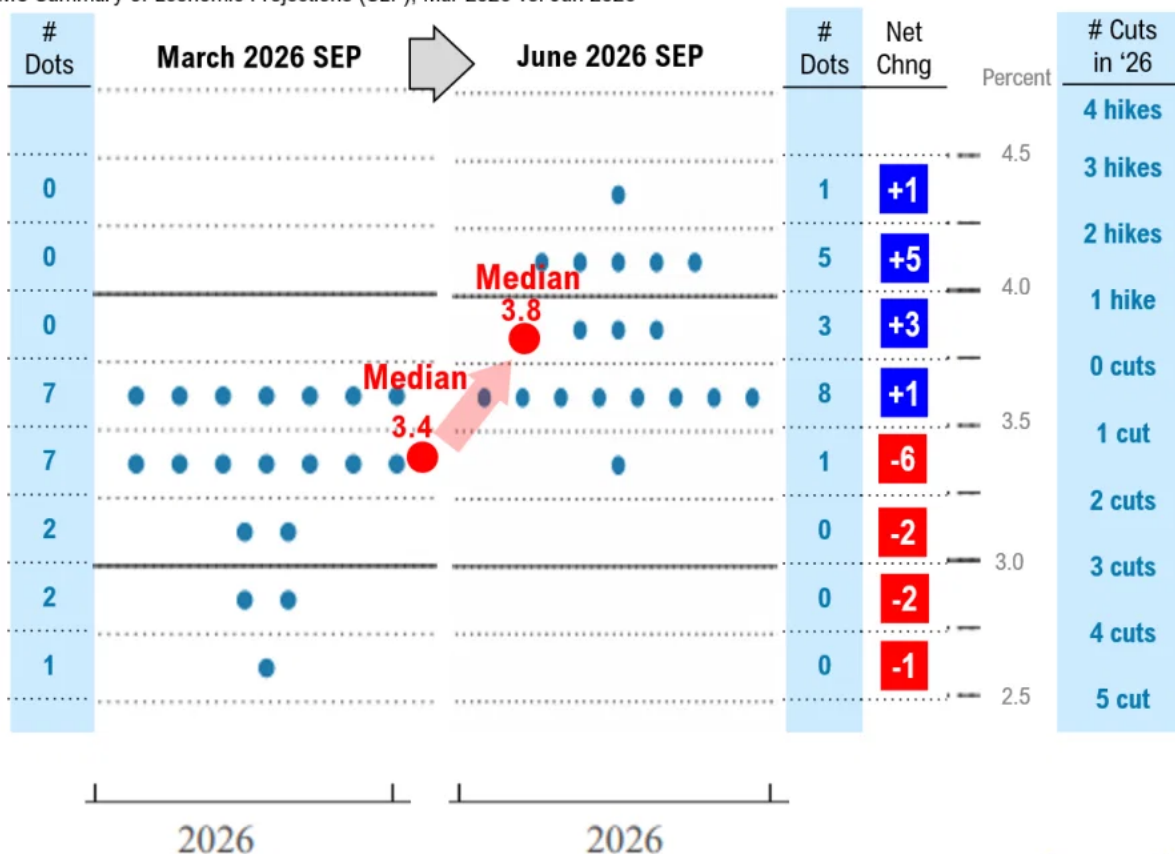
The statement came first. The Committee removed the forward-guidance language that had carried an easing bias, and with it the standing dual-mandate commitment line and the entire paragraph on how the Committee assesses incoming data. What's left is a stripped-down statement of roughly 130 words ending in one sentence: "The Committee will deliver price stability." Warsh was explicit at his press conference that this was intentional, describing it as giving "the facts as best we can judge them" and dispensing with forward guidance that "was not well suited to the current policy conjuncture." Read it as a philosophy, not a signal.

On the dot plot, the median participant now sees the funds rate at 3.8% at the end of 2026, up from 3.4% in March, with the 2027 median up to 3.6% from 3.1%. Because the 2026 median sits above the current range midpoint, it implies a hike by year-end, not just the removal of the prior cut. The whole distribution moved with it: the 2026 range now runs 3.4% to 4.4%, against 2.6% to 3.6% in March. But the numbers alone overstate the directional signal. Nine participants see rates moving higher by year-end, nine see them at this level or lower, and Warsh abstained, calling it unhelpful "in the conduct of policy." He added that his colleagues "all came in with pencils, the kind with the big erasers," that he "didn't hear tons of conviction," and that they "didn't feel bound by those dots six weeks from now, or six days from now, if circumstances change." The median shifted up. The conviction behind it, however, has not.

FED: Hawkish change in YE Projections

FOMC Participants' Assessments of Target Level for Fed Funds Rate by YE2026

FOMC Summary of Economic Projections (SEP), Mar 2026 vs. Jun 2026



Source: Fundstrat, the Federal Reserve

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The shift in the dots was not a huge surprise so much as a catch-up with information the market already had. The last SEP was released in March, within weeks of the start of the Iran war, when it was still unknown whether the conflict would be a short skirmish or something far longer, and mixed messaging from the administration left the forward outlook murky. In the months since, the market's own bets repriced hard, with the year-end 2026 outlook swinging from two to three cuts to one to two hikes per Fed funds futures. Seen that way, the Fed simply moved its projections into line with where the market had already gone.

Read together, neither the statement nor the dots deliver a clear policy signal. The statement was stripped by design. The dots reflect a divided committee waiting for further data. And Warsh - with nine colleagues on each side of the ledger, no projection of his own, and no guidance on the rate path - is better read as preserving

optionality in both directions than as committing to any particular next move.

The Press Conference: A Chair Reshaping the Institution, Not Guiding the Next Move

Warsh's first press conference made the priority clear. The headline was not a hint about the path of policy. It was the announcement of the five task forces. He framed the charge as starting "with first principles" and said he was recruiting minds from inside and outside the economics profession.

On the statement, he was explicit that it was shortened to give "the facts as best we can judge them," with forward guidance that "was not well suited to the current policy conjuncture" removed. On press conferences themselves, he quoted his mentor George Shultz: when you have one, make sure you have something important to say. He made no commitment to holding one after every meeting, leaving the Fed's communication cadence an open question.

On inflation he was firm rather than alarmed, repeating that "inflation is a choice" and that the commitment to 2% is now "unambiguous and unanimous," the latter doing double duty as the explanation for the 12-0 vote.

On his preferred inflation gauge, Warsh did not give an affirmative answer. Handed an opening to elevate the trimmed-mean measures he has long favored, Warsh pivoted to a broader complaint that official data rests on "old-fashioned survey methods" and "echoes of history" rather than real-time information.

Warsh's Preferred Measure of Inflation:

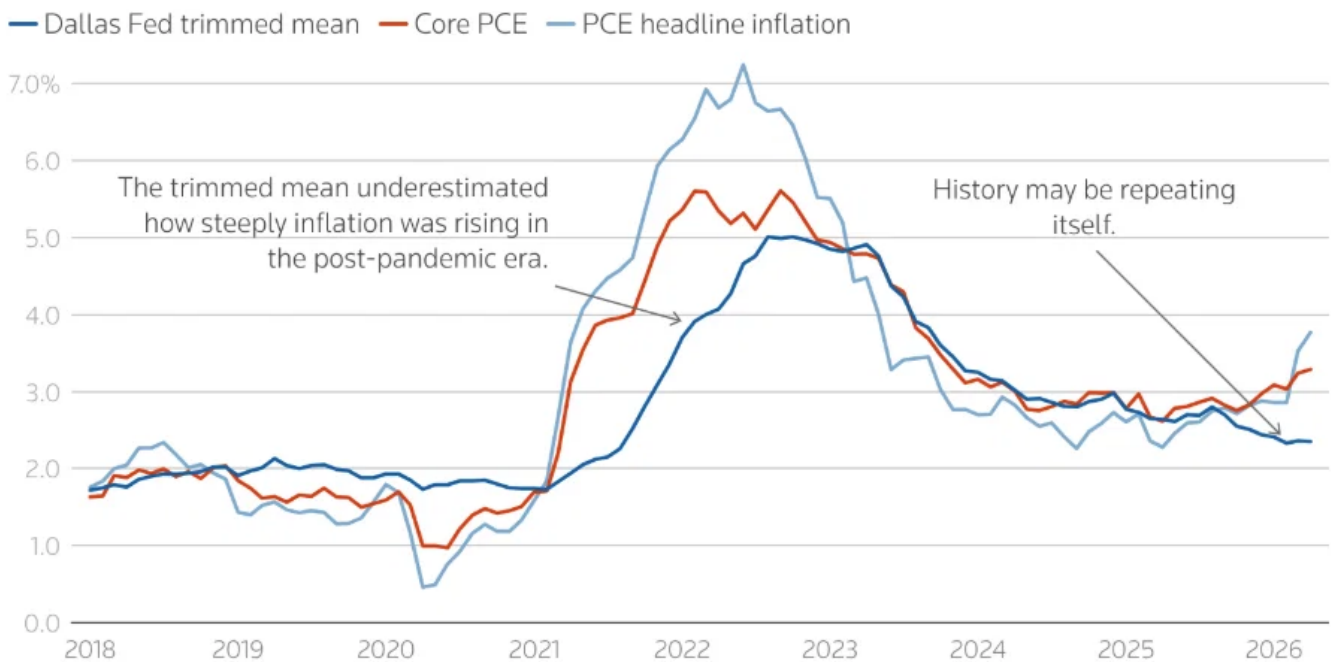
That deferral is worth unpacking, because the measure Warsh sidestepped is one he's spoken about plainly before. He has stated that he prefers "trimmed averages" to core inflation as a gauge.

A trimmed average inflation measure differs from standard measures by stripping out tail-end outliers each month. Rather than removing fixed categories like food and energy regardless of their behavior, it sorts all PCE components by their price change that month and drops the most extreme movers at both ends of the distribution. The

goal is to get a cleaner picture of how prices are moving across the full basket, without being distorted by whatever happened to be most volatile that month. The gap right now is stark: the trimmed mean ran 2.3% over the twelve months through April, against core PCE at 3.3% over the same period. If Warsh elevates this measure through the inflation-frameworks task force, he has a reading far closer to the 2% target than the committee's own 3.8% dot implies.

Where U.S inflation is heading: choose your yardstick wisely

Fed Chairman Kevin Warsh says he prefers "trimmed averages" to gauge underlying inflation. The Dallas Fed's trimmed mean shows a cooling trend.



Note: Core PCE excludes volatile energy and food prices, and Fed policymakers say it is a good gauge of underlying price pressures. The Dallas Fed's trimmed mean lops off the fastest-rising and fastest-falling prices. Tariff-related price increases have made recent trimmed mean readings less reflective of underlying trends, Dallas Fed researchers say.

Source: Bureau of Economic Analysis, Dallas Fed | Ann Saphir

Line graph of Dallas Fed trimmed mean inflation compared with core PCE inflation, which have recently diverged.

Source: Reuters from BEA, Dallas Fed | Ann Saphir

Critics of trimmed average inflation metrics argue that it may understate true price pressures. Whether Warsh moves to formalize his preference for trimmed averages will be one of the key outputs of the inflation-frameworks task force announced today.

Market Reaction:

The Market Reaction to the Fed decision today was choppy, weighed down by the dot plot's upward move. The price action during the press conference was largely mixed, as no statements made by Warsh were interpreted as particularly good or bad for financial markets. Warsh largely talked about his plans to change how the Fed gathers data and provides guidance and as such the market only gained +0.10% from the start at 2:30 to the end at 3:13. However, the market moved aggressively lower shortly after the meeting, drawing down -0.80% from the end of the meeting at 3:13 to the close at 4:00. Yields moved higher, with the 10Y rising from 4.42 at the start of the meeting to 4.50 at today's close and the 2Y rising from 4.05 to 4.21 during the same timeframe.

S&P 500 Price Reaction to June 2026 FOMC Meeting

1 Minute Price Chart 1:00PM – 4:00PM EST



Source: Fundstrat, Bloomberg

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