

Fed Pause Continues as the Warsh Era Begins

The first FOMC meeting for new Fed Chair Kevin Warsh began with Fed officials voting unanimously to hold the overnight target range steady once again at 3.5% to 3.75%. The official statement, released at the completion of the meeting, was *much shorter than usual*, consistent with Warsh's intent to limit forward guidance. The total word count was sliced from 340 to 130, with an emphasis on *delivering price stability*. The brief statement also mentioned the nation's strong productivity growth and capital investment, despite ongoing uncertainty in the Middle East.

The easing bias that Warsh had been critical of, disappeared as nine of 18 committee members now believe a rate hike is more appropriate this year given rising inflation expectations. Warsh himself declined to submit a rate outlook.

The committee's summary of economic projections (SEP) showed expected 2026 GDP growth trimmed back from +2.4% at the March meeting to +2.2%, while the 2026 core inflation forecast was boosted upward from +2.7% to +3.3%. Higher inflation expectations support a tightening bias, although prices are obviously fluid.

Warsh, who served as Fed Governor from 2006-2011, had been a notorious inflation hawk. In his return 15 years later, the incoming Fed Chair is believed to be considerably more dovish, mainly due to the fact that he was appointed by President Trump who has made no secret of his displeasure over former Fed Chair Jerome Powell's refusal to cut rates on demand. Powell, now one of seven Fed Governors, will cast a vote at every FOMC meeting. It's rare that a former chairman continues to serve on the committee. Exactly how much influence Powell will have is yet to be determined, but it's reasonable to expect his presence will challenge Warsh and annoy Trump in the coming months.

At his first post-meeting press conference, Warsh began by saying *forward guidance is no longer suited to current policy*, while laying out extensive changes in the committee's process. The new process will include task forces in the areas of Fed communications, balance sheet policy, data sources and measurement, productivity and jobs and the inflation framework. These five task forces are expected to be temporary, but there is little indication of who the "outside experts" will be or how much influence they'll exert.

The only hint of a dovish tendency by Warsh came during the press conference when he said current monetary policy appears to be somewhat restrictive.

Bond yields rose and stocks fell immediately following the Fed announcement, presumably in response to the Fed's shift away from an easing bias. Although the committee is generally split on the rate outlook for 2026, cooling tensions in the Middle East should calm inflation hawks and keep the Fed sidelined for the foreseeable future. As Warsh spoke, the selloff only increased. It's early, but Warsh didn't manage to convey the calming market presence of his predecessor.

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Market Indications as of 2:24 P.M. Central Time

DOW	Down -410 to 51,589 (HIGH: 52,000)
NASDAQ	Down -259 to 26,117 (HIGH: 27.094)
S&P 500	Down -37 to 7,474 (HIGH: 7,610)
1-Yr T-bill	current yield 3.97%; opening yield 3.83%
2-Yr T-note	current yield 4.20%; opening yield 4.05%
3-Yr T-note	current yield 4.22%; opening yield 4.09%
5-Yr T-note	current yield 4.26%; opening yield 4.16%
10-Yr T-note	current yield 4.48%; opening yield 4.44%
30-Yr T-bond	current yield 4.93%; opening yield 4.94%

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