

# Fed holds rates steady; new chair Kevin Warsh commits to price stability

## Key takeaways

- The U.S. Federal Reserve (Fed) kept its policy interest rate at a range of 3.50%-3.75% citing elevated inflation, solid economic activity and stable unemployment.
- New Fed Chair Kevin Warsh shortened the Fed statement, removed forward guidance and announced the formation of five task forces to explore potential policy and process reforms.
- Markets now price in a reasonable chance of a rate hike later in 2026, a stark contrast to the one to two rate cuts expected earlier this year before energy prices rose.

The Federal Reserve held its target federal funds interest rate in the 3.50%-3.75% range at its June meeting, a decision investors broadly expected. Elevated inflation primarily stemming from higher energy prices has increased investor expectations for higher policy rates later this year, in contrast to the gradually decelerating inflation prior to the conflict in Iran paired with previous expectations for rate cuts this year.

## Why the Fed held rates steady

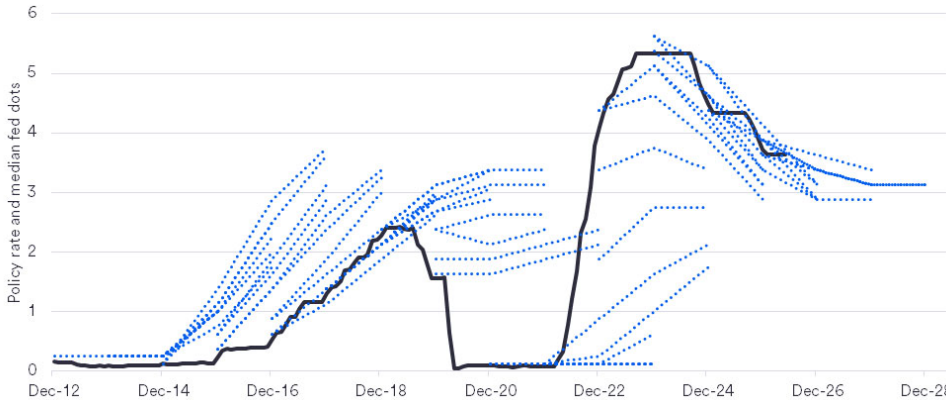
The policy decision was not the primary market focus. Investors centered on the first meeting led by new Chair Kevin Warsh, the Fed's shorter statement, the removal of prior forward guidance and the updated Summary of Economic Projections (SEP). Warsh made three key announcements during the highly anticipated press conference:

- 1) **Warsh used his first press conference as chair to reinforce the Fed's commitment to price stability.** In his opening statement, he said the committee is "unanimous and unambiguous" in its commitment to fighting inflation, mentioning "price stability" 12 times during the press conference. Bond yields increased during the press conference, which suggests investors interpreted this statement as signaling that Warsh may support rate hikes if inflation remains persistent.
- 2) **Warsh signaled a broader review of Fed practices.** He announced five task forces focused on Fed communications, balance sheet policy, data sources, productivity and jobs in an era of transformation, and the Fed's inflation framework. The emphasis on these topics highlights the reputation of Warsh as a reformer and aligns with his previous track record of highlighting opportunities for the Fed to rethink how it deploys monetary policy.
- 3) **Warsh restated his view that forward guidance from the Fed may be inappropriate,** aligning with his long-running preference for reassessing how the Fed communicates and implements policy. Investors have relied heavily on forward guidance and quarterly projections to anticipate rate decisions. As a testament to his initial influence, the official statement was much shorter than recent statements and focused on current conditions rather than the potential forward path of the economy or policy. Warsh also refrained from submitting an expectation about future policy rates reflected in what is referred to as the "dot plot."

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Fed “dot plots” reflecting median members’ rate expectations deviated from future policy



Sources: U.S. Bank Asset Management Group Research, Federal Reserve, Bloomberg, 1/1/2012-6/17/2026.

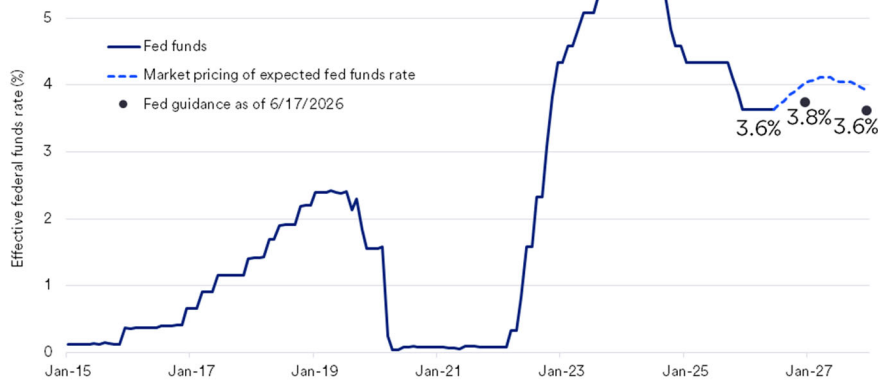
While Warsh refrained from submitting projections, the Fed’s June Summary of Economic Projections (SEP) showed median expectations for one to two rate hikes this year, in line with current market expectations and an increase from the March SEP. Inflation expectations also rose for 2026 and 2027; elevated energy prices and ongoing supply uncertainty persist due to the conflict in the Middle East.

Earlier tightening helped mitigate inflation over the past four years, but higher oil costs are elevating near-term prices. The Core Personal Consumption Expenditures (PCE) Price Index rose from 3.0% in December 2025 to 3.3% in April 2026. West Texas Intermediate front-month futures prices rose from near \$57 per barrel at the beginning of the year to a peak of \$113 in April before recently falling to \$76. Higher energy prices have stoked many inflation readings and complicated the Fed’s outlook as it balances its mandates of maximum employment and price stability.

**Federal Reserve balance sheet and market liquidity**

On the balance sheet, the Fed stopped shrinking its bond holdings in December. Those holdings stand near \$6.6 trillion today after peaking near \$9 trillion in 2022. The Fed began buying short-term Treasury bills in December 2025 to ensure ample banking system reserves and to keep short-term interest rates near the intended policy rate. The Fed recently announced it would reduce regular purchases. Expanding the balance sheet by purchasing Treasury bills results in improved market liquidity by absorbing a portion of incremental supply. Liquidity, the money readily available to purchase goods, services and financial assets, can also cushion markets against unforeseen financial market shocks, and liquidity measures remain constructive. Warsh has expressed reservations about its long-run efficacy and questioned its appropriateness as policy tool.

Will the Federal Reserve raise rates in 2026?

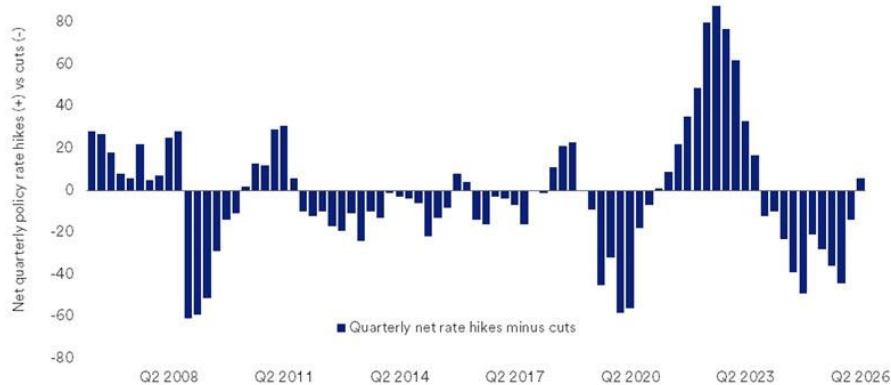


Sources: U.S. Bank Asset Management Group Research, Federal Reserve, Bloomberg, 1/1/2015-4/29/2026.

Treasury yields rose today, with investors interpreting Warsh’s comments as increasing the odds of rate hikes this year. Two-year Treasury yields rose 0.16% and 10-year Treasury yields rose 0.06%. Large stocks, represented by the S&P 500, fell 1.2%, while small stocks, which can be more sensitive to interest rates, fell 0.8%, represented by the Russell 2000.

Globally, central banks eased policy in 2025, but many have increased rates in response to recent energy price increases. The European Central Bank and Bank of Japan each increased rates earlier this month, with the Bank of England and Bank of Canada expected to increase rates at some point this year.

Global net central bank rate hikes (net hikes minus cuts), quarterly



Sources: U.S. Bank Asset Management Group Research, FactSet, 4/1/2006-6/17/2026.

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