

Monday Monetary Thoughts

Smoke and mirrors

Neil Dutta

Circular logic from Warsh

In dropping forward guidance, Chairman Warsh notes that “I think financial markets perform best when they react to incoming data. I think the financial markets work less efficiently when they ask a question, How will the Federal Reserve react to that incoming information?” This struck me as a distinction without a difference, epitomizing circular logic.

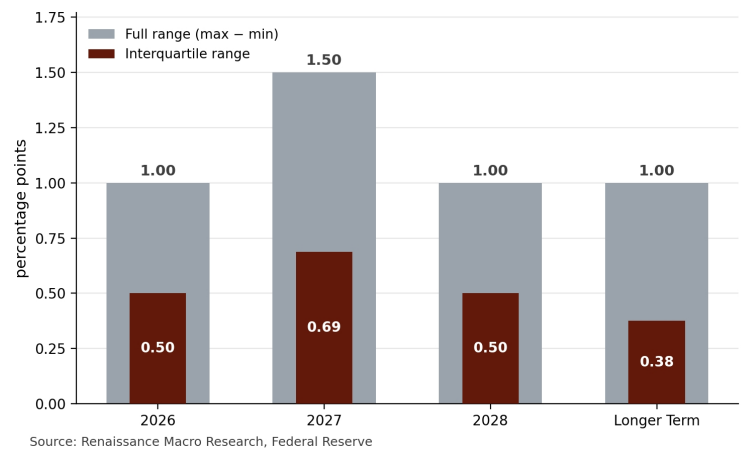
Markets, like people, can walk and chew gum at the same time. When data are released, that has implications for monetary policy and implications for the economy and earnings.

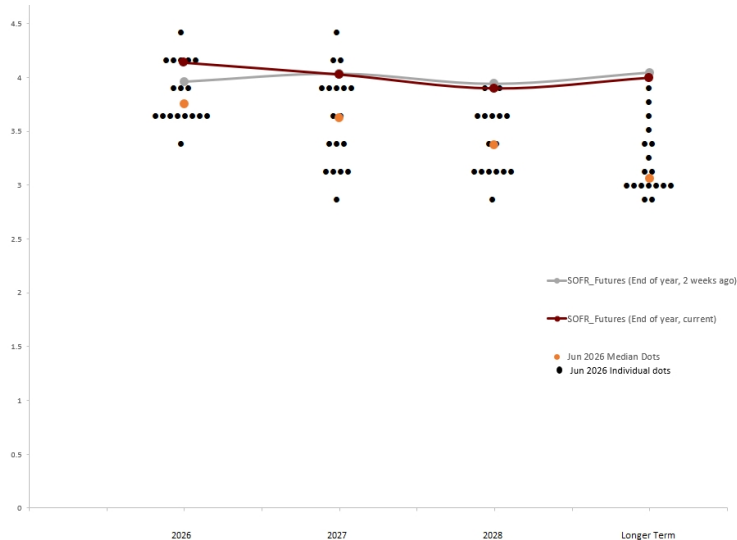
There are upsides to forgoing forward guidance – the Fed is not locked into a policy path that takes them time to get out from. Guidance can slow the Fed down, and that can be costly at turning points. The most obvious risk of dropping forward guidance is increased market volatility.

But, dropping forward guidance is not as important as failing to provide a framework for how the Fed thinks about its policy decisions. I don’t need to know exactly what the Fed plans to do at its next meeting, but I should know how the Fed thinks about the data.

The Fed's own projections show wide disagreement

Spread of FOMC participants' rate projections, June 2026 SEP





If the market views the Fed's reaction function differently than the Fed, and the Fed makes no attempt to course-correct, market pricing will not change until the actual policy does. That runs the risk of sharp market repricing. This is a low-risk event when uncertainty is low, but a much higher risk when uncertainty is elevated (as it is now) and when risks between employment and inflation shift.

Leaving aside his obvious obfuscations – “we’ll be meeting in six weeks,” “we have a task force on that,” etc. – I don’t view Warsh’s communications strategy thus far as a positive development. Rarely have I thought of the Fed as a potential left tail risk to markets and the economy. Now, I might have to start.

I don’t know what Warsh is yet

I’m admittedly a bit unsure about what the Fed will end up doing. Immediately following last week’s FOMC, I argued that the markets ought to price each of the next four meetings as a coin-flip. I’m inclined to think the Fed will deliver a hike by September but would not rule out one as early as July.



Markets likely have more tightening pricing to do



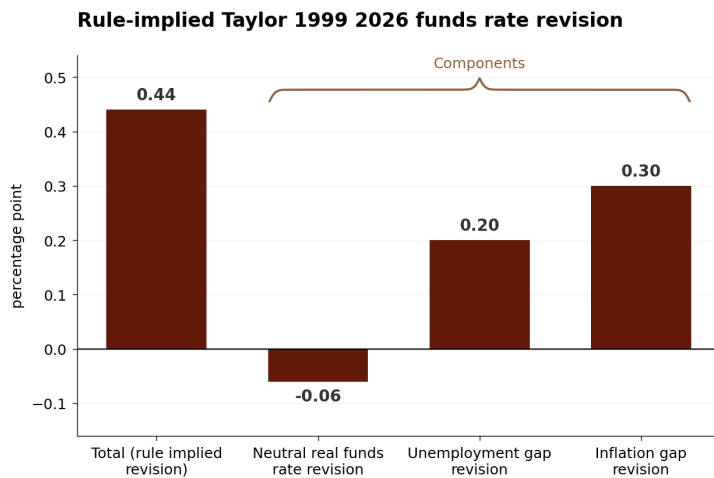
Source: Renaissance Macro Research, Macrobond

The markets have fully priced in a September hike and given Warsh’s performance last week, he does not strike me as the type that would jawbone that away. Indeed, he left a void by being so circumspect around his own views. That allowed hawks to fill the void and perhaps that demonstrates a revealed preference.

To be fair, Warsh did downplay the dots to some degree.

"I reviewed the dot plots and when I saw the submissions, I noted that all the submissions were coming in with pencils, you know those kinds with the big erasers. That's to say that I think my colleagues around the table when they submitted their dots, understand the world is changing quite quickly. And they didn't feel bound by them six weeks from now or six days from now, and in the event that their circumstances change."

Two thoughts here. First, I think this misrepresents the hawkish position to some extent. To me, noting that "the world is changing quite quickly" is likely code for oil prices. But, oil is not the reason why the hawks are hawkish. They are concerned because inflation was already running above target and because prices that key off inflation expectations – core non-housing services – have perked up.



Revision = neutral real rate revision + 0.5 x core inflation gap revision + 2 x unemployment gap revision.
Source: Renaissance Macro Research, Macrobond, Bloomberg.

Second, talking down the dots is something all chairs have done from time to time going all the way back to Bernanke who noted that the SEP is not a policy promise and not an unconditional economic forecast. That Warsh notes that the dots can be erased would undercut his long-held position against the dots: are they a promise to the public or a forecast?!

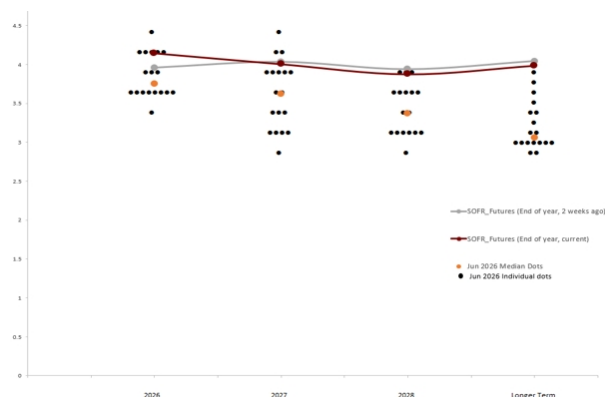
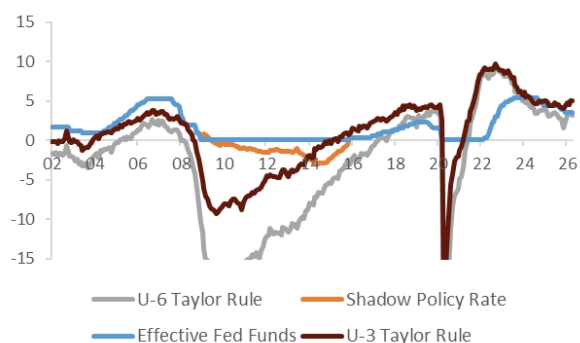
So, I am not sure whether Warsh himself is hawkish or dovish. I can see it both ways. As I mentioned above, allowing hawks to fill the information vacuum might be a revealed preference. Moreover, he kept noting: "The Committee will deliver price stability" and that "We've missed for five years, and we're going to fix that."

On the other hand, Warsh did downplay the dots. Moreover, he talked up the supply-side in two ways. First, the statement notes that negative supply shocks have “driven price increases in certain sectors, including energy.” Next, in his press conference he noted the supply-side benefits of AI-fueled productivity though it is not clear to me why that allows the Fed room to ease policy now with inflation above target.

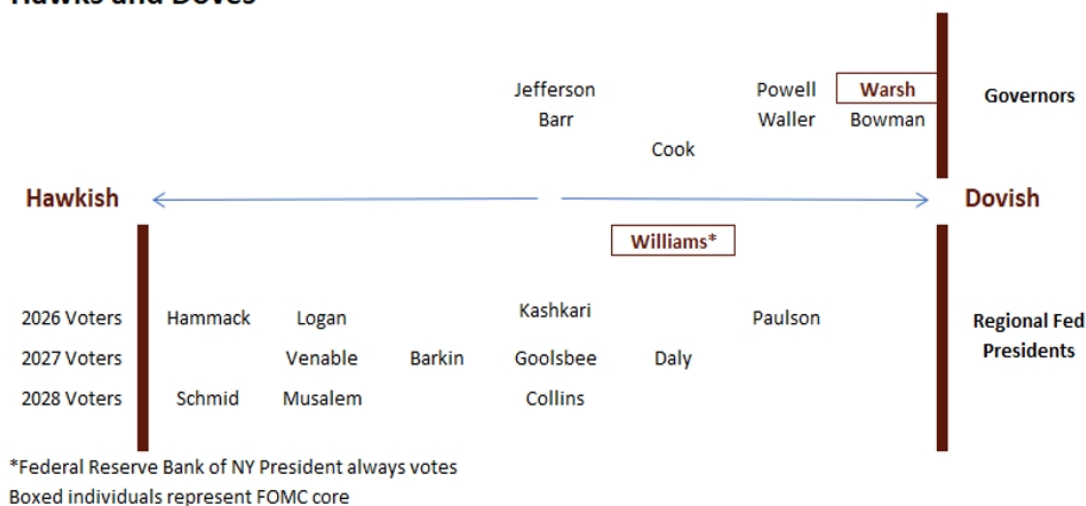
Warsh can’t keep this up forever

I am skeptical that Warsh can keep this strategy going for that long. Eventually, he is going to have to craft a communications framework that the FOMC can abide by – this isn’t it – and he is going to have to eventually take a view and tell us how that view informs his outlook for interest rates. Not putting down a dot or submitting a forecast might allow him to avoid being responsible for the hikes that come. But absolving himself and laying the hikes at the feet of the committee will only make him look like a weaker Fed Chair.

Monetary metrics

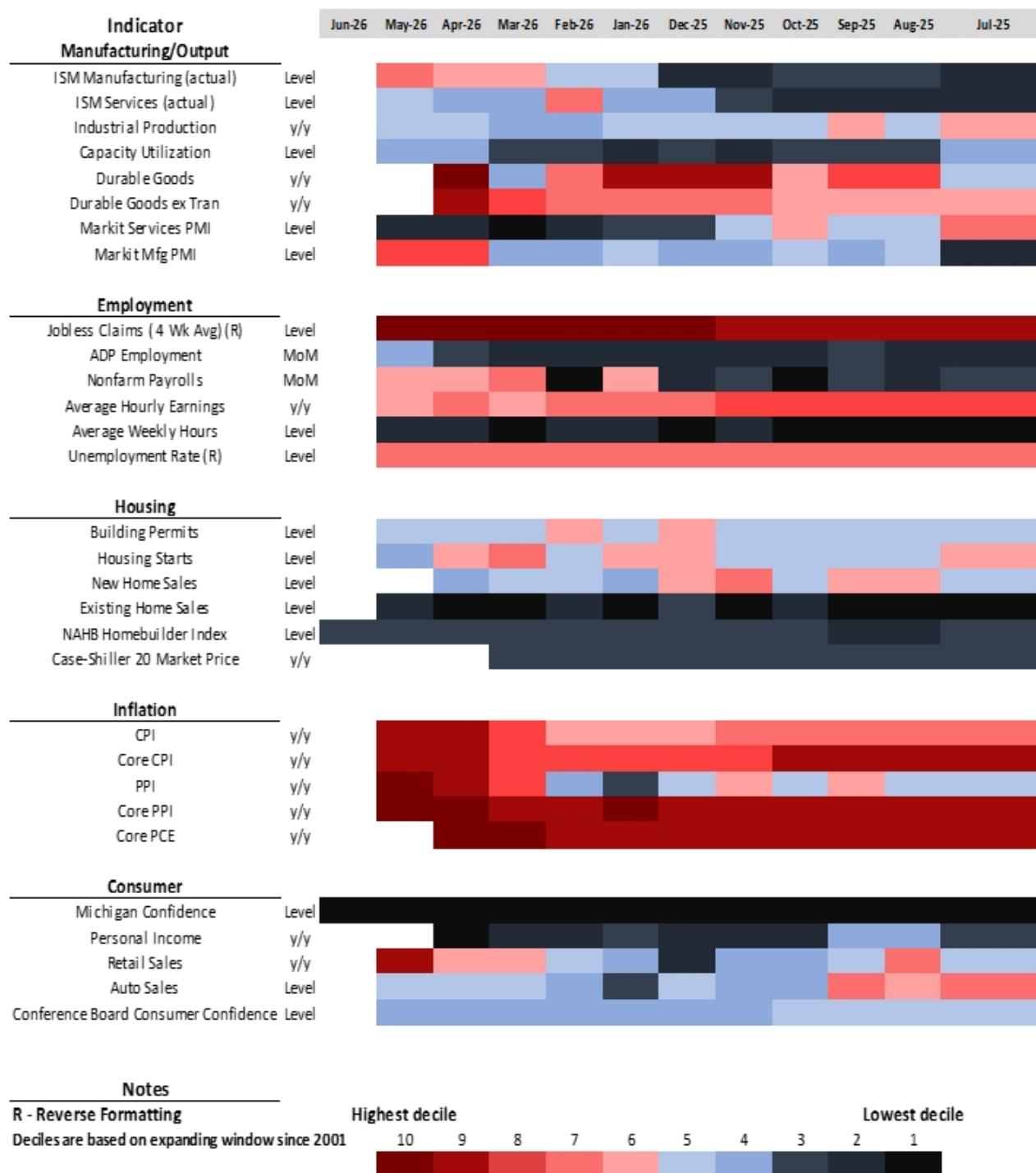


Hawks and Doves

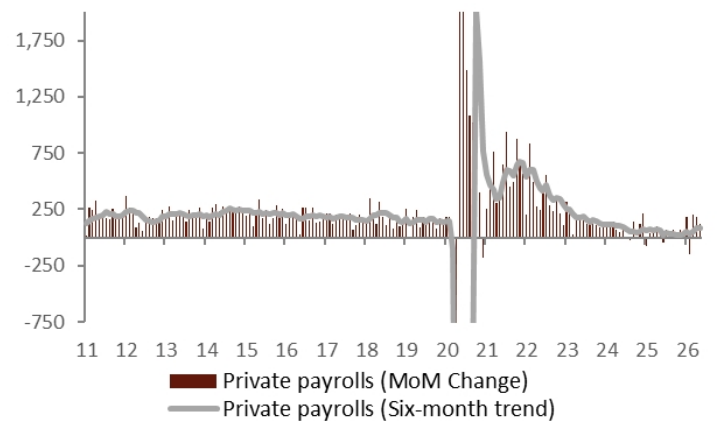
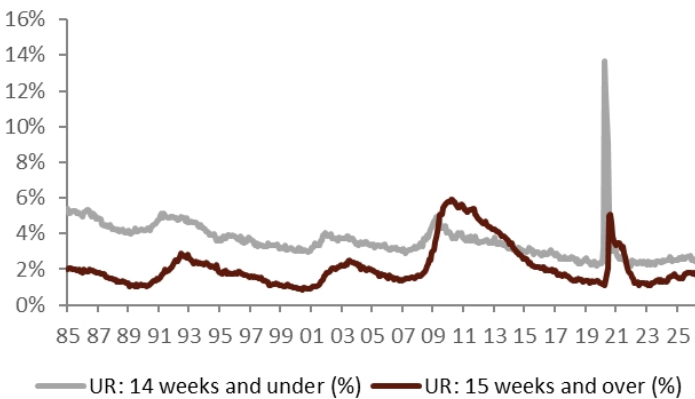
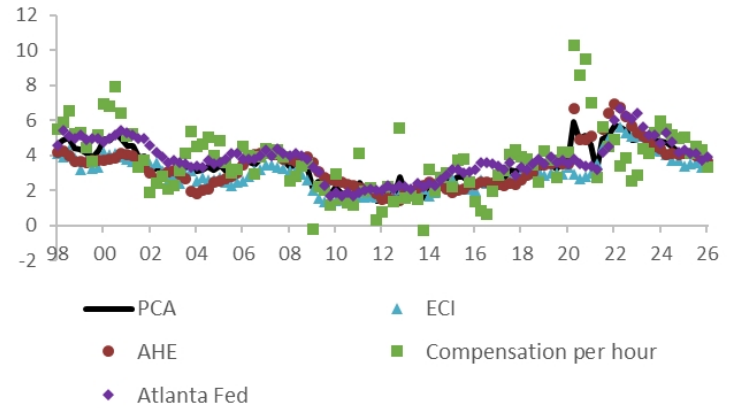
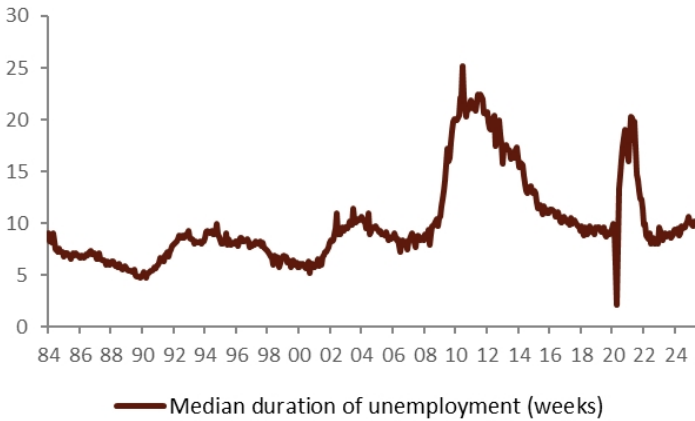
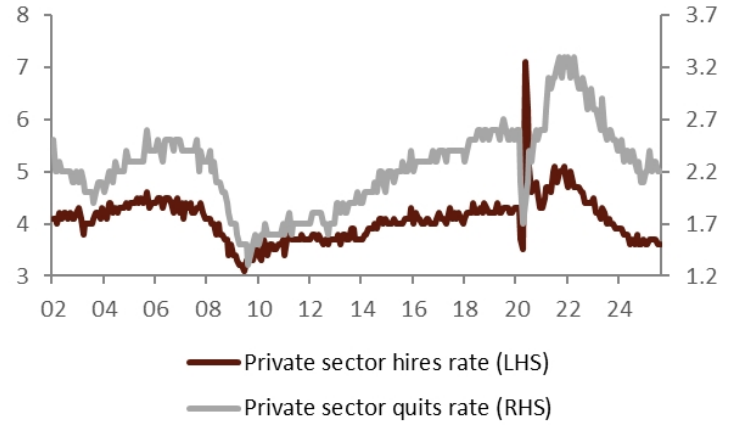
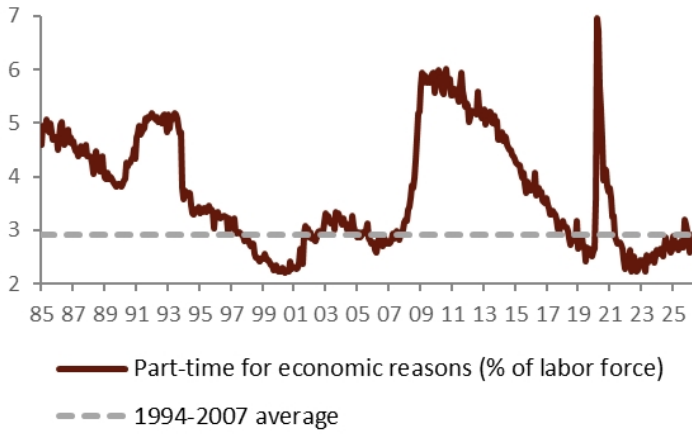


FOMC Forecasts	Median				Central Tendency			
	2026	2027	2028	Longer run	2026	2027	2028	Longer run
Change in real GDP	2.2	2.3	2.2	2	2.0-2.3	2.0-2.4	2.0-2.3	1.8-2.0
March projection	2.4	2.3	2.1	2	2.2-2.5	2.0-2.4	2.0-2.3	1.8-2.0
Unemployment rate	4.3	4.3	4.2	4.2	4.3-4.4	4.2-4.5	4.1-4.3	4.0-4.3
March projection	4.4	4.3	4.2	4.2	4.3-4.5	4.2-4.4	4.0-4.4	4.0-4.3
PCE inflation	3.6	2.3	2	2	3.5-3.7	2.2-2.5	2.0-2.1	2
March projection	2.7	2.2	2	2	2.6-3.1	2.0-2.3	2	2
Core PCE inflation ⁴	3.3	2.5	2.1		3.2-3.5	2.3-2.6	2.0-2.2	
March projection	2.7	2.2	2		2.5-2.8	2.0-2.4	2	
Projected policy path								
Fed funds rate	3.8	3.6	3.4	3.1	3.6-4.1	3.1-3.9	3.1-3.6	3.0-3.5
March projection	3.4	3.1	3.1	3.1	3.1-3.6	2.9-3.6	2.9-3.6	2.9-3.5

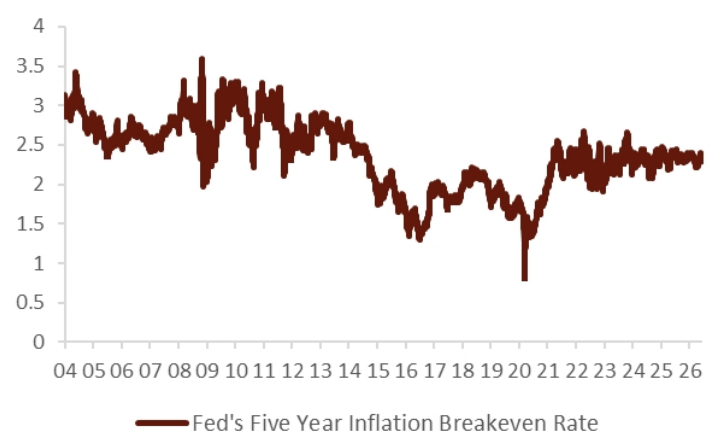
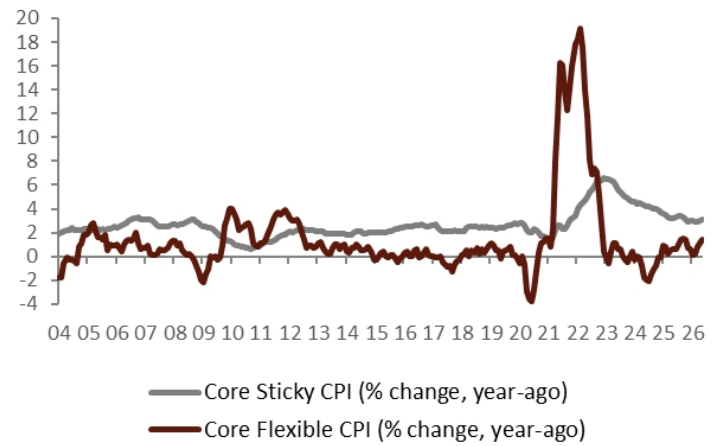
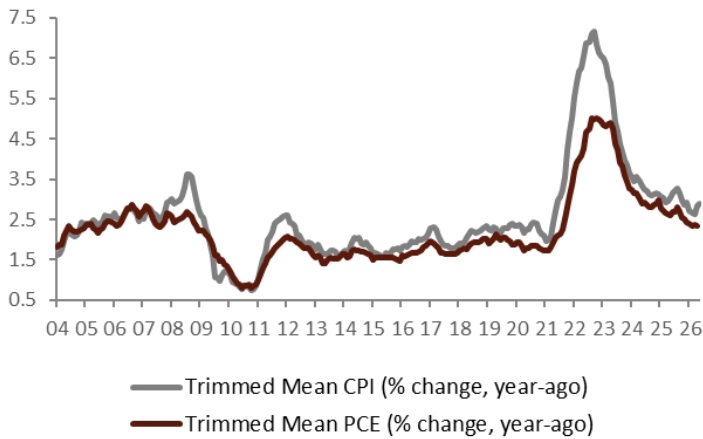
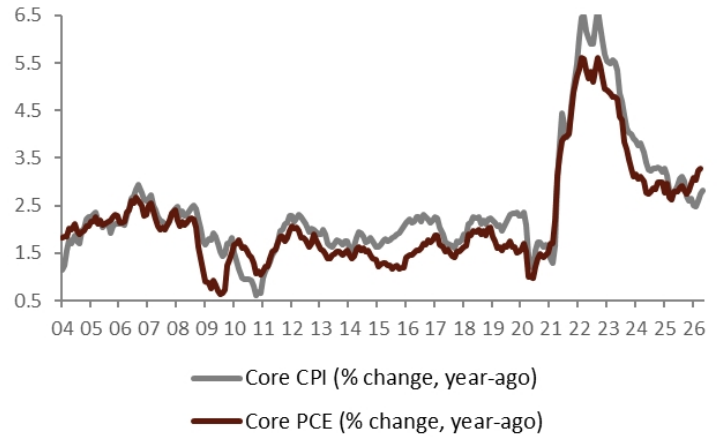
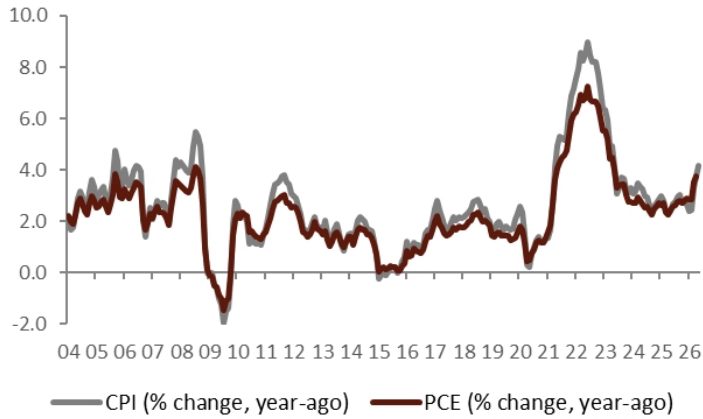
High frequency data heat-map



Labor market indicators



Inflation indicators



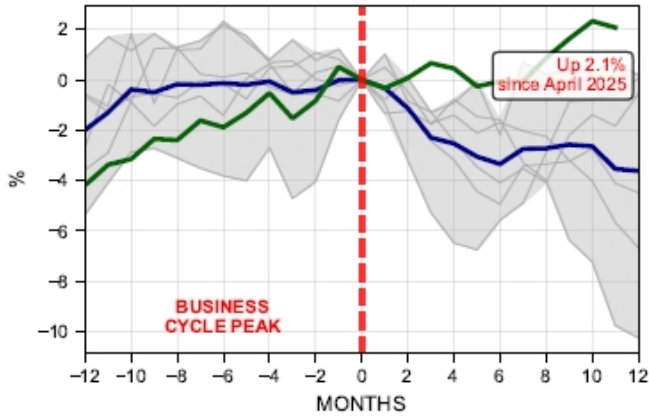
US Inflation Heatmap (6-Month Annualized)



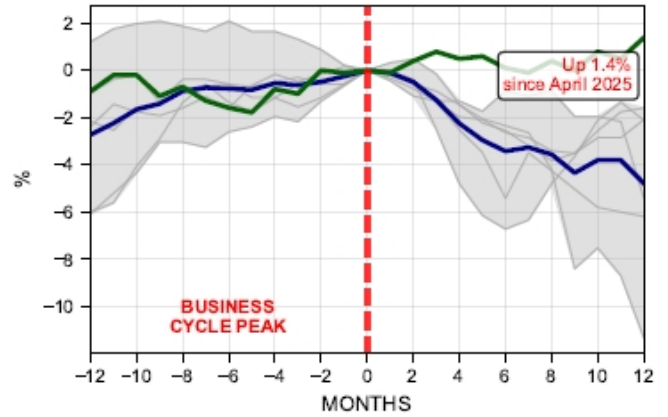
Note: The heatmap shows the distance of each US CPI component's 6-month annualized inflation rate from its historical average. The colour is white when a component's inflation rate is close to its average and is a varying shade of blue (red) when the rate is below (above) the average. Each inflation rate is standardized by subtracting its mean and dividing by its standard deviation, computed over 1996-2019. and We show full Nondurables (which includes food and energy components) alongside Durables, New vehicles, Used cars and trucks, and Apparel; the parent group itself excludes food and energy. Food away from home, Other personal services, and Tenants' & household insurance are published NSA by BLS and seasonally adjusted via X-13ARIMA-SEATS. Values in parentheses are CPI relative importance weights (parts per 100). Sources: BLS via Haver Analytics; RenMac calculations. Last observation: May 2026.

NBER RECESSION INDICATORS DASHBOARD

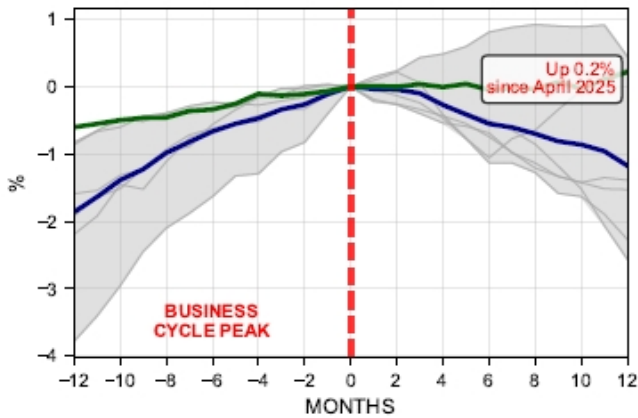
REAL SALES: MANUFACTURING AND TRADE INDUSTRIES



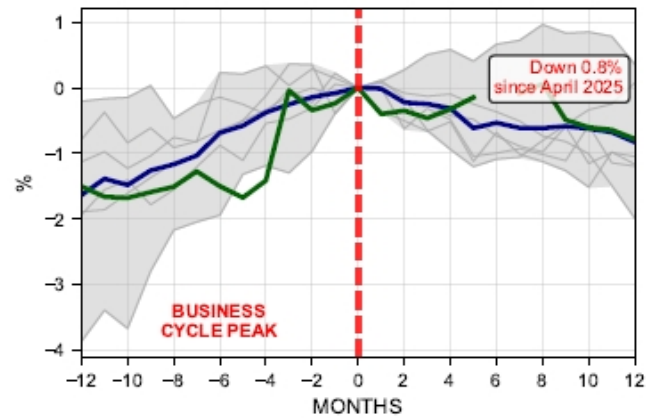
INDUSTRIAL PRODUCTION



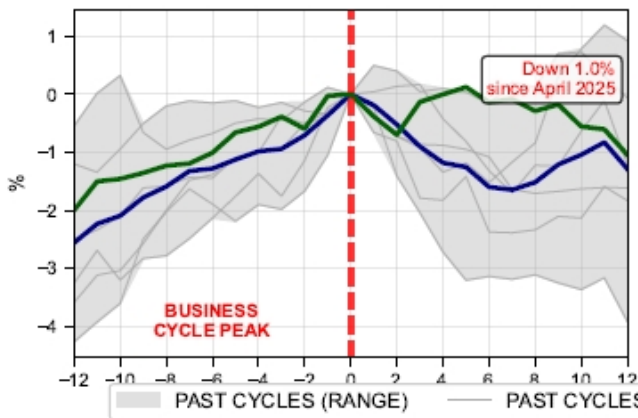
US NONFARM PAYROLLS



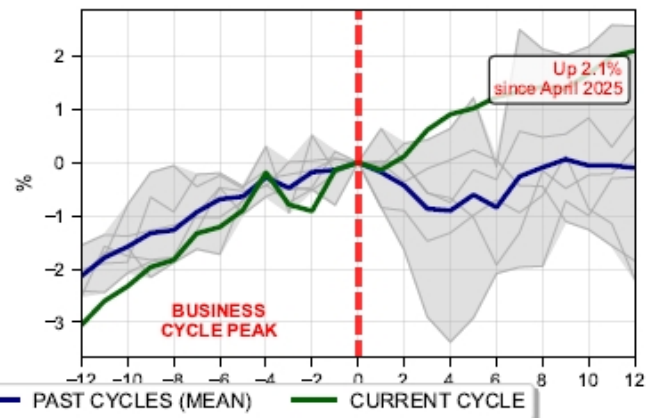
CIVILIAN EMPLOYMENT



REAL PERSONAL INCOME MINUS CURRENT TRANSFER RECEIPTS



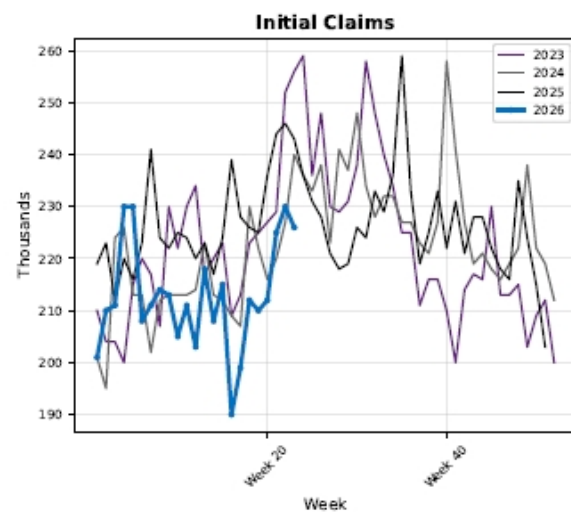
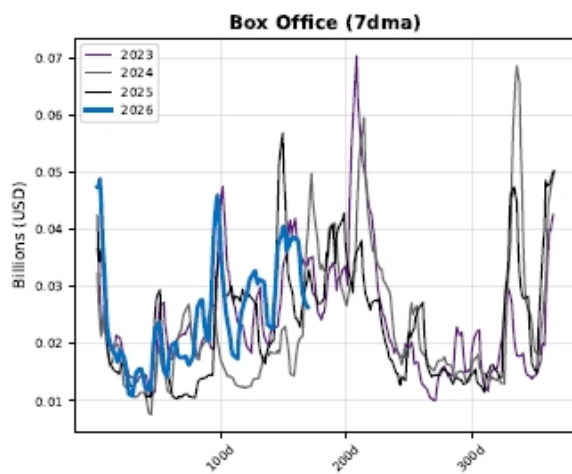
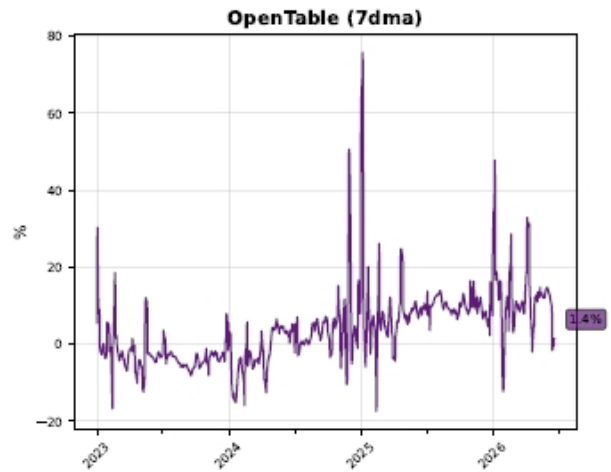
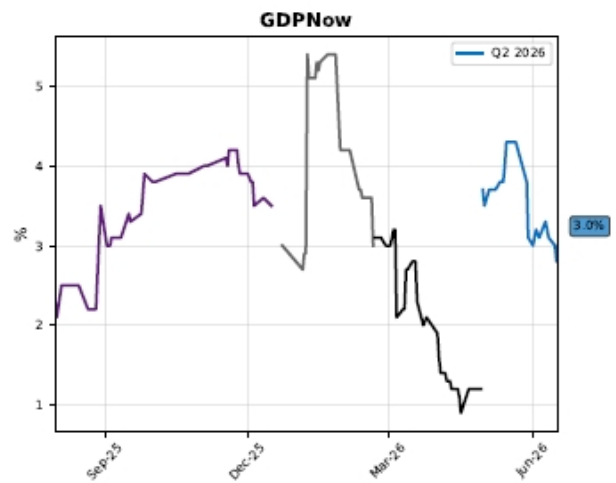
REAL PCE



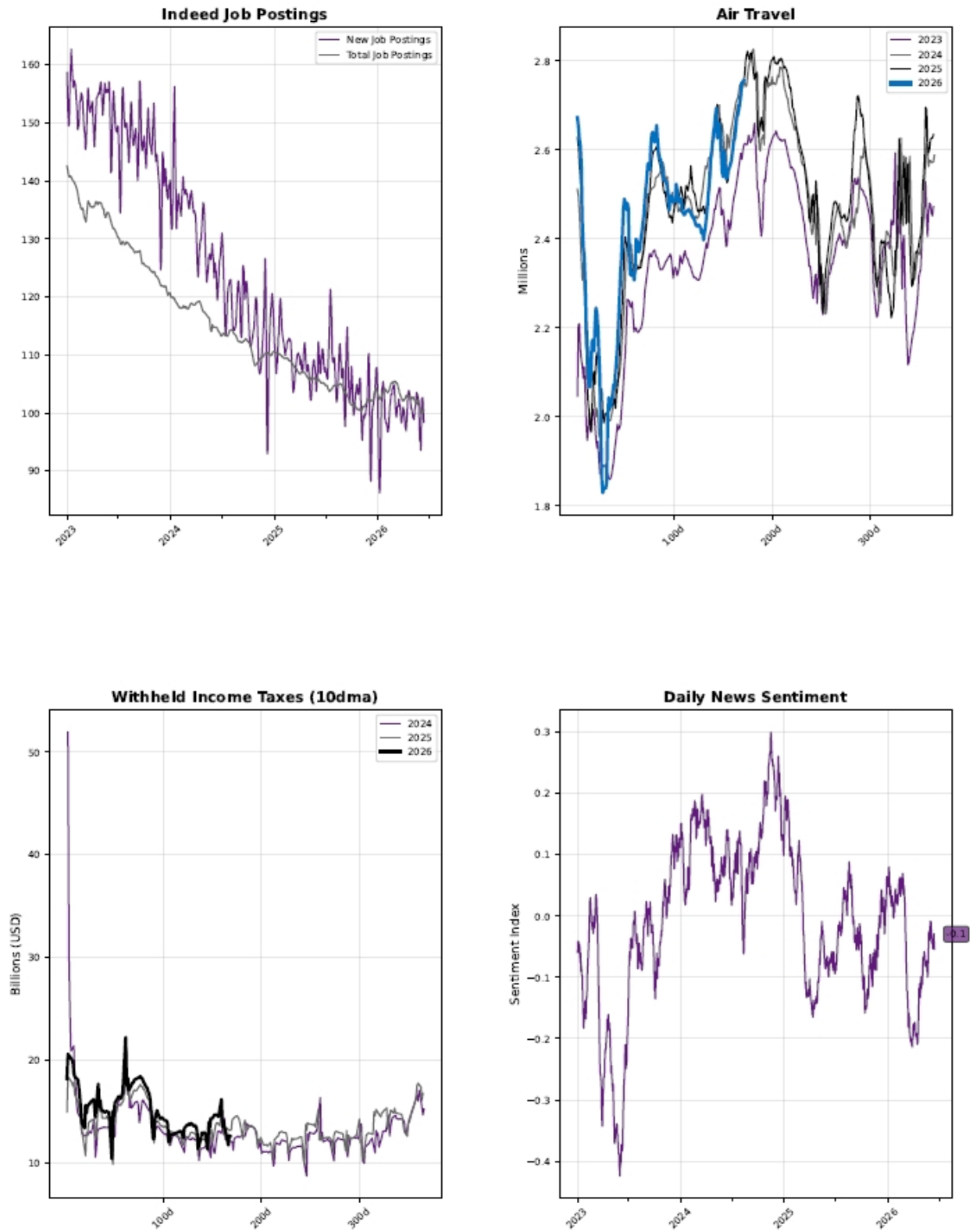
PAST CYCLES (RANGE) PAST CYCLES PAST CYCLES (MEAN) CURRENT CYCLE

Past 7 cycles excluding Covid-19 period

High Frequency Economic Dashboard



High Frequency Economic Dashboard



DISCLAIMER: This document has been prepared by Renaissance Macro Securities LLC, a subsidiary of Renaissance Macro Holdings, LLC. This document is for distribution only as may be permitted by law. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document. The information is not intended to be a complete statement or summary of the markets, economy or other developments referred to in the document. Any opinions expressed in this document may change without notice. Any statements contained in this report attributed to a third party represent RenMac's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgment in making their investment decisions. The value of any investment may decline due to factors affecting the securities markets generally or particular industries. Past performance is not indicative of future results. Neither RenMac nor any of its directors, employees or agents accept any liability for any loss (including investment loss) or damage arising out of the use of all or any of the information. Any information stated in this document is for information purposes only and does not represent valuations for individual securities or other financial instruments. Different assumptions by RenMac or any other source may yield substantially different results. The analysis contained in this document is based on numerous assumptions and are not all inclusive. Copyright © RenMac 2026. All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to RenMac. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of RenMac. No portion of this material, including data, analysis, or commentary, may be input into, uploaded to, or otherwise used in connection with any artificial intelligence (AI) system, machine learning model, large language model (LLM), chatbot, or automated content generation platform, including but not limited to ChatGPT, Claude, Gemini, or similar tools, without the prior express written consent of Renaissance Macro Research, LLC. Any such use is strictly prohibited and constitutes a violation of copyright and confidentiality protections.