June 22, 2026

Monday Monetary Thoughts

Smoke and mirrors

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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.

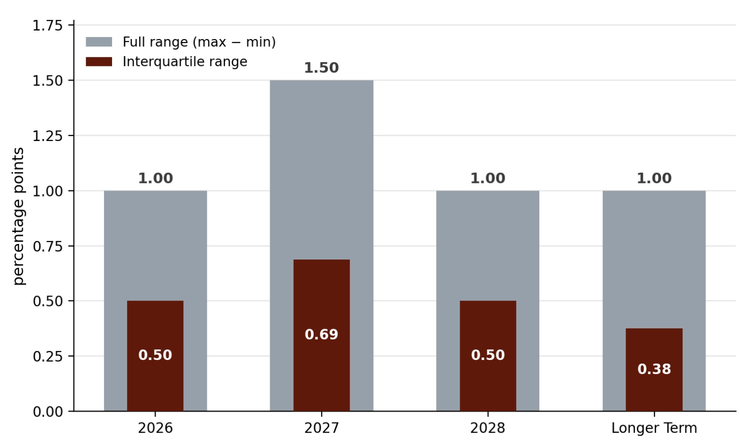
Markets, like people, can walk and chew gum at the same time. When data are released, that has implications for monetary policy and implications for the economy and earnings.

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.

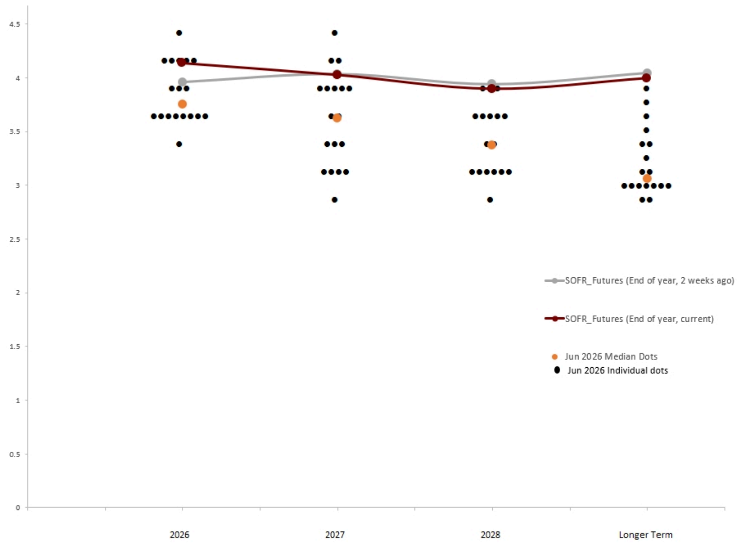
But, dropping forward guidance is not as important as failing to provide a framework for how the Fed thinks about its policy decisions. I don't need to know exactly what the Fed plans to do at its next meeting, but I should know how the Fed thinks about the data.

The Fed's own projections show wide disagreement

Spread of FOMC participants' rate projections, June 2026 SEP



Source: Renaissance Macro Research, Federal Reserve



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

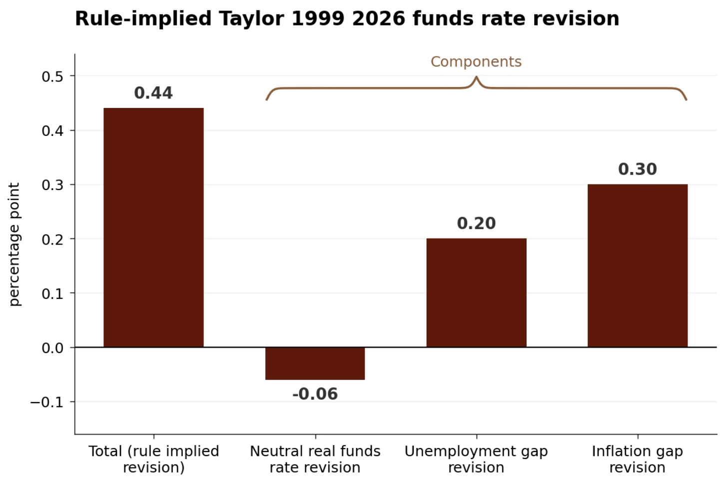
Source: Renaissance Macro Research, Macrobond

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?!

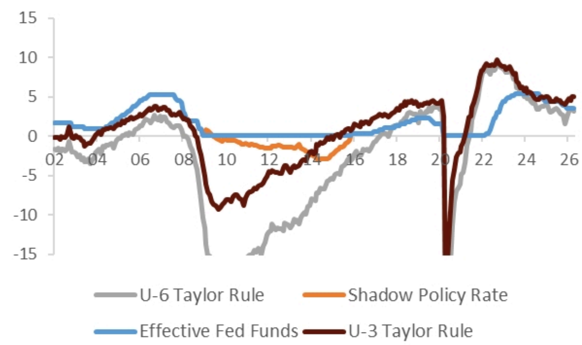
So, I am not sure whether Warsh himself is hawkish or dovish. I can see it both ways. As I mentioned above, allowing hawks to fill the information vacuum might be a revealed preference. Moreover, he kept noting: "The Committee will deliver price stability" and that "We've missed for five years, and we're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

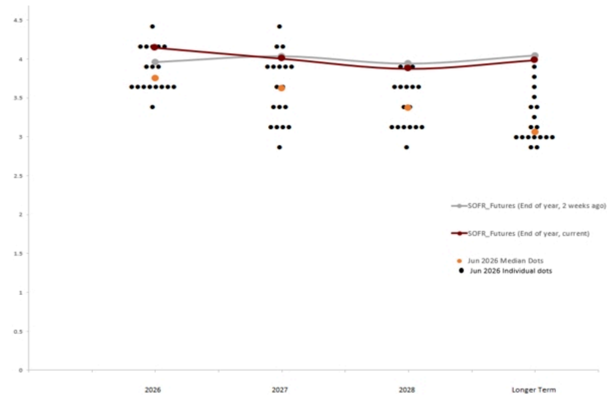
On the other hand, Warsh did downplay the dots. Moreover, he talked up the supply-side in two ways. First, the statement notes that negative supply shocks have "driven price increases in certain sectors, including energy." Next, in his press conference he noted the supple-side benefits of AI-fueled productivity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

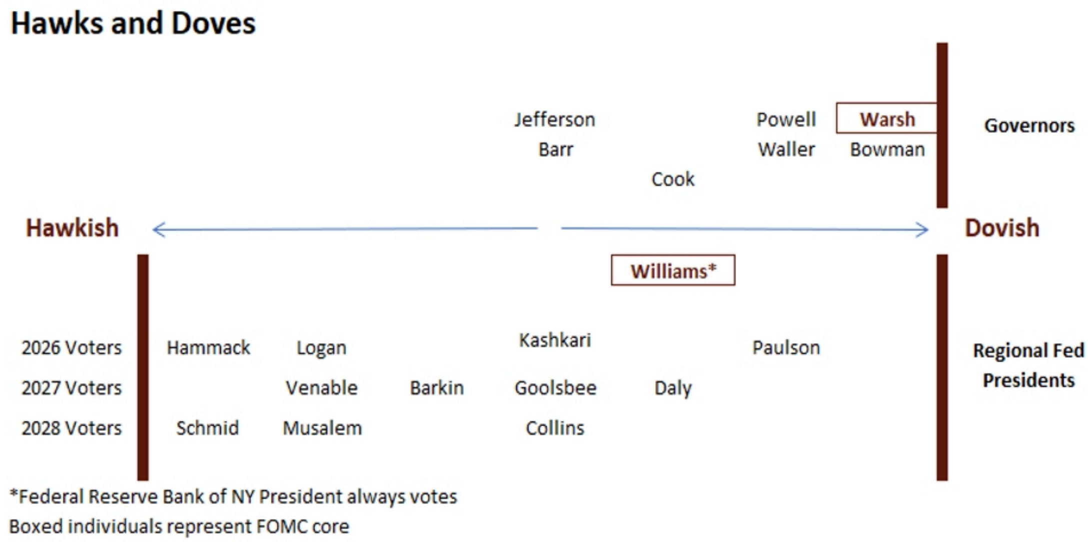
Warsh can't keep this up forever

I am skeptical that Warsh can keep this strategy going for that long. Eventually, he is going to have to craft a communications frameworks 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

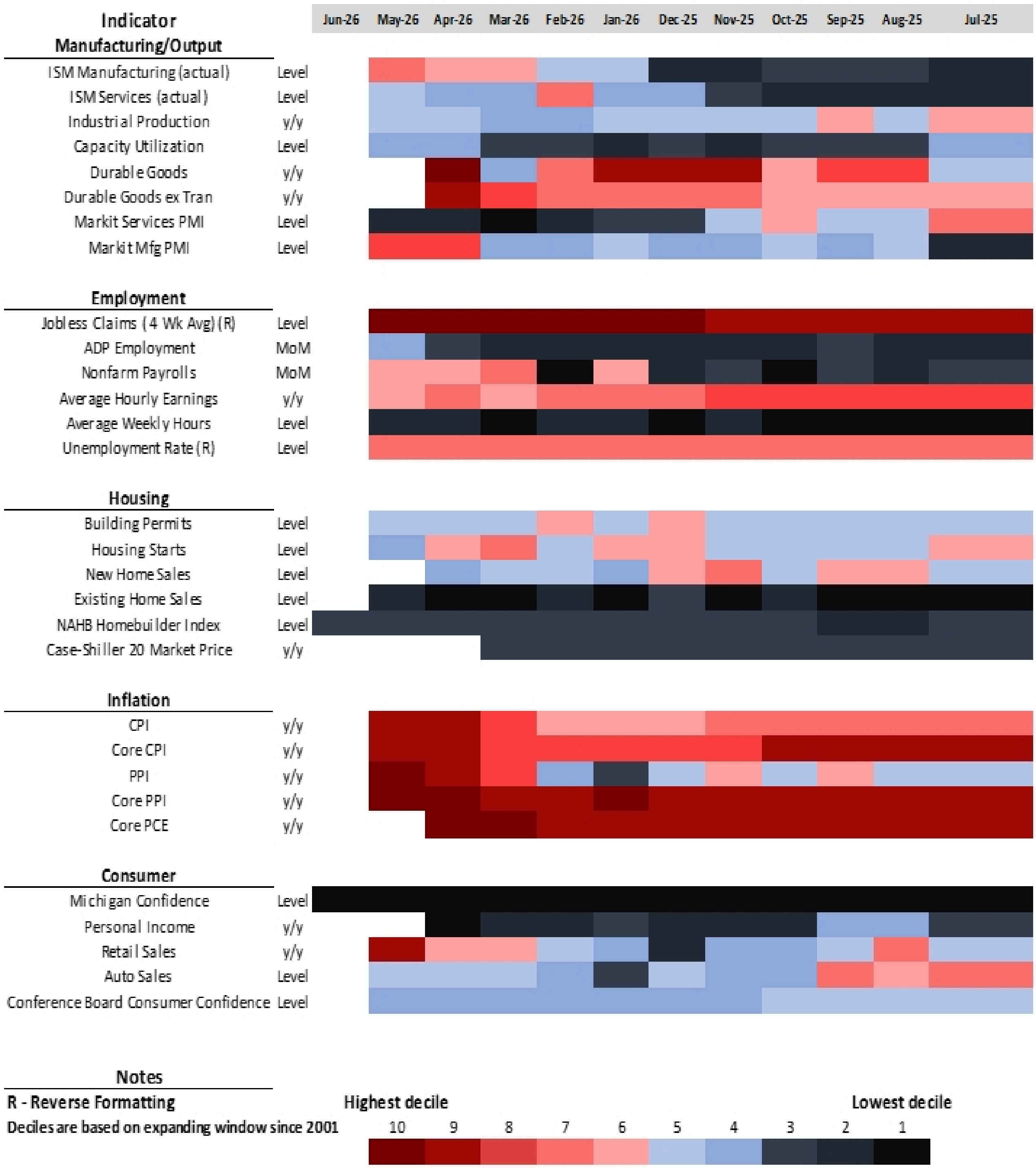




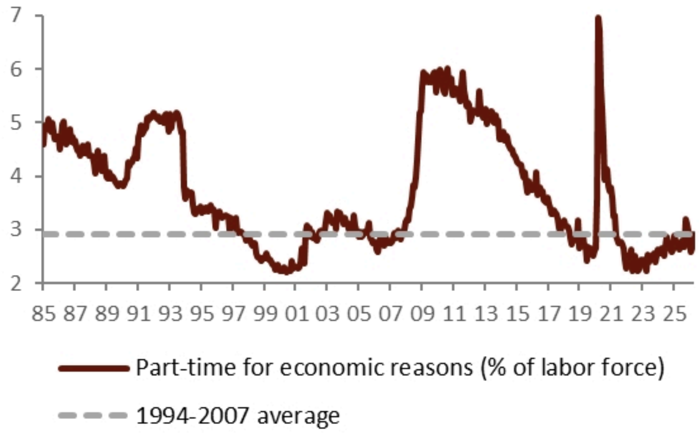


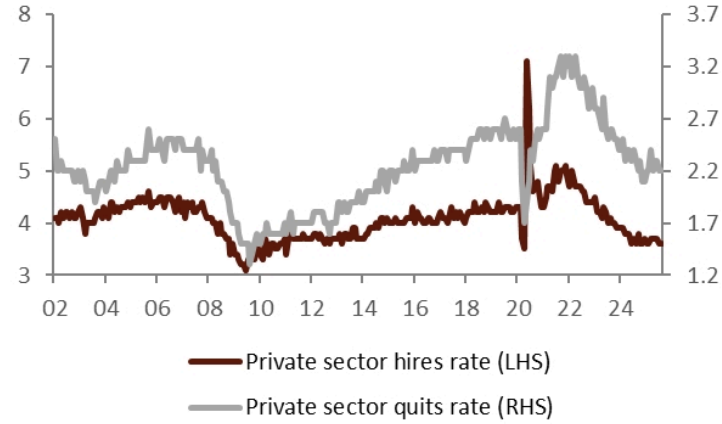
FOMC Forecasts	Median 2026	Median 2027	Median 2028	Median Longer run	Central Tendency 2026	Central Tendency 2027	Central Tendency 2028	Central Tendency Longer run
Change in real GDP	2.2	2.3	2.2	2	2.0–2.3	2.0–2.4	2.0–2.3	1.8–2.0
March projection	2.4	2.3	2.1	2	2.2–2.5	2.0–2.4	2.0–2.3	1.8–2.0
Unemployment 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 inflation4	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

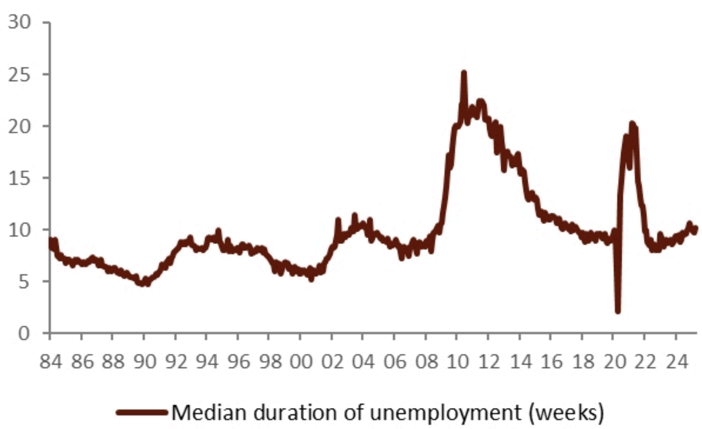
High frequency data heat-map

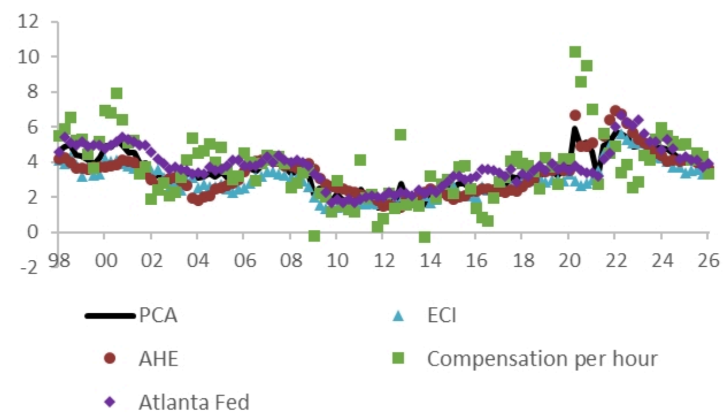


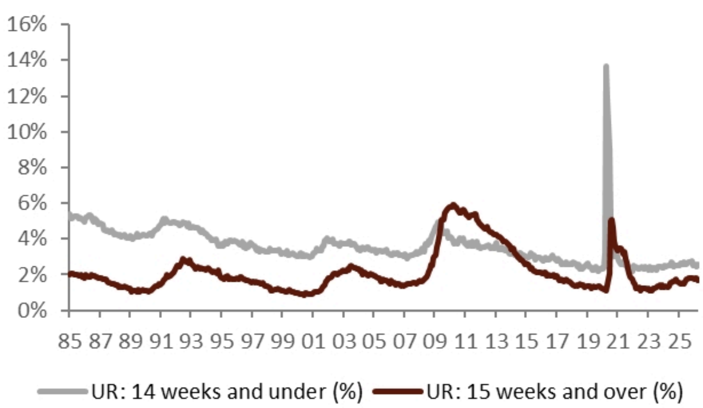
Labor market indicators

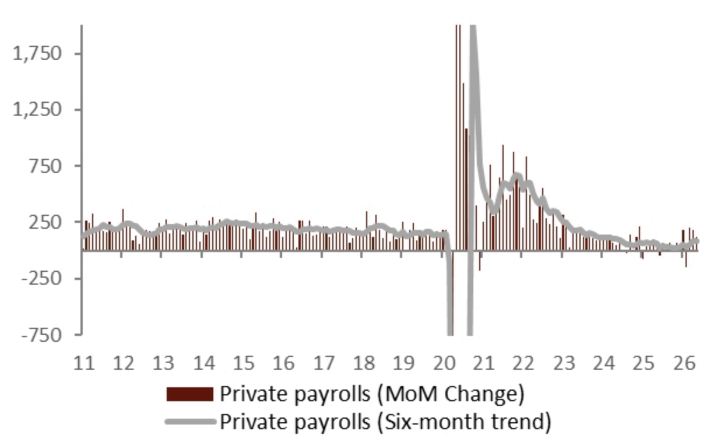




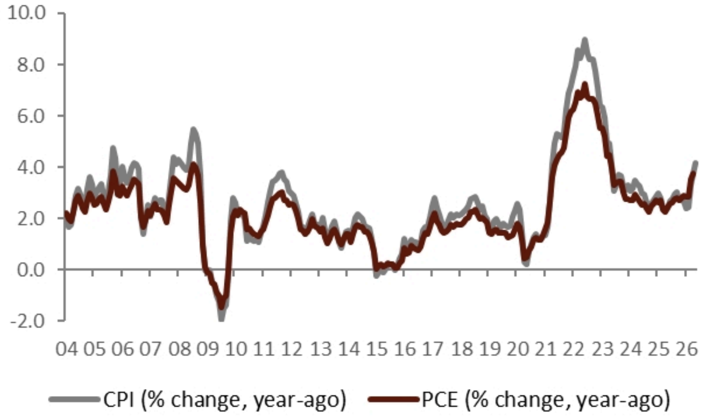


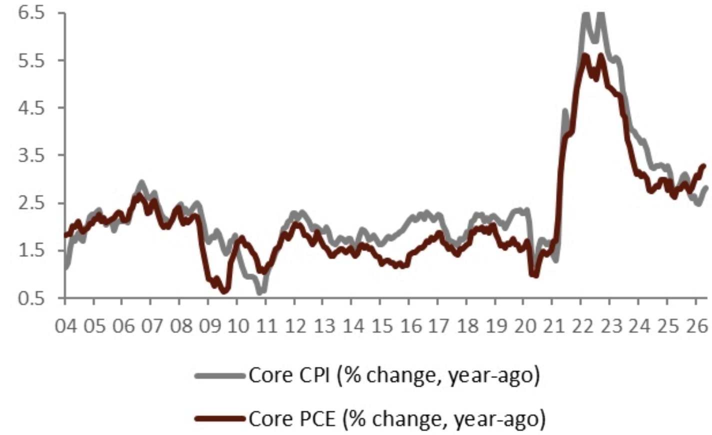


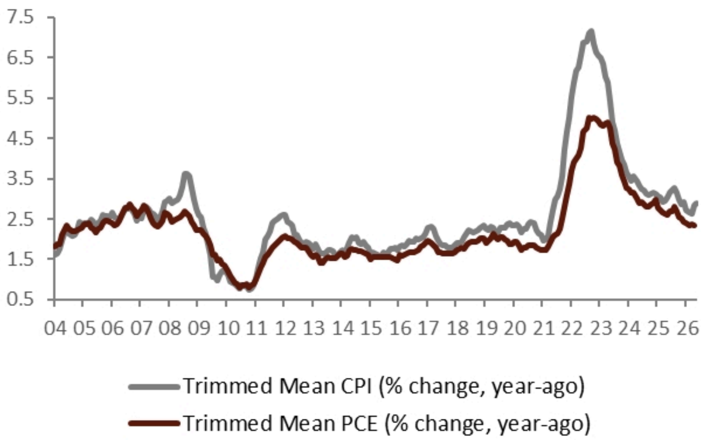


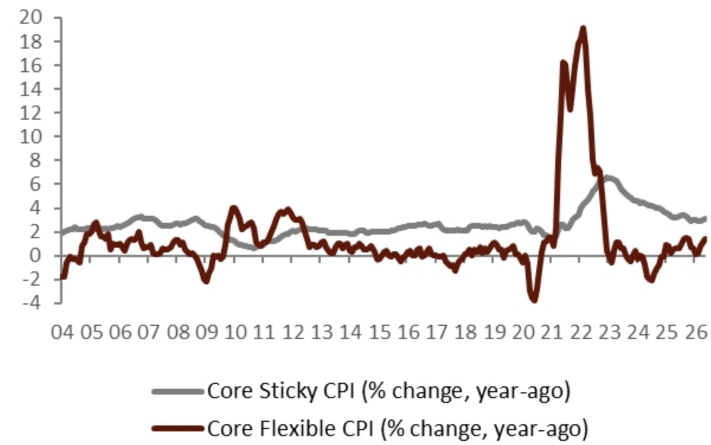


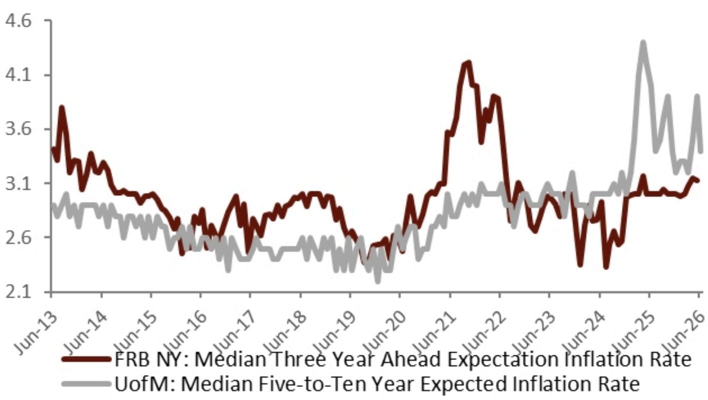
Inflation indicators



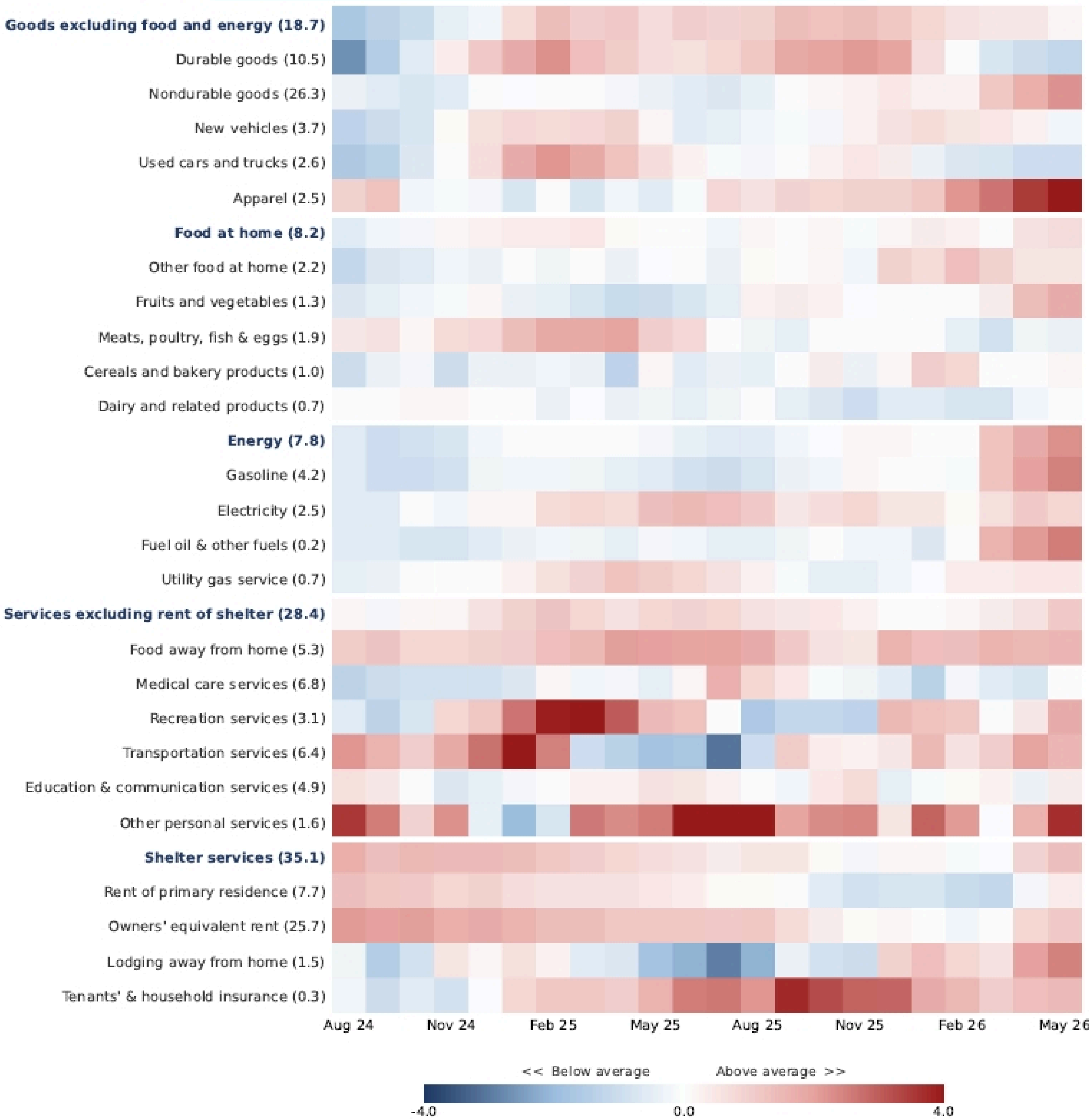




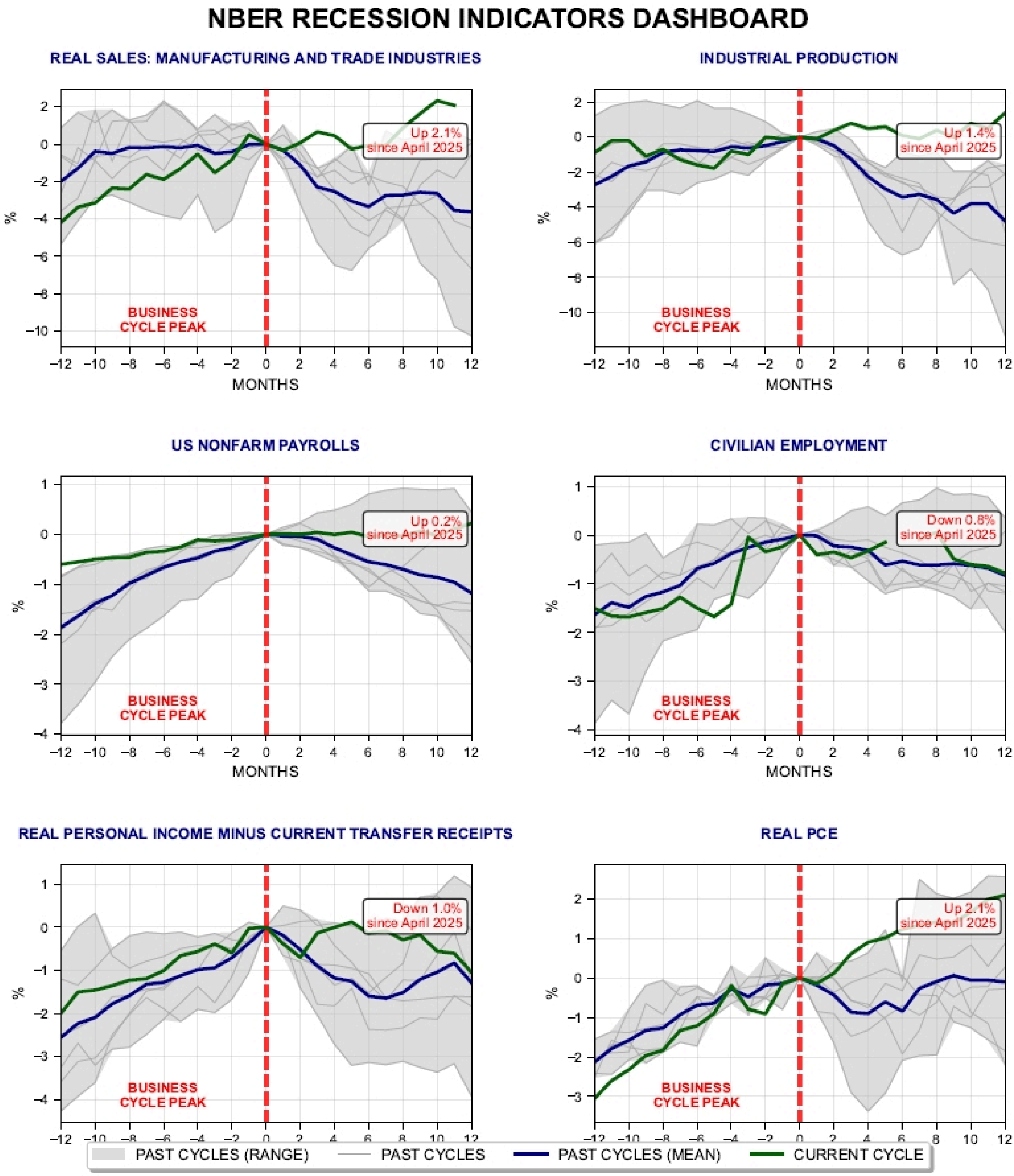




US Inflation Heatmap (6-Month Annualized)

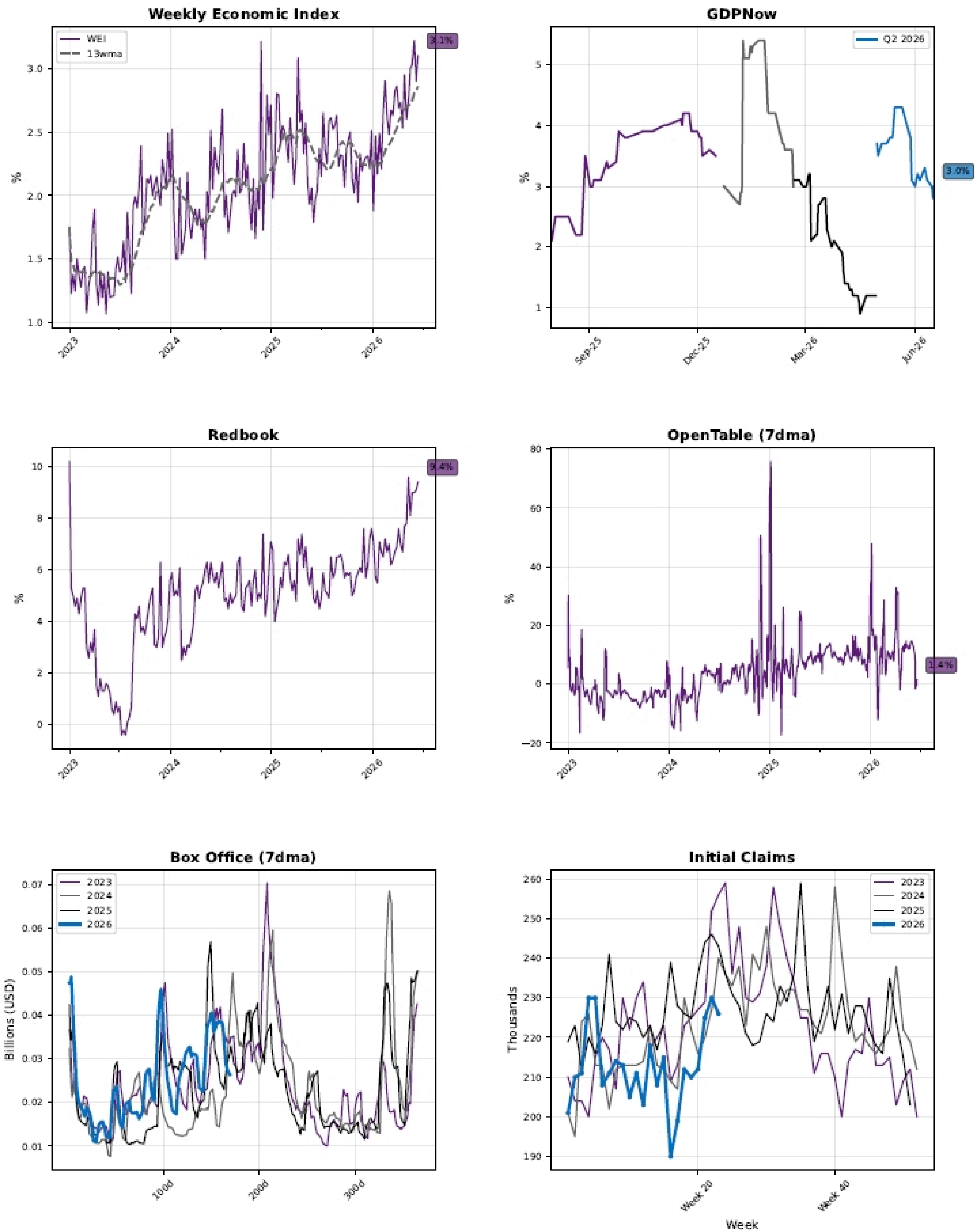


Note: The heatmap shows the distance of each US CPI component's 6-month annualized inflation rate from its historical average. The colour is white when a component's inflation rate is close to its average and is a varying shade of blue (red) when the rate is below (above) the average. Each inflation 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.



Past 7 cycles excluding Covid-19 period

High Frequency Economic Dashboard



High Frequency Economic Dashboard