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A new era, a new Fed chair

Investing for a world of change



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Central bank credibility is not inherited, rather it is established over time, with every meeting, every statement, and every decision.

Markets watched closely as newly appointed Fed Chair Kevin Warsh led his first FOMC meeting for signals on the direction the committee would take under his stewardship. The result was unambiguous: a hawkish posture paired with a structural reform agenda, and two clear implications for markets.

The signal

Warsh opened his tenure with an unmistakable statement: "The committee will deliver price stability." While the Fed's dual mandate formally encompasses both employment and inflation, Warsh focused his attention firmly on the latter.

He offered virtually no forward guidance on policy rates, a tool he has long been sceptical of, and declined to submit inputs into the dot plot, the Fed's quarterly summary of individual rate projections, marking a symbolic break with convention. The remaining 18 FOMC members did submit forecasts, and the distribution shifted sharply. Nine now pencil in rate hikes in 2026, compared to none at the March meeting. Six of those anticipate 50 basis points or more of tightening this year. Eight see rates on hold. Just one projects a cut. The median dot moved higher for 2026 and 2027, as did core PCE forecasts for the same period. Markets responded accordingly, with a 25-basis-point hike now fully priced for October.

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The pivot

Perhaps the most revealing moment came when Warsh was asked whether the current funds rate is genuinely restrictive, given strong job growth, elevated inflation, solid GDP, and a surging equity market. He was candid. Policy effects, he said, are uneven: "I do see some restrictedness on things like housing. It's hard to use those same words anywhere else." The implication is significant: a chair who does not view current rates as broadly restrictive faces a lower bar to tightening.

Warsh announced five internal task forces covering communications, balance sheet composition, data methodology, the labour market implications of new technology, and a fundamental re-examination of the drivers of inflation. Changes to the 2% target are explicitly off the table.

The complication

Every incoming Fed chair must establish inflation-fighting credibility early. Warsh delivered that. Yet there is a tension at the heart of this approach.

By renouncing not only forward guidance but any discussion of strategy or reaction function, Warsh may have walked, perhaps deliberately, into a credibility trap of his own making. Having defined credibility purely in terms of delivering price stability, with no mechanism for managing expectations, unfavourable inflation data will demand a swift response. Hesitation would risk appearing to contradict the very standard he has set.

The sequencing implications are stark. Two or three bad inflation prints would plausibly force the Fed's hand by September. A July start would be strategically coherent: at least two hikes are generally viewed as the minimum required to signal a credible tightening cycle, and acting in July would allow both to land well ahead of the midterms.

Early readings from the May CPI report offered some tentative encouragement. Tariff-driven price pressures appear to be fading. AI-related inflation is easing. A lower oil price may help headline inflation turn a corner. Yet that backdrop proved insufficient to dissuade nine committee members from projecting tighter policy. The coming weeks will bring a steady stream of speeches that elaborate on hawkish views, adding further upward pressure on rate pricing before a single new data point has been released.

The implication

The result is a rates market, and particularly the short end of the curve, now acutely sensitive to every inflation release. Those prints may prove to be make-or-break for the outlook and, in so doing, generate precisely the kind of anxious Fed-watching that Warsh's communications overhaul was presumably designed to end.

For FX markets, the read is more straightforward. The dollar had been weighed down in part by doubts about the Fed's commitment to price stability, and by questions about whether the Fed under Warsh would hold that line. His first meeting answers both. Warsh's explicit mandate, reinforced by a hawkish committee and an independence that shows no sign of bending, removes that overhang.

What happens next depends almost entirely on inflation. The prints between now and September may prove to be make-or-break. Not just for the rate path, but for the kind of Fed chair Warsh turns out to be. His stance so far suggests he will not bend to political pressure in the way many had feared. If anything, a collision course with the White House may be the more likely destination.

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