FROM THE DESK OF:

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A hawkish hold with a focus on price stability

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As of 3:45 p.m. ET, 17 June 2026

- The Fed unanimously held rates steady at 3.50 – 3.75%, as expected, at Kevin Warsh's first FOMC meeting and press conference as Fed Chair. The Summary of Economic Projections (SEP) indicates that FOMC members expect slightly slower growth than in March, alongside significantly higher inflation.
- The updated projections show that close to half of committee members expect the Fed to hike this year, while the other half expect a cut or no change. The U.S. 2-year Treasury yield jumped over 10 basis points and markets are now pricing in one hike in October, leaving our view more dovish than consensus expectations.
- "We have a task force for that." As we expected, Chair Warsh made initial efforts to roll back forward guidance, including opting out of submitting his projections to the SEP and removing forward commentary from the FOMC statement. We also expected to see some adjustments in internal Fed operations, including communications; Warsh announced five task forces to review Fed communications, balance sheet, data sources and usage, productivity and employment, and the inflation framework.

Inflation: focused on legacy, not the most recent leg

The Fed held the Fed Funds rate steady today, but this was not a quiet meeting. The policy rate stayed at 3.50 – 3.75%, yet the statement, vote, and updated projections all pointed to a committee still debating how much weight to put on the inflation-driven supply shock that has lasted longer than expected.

The standard central bank response to an energy-driven inflation shock is to look through it. Rate hikes do not produce more oil, reopen shipping lanes, or lower freight costs. They work by reducing demand. But the longer inflation stays elevated, the harder it becomes for the Fed to treat it as temporary. Today's Fed commentary emphasized that regardless of how long the energy-led inflation wave lasts, price growth already has been running above target for five years.

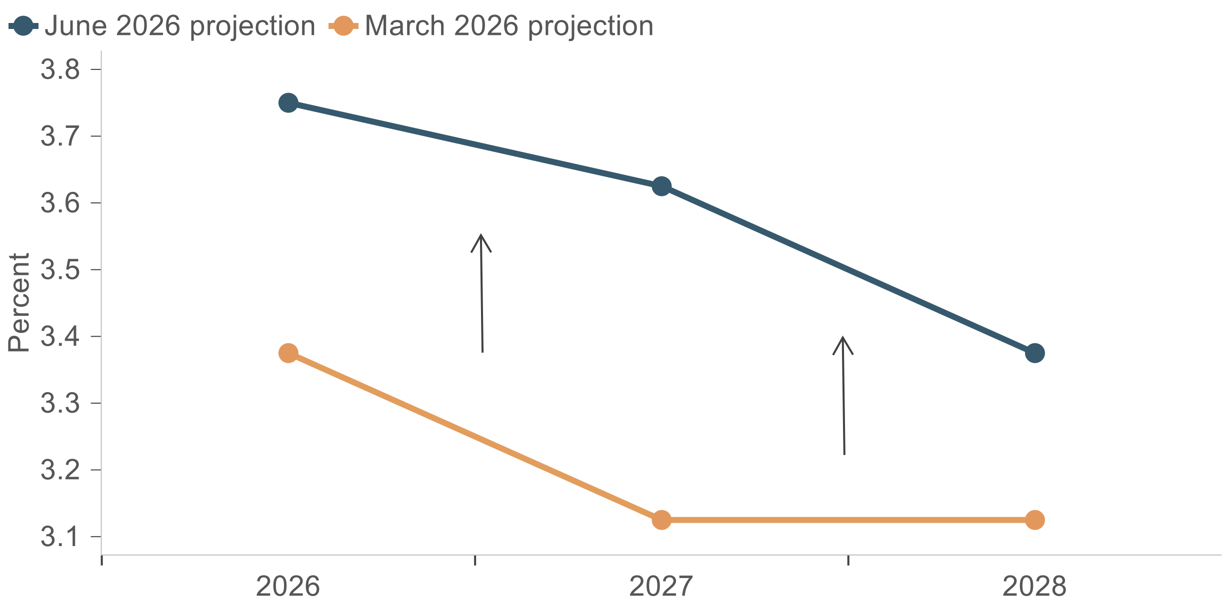
A night-and-day move in the Dot Plot

The June SEP showed a more hawkish path for rates, with the median dot now implying one hike in 2026 and two cuts in 2027.

The vote was 12-0 in favor of no change to policy. However, the view on year-end policy was split, with 9 of 18 members projecting at least one rate hike, 8 projecting rates on hold, and one in favor of a cut. That level of disagreement reinforces that the committee is no longer debating a clean easing cycle.

The Fed's rate path shifts higher

FOMC median rate projections



Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, Macrobond, June 2026.

At the same time, the Iran backdrop has moved modestly in the Fed's direction. As we wrote earlier this week, the potential U.S.-Iran agreement reduces the risk of a prolonged energy supply disruption and helped reverse some of the hawkish policy repricing that built during the conflict. Lower oil prices reduce the odds that energy inflation turns into a broader inflation problem, but this is not an all-clear. Oil remains above pre-conflict levels, shipping normalization will take time, and inventories and strategic reserves still need to be replenished.

Our perspective

While Kevin Warsh forged a decidedly dovish path to Fed Chair, today's meeting was decidedly hawkish.

We believe consensus is premature in adjusting its policy rate expectations before the potential U.S.-Iran agreement – and its impact on energy flows – is solidified. For the time being, we remain more dovish than consensus, and do not expect the Fed to hike this year. And while the Committee's emphasis today was on the trailing five years of above-target inflation, today's inflation problem is supply-driven – a shock to which Fed hikes are ill-suited.