

VIEWS
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FED THOUGHTS:
**CLIMBING UP THE
LEARNING CURVE**

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Change can be difficult to navigate, especially when its principal agent explicitly rejects prevailing norms. Less than five months into the job, Federal Reserve (the Fed) Chair Kevin Warsh has put investors in that position, which makes charting the course of monetary policy complicated. However, there are a few things we're reasonably sure of:

- The Fed will likely raise rates at least one more time this year.
- The Fed will likely not signal its decision going into the October meeting, as Warsh tends to avoid forward guidance to keep the “family discussion” lively.
- The Fed will likely present a firm stance in pursuit of price stability, imparting a hawkish skew to its message.

We are uncertain about the cadence of policy action. The group leans toward removing accommodation, but its leader, who proposed cutting the annual number of scheduled meetings, may prefer less frequent interventions. We believe these stylistic changes reflect a different worldview from his immediate predecessors. Warsh places greater faith in market mechanisms, and he would rather learn from investors than lead them, worries less about high-frequency fluctuations in the data, and may prefer less frequent intervention.

We examine these issues one at a time.



Forward guidance is not the business we should be in.”¹

**FEDERAL RESERVE CHAIRMAN,
KEVIN WARSH**

GOING WITH THE FLOW

The chair has been clear: “Forward guidance is not the business we should be in.”¹ This has been widely interpreted as learning from investors, but we think of it as working with markets in a manner best seen from first principles.

Most modern models of policy setting describe policy as attempting to improve social welfare. Given the Fed’s dual objective, this is accomplished by keeping employment at its maximum sustainable level and inflation at the goal of 2 percent. With the labor market now roughly in balance, that calculation depends on inflation’s proximity to goal. The further away inflation is from goal, the greater the loss to society. Moreover, the loss to society increases rapidly away from 2 percent.

- When inflation is far from goal, the appropriate policy direction is clearer: policy tends to be easy when inflation is well below goal and tight when it is well above goal. Market participants can help the Fed by keeping inflation expectations well anchored, which the Fed encourages through forward guidance about its policy determination.
- When inflation is near goal, the policy tradeoff is more delicate. The correct direction depends on an uncertain outlook. Market participants can help the Fed by expressing their own view on the appropriate stance of policy. For a clean read on that opinion, however, the Fed shouldn’t put its weight on the scale and should refrain from forward guidance.

We are relatively sure that Warsh currently sees the world as in the latter, flatter part of the policy terrain, where listening to markets makes more sense than leading them. Some of his colleagues probably view that area as more circumscribed, as witnessed by the sharing of their policy views in public. But those are their own views, as Warsh is not likely to send others in his stead to shape the message to markets given his sense of the Fed's appropriate place in the policy space, in my view.

NEWTON'S FIRST LAW

It appears that Warsh's preference to learn from markets rather than influence them also leads him to worry less about the fluctuations of high-frequency data. His short summary from the September press conference was: "Trends matter. Data points are noisy. Data dependence is a dangerous preoccupation."² However, even though he wants to dial back data dependence, he also seems comfortable with gradual 25-basis-point policy adjustments.

An eighteen-month economic outlook is unlikely to change in the six weeks between FOMC meetings, and a change significant enough to alter the policy direction is also unlikely to call for just one 25-basis-point adjustment. Once such an adjustment begins, momentum takes over. The result is Newtonian, as the first law of physics states that a body at rest stays at rest, and a body in motion stays in motion (unless acted upon by an outside force), which is why we believe that the Fed is likely to raise rates further this year. The inertial body is in motion.

SETTING THE PACE OF ACTION

We are less certain of how Warsh's medium-termism (a view of market conditions over the medium term — from the next several quarters to a couple of years) translates into the timing of decisions. He has asked the Committee to consider fewer regularly scheduled meetings. That would not necessarily mean fewer policy actions, but it would raise the institutional hurdle for frequent adjustments. As he said at his confirmation hearings, "Four is not enough," but it seems that eight may be too many.³

Forgoing action in October wouldn't halt the Fed's forward motion (as we expect the messaging to be forceful about returning inflation to goal), only establish its pace. At the very least, Warsh will likely head into the meeting with no firm plan to raise rates, although the "family discussion" at the meeting could tip the scales the other way. We're inclined to put the chances of action higher than currently in markets because action may help satisfy Warsh's desire to be an agent of change:

- Rate-increase policy reinforces his commitment to recover price stability;
- Unexpected action demonstrates that all meetings are live; and
- Delivers another blow to forward guidance from Fed officials.

We believe that medium-termism can win out and that action will likely be deferred to December, but we can't say for certain (and neither should you).



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Vincent is the firm's Chief Economist and Macro Strategist. In this role, he is responsible for developing views on the global economy and making relative value recommendations across global bond markets, currencies and sectors.

Previously, Vincent served as the Chief US Economist and a managing director at Morgan Stanley. For the prior four years, he was a resident scholar at the American Enterprise Institute (AEI). Vincent also spent 24 years at the Federal Reserve, holding several roles including Director of the Division of Monetary Affairs and Secretary and Economist of the Federal Open Market Committee (FOMC). His responsibilities at the Federal Reserve included directing research and analysis of monetary policy strategies and the conduct of policy through open market operations, discount window lending and reserve requirements. Prior to these roles, he was the principal liaison with the domestic desk at the Federal Reserve Bank of New York and was responsible for preparing a document outlining policy alternatives for each FOMC meeting. He was Deputy Director in the Division of International Finance and Associate Economist of the FOMC and spent five years at the Federal Reserve Bank of New York in both the domestic and international research departments.

His academic publications primarily concern the conduct of policy and issues related to the monetary transmission mechanism as well as an analysis of alternative auction techniques and Treasury debt management. After an undergraduate training at Fordham University, he received graduate degrees in economics at Columbia University.

Endnotes

1. F1 FederalReserve.gov, Transcript of Chairman Warsh's Press Conference, June 17, 2026.
2. FederalReserve.gov, September 15–16, 2026 FOMC Meeting, September 16, 2026.
3. rev.com, Warsh Confirmation Hearing, April 22, 2026.

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