

Key Takeaways:

- Kevin Warsh conducts first FOMC meeting as Chairman.
- Listening for tone of new Chairman.
- Worst inflation environment since Volcker.
- Getting back to the Fed's core responsibilities.
- No cuts expected as committee leans hawkish.

What to Look for at Warsh's First Fed Meeting

This week Kevin Warsh resides over his first Federal Open Market Committee (FOMC) meeting since taking over as Fed Chairman last month. He is the first person to be appointed Chairman who had left the committee and spent nearly 15 years in the private industry. He served as the youngest Fed Governor from 2006-2011 during the height of the Great Recession. This first meeting has added importance because it will be the first time we can get a feel for the tone of the new Chairman (hawk/dove/centrist), get his intentions on interest rate policy and his priorities in his first year as Chairman (e.g. balance sheet, transparency). In this weekly insights we explain the challenges the new Chairman faces, what we expect in the first few meetings and what to focus on in next week's meeting.

- **Most challenged Chairman since 1970s :** Kevin Warsh is coming into office with the headline Consumer Price Index rising 4.2% (YoY), this is the highest level of inflation for a new Chairman since Paul Volcker who served in the late 1970s and 1980s.

- **Balance sheet burden:** Warsh is taking over the largest Fed balance sheet of any new Fed Chairman. At \$6.7 trillion, it is \$2.2 trillion more than the record high balance sheet Powell was given in 2018. To put this in perspective it is larger than any of the G7 economies (ex U.S.).
- **Communication overhaul:** Warsh has been critical of the Fed's transparency, especially when it comes to dot plots and forward guidance. We expect changes to the communication from the committee's meetings and released projection materials to be outlined soon.
- **Is the Fed using the right data?** Warsh is also critical of the data that is used to measure inflation. He does not like the traditional core PCE Index as an inflation gauge. He prefers "trimmed averages" which can smooth out supply and geopolitical shocks. Currently, the Dallas Fed's trimmed mean CPI is significantly lower than the headline CPI (2.3% vs. 4.2%).

- **Back to basics:** At its core the FOMC's job is price stability and maximum employment. Warsh has been vocal about additional Fed focus in recent years that he does not believe belong at the Fed (e.g., climate change policy, DEI, fiscal policy, deficit financing and trade policy).

Bottom Line

While there are skeptics that believe Warsh will let politics interfere with monetary policy, we are not! In fact, Warsh has historically been a hawk who has disagreed with several measures taken in the past to keep monetary policy accommodative. In addition, the role of the Chairman is to gather opinions and come with one voice and most of his committee are hawks at this time. We think his first focus will be to address the current state of inflation, set a team to research if the appropriate measures on inflation are being used and discuss plans to shrink the balance sheet. We do not see a cut in the future and if inflation keeps trending higher, we expect a rate hike at his next two-day meeting (September).

Weekly Economic Recap –

Inflation remains problematic

The May reading on the Consumer Price Index came in as expected (+0.5% MoM), while the bulk of the increase was led by energy. However, when you exclude energy and food, prices rose 2.9% on a year over year basis. The largest concern is service prices. At the service level (excluding energy) prices rose at the fastest pace since September 2025.

Producer prices rose more than expected at the headline and core level. Higher energy costs pushed headline prices up 1.1% in May. Core prices (excluding food, energy and trade) rose 0.8% (MoM), the most since 2022. Core prices were led higher by financial services, airfare and healthcare.

The NFIB Small Business Optimism Index fell for the fourth time in the first five months of 2026. The majority of the weakness was in sentiment around hiring, earnings, inventories and credit conditions. In contrast, 36% of those surveyed expect to be raising selling prices and wages in the future.

The preliminary reading on the University of Michigan Consumer Sentiment Index showed that consumer confidence is trending higher in June. Both the main components (i.e., sentiment on current economic conditions and sentiment on future expectations) rose. Consumers are feeling more confident about their finances over the next year and business expectations.

Key Takeaways:

- Headline inflation driven by energy.
- Service prices are driving core inflation higher.
- Consumer confidence surprisingly moves higher.
- Global equities rise on peace optimism.
- Yields fall as oil prices plummet.
- Commodities driven lower by oil prices.

Weekly Market Recap –

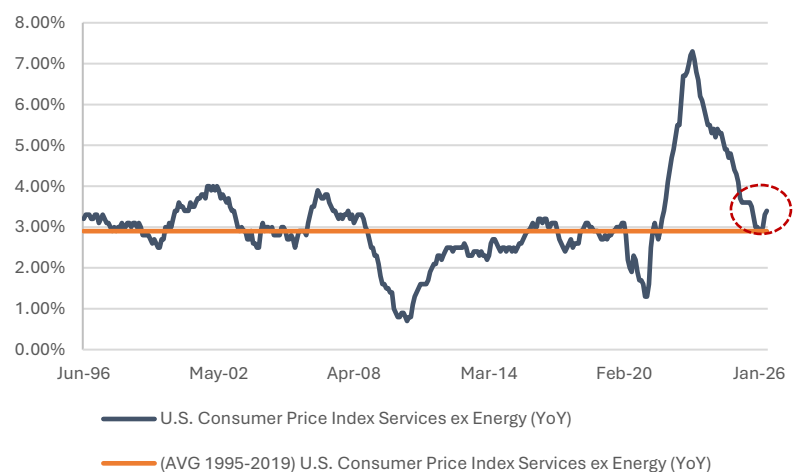
Global equities rise on hopes for a peace deal

Equities: The MSCI AC World Index rebounded last week as optimism around a deal between the U.S. and Iran grew. The gains were led by European equities which have lagged in recent months. Within the U.S., the gains were led by small and midcap stocks with value outpacing growth. The Russell 2000 posted its best week in eight weeks.

Fixed Income: The Bloomberg Aggregate Index rallied as a peace deal looked near and oil prices fell. In addition, while inflation is still higher than Fed officials want, it came in close to analyst expectations. Investment grade credit, high yield and emerging market bonds led the gains.

Commodities/FX: The Bloomberg Commodity Index fell for the fourth consecutive week as a peace deal looks promising and commodity prices declined. The bulk of the losses were led by crude oil which has entered bear market territory (a drop of 20% or more from its recent high).

Service Inflation Moving Higher



Footnotes: Data is as of May 2026.

Data Source: Bloomberg Finance LP, Verdenance Capital Advisors.

Global Equities Rise as Hopes for a Peace Deal Increased

U.S. Equities		Current	1WK	1MO	3MO	1YR	YTD	International Equities		Current	1WK	1MO	3MO	1YR	YTD
	Dow Jones Industrial Average	51,202	0.7%	3.2%	10.1%	21.2%	7.4%		MSCI AC World (USD)	1,112	0.6%	1.0%	10.9%	25.3%	10.4%
	S&P 500	7,431	0.7%	0.5%	11.7%	24.4%	9.1%		MSCI EAFE (USD)	3,103	1.0%	1.9%	7.1%	20.2%	8.9%
	Russell 1000 Growth	4,894	-0.8%	-1.3%	9.9%	19.1%	3.0%		MSCI Europe ex UK (USD)	3,443	2.1%	4.2%	9.1%	17.0%	7.4%
	Russell 1000 Value	2,377	2.5%	3.5%	13.3%	28.7%	15.7%		MSCI Japan (USD)	5,416	-1.6%	-0.6%	7.9%	29.8%	13.8%
	Russell 2500	5,161	4.0%	4.2%	18.5%	36.3%	20.0%		MSCI UK (USD)	1,672	1.2%	1.5%	3.0%	20.7%	7.3%
	Russell 2000	2,944	3.9%	3.7%	18.7%	39.4%	19.3%		MSCI EM (USD)	1,716	0.0%	1.3%	15.7%	45.3%	23.2%
	Nasdaq	25,889	0.7%	-0.7%	16.2%	32.5%	11.7%		MSCI Asia ex Japan (USD)	1,134	-0.5%	1.5%	17.3%	46.8%	25.0%
Fixed Income		Current Yield	1WK	1MO	3MO	1YR	YTD	Commodities		Current	1WK	1MO	3MO	1YR	YTD
	U.S. Aggregate	4.7%	0.5%	0.4%	0.4%	4.5%	0.3%		Bloomberg Commodity Index	331	-2.3%	-9.3%	-3.3%	30.3%	19.9%
	U.S. Govt/Credit	4.6%	0.5%	0.4%	0.4%	4.0%	0.2%		Crude Oil (USD/bbl)	\$80.2	-12.2%	-25.3%	-18.6%	7.2%	22.7%
	U.S. 10 Year Treasury	4.5%	0.6%	0.3%	-0.6%	3.5%	-0.7%		Gold (\$/oz)	\$4,219.3	0.4%	-4.2%	-13.1%	28.5%	0.7%
	U.S. TIPS (1-10YR)	4.3%	0.2%	-0.5%	0.4%	4.9%	1.4%		Copper	\$644.5	2.4%	4.0%	13.8%	35.1%	14.5%
	U.S. High Yield	7.1%	0.4%	0.6%	1.8%	7.0%	1.7%		Wheat	\$595.8	-2.1%	-10.2%	-8.5%	-7.2%	6.9%
	EM Bonds (USD)	6.0%	0.5%	0.7%	1.7%	8.7%	1.7%		U.S. Dollar	100	-0.5%	0.2%	-0.8%	1.4%	1.2%
	Municipal Bonds	3.6%	-0.1%	0.6%	0.9%	6.8%	1.6%		VIX Index	17.7	-17.8%	-1.7%	-35.2%	-1.9%	18.3%

Footnotes: Data is as of June 12, 2026.

Source: Bloomberg Finance LP, Verdenance Capital Advisors.

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