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Special Coverage: Hawkish stance from Warsh's FOMC surprises markets

Key takeaways

- The Fed kept rates unchanged at 3.50%–3.75% in a unanimous 12–0 vote. But Kevin Warsh's first meeting as Fed Chair delivered a clear shift in tone, with a stronger emphasis on inflation risks and less reliance on forward guidance.
- The FOMC is more divided than the market had anticipated, and the US dollar has risen on the resulting rate repricing. Warsh downplayed the precision of the dot plot, did not submit his own projection, and said that the 2%inflation target is not up for review until the Fed has re-established credibility in achieving it.

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- We continue to think the FOMC will hold the federal funds target range steady through 2026 and 2027, in line with most Fed members. In spite of the mild US equity weakness overnight, we maintain our bullish view, supported by resilient consumer spending, strong corporate balance sheets and continued investment in AI and infrastructure. In fixed income, we remain focused on income over capital gains, as prospects for rate cuts have declined even further. We prefer investment grade credit and selective emerging market debt, where still-attractive yields and limited near-term spread-widening catalysts support carry opportunities.

What happened?

- The Federal Reserve kept the federal funds target range unchanged at 3.50%–3.75%, marking the fourth straight meeting with rates on hold. The decision was unanimous, 12–0, with no dissents, a cleaner vote than the prior meeting.
- The meeting was also notable because it was Kevin Warsh's first FOMC meeting as Fed Chair. While the rate decision itself was unchanged, the tone of the meeting was materially different, with a stronger focus on price stability, less reliance on forward guidance, and a broader review of how the Fed conducts monetary policy.
- The main market-moving development was the hawkish shift in the dot plot. The median 2026 fed funds projection rose to roughly 3.75%, up from 3.4% in March. The 2027 median moved up to 3.6%, while the 2028 median rose to 3.4%. The longer-run estimate was unchanged at 3.1%.
- The updated dots showed a divided Committee, with officials split between holding rates steady and potentially raising rates again later this year. This shifted the market debate away from when the Fed may resume cutting and toward whether the Fed may need to tighten again if inflation remains elevated. In the updated dot plot, 9 of 18 officials projected a rate above the current midpoint by year-end, implying at least one rate hike in 2026. 8 officials projected no change, while 1 official projected a lower rate, implying a cut.

The Fed sees slightly slower growth but meaningfully higher inflation

Variable %	Summary of Economic Projections June 2026			
	2026	2027	2028	Longer run
Change in real GDP	2.2	2.3	2.2	2.0
March projection	2.4	2.3	2.1	2.0
Unemployment rate	4.3	4.3	4.2	4.2
March projection	4.4	4.3	4.2	4.2
PCE inflation	3.6	2.3	2.0	2.0
March projection	2.7	2.2	2.0	2.0
Core PCE inflation	3.3	2.5	2.1	
March projection	2.7	2.2	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	3.8	3.6	3.4	3.1
March projection	3.4	3.1	3.1	3.1

Source: Federal Reserve, HSBC Private Bank and Premier Wealth as at 17 June 2026. Forecasts are subject to change.

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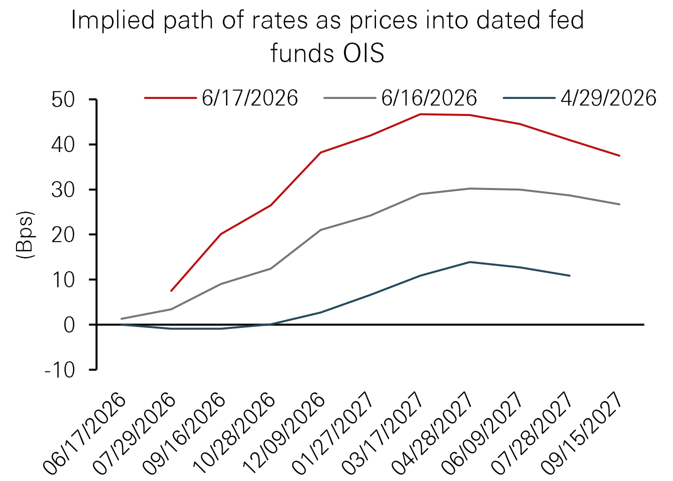
- Warsh pushed back against treating the dots as firm guidance. He said the projections were effectively submitted "with pencils" and "big erasers," meaning officials don't view them as fixed commitments if the data change. He also said he didn't hear a high level of conviction around the dots and reiterated that he personally didn't submit a projection, consistent with his long-standing concerns about the Summary of Economic Projections in its current form.
- Markets nevertheless interpreted the new dot plot as a clear hawkish shift, with traders moving to price in a higher probability of a 2026 hike and the September FOMC meeting moving back into play.
- The inflation message was the clearest shift in both the statement and Warsh's press conference. The FOMC said inflation "remains elevated" relative to its 2% goal, reflecting supply shocks that have driven price increases in certain sectors, including energy.

September rate hike back in play



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 17 June 2026. Forecasts are subject to change.

- Warsh emphasised that inflation has been running above the Fed's 2% objective for more than five years and that persistently high prices remain a burden for households.
- The Fed acknowledged that it can't control individual prices such as oil, eggs, beef, or milk. However, Warsh stressed that the Fed's job is to prevent those price shocks from broadening into the rest of the economy and creating second- and third-round inflation effects.
- This distinction matters because the Fed may look through some direct commodity shocks, but it's much less willing to tolerate signs that those shocks are feeding into broader inflation.
- Warsh said the Fed deliberately removed forward guidance in the June statement because it isn't well suited to the current environment. The Fed is no longer trying to guide markets toward a pre-set path and instead wants policy to be driven more directly by incoming data.
- Warsh also announced five new task forces focused on Fed communications, the balance sheet, data and measurement, productivity and jobs, and inflation frameworks. The task forces are expected to begin work in the coming weeks, provide early feedback in the fall, and largely conclude by year-end.
- The broader message is that Warsh is using the leadership transition to reassess how the Fed communicates, how it uses data, how it manages the balance sheet, and how it thinks about inflation.

Investment implications

- For equity investors, the US continues to stand out as a global equity leader, supported by earnings upgrades, resilient consumer spending, strong corporate balance sheets, and ongoing investment in AI and infrastructure. Projected earnings growth for this year and next remain in double-digit range and are accelerating from 2025 through 2027. We believe markets don't require the Fed to continue easing aggressively this year, as the underlying economy remains robust with corporate earnings continuing to see very solid growth.
- We remain overweight on US equities as the broader macro and earnings backdrop remains supportive. While higher energy prices and inflation risks warrant caution, there is limited evidence at this stage of a shift toward recession. We expect earnings resilience, AI-driven growth, and supportive macro conditions to continue to support US equities.
- In fixed income, the Middle East conflict keeps government bond volatility elevated and has increased cross-asset correlations, reducing the diversification qualities of bonds. Even with a durable ceasefire, developed markets yields may take time to come down, so we don't foresee meaningful capital gains in the near-term.
- Instead, we focus on coupon income, which is key as overall yields are generally appealing. In credit, we maintain a preference for investment grade and being selective on emerging markets debt to capture attractive carry. Corporate credit spreads have already tightened back to pre-conflict levels but near-term catalysts for meaningful widening appear limited. Overall, corporate bonds offer income at attractive levels thanks to multi-year high underlying rates.

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