MARKET SIGHT*LINES*

A New Chapter at the Fed: What Two Meetings Have Shown

By **Michael O'Keeffe, CFA**
Stifel's Chief Investment Officer

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In April, when Kevin Warsh was nominated to lead the Federal Reserve, **we wrote** that a Warsh Fed would likely offer less prepackaged forward guidance, asking investors to interpret inflation, growth, and policy in real time. Two meetings into his tenure – June and July – we can now look to see how things are unfolding. The shorter policy statement was substantively unchanged in July, forward guidance is gone, and the Chair declined to publish his own projections in June. The Fed recorded its first split vote under Warsh, longer-term Treasury yields have moved higher, and Warsh himself has shared how he thinks during the post-meeting press conferences. In this Sight|Lines, we review the transcripts of these two press conferences to learn those views, what that means for investors who must interpret more on their own, and what to watch at Jackson Hole later this month.

THE TAKEAWAY: A NEW COMMUNICATION FRAMEWORK IS TAKING HOLD AT THE FED

Chair Warsh has established more concise and direct communication at his first two meetings, while the Fed's internal debate during meetings is becoming more visible. In summary:

- The framework introduced in June has held – a shorter policy statement and no forward guidance.
- The **five task forces** reviewing the Fed's practices are staffed with deliberately differing views.
- June's unanimous decision evolved into a 9-3 vote in July, with three officials preferring a rate increase – a "family fight" Chair Warsh says he invited by design.
- During the July press conference, Chair Warsh shared more of his own reasoning, including the conditions that would lead him to raise or lower rates.
- The Fed's 2% inflation goal has been placed outside the scope of the reviews, softening a concern that a higher target may be proposed … and accepted.
- With less guidance from the Fed, investors may be demanding a higher term premium for the added uncertainty, contributing to higher longer-term Treasury yields.
- Some tough questions – like how artificial intelligence investment affects the economy's capacity, or whether the Fed's data is timely enough – will remain in focus.
- The August Jackson Hole Symposium and the September policy meeting will provide more insights.

IN-DEPTH: WARSH FAVORS LESS FORWARD GUIDANCE BUT COMMUNICATES OPENLY DURING PRESS CONFERENCES

Two Warsh press conferences provide some insights into how his new framework may work in practice. Going deeper:

- The communication approach Warsh introduced in June carried through in his second meeting:
  - The short June policy statement was little changed in July.
  - Chair Warsh held another post-meeting press conference and discussed his approach.
- **Five task forces** are reviewing the Fed's core practices, and that work is progressing:
  - The reviews span communications, the balance sheet, data, productivity and jobs, and inflation frameworks, with findings expected by year-end.
  - Each panel is staffed with differing views by design, and the Fed will remain the decision-maker on any changes.
- The Committee recorded its first split vote under Warsh, which he described as a "family fight" by design:
  - June's decision was unanimous, while July's was 9-3, with three officials preferring a rate increase.
  - Warsh's use of the term "family fight" signals he welcomes debate, both in the task forces and policy discussions, and he emphasized Fed officials agree on the objective – controlling inflation – but have different views on timing.
- In July, Warsh offered even more insight into his own reasoning than he did in June:
  - In June, he deferred several questions to the reviews; in July, he engaged directly on how policy works through credit, confidence, and currency channels.
  - He described a "reaction function" for policy change during periods of labor market equilibrium – tightening if underlying inflation rises and easing if it falls.
- Warsh has been clear that the 2% inflation objective is not up for debate, even with the task forces:
  - The June statement reinforced the Fed's commitment to meeting its target.
  - In July, Chair Warsh reinforced there is no soft or implicit target above 2%.
- As Warsh implements an approach with less forward guidance, he emphasizes the need to monitor market signals instead:
  - For example, Warsh highlighted the increase in longer-term Treasury yields during his press conference.
  - Pressure on the long end drew in the Treasury Department recently, as Secretary Bessent asked the Fed to expand a lending facility so Japan could defend the yen without selling its $1.14 trillion in Treasury holdings.
- Warsh offered comments about the challenges of gauging the economic impact of AI, from growth to inflation:
  - Spending on AI-related equipment and software grew by nearly 20% over four quarters, but Warsh noted the Fed can measure this investment while it must infer the boost to output.
  - While chip and AI infrastructure prices are rising, Warsh said he prefers to monitor a broad set of inflation data.
- The Kansas City Fed's Jackson Hole symposium in August is the next opportunity for Chair Warsh to share his thinking:
  - He's indicated he plans to check in with the task forces beforehand and may provide an update.
  - We expect Warsh to frame larger questions on productivity and demographics.

WHAT WE THINK

Kevin Warsh has chaired two Fed meetings so far, and the approach we anticipated in April is now visible in practice. The task forces represent a genuine effort to debate and consider reform. He has reinforced his preference for little forward guidance and is beginning to share how he suggests the Fed – and by extension investors – can interpret market data as an input to future Fed policy. This includes the idea of a "reaction function," where we may expect the Fed to tighten policy when underlying inflation rises and ease policy when it falls, provided the labor market is in equilibrium. But, as investors, we have more to learn on the current and future shifts in the Fed's approach, and we'll pay close attention to the Jackson Hole symposium and future Fed meetings.

Michael P. O'Keeffe, CFA
Chief Investment Officer
michael.okeeffe@stifel.com
StifelInsights.com

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