

# U.S. FOMC Review

- FOMC decision: in a unanimous decision, target range for the federal funds rate unchanged for the fourth consecutive meeting at 3-1/2 to 3-3/4 percent amid elevated inflation and stable labor-market conditions
- The statement: a dramatic departure from the previous iteration, providing little in the way of forward guidance
- Summary of Economic Projections: Warsh withholds input on rates; median expectation for 2026 now a rate increase, as the inflation outlook revised sharply higher
- Press conference: Chair Warsh signals a reappraisal of the Fed's modus operandi, reiterates unwavering commitment to price stability

**Lawrence Werther**  
lawrence.werther@us.daiwacm.com  
+1-212-612-6393

**Brendan Stuart**  
brendan.stuart@us.daiwacm.com  
+1-212-612-6172

## The June FOMC Meeting

Although the memorandum of understanding that emerged from ongoing negotiations between the U.S. and Iran has contributed to a rapid repricing in the cost of crude oil, the durability of the pact remains far from assured and thus uncertainty facing the economy remains high. Moreover, substantial easing in domestic gasoline prices is likely to lag significantly the drop in the spot price of crude oil, suggesting that second-round effects from elevated energy prices remain a concern even as topline risk from further (now likely to go unrealized) increases in gasoline prices diminishes. At the same time, the U.S. economy appears on track to realize 2.0+ percent growth in Q2 while the labor market continues to maintain a low-hire/low-fire equilibrium that has left the unemployment rate (4.3 percent as of May) only 0.1 percentage point above the longer run median from the June Summary of Economic Projections (an estimate we view as a reasonable proxy for the full-employment unemployment rate). Thus, absent a dramatic shift in circumstances since the April FOMC meeting (save the retreat in oil prices), the FOMC left unchanged the target range for the federal funds rate unchanged at 3-1/2 to 3-3/4 percent for the fourth consecutive meeting (and Chair Warsh's first at the helm of the central bank) – a result in line with near-unanimous market expectations.

While the latest policy action ultimately ratified market views, few anticipated the shift in the SEP's dot plot wherein nine of 18 participants submitting forecasts anticipated that the next move by the Committee would be a rate hike versus none previously (Mr. Warsh abstained from providing forecasts, a stark deviation from the precedence set by former Chairs Bernanke, Yellen, and Powell), or the dramatic reassessment of the Fed's approach announced at the press conference. Ultimately the Fed Chair reiterated the Committee's unwavering resolve to the price stability mandate – which he reconfirmed at 2 percent – but Mr. Warsh offered few hints on anticipated reforms beyond that he will be initiating task forces set to review key areas including: communication strategy, the balance sheet, current data sources, productivity and the labor force, and the current inflation framework.

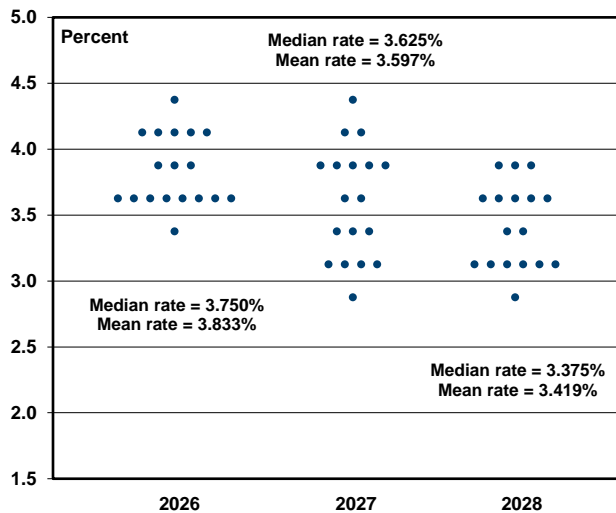
## The Statement

Suffice to say, the latest FOMC statement marked a radical departure from what market participants have grown accustomed to. Gone was forward guidance relied on for the formulation of views on the path of policy, as was any mention of the commitment to maximum employment (although it was mentioned during the Chairman's press conference). That which remained was simply a tally of the Committee vote; an indication of the policy rate; reaffirmation of maintaining an ample reserves framework; a terse assessment of inflation, productivity and investment, and the labor market; and an unambiguous commitment to the inflation mandate: "The Committee will deliver price stability." (Please see p.4 for a comparison of the new FOMC statement and the previous iteration. Given comments by Chairman Warsh, we strongly suspect that future releases, at least until a more thorough review of Fed practices, will more closely resemble today's statement.)

## The Summary of Economic Projections

The June 2026 iteration of the Summary of Economic Projections amended projections for the path of policy over the forecast horizon (table). Contrasting with the widely held pre-meeting view, the median projection for the federal funds rate in 2026 was adjusted higher to a midpoint of 3.750 percent, no longer indicating one cut of 25 basis points by year-end (versus 3.375 percent previously). Moreover, the outlook for 2027 and 2028 were adjusted higher by 50 and 25 basis points, respectively, to 3.625 and 3.375 percent (versus 3.125 percent for each previously). The longer-term median, meanwhile, was revised lower to 3.063 percent after climbing to 3.125 percent in the March SEP.

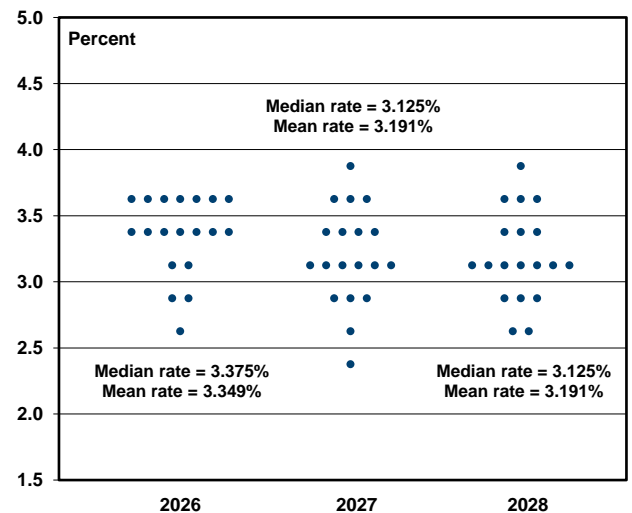
FOMC Rate View, June 2026\*



\* Each dot represents the expected federal funds rate of a Fed official at the end of the year.

Source: Federal Open Market Committee, Summary of Economic Projections, June 2026

FOMC Rate View, March 2026\*



\* Each dot represents the expected federal funds rate of a Fed official at the end of the year.

Source: Federal Open Market Committee, Summary of Economic Projections, March 2026

Other variables also were adjusted vis-à-vis March forecasts. Notably, those for inflation were revised substantially in the near-term on account of developments in the Middle East. The median projections for the headline and core price index for personal consumption expenditures were adjusted higher by 0.9 and 0.6 percentage point, respectively, for 2026 and by 0.1 and 0.3 percentage point for 2027. Projections for headline inflation in 2028 and the longer-term were unchanged from those in March. The core measure, however, saw a 0.1-percentage-point upward adjustment in 2028. Concurrently, expectations for GDP growth were revised lower in 2026 and upward in 2028. In addition, outside of a marginal shift in 2026, views on the unemployment rate were little changed.

## Economic Projections of the FOMC, June 2026\*

	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>Longer Run</u>
<b>Change in Real GDP</b>	2.2	2.3	2.2	2.0
<b>Mar. projection</b>	2.4	2.3	2.1	2.0
<b>Unemployment Rate</b>	4.3	4.3	4.2	4.2
<b>Mar. projection</b>	4.4	4.3	4.2	4.2
<b>PCE Inflation</b>	3.6	2.3	2.0	2.0
<b>Mar. projection</b>	2.7	2.2	2.0	2.0
<b>Core PCE Inflation</b>	3.3	2.5	2.1	--
<b>Mar. projection</b>	2.7	2.2	2.0	--
<b>Federal Funds Rate</b>	3.8	3.6	3.4	3.1
<b>Mar. projection</b>	3.4	3.1	3.1	3.1

\* Median projections

Source: Federal Open Market Committee, Summary of Economic Projections, June 2026

## Daiwa's View

Events today signal that Chairman Warsh is plotting a new path forward for the conduct of monetary policy. He reaffirmed the Federal Reserve's commitment to dual mandate objectives but indicated a top-down reconsideration of how officials will gather, assimilate, and act on salient data. Moreover, he abandoned previous procedures of offering forward guidance on the path of rates – and possibly foreshadowed an end to the current permutation of the SEP and dot plot by refraining from providing forecasts while also questioning their utility. Further, Mr. Warsh appeared content with market volatility, refusing a reporter's request to opine on the 2-year note and a broader move in yields in response to the Committee's hawkish stance. Indeed, he noted: "We've given markets a new chapter for the central bank." With that said, we will refrain at this time from pivoting away from our current call for another rate cut of 25 basis points at the final meeting of 2026 in December (year-end midpoint of 3.375 percent), with an additional same-sized reduction at the March 2027 gathering (year-end 2027 midpoint of 3.125 percent, and expected cycle low). We are sympathetic to the Committee's vigilance with respect to above-target inflation, but we remain hopeful that previous price pressure from tariffs will continue to fade over time – and that the spurt in energy prices from the Iran war will prove transient. On the point, we have observed modest evidence (at most) of dissemination of higher energy costs through to other prices (except perhaps airfares). At the same time, the labor market is in balance, and wage growth continues to decelerate. Moreover, while layoffs are contained currently, we suspect that household demand was dented by the jump in energy costs, and could moderate further as the tailwind from payment of 2025 tax refunds fades in the months ahead. That expected easing in demand could have feedback effects on the corporate sector, where hiring is already narrowly based, and could contribute to a pickup in layoffs later this year. Those developments, if realized, do not undercut our primary thesis that the U.S. could continue on a solid growth trajectory over the next few years, but they would perhaps paint the hawkish pivot of the Committee as unnecessary and again open the door to additional modest policy easing in support of the labor market. To that end, Mr. Warsh responded to a question on the dot plot by indicating that "colleagues understand that the world is changing quickly," and he suggested that the utility of the forecasts has a very limited shelf life. The outlook for monetary policy remains highly uncertain at the current juncture, and it now appears less likely than before that the FOMC will provide clues on how to assess incoming data in the context of the outlook for interest rates.

## FOMC Statement Comparison

### June 17, 2026 FOMC Statement

The Federal Open Market Committee approved the following statement for release by a 12 – 0 vote:

The Committee decided to maintain the target range for the federal funds rate at 3-1/2 to 3-3/4 percent, in support of the Federal Reserve's dual mandate. The Committee reaffirmed its policy of maintaining ample reserves in the banking system.

Economic activity is expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East. Productivity growth and capital investment are strong. Job gains have kept pace with the workforce, and the unemployment rate has changed little.

Inflation remains elevated relative to the Committee's 2 percent goal, in part reflecting supply shocks that have driven price increases in certain sectors, including energy. The Committee will deliver price stability.

### April 29, 2026 FOMC Statement

Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained low, on average, and the unemployment rate has been little changed in recent months. Inflation is elevated, in part reflecting the recent increase in global energy prices.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Developments in the Middle East are contributing to a high level of uncertainty about the economic outlook. The Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 3-1/2 to 3-3/4 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Lisa D. Cook; Philip N. Jefferson; Anna Paulson; and Christopher J. Waller. Voting against this action were Stephen I. Miran, who preferred to lower the target range for the federal funds rate by 1/4 percentage point at this meeting; and Beth M. Hammack, Neel Kashkari, and Lorie K. Logan, who supported maintaining the target range for the federal funds rate but did not support inclusion of an easing bias in the statement at this time.

Sources: Federal Open Market Committee; Daiwa Capital Markets America