(UBS)

Will the Fed’s favorite inflation gauge add to hiking worries?

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New Federal Reserve Chair Kevin Warsh gave markets plenty to digest at his debut policy meeting, including a more hawkish tone, a more streamlined communications approach, and the promise of broader changes to how the central bank operates.

Although the Fed kept rates unchanged, the committee’s statement removed the earlier easing bias. Warsh noted that inflation had exceeded the Fed’s target for five years and described persistently high prices as a burden for households. And finally, the dot plot also shifted in a more hawkish direction, with roughly half of officials anticipating at least one rate increase before year-end. Markets responded accordingly, with 2-year yields rising and investors moving to fully price a rate hike at the October meeting.

This week, investors will be looking for indications of whether inflation data confirms the Fed’s more hawkish tone. The May personal consumption expenditures price index will be the key test, as the Jerome Powell era Fed’s preferred inflation gauge. Investors will focus especially on core inflation for evidence that price pressures are moderating despite earlier energy shocks. Finally, markets will be on the alert for clues regarding longer-term shifts in Fed policy—including on issues such as the central bank's balance sheet and proposals to update economic indicators—from Warsh's pick of staff for various task forces.

Our view is that the Fed pivot is not as hawkish as it first appears. A durable reopening of the Strait of Hormuz would reduce the risk of a sustained energy-driven acceleration in inflation, and the dot plot could begin to reflect this improved outlook in the coming meetings. Many of the more hawkish projections also appear to have come from non-

voting officials. And the task-force process may make the Fed reluctant to move rates again until findings are released toward the end of the year. Our base case is that the Fed remains on hold for the rest of the year and resumes easing in early 2027. We think markets are pricing in too much tightening from the Fed and other major central banks. Against this backdrop, we recommend locking in attractive yields in quality short- and medium-duration bonds.

Original report – **Weekly Global: What to watch in the week ahead, 22 June 2026.**

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