

Contributors

Derek Holt

VP & Head of Capital Markets Economics
 Scotiabank Economics
 416.863.7707
derek.holt@scotiabank.com

FOMC Recap — Markets Lost a Friend Today

- FOMC leaves policy rate at 3.75% and balance sheet unchanged
- Warsh boycotted forward guidance, but the FOMC is split 50–50 on hiking in 2026...
- ...after which the most hawkish District Presidents lose their votes
- Uncertainty was added to short-dated Treasury purchases, adding to flattening
- Five taskforces were established and are to report findings by year-end
- Growth was revised down, inflation up
- Bond yields soared, stocks dropped and the dollar rallied
- The Fed exported its inflation problem to other central banks, including the BoC
- Consumer frailties and waiting for taskforces could set a high bar against hiking
- It's unclear if Warsh sought the market reaction, is buying time, or learning the ropes

While it will be difficult to separate intent from unintended consequences perhaps to be revisited in subsequent communications, Kevin Warsh's grand entrance drove the bond market to rebel, pushed stocks lower and drove a stronger dollar. Gone is the steady hand on the tiller that avoids game day surprises. Either a deliberately new hawkish and more volatile era is upon us, or a hawkish bias for now is designed to establish initial credibility and buy time before five announced taskforces report back, or the Chair is learning on the job from a run of sixteen years spent critiquing the one who holds the chair. This is a seminal moment for the Federal Reserve which makes forecasting its future moves all the more challenging.

Whatever the outcome, I rather welcome his spirited research agenda that could bear welcome fruit by year-end. My bias remains that there is a high bar to trigger a rate hike even as markets moved to price one as soon as October and that the purpose of the agenda that Warsh launched is to buy time toward a fresh way of approaching matters that directly or indirectly impact core matters in the conduct and implementation of monetary policy. His aversion to pre-judging meetings and policy actions would be incongruent to not allowing the five announced taskforces to complete their work.

Charts 1–4 depict the intraday moves across market benchmarks. The initial communications at 2pmET and the initial market reaction largely met my expectations, but

Chart 1

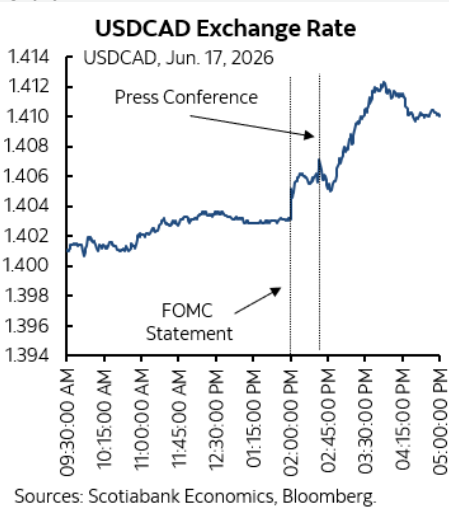


Chart 2

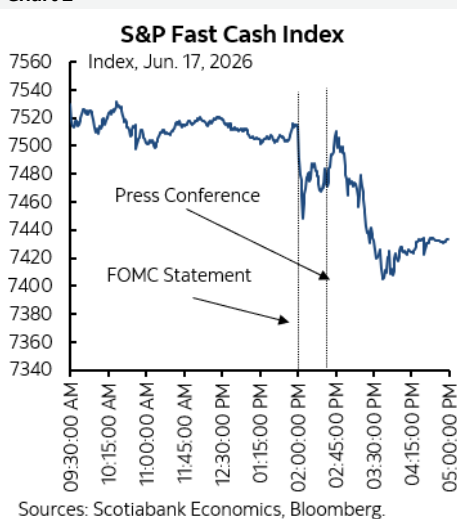


Chart 3

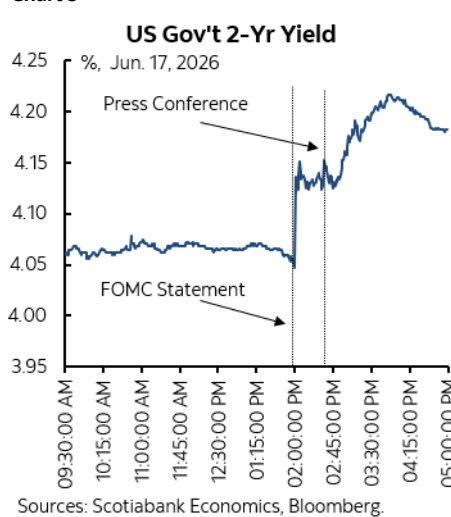
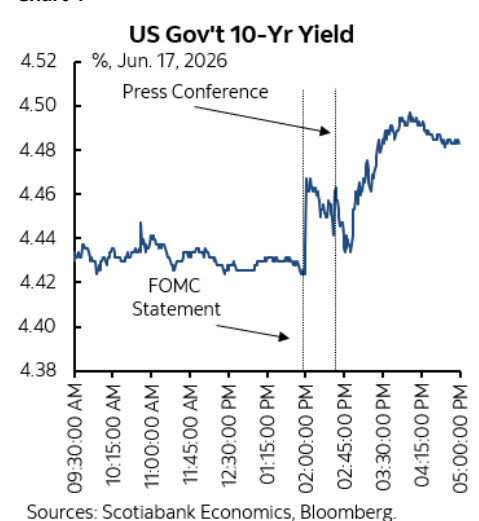


Chart 4



Warsh's press conference unexpectedly heaped further fuel on the fire at least for now.

The strong dollar impulse in response to the overall communications could be problematic to other central banks if it persists. That includes the BoC as USDCAD punches through 1.41, and hence potentially adding more to nearer-term import price pressures. In essence, the Fed is exporting its inflation problem onto others.

The fact CAD is a middle of the pack post-Fed performer relative to other crosses suggests it fell because of the Fed and not because of Trump's USMCA comments during Warsh's press conference that probably lack credibility.

STATEMENT CHANGES

Many Fed watchers wouldn't remember a statement marked by such brevity. The short statement offers little by way of being able to do statement comparisons to the prior version. See the last page for such an attempt.

Statement codifying in strongly affirmative language that "The Committee will deliver price stability" was the most meaningful part.

The fact it was unanimous versus the four dissenters in Powell's last meeting was also meaningful by way of Warsh's consensus building skills. That's important to keep in mind in that his overall objective today was perhaps to start with Committee members onside as he embarks upon a change mandate that could bring meaningful divisions in future. This is part of why some of the market reaction should be taken with a grain of salt.

DOTS

Chart 5 shows how the individual Committee participants expect the policy rate to evolve along with the median call and market measures.

Chair Warsh openly noted that he did not submit forecasts—because he does not believe in forward guidance—but encouraged others to continue to do so. He noted that providing forward guidance is "not well suited to the current policy juncture."

There is one missing 'dot' for this year's forward rate guidance and next year, and two missing for 2028.

The median projection for the year-end policy rate moved up by over a quarter point from 3.375% as the midpoint of the target range to 3.75%, or +38bps. The mode, however, remains at an unchanged level to the current policy rate with 8 Committee participants expecting a hold, one a cut, three a 25bps hike, five expecting 50bps of hikes and one expecting 75bps of hikes.

The median dot for next year moved up 50bps, implying a full two hikes into next year including the one for this year. There is wide dispersion across the dots in 2027.

The Committee foresees a cut in 2028 and then a move toward an unchanged longer-run neutral rate range of 3–3.25%. The dots are once again highly dispersed in 2028. As for the longer-run, the mode is clearly a neutral rate of 3% but from there the opinions are scattered.

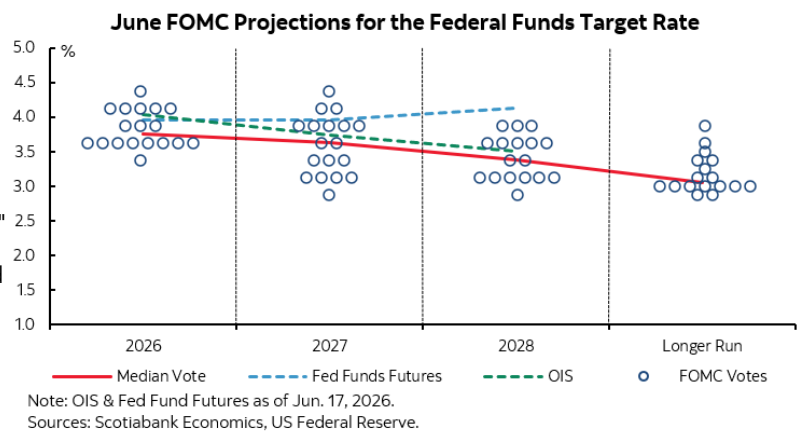
As always, treat the dots as unweighted opinions unburdened by actual voting status for all of them. I suspect that several of the top dots calling for the most hawkish response will lose their votes after December and were likely the three dissenting District Presidents in the last statement.

In any event, the dots are of very limited use. History tends to show that they become more useful in-year when you get to September, not June. Right now there is too much uncertainty. See my weekly for charts tracking the historical performance of the median rate projection of the Committee members against what they actually do by individual time frame.

PRICE STABILITY WARNING

In reference to the fact that inflation has been overshooting the Fed's mandate for the past five years, Warsh noted that "the recent past may not be prologue" and then strongly emphasized the price stability mission. Markets accelerated the sell off in the front-end of the Treasury market in response by taking it as a clearer warning sign that higher rates could soon be delivered.

Chart 5



FIVE TASKFORCES ESTABLISHED

Chair Warsh announced the creation of five taskforces along the following topical lines:

1. Fed communications.
2. Fed's balance sheet.
3. Our use and reliance upon existing data sources.
4. productivity and jobs.
5. The Fed's inflation frameworks.

I would encourage readers to review the summarized Q&A from the press conference for further insights on these taskforces. I had expected some of them but noteworthy is that they are not just internal subcommittees as they will include outside subject matter experts.

He noted that each area is “worthy of a fresh look” and that each independent taskforce would enlist the “very best minds inside and outside” the Fed. Their mandates would be to consider alternatives, propose next steps, and examine current practices. He noted they could offer recommendations to change any aspects of communicating including the Summary of Economic Projections. They are to explore the benefits and risks of the ample reserves regime and the composition of balance sheet. Further, the taskforces would evaluate new information sources and consider methodological changes. The one tasked with productivity and jobs would survey the pace, reach and impact of general purpose technologies including AI and explore the implications for the Fed.

On #5, Warsh ruled out changing the 2% inflation target but left open other avenues for exploring price stability.

PROJECTIONS—WEAKER GROWTH, MORE INFLATION, LESS UNEMPLOYMENT

Growth was revised down this year but remains higher than our projection, while the Committee’s median projection left growth unchanged in 2027 and a little higher than we forecast (chart 6). Longer-run growth remains estimated at a 2.0% pace.

The Committee’s median unemployment rate projection was little changed across all horizons with only 2026 edging down a tick (chart 7).

The Committee’s core PCE inflation projection was revised sharply higher for this year and higher for next year but remains a bit below our forecast (charts 8–9).

There are notably wide brackets around the Committee’s projections for PCE and core PCE inflation this year and next, as well as for GDP growth next year. Interestingly they appear to feel more confident toward how the unemployment rate may evolve.

BALANCE SHEET

Page two of the statement titled “Decisions Regarding Monetary Policy Implementation” changed the language around instructions provided to the New York Federal Reserve on balance sheet management.

Chart 6
US Real GDP Forecast Comparison

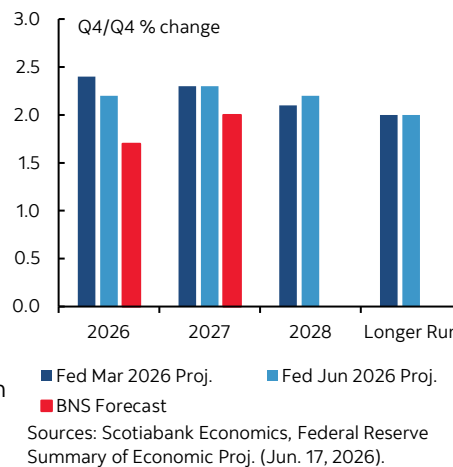


Chart 7
US Unemployment Rate Forecast Comparison

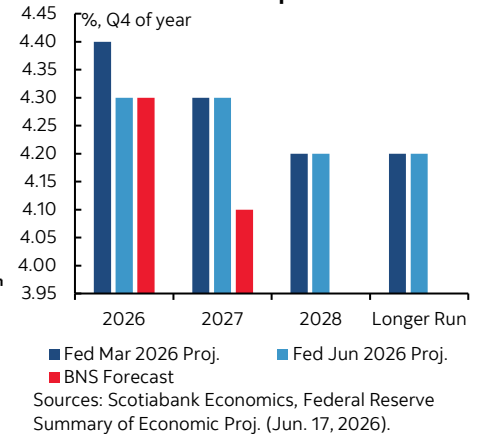


Chart 8
US PCE Inflation Forecast Comparison

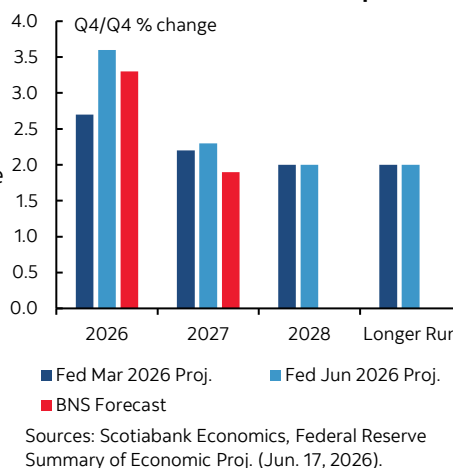
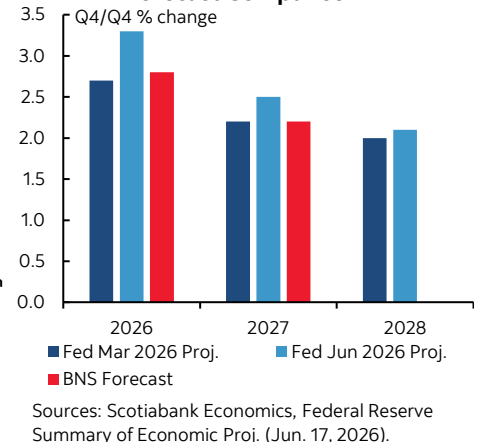


Chart 9
US Core PCE Inflation Forecast Comparison



June 17, 2026

Previously, the implementation note directed the Open Market Desk at the New York Fed to purchase bills and, if needed, other Treasury securities with remaining maturities of 3 years or less and the Fed had indicated last week it would buy US\$10 billion of bills over June and July. Now the language says they are to do this “when appropriate” which makes purchases more conditional and with more latitude and uncertainty. That could have contributed to some of the front-end sell off in addition to concern about the outlook for the policy rate.

The insertion of the ample reserves remark into the statement itself could be something, or it could be nothing. Technically who wouldn't support ample reserves?? Key is defining it. Inserting it could be a sign of a vibrant debate forthcoming in the minutes 3 weeks hence on balance sheet policy given Warsh's prior views versus the Committee's.

PRESS CONFERENCE TRANSCRIPT

While the statement was brief, the press conference was not. What follows is an attempt at providing a written copy of the Q&A part of the press conference. Any errors or omissions are my own doing.

Q1. What is the timeline you have in mind for each of these taskforces?

A1. Depends on the taskforce and the urgency of which we need answers. My expectation is they will begin work in the next couple of weeks and we'll start to get information by the Fall and most if not all concluding by year-end.

Q2. Does this include a review of the 2% inflation target?

A2. The review is what are the drivers of inflation and how do we measure it while overlapping the data taskforce. 2% is the long held goal and I see no reason to revisit that which will be outside of the scope of what we are taking on.

Q3. How patient can the Fed be waiting for inflation to pass through? Under what circumstances would you consider raising rates?

A3. We have the capability and commitment to deliver 2% and that's exactly what we're going to do. Inflation is a choice primarily determined by monetary policy. We've dropped forward guidance because at this moment and time some think now is not the time to consider providing forward guidance. I can't give you any forward guidance about what we're going to be doing next.

Q4. How restrictive do you think things are now?

A4. It's uneven. Fed policy is not the single determinant of the housing market but there Fed policy appears to be somewhat restrictive. I would have a hard time saying that about financial markets. I'd say it's uneven.

Q5. 9 members suggested they want a rate increase by the end of the year and the markets have responded. What does this mean about the future of the dot plot and how you interpret this?

A5. We've got a taskforce for that. When I saw the submissions, all of them were coming in with pencils, the kind with big erasers. My colleagues understand that the world is changing rapidly. What I heard around the table as they submitted their modal forecast it was expressed as more likely than their other scenarios with the kind of humility that I think we should have. I suspect by year-end there will be a review of communications broadly, press conferences, dots, meetings, transcripts, minutes. I'm pretty open-minded about what they could be.

Q6. What is your feeling about these news conferences? One after every meeting? Are they useful?

A6. Press conferences can be a very useful way to communicate more broadly. When you have one, you want to make sure you have something important to say and I think we had something important to say today.

Q7. How do you see inflation in the long-term? Mainly driven by energy prices and the Iran war or underlying pressures?

A7. I can't do much better than the Committee put it in our statement. We've missed important emphasis upon price stability for five years and it's time to fix that

Q8. Is there data you feel is not given enough weight? You've mentioned trimmed mean. What examples of data may be given more weight?

A8. I don't want to pre-judge the outcome. Most of the data we consume comes from old-fashioned survey methods. Response rates, outdated types of questions etc within existing statistics could be reviewed with new analytical methods. Real-time information telling us what is happening in that very moment is what we're really interested in. We need to take those error bounds down to make decisions in real time. There are a lot of new data sources and analytic techniques that we can explore.

Q9. Will markets have more volatility in the absence of forward guidance? Will we have more access to you?

A9. Markets perform better when they look objectively at data rather than at what they think the Fed may think of data. When all the financial markets are doing is reflecting back what we said then we're losing an important piece of information. We lose a signal.

Q10. Was there any discussion of a rate cut going forward?

A10. There was one proposal. The discussion on that proposal was quite limited. There was only one big subject on us and we had a good family fight on it and ended up in a better place.

Q11. Why didn't you raise rates today considering what you are saying here about risks to inflation and your mandate? What would you need to see to get to that place? Are there best practices across other central banks you would emulate?

A11. Referred to the statement about the first two. Said the best practices would be the subject of the taskforces.

Q12. The two-year yield signals a need for higher rates, is there what you think is a fair interpretation?

A12. Deflected. Committed to asking hard questions in the taskforces.

Q13. How would you explain forward guidance being gone to the public?

A13. I would say we cannot have a very significant effect on particular prices. But we do have a really important job to make sure that those changes broaden and have second and third order effects. We're going to deliver on it.

Q14. Is the relationship with the Treasury under review? Will you speak regularly with the Treasury Secretary? Have you spoken with the President?

A15. The Treasury Secretary has posted pictures of breakfasts with me. Our role is quite delineated from the Treasury. We're independent but that doesn't mean we're disinterested in the fiscal picture. We need to have a wide lens but a narrow remit.

Q15. You have said productivity is a reason why the Fed could lower interest rates. Do you still think this?

A15. We had a discussion on AI and related tech. It is perhaps as important a source of change in my lifetime with huge opportunities and risks. AI is shorthand for American ingenuity which doesn't mean it will be easy. Over the long term my conviction is the US is going to be a winner and ultimately be a winner. The implications for nearer term policy are the subject of the taskforce.

Q16. Do you see the fed funds rate as being restrictive?

A16. What matters is the effect of policy and the best answer I can give is its uneven. I don't believe we have a cruel choice that Chairmen say you have to choose higher inflation to put more people at work. If we do our job, we can make strong growth, low prices and strong employment mutually compatible. What you heard from us is that we have some work to do on the price stability front.

Q17. If credibility requires deliverability then you would need to tighten today. Why didn't you?

A17. That judgement was not expressed by anyone today. We'll meet again in six weeks.

Q18. Is AI adding more to demand or supply?

A18. We can see effects on demand. We infer effects on supply. Just because we can count one more than the other doesn't mean we're going to favour it. Data centers, for example, show up in GDP figures. We can only infer effects on supply. There is a race between supply and demand. We have a taskforce for that.

Q19. Data question.

A19. If in the course of this we come up with recommendations about what other agencies producing the data can do then we won't hesitate to make suggestions. New analytical tools made possible by AI are among the options.

Q20. Are you considering any changes to the building renovations?

A20. I've had one meeting with the Inspector General who will be coming out with a report on the projects at some point later this summer. I'll be interested in reading it.

Q21. In the SEP, is all of the rise in inflation projections due to the Iran war?

A21. Half of my colleagues thought the policy rate should be at this level or lower and the other half thought higher. There is a range of views on first- or second-round effects. No resolution, but I think we'll know more in six weeks and my colleagues are very attentive to developments between now and then.

Q22. What is the benefit of the Committee submitting forecasts when you don't?

A22. That's the commitment of the Committee. By the end of this year I wouldn't be surprised if there were changes to the framework including the SEP. I don't want to pre-judge what those are but between now and then I would continue to recommend they submit their projections. [ed. so dots to last at least to September, then we'll see]

Q23. What are the conditions around when you think the Fed should respond?

A23. My view is we deliver upon what we say we're going to do across everything we do. When we deliver upon our price stability Americans will see these inflation challenges in the rearview mirror.

Q24. How would you view the state of the labour market? Stable or a source of inflation?

A24. The Committee thought it was stable. Some thought it was doing better than that. The jobs data is moving in a good direction. Strong productivity-led growth is something we embrace.

WHERE TO FROM HERE?

I'm sceptical toward the hike case and haven't shut the door on the next move potentially being down but not for some time.

The policy rate is somewhat restrictive, by contrast to the ECB and Bank of Canada for two examples.

On jobs, let's see how they respond to the commodity and war shock over H2 after FIFA hiring drops out, let's see the annual benchmarking revisions to nonfarm payrolls in September about a week before the FOMC meeting, and let's see what the Committee sees by way of potential effects from AI.

On inflation, a potential shift toward trimmed measures of inflation could weed out much of the rising pressures on traditional core PCE inflation. This could be viewed as more of a relative price shock than generalized inflation that we had in the pandemic. Let's see what taskforce #5 says.

And on growth, key will be the US consumer. There has been no growth in inflation-adjusted personal disposable income for quite a while now (chart 10). Q2 looks to be worsening this effect (chart 11). Americans are responding to weak incomes and rising price pressures by saving less amid disappointing tax refunds (charts 12, 13). There is a limit to how much further the saving rate can serve as a shock absorber before consumers balk at paying higher prices. That could be rather limiting to second round effects. Apple's announced price hikes after markets shut could take note.

Chart 10

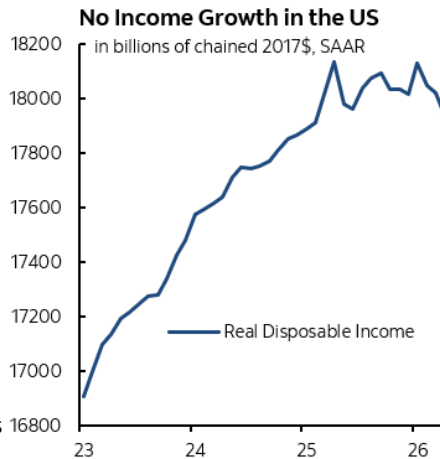


Chart 11

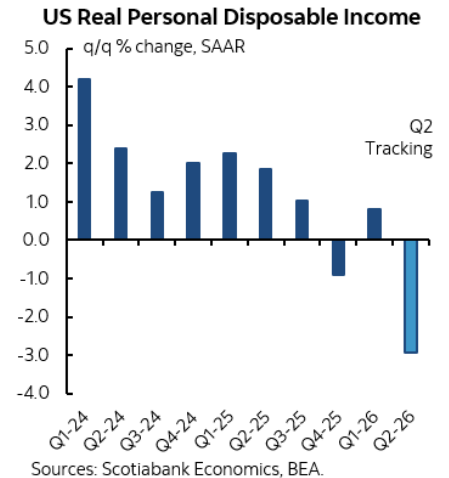
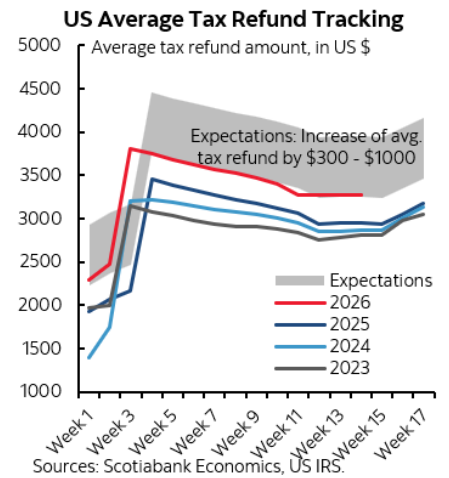


Chart 12



Chart 13



June 17, 2026

RELEASE DATE: June 17, 2026

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.

RELEASE DATE: April 29, 2026

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.**

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