

Flash Macro Update

U.S. FOMC | June 2026



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What You Need to Know

1 How are we thinking about the June FOMC meeting?

Fed Chair Kevin Warsh concluded his inaugural FOMC meeting and delivered his first press conference on Wednesday. The Dot Plots dismissal, the installation of task forces to review Fed procedures, and his overall comments all tilted more hawkish, which will likely create more bond market uncertainty in the near-term. Simply stated, Warsh did not deliver any new 'legislation,' but instead called for what we view as a 'constitutional convention' on the essential frameworks and work processes of the Federal Reserve.

Looking at the big picture, we see the June Fed meeting as: 1) an important potential turning point, where the Chair seeks to attack the *Regime Change* that we identified coming out of COVID when the U.S. economy appeared poised to endure a higher resting heart rate for inflation (he further mentioned the Fed missing its mandate multiple times as well as a commitment to price stability); and 2) a throwback to a more Greenspan-style Fed Chair relative to Yellen and Powell, both of whom favored more market communication and direction.

In terms of where we go from here, however, Chair Warsh did buy himself some time to engineer the remake of the Fed by convening five task forces to address five key areas of Fed operation. See below for details, but the essence of these task forces is to address what the Chair views as a broad loss of confidence across markets and the general public and in the Fed's ability to deliver price stability. Said differently, he is attuned to the key elements of our *Regime Change* framework, which envisions inflation running slightly but persistently above the Fed's 2% mandate, and seeks to fundamentally 'bend the curve' of expectations back towards mandate-consistent inflation.

Warsh appears to want to use the markets and private inputs more to interpret data and trends, versus having the Fed comment on a select amount of 'old' government-surveyed data to guide the forward path of inflation and rate expectations. In terms of where the data are leading him today, he seems to have gravitated away from a pre-confirmation inclination to view rates as restrictive, now viewing the evidence as 'uneven.' Importantly, this is in-line with our *Divergence Conundrum* thesis, which we rolled out with our [Mid-Year Outlook](#) in early June. On the one hand, he pointed to housing as an area where rates seem clearly restrictive. On the other hand, he commented that "it's tough to say that for anywhere else."

Overall, Chair Warsh's latest thinking sounded surprisingly hawkish to our ears, as we are seeing multiple areas in the economy beyond housing where rates are exerting restrictive influence. This includes business and household credit utilization, as well as consumer goods spending. Meanwhile, if there was any dovish tilt to the Chair's views, it was in his comment that he tends to measure inflation "to the left of the decimal," suggesting that inflation as high as 2.49% could be viewed as mandate-consistent. We definitely want to spend more time learning more about this suggestion.

Beyond the Chair's direct commentary, the biggest needle movers of this meeting were changes to the Fed's SEP, or Summary of Economic Projections, and the Dot Plot, which showed the Committee has become significantly more focused on inflation risks, with multiple mentions of inflation and price stability and only one on unemployment. The Committee now skews towards a mild hiking bias in 2026, with participants evenly split between no hikes and one or more hikes.

While there will be a lot to digest from this meeting, we largely view it as highly consistent with our frameworks and forecasts. In many ways, the working groups Chair Warsh is convening are designed to address the *Divergence Conundrum* we addressed in our [Mid-Year Outlook](#) between economic hot spots, including AI capex, high-end consumers, the Security of Everything, and soft spots, including the middle- and lower-income consumer, old economy capex, affordability, and soft credit utilization.

In terms of interest rates, we maintain: 1) our base case that the Fed stays on hold through mid-2027, but with the balance of risks tilted in the near term towards a hike or two if the economy and inflation do not slow by year-end; and 2) that 10-year yields are likely to remain elevated, with a 4.75% 2026e target and a 4.25% 2027e target, until hike risks are much more clearly off the table. Importantly, we see the potential for hikes as reflecting not just the inflation backdrop, but also roaring productivity and rekindling jobs.

What Do We Think This Means for Markets?

The statement was mostly hawkish:

Hawkish: The new press release from the Fed was really short, which represents a major break from the Powell regime. Shorter commentary likely means greater rate volatility.

Hawkish: The Committee stated that it "will deliver price stability," while nine members now project hikes by June versus zero in March. Only one member now projects a cut by June, versus 12 members in March.

Hawkish: Inflation forecasts were raised for 2026 and 2027. See *Exhibit 1* for details, but the Fed ratcheted up its Core PCE inflation forecasts to 3.3% for 2026, from 2.7% previously, and 2.5% for 2027, from 2.2% previously.

Dovish: The Committee reaffirmed its policy of maintaining ample reserves in the banking system. So, no major shift to the balance sheet today.

Importantly, this was not a baton hand-off. This is a substantial shift in the role and tools of the Fed.

Warsh is heavily weighting the input from the five task forces he has organized, which also buys him some time before he actually has to make a decision on rates. These task forces will focus on Fed communication, the role and use of the balance sheet, the use of data gathering, productivity and jobs in a transformational economy, and inflation, including delivering price stability in a changing economy. Our base view is that this type of focus on the data is long overdue, as our KKR portfolio companies likely submit more accurate

near-term data than what we are currently seeing from the U.S. Bureau of Labor Statistics in many instances.

On the communication front, changes are coming too.

Chair Warsh is definitely in the camp of less information rather than more. Importantly, he reconfirmed his belief that he wants markets to pay more attention to data, not how the Fed interprets the data. He went on to say that financial markets are the best source of information to judge what policy should be.

We think Chair Warsh may be buying himself some time with the task forces,

but he definitely committed to price stability. During his press conference, Warsh way over-indexed to inflation versus employment. So, while he is retaining the dual mandate, the near-term focus is much more on inflation levels than employment. Interestingly, he said that he watches the headline on inflation “left of the decimal point.” Said differently, he inferred that he is okay with inflation at 2% plus or minus, but we will need to watch this space closely for more direction.

He is a productivity bull. He said productivity is not to be feared. He also talked about the importance of AI and watching both demand and supply, which suggests to us, and we agree, that there is a slope to the arc of AI. Specifically, near term it is inflationary as demand exceeds supply, but over time supply should match demand and drive inflationary pressures down.

Bigger picture, KKR’s Divergence Conundrum thesis is gaining momentum. Indeed, a traditional macro framework assumes the economy moves together: growth up, inflation down, rates lower, risk assets higher. What both the KKR *Divergence Conundrum* framework and some of the recent central-bank commentary are acknowledging is that the world is increasingly producing conflicting signals simultaneously:

- **Bank of Canada:** Weak growth, but at the same time, sticky inflation. Tiff Macklem, the central bank governor, called it a ‘dilemma.’
- **Warsh/Fed:** Strong productivity potential but persistent inflation risk.
- **Markets:** Narrow leadership but broad economic resilience.

- **Geopolitics:** Globalization and fragmentation are both occurring at the same time.

- **AI:** Productivity gains alongside labor disruption.

Our bottom line: the global economy is not converging towards a single outcome; it is diverging into multiple outcomes simultaneously.

Details

Chair Warsh announced the formation of five task forces, to be composed of outside economists and business leaders. The purpose is to reimagine Fed frameworks and operations across five crucial areas. He expects to formalize personnel in the coming weeks and hopes for them to deliver recommendations by year-end.

- **Communications:** Review communications broadly, including press conferences, dots, transcripts, etc.
- **Balance Sheet Management:** Review the current abundant reserves regime.
- **Data Sources:** Evaluate new information sources and consider methodological changes.
- **Productivity and Jobs:** Observe the impact of new general-purpose technologies, including AI.
- **Fundamental Inflation Frameworks:** Evaluate fundamental drivers of inflation from first principles. Assess how best to deliver price stability amid a changing economy.

Other Notable Developments

See *Exhibit 1* for details, but the Fed ratcheted up its Core PCE inflation forecasts to 3.3% for 2026, from 2.7% previously, and 2.5% for 2027, from 2.2% previously. Consistent with GMAA’s in-house outlook, the Fed’s new forecasts are slightly above Bloomberg Consensus.

Consistent with these inflation revisions, the Dot Plot also skewed hawkish, with dots now evenly split between nine participants forecasting one or more hikes in 2026, with fully six envisioning multiple hikes, versus nine participants expecting no hikes. As such, the median dot for 2026 moved up by ‘half’ a hike. For his part, Chair Warsh did not vote, seeing limited utility

to the dots. His abstention is interesting, as he could otherwise have placed his thumb on the scale to keep the 2026 dot from moving higher.

In terms of commentary from the podium, Chair Warsh was notably balanced. Compared to pre-confirmation hints that he viewed rates as restrictive, he now views the evidence as 'uneven.' He pointed to housing as an area where rates seem clearly restrictive, but commented that "it's tough to say that for anywhere else." This was somewhat hawkish to our ears, as we would point to other areas where rates are exerting restrictive influence, including business and household credit utilization, as well as consumer goods spending.

Again, if there was any dovish tilt to the Chair's views, it was in his comment that he tends to measure inflation "to the left of the decimal," suggesting that inflation as high as 2.49% could be viewed as mandate-consistent.

What both the KKR *Divergence Conundrum* framework and some of the recent central-bank commentary are acknowledging is that the world is increasingly producing conflicting signals simultaneously.

Exhibit 1: Fed Forecast Revisions Skewed Hawkish On Both Inflation and Rates

	2026e	2027e	2028e	Long-Run
Central Tendency of Economic Projections				
Real GDP Growth	2.2%	2.3%	2.2%	2.0%
Mar'26 meeting	2.4%	2.3%	2.1%	2.0%
<i>Memo: Bbg Consensus</i>	2.0%	2.1%	2.2%	N/A
Unemp. Rate	4.3%	4.3%	4.2%	4.2%
Mar'26 meeting	4.4%	4.3%	4.2%	4.2%
<i>Memo: Bbg Consensus</i>	4.4%	4.2%	4.2%	N/A
PCE Inflation	3.6%	2.3%	2.0%	2.0%
Mar'26 meeting	2.7%	2.2%	2.0%	2.0%
<i>Memo: Bbg Consensus</i>	3.5%	2.1%	2.1%	N/A
Core PCE Inflation	3.3%	2.5%	2.1%	N/A
Mar'26 meeting	2.7%	2.2%	2.0%	N/A
<i>Memo: Bbg Consensus</i>	3.1%	2.3%	2.2%	N/A
Year-End Fed Funds Forecast	2026e	2027e	2028e	Long-Run
June meeting	3.750%	3.625%	3.375%	3.125%
Mar'26 meeting	3.375%	3.125%	3.125%	3.125%
<i>FF Futures</i>	3.82%	3.84%	3.80%	4.00%
<i>GMAA Base Case</i>	3.63%	3.38%	3.38%	3.38%

Data as at June 17, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

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