A NEW CHAIR AND NEW TONE AT THE FEDERAL RESERVE

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The Federal Reserve has a new chair, and with him, a new way of communicating. At his debut meeting on June 17, the FOMC voted unanimously to hold the federal funds rate at 3.50%–3.75%. While the rate decision was widely expected, there were elements of the statement and press conference that brought new information. First, the statement was much briefer than prior Fed communications. The policy statement was cut to roughly 114 words from 244 in April, forward guidance was removed entirely, and Chairman Kevin Warsh declined to submit a dot of his own to the Summary of Economic Projections. While the rate path garners most of the headlines, the apparent shift in how the Fed will communicate will likely be meaningful to markets going forward.

The statement itself provided some hints that Fed thinking under Chair Warsh may be different. References to "maximum employment" and two-sided risks were removed, replaced with a singular commitment to "achieving price stability" – a phrase Warsh used twelve times in his press conference. The Summary of Economic Projections reinforced the hawkish framing. The 2026 median dot was revised up to 3.8% from 3.4% in March, with nine of the eighteen participants now penciling in at least one hike by year-end. Inflation forecasts moved sharply higher (PCE to 3.6% from 2.7%), growth was trimmed to 2.2%, and unemployment was nudged to 4.3%. Taken together, the message is straightforward: with headline CPI running at 4.2% and inflation above target for more than five years, the bar to ease has risen materially.

Reinforcing the regime shift, Warsh announced five internal task forces to review the Fed's core operating practices: (1) communications, (2) balance sheet policy, (3) external data sources, (4) AI, productivity, and jobs, and (5) the inflation framework. Initial recommendations are expected by year-end. No chair in recent memory has launched a review of this scope, and the breadth of the agenda suggests the changes already visible in the June statement are the opening installments of a multi-quarter reform program, not the destination.

Three questions will shape how this plays out for fixed income markets. First, will the dot plot survive? Warsh declined to submit his own projection and explicitly placed the SEP within the year-end communications review. Second, will the Fed adopt alternative inflation measures? The inflation framework task force, combined with Warsh's scrutiny of the Fed's data reliance, raises the prospect that we see an inflation metric less sensitive to energy and supply-shock measures elevated in the reaction function. The Dallas Fed trimmed mean PCE being the most cited candidate. Third, will balance sheet policy change? The Committee reaffirmed its ample-reserves regime in June, but with the $6.7 trillion balance sheet now under formal task-force review and Warsh's long-standing preference for a smaller Fed footprint, the path and end-state of normalization may be the most underpriced reform vector for bond investors.

The market has already begun repricing a more uncertain path forward. The Treasury yield curve has bear-flattened since the announcement with rates up led by the front end. We expect a less transparent, more data-dependent Fed to demand a higher term premium over time. Against this backdrop, we continue to favor a high-quality, intermediate-duration posture. The front end offers attractive carry with reduced reinvestment risk, intermediate maturities provide ballast if growth deteriorates, and a disciplined emphasis on credit quality remains prudent as restrictive policy persists and the inflation backdrop keeps a floor under rates. At Johnson Asset Management, our Quality Yield investment discipline seeks to take advantage of today's elevated yield environment while helping investors navigate the policy and valuation uncertainty that lies ahead.