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Federal Reserve Chairman Kevin Warsh on Wednesday after a meeting in which the board hinted at a U-turn on rate policy. AL DRAGO/ BLOOMBERG NEWS



'We have the capability and commitment to deliver on our price stability objective,' Fed Chairman Kevin Warsh said Wednesday. CHIP SOMODEVILLA/ GETTY IMAGES

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Fed Holds Interest Rates Steady As Officials Signal an Increase

Trump's new chief at central bank joins rest of the board in deciding not to cut

BY NICK TIMIRAOS

Federal Reserve officials signaled Wednesday that their next move might be to raise interest rates, not cut them, a striking reversal at Kevin Warsh's first meeting as chairman and a sign of how sharply the inflation outlook has turned.

The Fed held its benchmark rate steady, in a range of 3.5% to 3.75%, in a unanimous vote. But officials' quarterly economic projections told the story of the shift: Nine of 19 officials penciled in at least one rate increase by year's end, up from none in March. Just one foresaw a cut, down from 12.

Investors had braced in recent weeks for a higher-for-longer posture from the Fed, but this was sharper and reflected a committee inching from a watchful hold toward readiness to raise rates. After the meeting, traders in interest-rate futures markets saw a roughly one-in-three chance of a rate increase as soon as next month, according to CME Group.

That it fell to Warsh to ratify that turn was the twist. He was President Trump's pick, chosen after the president vowed to name only someone committed to lower rates. Instead, Warsh's debut revealed a committee rowing away from cuts and toward hikes.

"We have the capability and commitment to deliver on our price stability objective,"

Warsh said. "That's exactly what we're going to do."

In France, President Trump was asked how he felt about the possibility of rates going up this year. "It's hard to believe," he said. "It just keeps a country down. It's so unusual. But we have a very good guy over there now, so I'm guided by what he wants to do."

The Fed released a much sparser statement summarizing recent economic developments that avoided any hint on its next move. The projections included only 18 submissions from the 19 participants. Warsh said he had declined to submit a projection.

The U-turn reflected an economy that has run hotter than the Fed expected. Inflation has reaccelerated this year—driven up by the energy shock from the Iran war and a surge in demand tied to the boom in artificial intelligence. A labor market officials had feared was weakening instead held firm.

For households, the message is that relief on borrowing costs is unlikely to arrive soon. The Fed's benchmark rate most directly affects short-term borrowing such as credit cards and auto loans, which will stay elevated as long as the Fed holds. But the costs that matter most to many families—mortgage rates—track longerterm Treasury yields, and those have been climbing as investors brace for a Fed that sits on its hands.

Warsh faced a high-wire act at his first news conference, with investors still unsure what he believes. He gave almost no new information about how the Fed might make upcoming decisions.

Bond markets sold off when the Fed released its projections on Wednesday afternoon and did so again during Warsh's news conference. The yield on the two-year Treasury note, which is especially sensitive to monetary policy expectations, rose 0.114 percentage point to 4.16%. It was the largest oneday move in three months, sending yields to the highest level since February 2025.

Stocks slid as yields jumped, with major indices down roughly 1% or more. Warsh announced five task forces to re-examine core functions of the central bank, among them its communications, its balance sheet, and the framework it uses to understand inflation, with most expected to report by year's end.

"Change isn't easy. Change is filled with risk," he said.

Wednesday's decision capped a remarkable migration. Three years ago, the Fed had sprinted to lift rates to a twodecade high. In September 2024, it began cutting, lowering them six times before pausing at the end of last year. Wednesday, it signaled rates could stay put well into the future.

The pivot tracked an economy that has perked up. That has officials questioning whether policy is as restrictive as they thought.

A negotiated end to the Iran war could pull energy and commodity prices back down. But the deeper problem would remain. A run of disruptions—the pandemic, Russia's invasion of Ukraine, last year's tariffs and now the war—has eroded the Fed's confidence that underlying inflation will return to the Fed's 2% goal.

Some officials worry it could lodge above that level long enough to unmoor the public's expectations of future inflation. In addition, because inflation has climbed this year while the Fed held rates steady, the actual cost of borrowing money could get cheaper on its own—a passive easing of policy, some officials and economists argue, into an economy that no longer needs it.

“They're basically in place for a while, probably,” said William English, a former senior Fed adviser who now teaches at the Yale School of Management. “The world is a more than usually uncertain place right now, but to think that the next move could well be up seems reasonable.”

Beneath the shocks runs a more durable force: the AI boom. The build-out of data centers and the power to run them has poured spending into the economy, and a related stock surge has left wealthier households spending more.

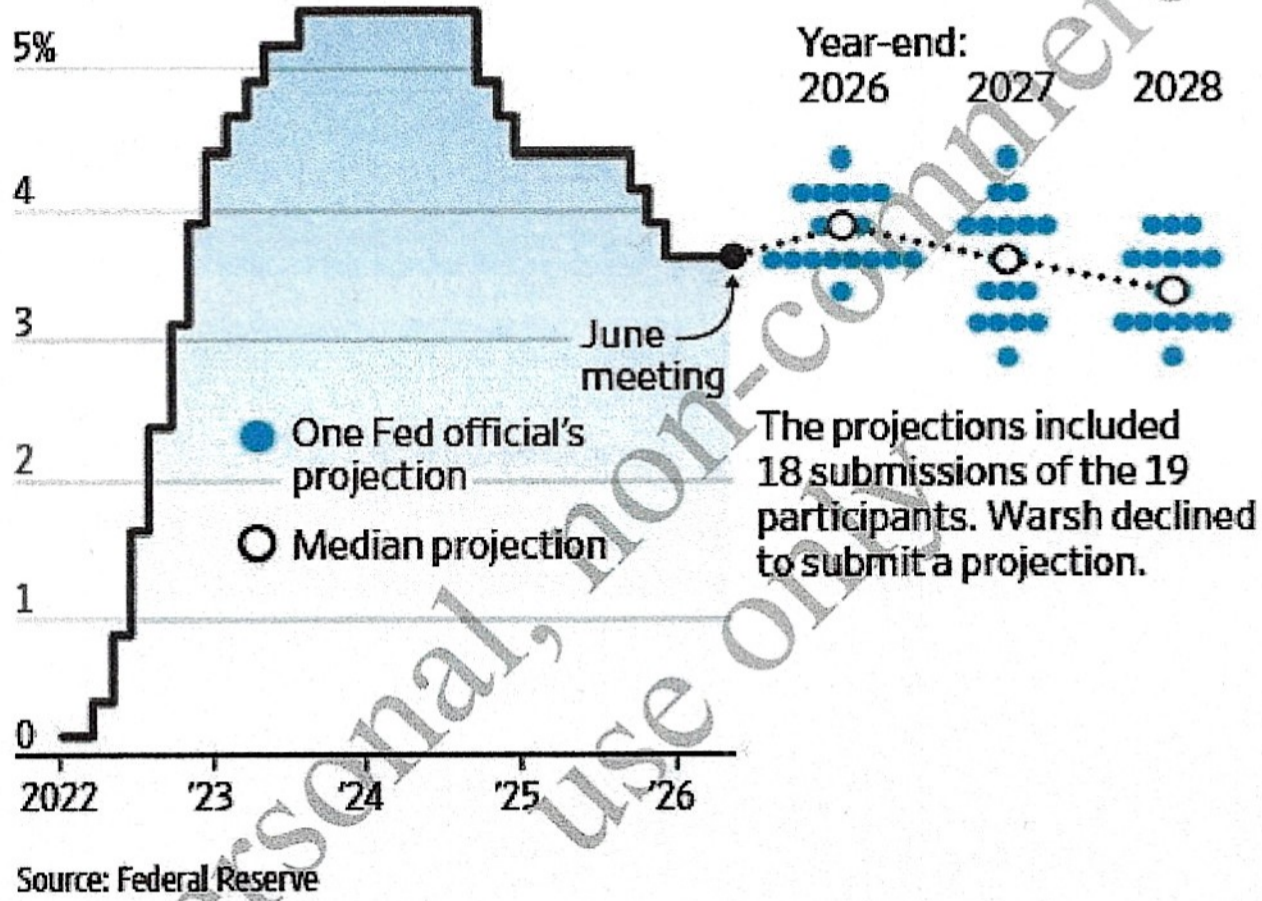
Once expected to push prices down, AI increasingly looks like a near-term source of inflation. The early view “could be right,” said James Egelhof, chief U.S. economist at BNP Paribas. “But we have to make monetary policy for today, not for the 2030s.” He expects the Fed to begin raising rates in December.

Jeffrey Cleveland, chief economist at Payden & Rygel, doubts it will come to a hike. He expects the next move to be a cut, albeit not anytime soon, and agrees an extended hold is warranted. Underlying inflation has proven stickier than he expected this year and a labor market he thought would weaken has instead held firm.

What he doesn't see is a case for raising rates—that, he said, would take accelerating wage growth or signs that Americans had begun to expect higher inflation for the long haul. He sees neither. “This is not 2022,” he said.

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Federal-funds rate with Fed officials' projections



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