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Kevin Warsh KEVIN LAMARQUE/ REUTERS

Jobs Report Puts Warsh on Hot Seat

Inflation hawks, Wall Street see rate hikes as next likely move, testing new Fed chief

BY NICK TIMIRAOS

Kevin Warsh has been Federal Reserve chairman for two weeks. The bond market and the White House have already picked his first fight for him.

Friday's jobs report pushed traders to up bets on a rate increase by year-end, drew a public warning from a Fed voter that higher rates could be warranted this summer, and prompted one Wall Street bank to forecast a series of hikes beginning in December.

Meanwhile, President Trump reiterated his frustration that investors treat strong economic data as unwelcome news, because they expect the Fed to respond by raising rates. "With a great Jobs Report, like just announced, stocks should go up, not down," he posted on social media Friday.

Stocks sold off. In the current environment, good economic news pushes bond yields higher, and higher yields punish stock prices. Yields rose Friday because investors anticipated some combination of a Fed that raises rates, more persistent price pressures, or both.

Trump's top economist went on TV to argue the report showed the Fed could be cutting rates before too long.

The whipsaw illustrates the difficulty facing Warsh as he heads into his debut meeting as chairman this month. He looked poised to inherit a much different economy when Trump tapped him in January.

Back then, markets expected the Fed to cut rates as many as three times this year. Officials weren't sure the labor market would hold up without more help. And with labor demand cooling and inflation appearing to drift back toward the Fed's target but for tariff-driven increases, interest rates looked restrictive. Four months later, nearly every piece of that picture has reversed. Hiring has reaccelerated. The AI build-out is straining supplies of raw materials and electricity. And that's before accounting for Trump's decision to strike Iran, which has driven up gasoline and other commodity prices.

The Fed's long-running debate over which risk to weigh more heavily—a softening job market or firming prices—is now being resolved in favor of inflation-fearing "hawks" who were skeptical of cutting rates at the end of last year.

Among them is Cleveland Fed President Beth Hammack, who dissented at the Fed's April meeting. She and two others said at the time that the Fed should ditch the language in its official statement that subtly suggested a rate cut was still

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more probable than a rate hike. The Fed is expected to hold rates steady at its June 16-17 meeting and get rid of that language.

For now, Hammack said in a statement Friday, it is reasonable to hold rates steady. "But if recent trends continue, it may soon be appropriate to act," she said.

A second Fed voter, Dallas Fed President Lorie Logan, this past week indicated she would support a rate hike later this year if current conditions persist.

Wall Street is starting to make the same shift. BNP Paribas on Friday told clients it expects the Fed to reverse all three of last year's quarterpoint cuts in a series of hikes beginning in December.

The Trump administration badgered the Fed for steeper reductions than it delivered last year, and a summer of rate-increase talk could push up mortgage rates and other borrowing costs heading into the midterms.

A senior Trump economic adviser moved to head off the hawkish turn Friday. The hiring upswing isn't a textbook case "where you need to hike rates," said Kevin Hassett, director of the White House National Economic Council. The opposite was true, he said on CNBC: The Fed "will have room as it watches the numbers to cut rates."

Trump installed Warsh expecting lower rates. "I'm going to let Kevin [Warsh] make that decision," Trump said Friday when asked about a rate cut at the next Fed meeting. Then he added, "I'd like to see lower interest rates."

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