AXIS BANK

Economic Research | **Global**

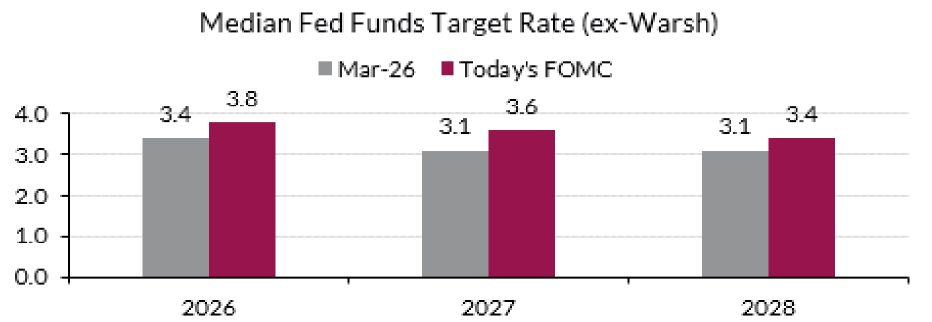
A more hawkish committee stays on hold; Warsh-led rejig coming

18 Jun 2026

US FOMC Review

The Fed held rates steady at 3.5-3.75% as expected. But changes to forecasts vs. the Mar-2026 meeting pushed 2Y yields up and stocks down: inflation outlook up, growth down, median Fed dot-plot 40-50bps higher for CY26-27. Markets now expect Dec-2026 rate at 4% (minimum one hike). With growth resilient and labor markets holding up too, the case for near-term rate cuts is weak. Also as expected, the new Fed chair launched five task forces to review communications, balance sheet, data, productivity/jobs, and the Fed's inflation framework. Results expected end-CY26. The changes are likely to face constraints too: though the hawkish inflation stance can help 10Y yields, balance sheet reduction can put upward pressure on them, possibly inviting political pressure.

Exhibit 1: The median Fed Funds rate moved up vs. March: FOMC's hawkish tilt



Source: US Fed, Axis Bank Research

No change to rates, but forecasts raised; commitment to inflation reaffirmed

As expected, the FOMC held policy rates at 3.5-3.75%. The language in the statement and press conference remained hawkish, reaffirming the Fed's commitment to bring inflation (currently elevated and rising; Fig 8, 9) to the Fed's 2% target. The trimmed statement was unanimously approved, but the dot plot (ex-Warsh) continues to show divergent views (Fig 4, 5), with a clear uptick in rate expectations of FOMC members. The median estimate of policy has moved up by 40/50/30bps for 2026/27/28 vs. the Mar-26 projections (Fig 1). Market now prices Dec-26 Fed policy rate at above 4%, above the FOMC median (Fig 2). With short-end rates up, the yield curve flattening that began in Feb-26 continues (Fig 3).

A worse economic backdrop per new FOMC projections; no case for rate cuts

While Gov. Warsh refrained from issuing specific forward guidance, and dismissed the dot plots/forecasts as vulnerable to change, it was clear Fed members' outlook turned grimmer vs. Mar-2026. Inflation forecasts were raised (core PCE now likely to stay above the 2% target through 2028, Fig 6), and CY26 growth cut by 20 bps (Fig 7). A resilient labour market (Fig 10, 11), robust retail sales, and rising inflation support the case for rates to remain elevated. Per the Fed's own measure too, the financial conditions are currently supportive of growth (Fig 12, 13) which weakens the case for any rate cuts in the near term.

Five task forces for an institutional rejig; incremental moves amid constraints

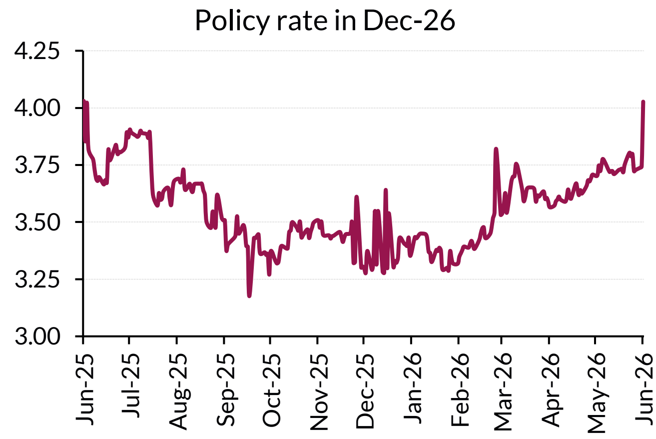
The new Fed chair has begun his institutional rejig in line with his stated preferences in the run up to his appointment. Five task forces (which enlist help from outside the Fed) are being set up to review: (i) communication, (ii) balance sheet, (iii) data sources, (iv) productivity & jobs, and (v) the inflation framework. Today's meeting started with delivering on his promise of communicating less. Many of the intended changes though will take time (year-end timeline as per press conference remarks) and run into constraints. For instance, shrinking the balance sheet will push long-term yields higher, possibly triggering political opposition. We expect large changes to be incremental and well-choreographed.

Neelkanth Mishra
Neelkanth.Mishra@axisbank.com

Pulkit Kapoor
Pulkit1.Kapoor@axisbank.com

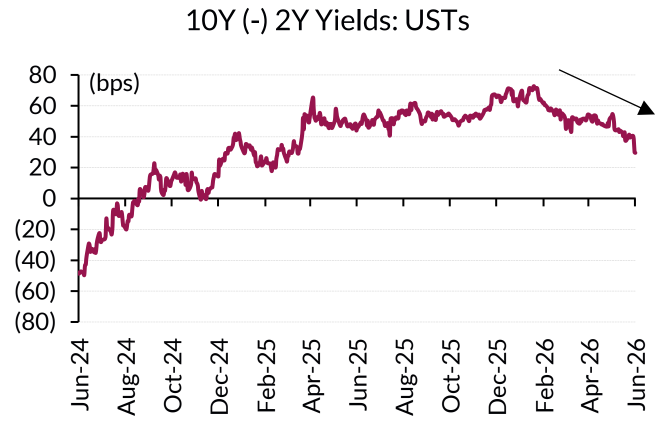
Prateek Ancha
Ancha.Prateek@axisbank.com

Exhibit 2: Market expectations put December rate at (4%) above the FOMC median projection (3.8%)



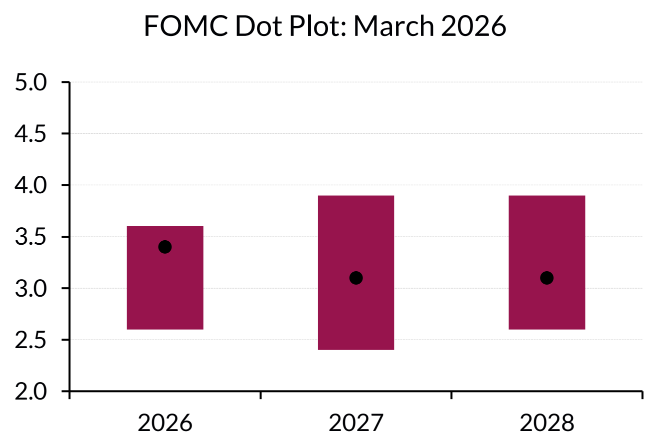
Source: Refinitiv; Axis Bank Research

Exhibit 3: The 2Y yield spike has also meant curve flattening ongoing since Feb-26



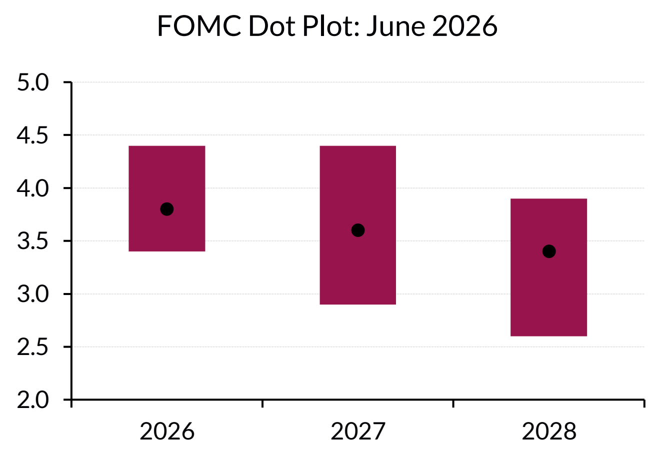
Source: Refinitiv; Axis Bank Research

Exhibit 4: March dot plot showed vast divergences



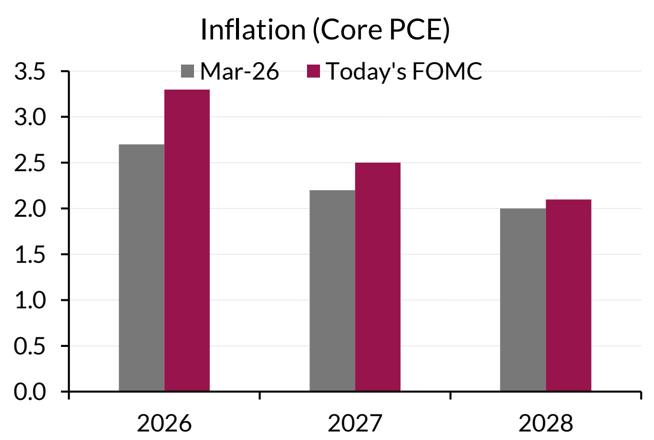
Source: CEIC; Axis Bank Research; bar shows the range; dot is the median

Exhibit 5: Divergences still exist, but with a hawkish tilt



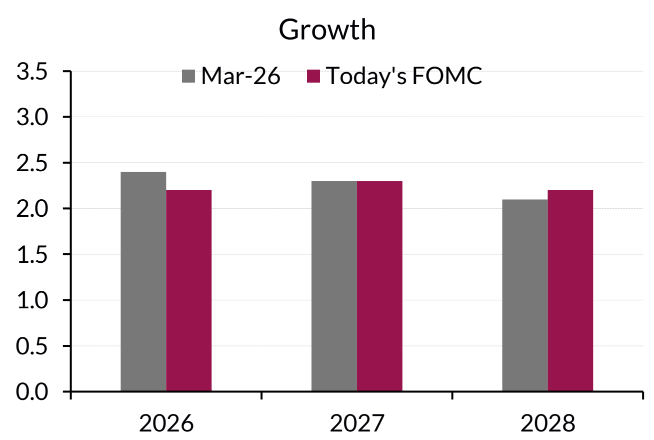
Source: CEIC; Axis Bank Research; bar shows the range; dot is the median

Exhibit 6: Core PCE estimate for 2026 rose by 60bps; target timeline pushed to 2028



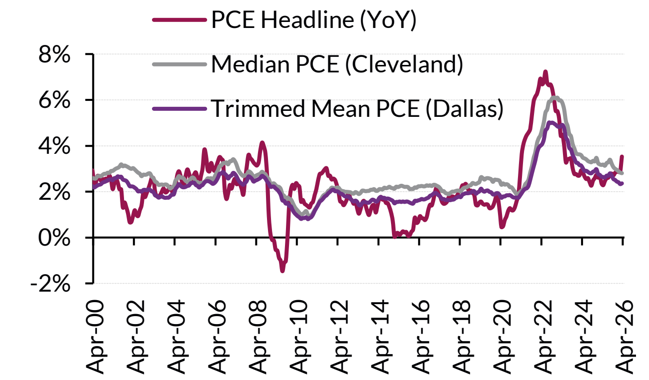
Source: Refinitiv; Axis Bank Research

Exhibit 7: Growth estimate shaved by 20 bps for 2026, unchanged for 2027 and up by 10 bps for 2028



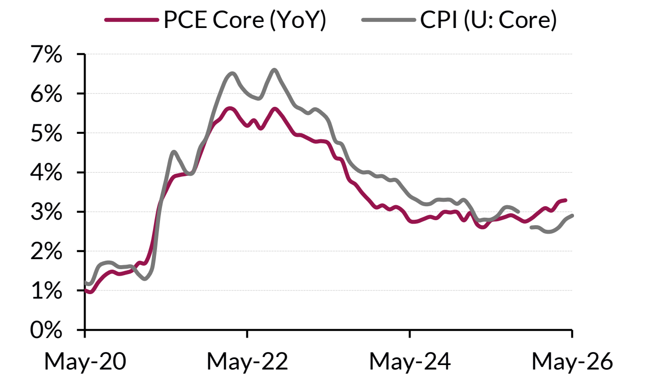
Source: CEIC; Axis Bank Research

Exhibit 8: Inflation, even for the Fed's and Warsh's own preferred measures is above the 2% target



Source: CEIC; Axis Bank Research

Exhibit 9: Latest inflation prints suggest inflationary pressures are rising beyond energy

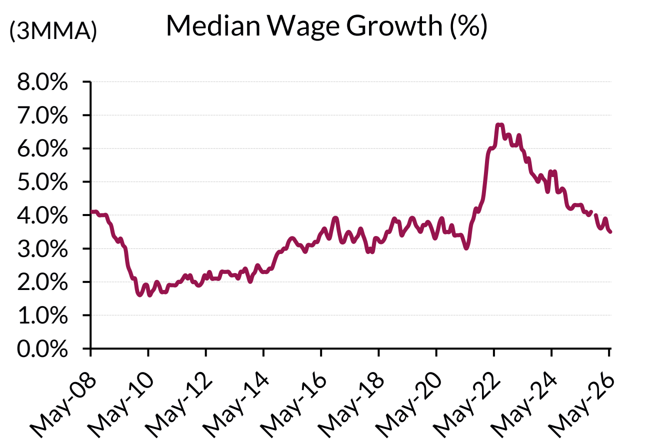


Source: CEIC; Axis Bank Research

Exhibit 10: Tick up in job openings has helped ease the labor market pressure

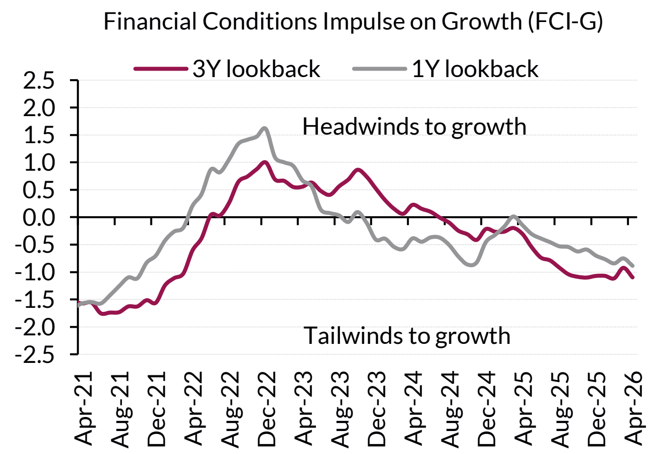
Source: CEIC; Axis Bank Research

Exhibit 11: Wage growth has slowed, though still well above the inflation target



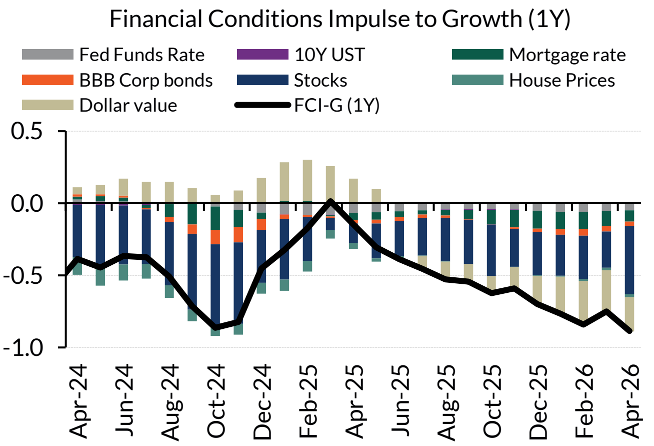
Source: CEIC; Axis Bank Research

Exhibit 12: Financial conditions are currently a tailwind to growth



Source: CEIC; Axis Bank Research

Exhibit 13: Dollar and stocks are driving the bulk of this growth impulse



Source: CEIC; Axis Bank Research

Disclaimer: The report and information contained herein is of confidential nature and meant only for the selected recipient and should not be altered in any way, transmitted to, copied, or distributed, in any manner and form, to any other person or to the media or reproduced in any form, without prior written approval of Axis Bank. The material in this document/report is based on facts, figures and information that are obtained from publicly available media or other sources believed to be reliable and hence considered true, correct, reliable and accurate but Axis Bank does not guarantee or represent (expressly or impliedly) that the same are true, correct, reliable and accurate, not misleading or as to its genuineness, fitness for the purpose intended and it should not be relied upon as such. Artificial Intelligence tools may have been used (i) during the information gathering stage for compiling or collating data from (a) publicly available sources, (b) databases to which Axis Bank subscribes, and (c) internally generated research data; and/or (ii) for compiling summaries of this report. The opinion expressed (including estimates, facts, figures and forecasts) is given as of the date of this document is subject to change without providing any prior notice of intimation. Axis Bank shall have the rights to make any kind of changes and alterations to this report/ information as may be required from time to time. However, Axis Bank is under no compulsion to maintain or keep the data/information updated. This report/document does not mean an offer or solicitation for dealing (purchase or sale) of any financial instrument or as an official confirmation of any transaction. Axis Bank or any of its affiliates/ group companies shall not be answerable or responsible in any way for any kind of loss or damage that may arise to any person due to any kind of error in the information contained in this document or otherwise. This document is provided for assistance only and should not be construed as the sole document to be relied upon for taking any kind of investment decision. The recipient is himself/herself fully responsible for the risks of any use made of this information. Each recipient of this document should make his/her own research, analysis and investigation as he/she deems fit and reliable to come at an independent evaluation of an investment in the securities of companies mentioned in this document (including the merits, demerits and risks involved), and should further take opinion of own consultants, advisors to determine the advantages and risks of such investment. The investment discussed or views expressed herein may not suit the requirements for all investors. Axis Bank and its group companies, affiliates, directors, and employees may: (a) from time to time, have long or short positions in, and deal (buy and/or sell the securities) thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn commission/brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The applicable Statutory Rules and Regulations may not allow the distribution of this document in certain jurisdictions, and persons who are in possession of this document, should inform themselves about and follow, any such restrictions. This report is not meant, directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would not be in conformation to the law, regulation or which would require Axis Bank and affiliates/ group companies to obtain any registration or licensing requirements within such jurisdiction. Neither Axis Bank nor any of its affiliates, group companies, directors, employees, agents or representatives shall be held responsible, liable for any kind of consequential damages whether direct, indirect, special or consequential including but not limited to lost revenue, lost profits, notional losses that may arise from or in connection with the use of the information. Prospective investors and others are cautioned and should be alert that any forward-looking statements are not predictions and may be subject to change without providing any notice. Past performance should not be considered as a reference to future performance. The disclosures of interest statements if any included in this document are provided only to enhance the transparency and should not be construed as confirmation of the views expressed in the report. The views expressed in this report reflect the personal views of the author of the report and do not reflect the views of Axis Bank or any of its associate and group companies about the subject company or companies and its or their securities.

Disclaimer for Singapore clients: This document is published by Axis Bank Limited, India (“Axis Bank”) and is distributed in Singapore by Axis Bank. This document is not a research analysis or report concerning any investment product. This document does not provide or purports to provide individually tailored investment advice, commentary or opinion. The contents in this document have been prepared and are intended for general distribution strictly to accredited investor, expert investor or institutional investor. A recipient of this document shall not provide or circulate this document to any other person. The contents in this document do not take into account the specific investment objectives, financial situation, or particular needs of any particular person. The instruments and product types mentioned in this document may not be suitable for all investors. You should independently evaluate particular investments or product types and seek independent advice from a financial adviser regarding the suitability of such instruments or product types, taking into account your specific investment objectives, financial situation and particular needs, before making a commitment on any instruments or product types. This is because the appropriateness of a particular instrument or product type will depend on your individual circumstances and investment objectives, financial situation and particular needs. The instruments and product types mentioned in this document may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Disclaimer for DIFC clients: Axis Bank Limited (DIFC branch) is duly licensed and regulated in the Dubai International Financial Centre by the Dubai Financial Services Authority (“DFSA”). This document is intended for use only by Professional Clients (as defined in the Rule 2.3 of the Conduct of Business Module of the DFSA Rulebook) who satisfy the regulatory criteria set out in the DFSA Rules, and should not be relied upon, acted upon or distributed to any other person(s) other than the intended recipients.