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400 East Water Street
Elmira, NY 14901
607-734-2665

447 East Water Street
Elmira, NY 14901
607-733-9022

www.valicenti.com

Warsh's Fed and the Challenges Ahead

Kevin Warsh became the new Federal Reserve Chairman on May 22nd, 2026, following "the most divisive vote ever for a Fed chair," according to CNBC.[1] The attorney and financier has returned to the Fed, having previously served on the board during the Great Financial Crisis (GFC) and through its wake until ultimately resigning in 2011. He now returns to a rather unenviable position having to navigate through political pressures, elevated inflation, and extraordinary growth and investment in artificial intelligence (AI). With now ten weeks under his belt, we can only begin to evaluate how he views these challenges and how he is executing on them so far.

Regardless of who it would ultimately be, the newest Fed Chair was entering into a politically dubious situation. Warsh's very confirmation was delayed by the controversial criminal investigation into former Fed Chair Powell, which followed loud criticism from the White House on the Fed's monetary policy. This has generated skepticism that the new chair would maintain its independence from such political influence. Warsh, however, has been clear that his monetary policy will be "strictly independent."[2] He has ceded that cooperation may be necessary between the government and Fed to meet certain ends, but that the Fed ultimately is independent *within* government. This is a subtle point, perhaps, but clearly demonstrates his belief in the longstanding virtue of central bank independence. He, however, does not embrace all historically significant tenets of the role.

For example, the more recent Fed boards engaged in transparent decision-making, with an emphasis on avoiding surprises and shocks. This came as a response to GFC-era uncertainty in markets, proving useful again following the crisis response to Covid in 2020. In his recent speech at the Economic Policy Symposium in Jackson Hole, WY, Warsh lays out his argument that the Fed needs to be sensitive to market signals, and over-communication creates too much noise and feedback in markets to be able to accurately detect them. Further, he is critical of the idea of "quasi-commitments" that could inhibit action even in light of quickly developing circumstances. Where previous Feds have used communication almost as a policy in and of itself, Warsh is not interested in "indulging" market participants in such a way.[3] This opaque communication style was prevalent in the Fed's Greenspan era (1987-2006), before the most recent economic downturns of the 21st century.

Another demarcation from the previous regime is Warsh's creation of five task forces aimed at improving the decision-making of the committee. He has set aside consensus as a primary virtue of the board and instead welcomes a "good family fight" when it comes to arriving at the best outcomes.[4] Lastly, he has made note that the financial effects of AI on the economy will be firmly of the committee's concern as the technology evolves and develops, even conjecturing that the resultant productivity gains could create an environment where rate cuts wouldn't necessarily stoke inflation.

Now, knowing a bit about our new Fed Chair, we can begin to evaluate his execution in the role thus far. He has only overseen one Federal Open Market Committee (FOMC) meeting in which the committee decided to hold rates steady, targeting 3.5 – 3.75%. With this decision came three dissents and a rather sour market reaction, with the 30-year Treasury yield climbing above 5.3% in the following weeks (a level not observed in nearly twenty years).[5] Some have interpreted this market reaction as pushback against the opacity of the new Fed's communication style. Others believe that this is a sign of Warsh's wavering values since he, an oft-described inflation-hawk, has stated that inflation is both "concerning" and "too high" at its current 3.7% level (vs. the official target of 2%), yet his board elected not to hike rates.[6]

It will be interesting to see how events unfold at the next FOMC meeting in mid-September. The data doesn't point to any conclusive outcomes: unemployment is stable and nearly maximized, and inflation expectations are well-anchored, leaving the broad financial picture looking not exactly restrictive. Further, the month-over-month Core Personal Consumption Expenditures Index (PCE) readings show a modest trend of disinflation. In contrast, the last FOMC meeting in late July made 63 consecutive months of inflation above target.[7] Inflationary pressures such as tariffs flowing through the economy, as well as the current conflict in the Middle East, additionally obscure near-term outcomes. The Fed's decision is made only more difficult by the known political interests at play and that this is taking place during an election cycle, no less.

These are the tensions Warsh must contend with. He inherited the political pressures along with the position, but by holding firm to the 2% inflation target, by naming PCE as the Fed's primary inflation gauge, by committing to the overnight rate as his board's main policy lever, and by going so far as to characterize inflation as "a choice," Warsh faces an uncomfortable decision.[8] The Fed could leave rates unchanged and risk being characterized as untrue to his spoken values, perhaps believing that disinflation will continue without intervention; or, they could hike rates to preemptively close the gap between inflation and its target, which may quell concerns on Fed independence, but may not be fully warranted by current data.

[1]Jeff Cox, "Kevin Warsh wins Senate confirmation as the next Federal Reserve chair," CNBC, May 13, 2026.

[2]"Warsh calls for Fed independence, reform," The Center Square, April 21, 2026.

[3]Kevin Warsh, "In Our Time," remarks at the Economic Policy Symposium, Federal Reserve Bank of Kansas City, Jackson Hole, Wyo., August 28, 2026.

[4]Warsh, "In Our Time."

[5]"30-year Treasury yield tops 5.31%, the highest in 19 years," CNBC, August 17, 2026.

[6]Warsh, "In Our Time."

[7]Kevin Warsh, transcript of Chair Warsh's press conference, July 29, 2026, Federal Reserve.

[8]Kevin Warsh, testimony at the nomination hearing before the Senate Committee on Banking, Housing, and Urban Affairs, April 21, 2026.