Elphinstone Research Group

Macro Research

Policy & Markets Brief

Warsh's First 100 Days

29 August, 2026

Vadym Kapliuk | *Chairman of Elphinstone Research Group*
University of Aberdeen Politics & International Relations ‘27

Daniel Mladenov | *V. Chairman of Elphinstone Research Group*
University of Aberdeen Economics & Finance ‘27

Kevin Ju | *Head of Macro Research*
Boston University Economics & International Relations ‘29

James Francoeur | *Macro Analyst*
Boston University Economics ‘29

Noam Keinan | *Macro Analyst*
Boston University Political Science ‘29

Gregory Rayburn | *Macro Analyst*
Boston University Questrom School of Business ‘29

Contents

Disclosure

Executive Summary

Jerome Powell’s eight-year tenure as Chair of the Federal Reserve ended in May, and his successor, Kevin Warsh has moved quickly to make his mark on the fed’s communication tools, stripping back the forward guidance practices, shortening FOMC statements and eliminating the ‘dot plot’, all to reduce Wall Street’s reliance on central bank signaling. This shift has already produced measurably higher market volatility around FOMC meetings and leaves the Fed’s short term rate path more uncertain than in Powell’s final three meetings.

Key Judgement
Warsh's deliberate reduction in forward guidance has increased volatility across rates, equities, and the dollar on FOMC decision days, and this pattern is likely to persist as long as he continues to withhold clear signals. While Warsh has held rates steady at 3.5%-3.75% in both meetings so far, growing dissent on the committee (three governors pushed for a hike in July) signals the hold is fragile, not settled policy. A future hike remains firmly on the table, and markets are being forced to price risk off economic data and events rather than Fed commentary.

Investment Thesis
Our call is to trim exposure to short-duration Treasuries (T-bills, 2-year notes), add to longer-duration Treasuries (10-year notes), and add gold exposure (ETFs or miners). The front end of the curve is most exposed to FOMC surprises given the committee's internal split and elevated oil-driven inflation pressure, while the long end is comparatively insulated from meeting-to-meeting volatility. Gold, up 9% over the past month, offers a hedge that benefits from softer inflation data even if a hike ultimately doesn't materialize.

What to Watch
- **Jackson Hole Speech (Aug 30):** August 30 marks Warsh’s first time at Jackson Hole. In previous years, this symposium has been used to answer questions pertaining to future policy shifts and actions. With the new Warsh agenda hard set against any type of forward guidance, Warsh’s remarks will likely be used to either justify himself or his recent decisions to keep interest rates steady during the July FOMC meeting, which caused further market instability.
- **September 16 FOMC Meeting:** Futures markets currently price a 28.4% chance of a 25 bp hike, down from over 80% on oil-driven inflation fears, to 50% after softer data, to the current 28.4%. Ongoing issues within the Strait of Hormuz, as well as the reaction to the last FOMC meeting, have only increased these odds.
- **Balance Sheet Actions:** Warsh has signalled intent to shrink the Fed's $6.749 trillion balance sheet, particularly its ~$1.9 trillion in MBS holdings; any move to let these run off or sell them could push mortgage rates and long-end yields higher.

Warsh's Background

Kevin Warsh has spent the majority of his career working at the intersection of financial markets and economic policy. He was born into a middle-class family in Albany, New York and earned degrees in Public Policy from Stanford (1992) and his JD from Harvard Law School (1995). His career began in the private sector, where, after finishing at Harvard, he worked at Morgan Stanley in Mergers and Acquisitions, eventually climbing the ranks to executive director. His experience on Wall Street, which gave him exposure to financial institutions and capital markets, proved valuable later on in his life during the financial crisis of 2008.

Warsh entered the federal government in 2002 when he joined President George W. Bush's administration as a special assistant to the president for economic policy. Additionally, he served as the executive secretary of the White House National Economic Council. In January of 2006, President Bush nominated 35-year-old Warsh to serve on the Board of Governors of the Federal Reserve System. As a Federal Reserve Governor, Warsh was a major component in the central bank's response to the 2008 financial crisis and economic recession. After the fact, Federal Reserve Chairman Ben Bernanke described Warsh's knowledge of financial markets and institutions as extremely important during the Reserve's work to combat the crisis. Warsh helped design and support the Fed's emergency lending response. He explained in a 2008 speech that the Fed had begun using authorities in ways it had not used for decades, expanding lending to both depository institutions and primary securities dealers. He also played a significant role in the Reserve's decision-making to fund JP Morgan's purchase of a collapsing Bear Stearns. On top of that, Warsh served as the Federal Reserve's representative to the Group of Twenty, acted as an emissary to economies in Asia, and served as the board's administrative governor, where he oversaw aspects of the Reserve's operations and finances. After accomplishing those feats, Warsh resigned from the Board in March 2011.

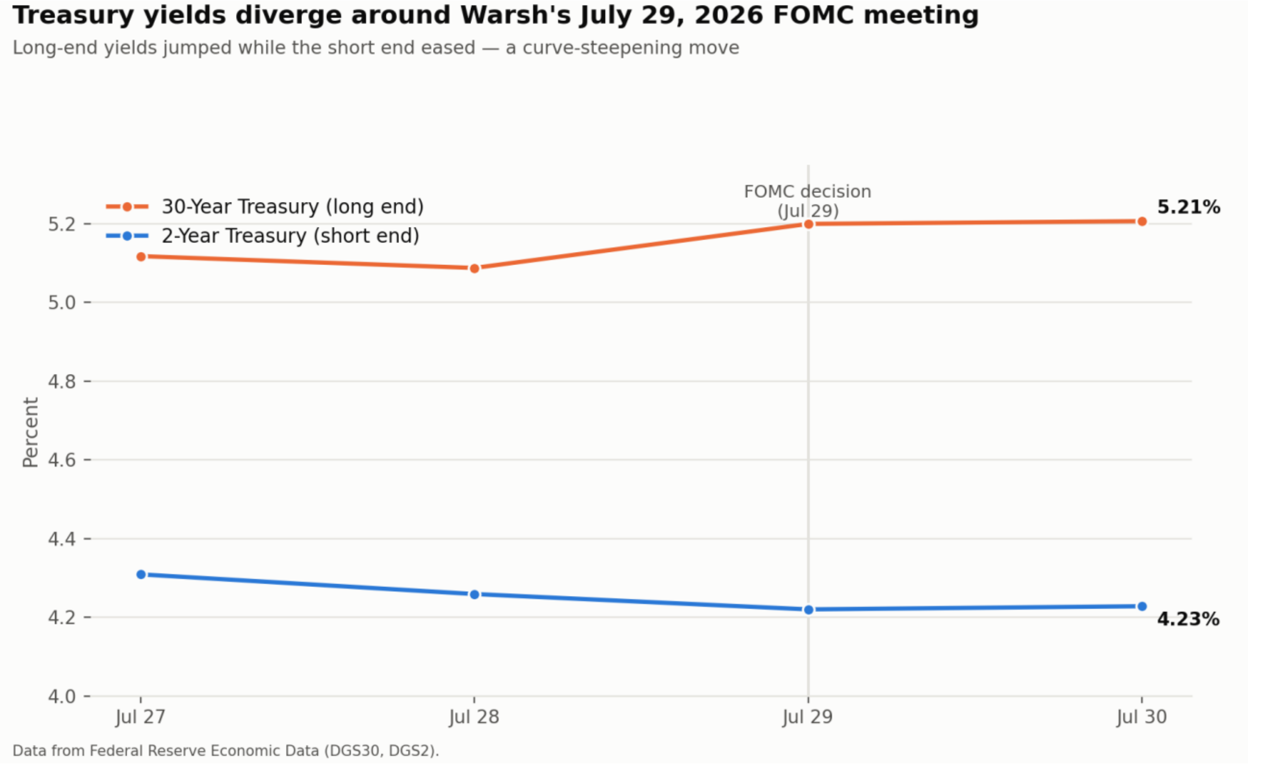
After leaving the Federal Reserve, Warsh turned his attention to academia and economic policy research. He became a visiting fellow at Stanford's Hoover Institution and a lecturer at the University's Graduate School of Business. He also worked as an advisor to the Duquesne Family Office, a private investment firm based in New York City. During these years, Warsh became increasingly associated with arguments emphasizing institutional accountability and limits on the Federal Reserve's responsibilities. His views, for the most part, have been critical of the Federal Reserve's role expansion, specifically in the years following the 2008 financial crisis.

After this period in the private sphere, Warsh returned to the government around 15 years later when President Donald Trump nominated him, and the Senate confirmed him to become the Federal Reserve Chairman. Many proponents of Walsh offer the idea that he is bringing the most refined version of himself to the Reserve, with prior experience in the government and on Wall Street; however, critics question and attack his political alliance with America's current executive branch.

Warsh as Fed Chair

Warsh's First FOMC Meeting

Since taking office as Chair of the Federal Reserve, Warsh has sought to strip back much of the Fed's "non-necessities." In his first FOMC meeting in June, Warsh found himself continuously denying reporters the opportunity to gauge future Fed Decisions, bluntly telling them that, "I've got nothing more to say than the statement itself." This response is one of many of Warsh's changes to the Fed, as he's stripped back the use of forward guidance. By doing so, Warsh has made it harder for investors to predict how to correctly price risk, causing Long-dated Treasuries and Short-dated Treasuries to move in opposite directions the same day as his July 29th FOMC meeting.



In accordance with his cutting and revising agenda, Warsh also opened the possibilities of cutting back the number of press conferences held and the amount of Summary of Economic Projections (SEP) reports. Additionally, Warsh added his interest in broadening the sources used in the Fed's analysis, as well as the study of AI in shaping the Fed's dual mandate.

Within his first FOMC meeting, Warsh also strayed from what many thought he would do when initially appointed as Chair, keeping interest rates steady at 3.5%-3.75% with the possibility of a future hike, rather than cutting like President Trump publicly stated preference.

The July 29th FOMC meeting

In Warsh's FOMC meeting on the 29th, Warsh continued much of his agenda from his June meeting, keeping interest rates steady again.

However, this time this steadiness was met with opposition, with three governors dissenting, advocating for raising rates by 25 basis points. This dissent coupled with further acts of a continued removal of forward guidance led to the volatility as described earlier.

Warsh also kept the idea of a future hike on the table, stating during questioning that “I wouldn’t characterize what we did as anything like a pause. I would characterize what we did as a rigorous review of the economic situation. I would characterize what we did as a review of the big, hard questions.”

Following the July meeting, Darla Mercado of CNBC reported that the S&P 500 dropped 0.6%, the Nasdaq composite was off by 0.5%, and the Dow Industrials were last down more than 840 points.

The Five Task Forces

One of the new additions Warsh has brought to the Fed is the creation of five task forces to aid in the Fed’s Monetary Policy decisions. The five task forces cover the following areas:

1. Communications
2. Balance Sheet Policy
3. Data
4. Productivity and Jobs
5. Inflation Frameworks

Warsh appointed 15 experts with varying views so that they can help best inform the Fed when monitoring monetary policy.

Forecast for the Future

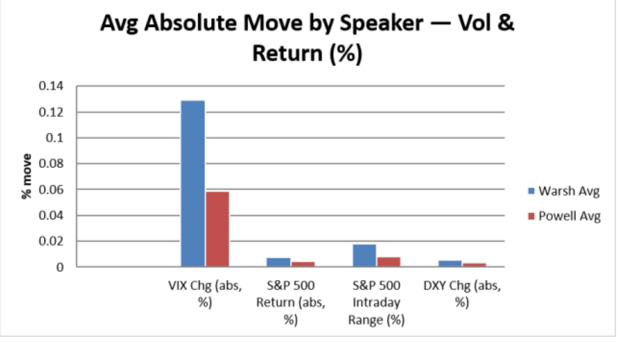
Volatility

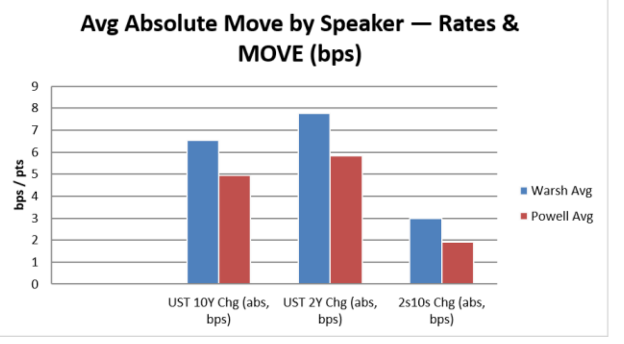
Kevin Warsh’s idea for the Fed is to roll back the many changes that were made during COVID. With forward guidance now a thing of the past, statements during FOMC meetings have been cut in half. The vote tally dot plot has also been removed, leaving no way to see which decision each member voted for. The lack of these parts of the Fed's communication process has created uncertainty among traders, with less clarity about how Fed governors predict rates and fewer words to interpret; the market is forced to rely on other sources of information. This is Kevin Warsh’s ideal situation, as he highlighted in the last meeting, saying that “market participants are learning to play the ball, not the referee”, and that the market is looking at current events and conventional reports to make trades, rather than relying on “Fedspeak” to make their predictions.

Examining the markets on FOMC meeting days, it is clear that in his first two meetings, Warsh has brought more volatility. The VIX, an indicator of volatility, the S&P 500, the US Dollar Index, and the 2-year and 10-year US bond yields all moved more after Warsh spoke than when Powell spoke.

The VIX was much higher after his speeches, with the S&P having a larger intraday range and a larger change from the previous trading session. The Dollar Index also saw larger changes, as did the 2-year and 10-year yields, reflecting a less predictable Federal Reserve.

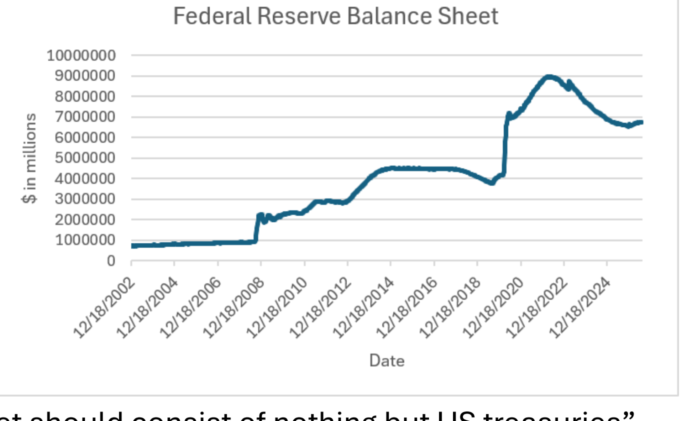
(All data used was from Powell's last three meetings, and Warsh's first two.)





Balance Sheet Consolidation: How it Impacts Rates and Mortgages

Another reform Warsh campaigned on bringing was shrinking the balance sheet, although he has not done anything yet to address this. Since the large injection of cash into the Fed's reserves from both the 2008 financial crisis and the 2020 COVID Pandemic, the balance sheet has grown to $6.749 trillion. Warsh believes that Wall Street is too reliant on the Federal Reserve; if they are always going to use the balance sheet to reduce volatility, Wall Street will take more risks, thinking that the Fed will rescue them in an emergency. Warsh also thinks that the Fed's huge footprint in financial markets complicates their ability to influence policy. The makeup of the reserves is also important, with it being composed of about $4.5 trillion in Treasury notes and around $1.9 trillion in mortgage-backed securities. The smaller balance sheet could be achieved in two ways. One option would be to allow the maturing bonds or securities they hold to expire without replacing them with new ones. The other option would be to sell off the assets to the open market before the securities and bonds mature. This option is much more violent, as the smaller time frame could lead to shocks in interest rates and mortgage rates. It could be done in theory, but perhaps with sell-offs happening at a slow and manageable pace.



The downside of these options is that commercial banks will have less liquid reserves, and make them more vulnerable to panics, but this could also work to make the banking system more cautious.

Warsh has long been a critic of the Fed's holding of mortgage-backed securities, arguing that it "blurs the line between monetary policy and fiscal policy", and that the "balance sheet should consist of nothing but US treasuries".

Recently, mortgage rates in America have hit a new high, with rates currently sitting at 6.76% for a 30-year fixed mortgage. With the MBS on the sheet being nearly $2 trillion, if Warsh were to either let them expire or sell them off, they could potentially inflate the yields, as a higher supply of MBS would drive down prices and thus increase yields. Mortgage rates are priced off longer-term bonds, which have seen higher yields since Warsh took office, and the 30Y yield is trading above 5% for its longest consecutive run since 2007. This means the market is pricing in rate increases, and if MBS were to sell off and yields rose, longer-dated bonds would see yields rise as well.

The yield curve will be the main gauge to watch. With the Fed providing less forward guidance, the 2-year yield will be more sensitive to FOMC meetings and other market catalysts like data releases. The long end is continuing to see inflation rising, as priced by the rising yields.

Investment Thesis

Given the current uncertainty of the Fed's decision regarding a rate hike, taking a position in US treasuries must be done with caution and conviction. Based on data from CME's FedWatch tool, futures traders have priced in a 28.4% chance that the Fed raises rates by 25 basis points in September, and a 0% chance of a 50-basis point hike. The sentiment has come down in recent months, with a September hike being priced in at over 80% from oil price inflation fears, before falling to 50% after softer data releases, and now down to 28%. With many major economic data releases expected in the coming weeks before the FOMC meeting on the 16th of September, it is hard to predict where that will leave market sentiment. The likely outcome looks to be another hold, but with the lack of forward guidance and three dissenting votes at the last meeting, it is not certain. Even a hold can be viewed as hawkish, especially with the lack of forward guidance; markets will look to the votes, and if there is a high amount of dissenting votes, the front end of the curve could be put under pressure.

Scenario Analysis

Given the 9 to 3 vote tally at the July FOMC meeting, as well as ongoing turmoil in Hormuz, Warsh is under pressure to hike rates at the next FOMC meeting in September. Given the uncertainty of the road ahead, here's what we see happening given either circumstance come September.

- ***If Hike***: If Warsh is to change course from his original hold stance and hike by the 25 bp the dissenters argued for at July's FOMC meeting, 2-year yields are likely to spike as investors who believed he would hold scramble to adjust. However, how investors would react with their longer notes and gold has two different possibilities. If investors see Warsh's actions as him in control of inflation, long-term yields are likely to rise only slightly, maybe possibly even fall, while gold likely softens as inflation concerns ease. However, if investors instead perceive him as trying to catch up with inflation, long-term yields and gold are likely to rise again, just not as much as the shorter-term bonds.

.

- ***If Steady:*** If Warsh holds steady again, volatility following the aftermath of the meeting will persist. However, if vote count of dissenters to raise rates increases, perception toward how in control Warsh is over rates will decline heavily. The result to the bond market would be similar to the one mentioned the *if hike* section.

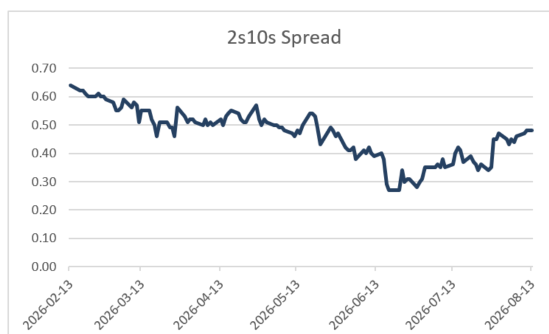
The Recommendation

- *Trim / Underweight short duration Treasury exposure (short-term T-bills or 2-year notes)*
- *Add / Overweight longer duration Treasury exposure (10-year notes)*
- *Add / Overweight Gold (ETFs or Gold Miners)*

The Rationale

The front end of the curve remains the more exposed end of the yield curve to surprises than the long end does, especially with the FOMC split on decision-making and elevated oil prices. A hold in September might signal a future hike later in the year. Adding to the long end of the curve is the best bet, as it is not exposed to FOMC volatility, nor is it weighed down by longer-term concerns like the fiscal deficit.

Gold is now up 9% over the past month and reacted positively to softer inflation data. Should softer inflation data get printed before the FOMC meeting in September, Gold should rally and would still make money on this side of the trade, even if a rate hike looks less likely.



Conclusion

With Warsh's fixation on the Federal Reserve not being a forecaster for the markets, as seen in the shorter statements, lack of dot plots predicting rates, and wanting to reduce their footprint in Mortgage-Backed Securities, the market will now have to rely on real, material events. A less reliant Wall Street will see more volatility from a lack of central banker forecasting. The investment thesis is to trim the front-end risk and add to the long end of the curve, with gold being a thematic diversifier. A surprise hike or a large amount of dissenting votes could bring a lot of risk to the 10-year, despite it being the most solid option of the US bond market. Any unanticipated move could also have an adverse effect on gold. The thesis is more based on the 10-year holding strong in the coming year, compared to the volatile 2-year note and the deficit-concerned 30-year note, with gold as a complement.

Works Cited

"Mortgage Rates." *Bankrate*.

Board of Governors of the Federal Reserve System. "Factors Affecting Reserve Balances." *Federal Reserve Statistical Release H.4.1*, 6 Aug. 2026.

Board of Governors of the Federal Reserve System. "Market Yield on U.S. Treasury Securities at 30-Year Constant Maturity, Quoted on an Investment Basis." *Federal Reserve Bank of St. Louis, FRED*.

Board of Governors of the Federal Reserve System. "Market Yield on U.S. Treasury Securities at 2-Year Constant Maturity, Quoted on an Investment Basis." *Federal Reserve Bank of St. Louis, FRED*.

Board of Governors of the Federal Reserve System. "Assets: Total Assets: Total Assets (Less Eliminations from Consolidation): Wednesday Level." *Federal Reserve Bank of St. Louis, FRED*.

"Warsh Gets Family Fight as Divided Fed Leaves Rates Unchanged." *Seeking Alpha*.

"Warsh's Faith in Markets Sidelines Nuanced Fed Policy Tools." *Financial Post*.