Warsh holds the line

A patient Fed pauses as inflation risks, fiscal stimulus, and investment strength keep policy firmly data dependent.

As expected, the FOMC held rates steady at the July 29 meeting, maintaining the federal funds target range at 3.50% to 3.75% and marking Kevin Warsh's second meeting as Fed Chair. However, the 9–3 vote and three dissents in favor of a 25-basis-point hike gave the pause a hawkish tone. While the committee did not move rates, the decision came with a clear recognition that the inflation picture remains unsettled and that the path forward is still highly data dependent.

Inflation has moderated from its prior peak, but several forces are pushing in the other direction. The war in Iran and broader conflict in the Middle East have renewed pressure on energy markets and contributed to supply shocks that are driving price increases in certain sectors, including energy. Even if some of these price moves prove temporary, they complicate the Fed's ability to declare victory on inflation, particularly with core measures still running above the 2% target. The committee's statement that it "will deliver price stability" reinforces that inflation credibility remains central to the policy outlook.

At the same time, economic activity remains firm. One of the more important supports continues to be strong capital spending, particularly around technology, infrastructure, artificial intelligence, energy security, and reshoring. This capex cycle has helped sustain growth and reinforce the idea that the economy may be operating with better productivity than in prior expansions.

Fiscal policy is also providing a tailwind. The OBBBA stimulus is expected to support household income, business investment, and broader demand over the coming quarters. While that may help extend the expansion, it also raises the risk that demand remains too strong for inflation to move cleanly back toward the Fed's target.

Labor market conditions continue to look steady rather than weak. Job gains have kept pace with the workforce, and the unemployment rate has changed little, leaving the Fed with little urgency to ease policy while inflation remains elevated. For the Fed, that means there is not yet a clear growth or labor-market reason to ease policy, especially while inflation risks remain elevated.

Against this backdrop, Warsh appears to be choosing patience over pre-commitment. The Fed can remain on hold while it waits to see whether energy shocks fade, whether capex-led productivity can offset stronger demand, and whether fiscal stimulus proves growth-enhancing without becoming inflationary. That combination argues against an immediate move lower, and the three dissents in favor of a hike make clear that the committee is not yet preparing for a dovish pivot.

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One additional change for investors to watch is the expected reduction in FOMC communication going forward. Fewer speeches, interviews, and informal policy signals may limit the market's ability to read the committee between meetings, putting even greater weight on official statements, the Summary of Economic Projections, and the incoming economic data.

Stepping back, this was not a signal that policymakers are ready to ease or hike, but a reminder that the Fed's inflation fight is not yet finished. With energy-related supply shocks, strong investment spending, fiscal stimulus, and three dissents in favor of a hike, Warsh's message was clear: the bar for cuts remains high, but the Fed is prepared to hold the line.

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