August 28, 2026

Warsh's speech is most notable for reiterating his hawkish stand on inflation. While acknowledging that the summer inflation data was better than expected. He downplayed its significance. We disagree.

Warsh highlighted that 54% of prices in the PCE index have risen by 3% over the past year. This approach places less emphasis on large price changes. But we interpret it very differently. Trimmed-mean PCE takes a similar approach by throwing out the bottom 8% and top 8% of price changes. It is only at 2.3% y/y.

Warsh appears to be talking up inflation so that he can claim credit for taming it when headline measures inevitably come down. Since the last FOMC meeting, the labor market data has been weak, and the inflation data has been better than expected. There remains no empirical basis for the rate hike.

The two-year Treasury yield has now risen above 430 bps. This is consistent with a more extensive tightening cycle-along the lines of 50 bps of hikes with the Fed staying there deep into 2028. Such a policy would batter the labor market and compel the Fed to come back down well before then.