

# PALOS

## The Palos Perspective

Issue No. 20 | June 19, 2026

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*A Macro Market View by Hubert Marleau*

## The Federal Reserve Has Spoken

Last week, I wrote that the market faced a key inflection point, as tensions in the fragile truce between the USA and Iran had mounted, inflation jitters crept in and AI giants were either raising huge amounts of capital, or planning to do so, to fund their data centres. The situation brought about concerns at the trading, speculative and investor levels, resulting in a series of wild and dreadful sessions. Thankfully, the drawdown was short-lived because the three altercations waned as the week progressed, returning excitement to the AI ecosystem, thereby rallying the S&P 500 to 7,431 for a weekly gain of 0.7%.

In the week of June 14, the US and Iran peace deal, following a 60-day ceasefire memorandum of understanding to reopen the Strait of Hormuz and to lift the US naval blockade on Iran, has set the stage for future discussions on Iran's nuclear program, which led to a significant drop in the global benchmark Brent oil price from a recent peak of \$110.81 per barrel to \$79.44: a peace dividend that partially drained the inflation scare, allowing strong corporate earnings and relatively easy financial conditions to propel both stock and bond prices higher, and allow traders to refocus on monetary policy and assess the debut of Kevin Warsh as Chair of the Federal Reserve.

### The Fed Shifts Its Monetary Stance Toward Tightness

The officials of the Federal Reserve's FOMC decided to hold their policy rate steady, around 3.625%, in a unanimous vote, but signalled a hawkish pivot in thinking towards potential rate hikes in 2026, because the economy is presently running strong at an annual pace of 2.5%+ in real terms with inflation accelerating to 4.2% year-over-year and the employment rate holding firm around 4.3%. According to CME's Fed Watch tool, the market is now pricing in one or two rate hikes in 2026, which makes good sense because the Fed's monetary stance has not been tight for some time. Bloomberg's US Financial Conditions Index is near post-pandemic highs: the policy rate (3.75%) is 50bps lower than the neutral rate (4.25%); the yield curve is positive across the board; and the path in growth of

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the US money supply, currently running at an annual rate of 5.0%, is sufficient to finance the expansion of the economy. Moreover, investors should note that all and more of the increase in bond yields is the direct result of a rise in real rates, stemming from the boom in AI capital spending and productivity and not rising inflation expectations.

### **The Debut of Kevin Warsh as Chairman of the Fed: A New Era Has Begun**

Fed Chair Kevin Warsh's unambiguously hawkish message surprised the markets as he clearly prioritized fighting inflation in the short term. He hates above-target inflation, forward guidance and long-winded statements. In an effort to restore credibility in the powerful Federal Reserve Bank, he intends to rearrange the relationship between the central bank and the financial markets by making sure that the latter will react to incoming economic data rather than having investors betting on what the central bank itself will do. In this connection, he already has. First, the FOMC's official statement had only four terse paragraphs, cutting out long, wordy, tedious explanations and diffuse forward guidance, favouring instead big-picture statements and quicker and decisive moves. Secondly, he dodged "what if" questions from reporters. Thirdly, he argued that the Fed needs a nuanced understanding of the relationship between growth and inflation, as AI and other technological changes are transforming the economy. Fourthly, he will form five task forces to focus on communications, the balance sheet, economic-data usage, productivity and jobs, and inflation frameworks, opening a new chapter for the Fed through fresh thinking. Put simply, a new monetary policy era has begun that will no longer spoon-feed investors. It might be disruptive, leading to more bond volatility, but will likely be a good thing because it will force them to do their homework.

### **The Stock Market**

Given that we have a hawkish Fed chairman dovishly cloaked in an economy that is pacing forward with energy prices tumbling and corporate earnings rising strongly, most forecasters are still predicting an 8,000 S&P 500 before year-end.

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