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AZIMUT GLOBAL VIEW

22.06.26

Main Events

US CORE PCE
The Fed's preferred measure of inflation is expected to remain quite tamed at 3.4%
25.06

JAPAN RETAIL SALES
Japan retail sales are trending higher for the past few months, suggesting that the economy is improving
29.06

EU CPI
European inflation is expected to peak with this reading, potentially allowing the ECB to reconsider whether to continue raising rates
01.07

NON-FARM PAYROLL
Will the US labor market's recent improvement continue?
02.07

Azimut Global Network

- Milan
- Abu Dhabi
- Austin
- Cairo
- Chicago
- Dubai
- Dublin
- Hong Kong
- Estoril
- Istanbul
- Lugano
- Luxembourg
- Mexico City
- Miami
- Monaco
- New York
- Santiago
- São Paulo
- Shanghai
- Singapore
- St Louis
- Sydney
- Taipei

WARSH STARTS WITH A BANG

- **At his first meeting at the helm of the Fed, Warsh pledged to restore price stability. It was a hawkish debut, aimed at dispelling doubts about the Fed's independence**

- **Several changes have to be expected in the Fed's modus operandi, ranging from the gradual phasing out of forward guidance to the establishment of various task forces charged with reviewing current practices on communication, balance sheet, data sources, productivity and the inflation framework**

- **Any hint of a possible reduction in the balance sheet could unsettle markets, as the ample liquidity has been one of the main factors driving the rise in asset prices in recent years**

Federal Reserve Chairman Kevin Warsh vowed to restore price stability following his first policy meeting since taking the helm of the US central bank, after officials left interest rates unchanged and signaled growing support for rate hikes this year. Officials "are unambiguous and unanimous. This committee will deliver price stability."

During the press conference, Warsh made it unequivocally clear that he intends to depart from the Fed's established practices by establishing five task forces tasked with reviewing some of the Fed's longstanding practices. Before delving into these reform proposals, let's focus on the key takeaways that emerged from the latest FOMC meeting. Markets viewed the meeting as a hawkish surprise, driven primarily by:

- The removal of the easing bias in the statement.
- An upward revision in inflation expectations for 2026 (median forecast for inflation this year jumped to 3.6% from 2.7%), though mostly unchanged in outer years
- Nine FOMC participants projecting a hike in 2026
- A fairly hawkish rhetoric throughout the press conference, emphasizing the imperative mandate to bring inflation back to target.
- Despite the Fed's dual mandate, Warsh mentioned inflation 19 times in the press conference while discussing employment only once

While still way too early to draw definitive conclusions on Warsh's views, looking through the initial market reaction, we believe his stance is consistent with the expectations we outlined in early February, at the time of his nomination.

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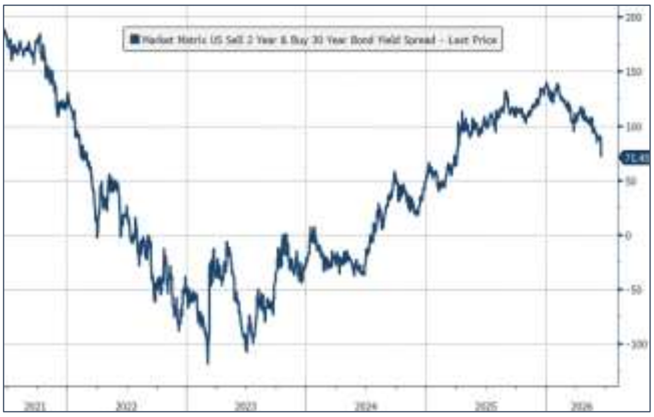
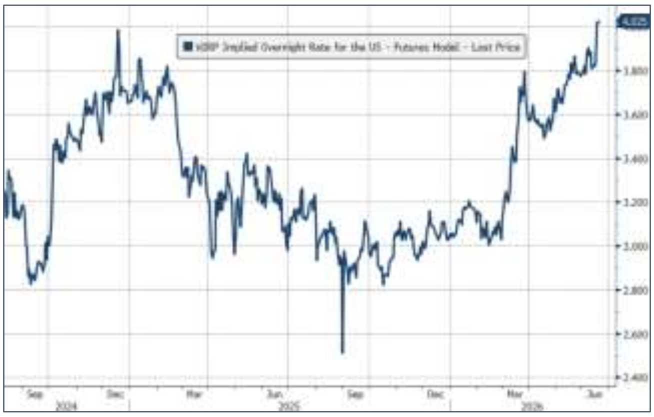


Source: Bloomberg



Source: Bloomberg

Warsh's choice—we stated—should be welcome news in terms of containing concerns about the Fed's subservience to political interests. It is therefore not surprising to us to see a "hawkish debut", aimed at dispelling doubts about the Fed independence. In this respect, the huge flattening in the US Yield Curve can be interpreted as a "mission accomplished."

Warsh used the conference as an opportunity to offer hints about how the Fed might change under his leadership. The Fed press release was much more concise than in the past, a move aimed at phasing out the so-called forward guidance, "which we agreed was not well suited to the current policy environment," adding later in the press conference that "at this moment in time it doesn't feel as though providing forward guidance is right" and "forward guidance isn't the business we should be in." Likewise, with respect to SEP, he said he encouraged his colleagues to continue submitting these projections, but he added "I, however, have refrained from offering any projections of my own, consistent with my long-held views on the SEP, at least as currently structured." To further downplay the importance that should be attached to the dots, he added that his colleagues "didn't feel bound by them six weeks from now, or six days from now, and in the event that their circumstances change."

Warsh therefore wants the Fed to be free from the constraints of past projections or forward guidance, so that it can act in the most appropriate manner at each meeting—adjusting its stance if necessary—based on the most up-to-date information. Much of the data used today as the basis for monetary policy decisions comes from "old-fashioned survey methods" that "ask questions that might have been quite relevant a generation ago"

Warsh wants "real-time information that isn't subject to much revision and that tells them what just happened at that very moment," as "what we're less interested in are echoes of history." As an example of data he considers uninformative, he cited one of the most closely monitored indicators today—non-farm payroll—which he said is reliable only after the third revision, hence outdated.

One of the five task forces he announced during the press conference will indeed be tasked with identifying which other data—including from the private sector—are informative of what is happening at the very moment of the FOMC meetings take place and can be factored into monetary policy decisions. Interestingly, he stated that he wants to reverse the action-reaction dynamics between the Fed and financial markets by saying, "Financial market prices are probably the most important source of information to guide central bankers. But when all the financial markets are doing is reflecting back what we've said, then we're taking the most important source of information and turning a blind eye to it. I'd like us to create a system where those blinders come off." His intention to downplay or phase out forward guidance also points in this direction.

But perhaps the most important passage was when Warsh was asked whether he considers the Fed's monetary policy to be restrictive: "It's uneven. If I look at the housing markets as one example [...] I would say the Fed policy appears to be somewhat restrictive. I would have a hard time managing to say those words if I were to see what's happening in financial markets," adding that this might be explained by the fact that there are different transmission mechanisms for monetary policy depending on whether the Fed acts on interest rates or its balance sheet.

(continued)

It can be inferred that Warsh—subtly using the real estate market as a point of comparison—expressed a sense of unease regarding the recent euphoria in the financial markets, both in the stock market, where valuations have reached record levels, and in the bond market, where spreads are at historic lows. Likewise, one can also infer that this investor bullishness stems from the huge amount of liquidity still available in the markets, which originates precisely from the Fed's balance sheet.

This view is very much in line with what Warsh has expressed on some occasions in the past, not least in a Wall Street Journal article back in November, in which he wrote, among other things: "Money on Wall Street is too easy, and credit on Main Street is too tight. The Fed's bloated balance sheet […] can be reduced significantly. That largesse can be redeployed in the form of lower interest rates to support households and small and medium-sized businesses." It is no coincidence that, among the five task forces, there is one dedicated specifically to studying the benefits and risks of the current ample reserve regime.

Everything considered, at the next FOMC the hawkish message conveyed by the dot plot could be largely tempered, given Warsh's emphasis on the need to phase out forward guidance and rely on real-time information at each meeting. If the Strait of Hormuz remains open and the recent drop in oil prices proves lasting, the Fed will be able to send a much more dovish message on rates, given that much of the rise in inflation recorded since the start of the year will likely be reversed, as the 2% target could again appear within reach. Conversely, any hint of a possible reduction in the balance sheet could unsettle the markets, particularly in light of both the substantial capital required to develop the AI infrastructure and investors' growing reliance on leverage, especially among retail investors.

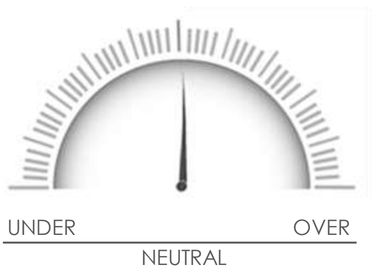
Asset Allocation View

	UNDER (−)	NEUTRAL (=)	OVER (+)
Equity			
Developed Markets		■	
Emerging Markets		■	
Fixed Income			
Developed Markets Sovereign		■	
Developed Markets Corporate			■
Emerging Markets			■
Commodities		■	
Currencies		*Commentary below*	

(−) UNDER (=) NEUTRAL (+) OVER

Equity

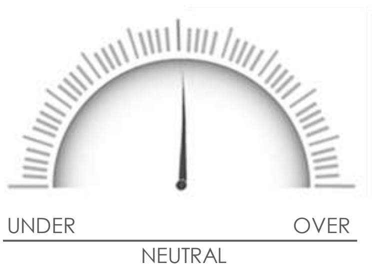
Developed Markets



We maintained the **Neutral** recommendation on Developed Market equities. The huge concentration of the rally in a limited number of stocks and lofty valuations currently represent the two main sources of vulnerability, leaving equity markets exposed to further bouts of volatility. However, as long as macroeconomic data does not point to a slowdown, corrections should still be viewed as buying opportunities, especially if the rally were to broaden to a larger number of stocks.

US	Europe	Japan
(=) Neutral	(−) Under	(=) Neutral

Emerging Markets

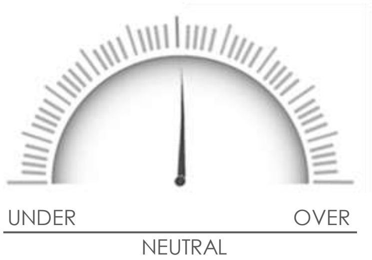


We kept our **Neutral** stance on Emerging Market equities. The same considerations outlined above for developed markets apply equally to emerging markets. The latter benefit from lower valuations and are expected to benefit the most from the resumption of oil and other commodity flows through the Strait of Hormuz, with Asian countries benefiting particularly. On the other hand, the renewed strength of the US Dollar will likely represent a headwind for emerging markets in the short term.

Asia ex-Japan	EEMEA	LATAM
(=) Neutral	(−) Under	(+) Over

Fixed Income

Developed Markets Sovereign



We have kept our **Neutral** recommendation on Developed Market sovereign bonds. In light of the more restrictive stance adopted by major central banks at their June meetings and the decline in interest rates—particularly in the long ends of the yield curves—we still believe that a **neutral recommendation** is the most appropriate, albeit with greater caution than two weeks ago. Among the major yield curves, we favor the European ones, while we are more cautious regarding the US yield curve.

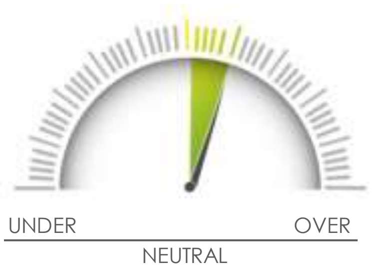
EU Core	=	**EU Periphery**	=	**US Treasury**	=	**Japanese JGB**	=

Developed Markets Corporate

We kept our **Slightly Overweight** recommendation on Developed Market corporate bonds. The hunt for yield continues, fueled by ample liquidity, with spreads nearing all-time lows. Not even the recent volatility in the stock market has had any impact on credit spreads. This is a sign of strength, and if global growth continues to hold up relatively well, there is no reason to be overly cautious and exit the market prematurely. Within credit, we continue to prefer investment-grade bonds over high-yield.

IG Europe	+	**IG US**	+	**HY Europe**	−	**HY US**	−

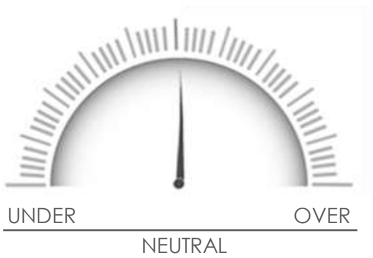
Emerging Markets



We left our recommendation on Emerging Markets Debt unchanged at **Slightly Overweight**. The reasons are the same as those just outlined for developed countries' corporate bonds.

Local Currency	=	**Hard Currency IG**	=	**Hard Currency HY**	=

Commodities



Our recommendation for commodities remains **Neutral**. We maintain a cautious stance on precious metals, given headwinds from central bank selling and the higher-yield environment. Over the medium to long term, however, our view remains positive. On industrial metals, we are more bullish, driven by growing competition for essential raw materials.

Precious	=	**Energy**	=	**Industrial**	=	**Agricultural**	=

Currencies

We have upgraded our recommendation on the US Dollar to **Slightly Overweight** in light of the more restrictive stance taken by the Fed under Warsh's leadership, as discussed in the Prologue.

The view on the Euro has been downgraded to **Neutral with a bearish bias**, as a reflection of the upgrade in the recommendation for the US Dollar.

We have maintained our recommendation on the **Chinese Renminbi** to **Neutral**, but no longer with a bullish bias.

The outlook for other **emerging markets currencies** has been confirmed as **Neutral with a bullish bias**, with a preference for currencies of countries that are net exporters of energy commodities.

Euro	=	**USD**	=	**CNY**	=	**Other EM**	+