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Fed holds rates but signals hawkish bias

Market update

18 June 2026

Summary

- **The Fed held rates steady, but signaled a more hawkish stance, with projections skewed towards further hikes and a stronger focus on inflation.**
- **Fed Chairman Warsh's preference for reduced forward guidance is likely to lead to greater volatility in the rates as well as other asset markets going forward. We remain focused on quality carry in the bond markets and disciplined on valuations in the equity markets.**

The Fed turns hawkish

The Federal Reserve (Fed) kept the Fed Funds target rate unchanged, as expected, at 3.50% - 3.75%. However, the June FOMC leaned hawkish with 9 policymakers projecting rate hikes in 2026 and 8 members expecting no change. Only one member expects a cut. New Fed Chairman Warsh did not submit a projection again, as expected.

The FOMC statement shortened significantly but reads slightly hawkish with a new, greater emphasis on inflation. Markets are now pricing in 27 bps of hikes by the October meeting and a peak of 47 bps by March 2027. At the point of writing, 2-yr and 10-yr Treasury yields rose 13.3 bps and 4.7 bps respectively. The 30-yr yield fell 1.2 bps, perhaps an early reflection that Warsh could recommit the Fed to low inflation. The S&P 500 fell 1.2% and the USD rallied, pushing the DXY Index just below its highs of the past year.

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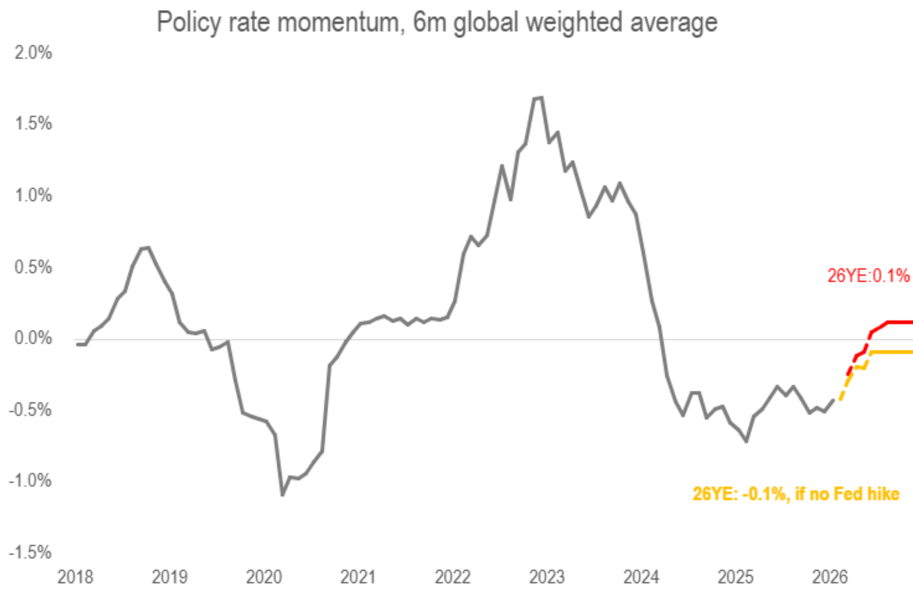
Warsh gave little guidance at his press conference, as he moved the Fed away from forward guidance and market handholding. He did, however, characterise Fed policy as restrictive for some sectors and not for others because of different Fed tools. Policy is restrictive for housing, but stimulative for financial markets and Warsh believes that much of the latter is due to the size of the Fed's balance sheet i.e. its holdings of Treasury and Agency securities. He announced five new task forces to examine the Fed's operations including its balance sheet, how it communicates, and forecasts inflation.

Investment implications

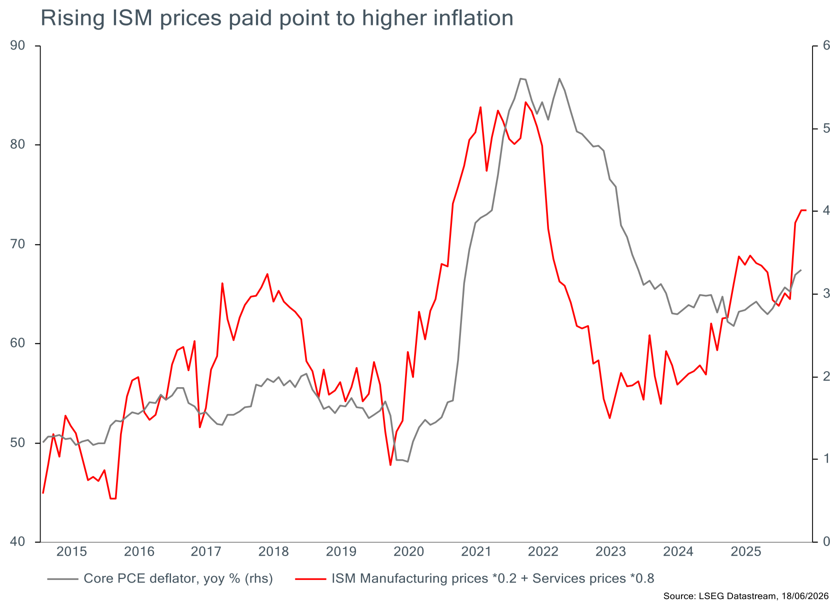
Our **Chief Economist Ray Farris** believes that the Fed will hike 25 bps this year as recent indicators suggest that US employment has improved. While payrolls over the next month or two could be softer than the prior two, employment is likely to continue to expand and the US labour market should appear relatively robust in time for the October FOMC meeting.

We believe that the Fed will hike 25 bps this year.

If the Fed does end up hiking, it would shift the global monetary policy cycle from the easing trend of the past two years towards tightening.



Inflation is likely to grind higher based on the recent sharp increases in both US and Asia PMI price indexes and what corporates have been saying about pricing pressure. To note, Apple announced yesterday that it will be raising prices on the back of surging memory and storage costs. Ray also expects the Fed to announce a programme by year-end that will shrink its holdings of Treasuries and Agencies starting from early 2027. The likelihood that the Fed may cease its purchases of T-bills ahead of this cannot be ruled out.



Fed Chairman Warsh's preference for reduced forward guidance is likely to lead to greater volatility in the rates and other asset markets. Having defensive income-paying or low volatility strategies can help anchor portfolios. While we like **long-term structural themes such as AI**, we remain **disciplined on valuations** given potential crowding and concentration risks.

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With the cycle of falling rates behind us, our **Asia fixed income team** remains prudent on duration and focused on **quality carry**. They are selective on local currency credit opportunities and in particular, believe that **SGD credits** offer **attractive volatility-adjusted returns**.

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Our **multi-asset solutions team** has a neutral 3-month tactical view on global equities. Valuations appear increasingly stretched following the recent market rally that pushed the S&P 500 to record highs. Underlying fundamentals may be more challenged going forward as rising energy prices and yields begin to weigh on US consumer spending and housing. In addition, elevated volatility and crowded positioning, particularly in tech and AI suggest a higher risk of near-term fluctuations in their view. Within equities, the team currently maintain a **tactical preference for Emerging Markets and Asia** over the US and Europe given more attractive relative valuations.

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