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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **July 22, 2026**

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Last week's S&P 500 Index: -1.6%

Warsh's Fed: Keeping its eye on the inflation ball

Key takeaways

- **Warsh's Federal Reserve (Fed) is staying inflation-first**. The Fed is signaling that it is not ready to declare victory and may keep policy tight if inflation remains stubborn.
- **Short-term fixed income has a role**. With rates likely to stay elevated, short-term bonds, certificates of deposit, and money-market funds can help investors earn income while limiting interest-rate risk.

Kevin Warsh became Federal Reserve Chair in May 2026, replacing Jerome Powell. Warsh, a former Fed governor, has made his message plain: inflation is still job one for the Fed.

In testimony before Congress, Warsh said the Fed's "number one objective is to get monetary policy right" and that, "if we get policy right — and we will — the inflation surge of the last five years will be a thing of the past." He also said Fed policymakers "have no tolerance for persistently elevated inflation" and remain committed to restoring price stability. In plain English, Warsh is telling markets that the Fed is not ready to declare victory over inflation.

Warsh also pointed to artificial intelligence (AI) investment as an important force in the economy. In the near term, heavy spending on data centers, equipment, and software could put pressure on some prices. Over time, though, better technology may help companies become more productive, which could ease inflation pressure. That is a fancy way of saying AI may be a little bumpy at first, but it could help the economy run more efficiently down the road.

What does this mean for interest rates?

Our base case remains that the Fed does not raise rates in 2026. Still, Warsh's comments make clear that the Fed wants to keep its options open. If inflation cools, the Fed can likely stay on hold. But if inflation proves harder to bring down, investors should not be surprised if the Fed keeps rates higher for longer — or even considers another hike. Put simply, the next few inflation reports matter.

Why short-term fixed income still looks attractive

Short-term fixed income looks useful because investors can still earn attractive income without taking as much interest-rate risk as they would in longer-term bonds. That is one reason we recently upgraded short-term fixed income to favorable. Short-term Treasuries, certificates of deposit, and money-market funds may not be flashy, but they can do a lot of work in a portfolio when the Fed is focused on inflation and rates are likely to stay elevated. Sometimes the boring part of the portfolio earns its keep.

Bottom line: Warsh's Fed appears firmly focused on inflation. We still expect no rate hikes this year, but the Fed may keep policy tight if inflation does not continue to improve. For investors, we believe short-term fixed income remains a practical way to earn income while keeping risk in check.

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