



# Warsh will Shrink Fed Balance Sheet

June 2026

Chris Low, Chief Economist

# Iran standoff drags into June

- Uncertainty anchors Fed on hold
- US economy should be modestly boosted
- Inflation already higher

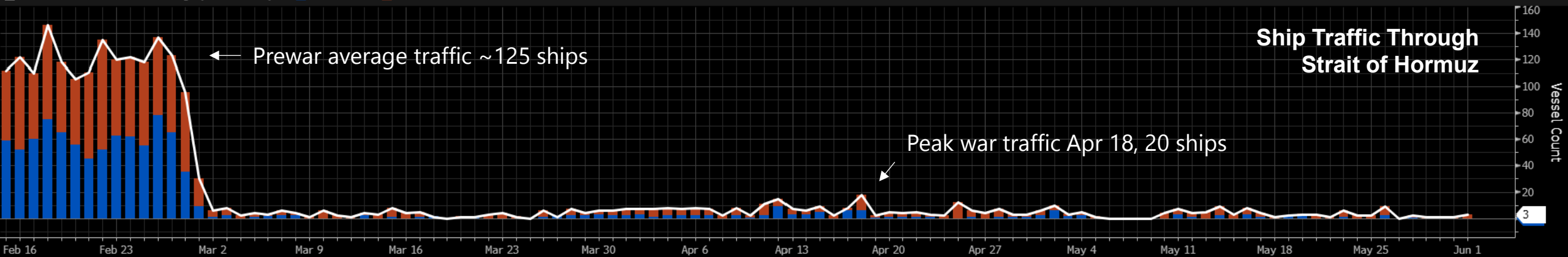


Hormuz commercial cargo vessel crossings (Rolling 24Hr Vessel Count)

Total Commercial Vessel Crossings (Bidirectional) Group by [By Direction](#) [By Vessel Type](#)

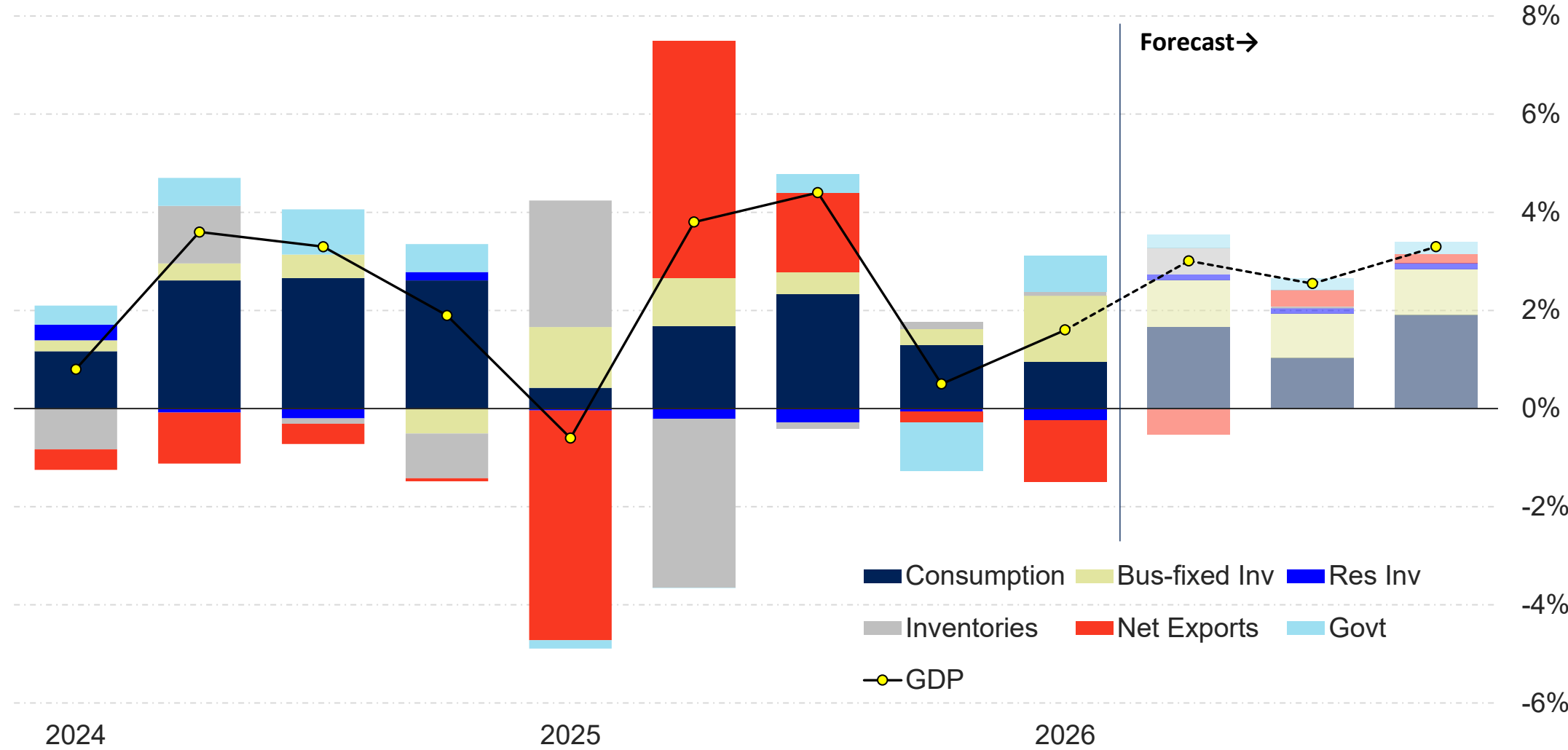
Bloomberg vessel tracking on IMO<GO>

■ Total Commercial Vessel Crossings (Bidirectional) 3 ■ East>West 0 ■ West>East 3



# Q1 GDP 1.5%, Q2 shaping up stronger

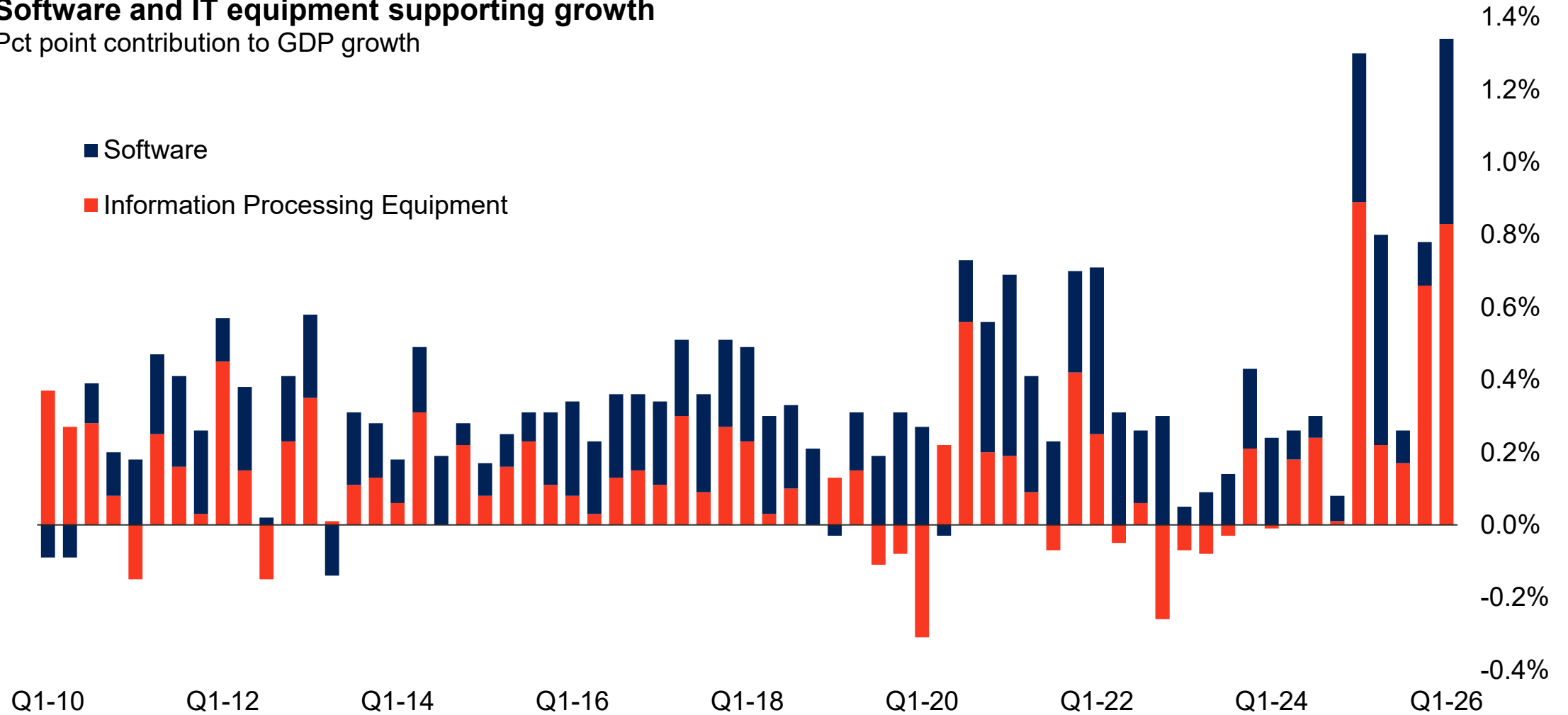
GDP forecast and contributions



# AI buildout powerful source of growth

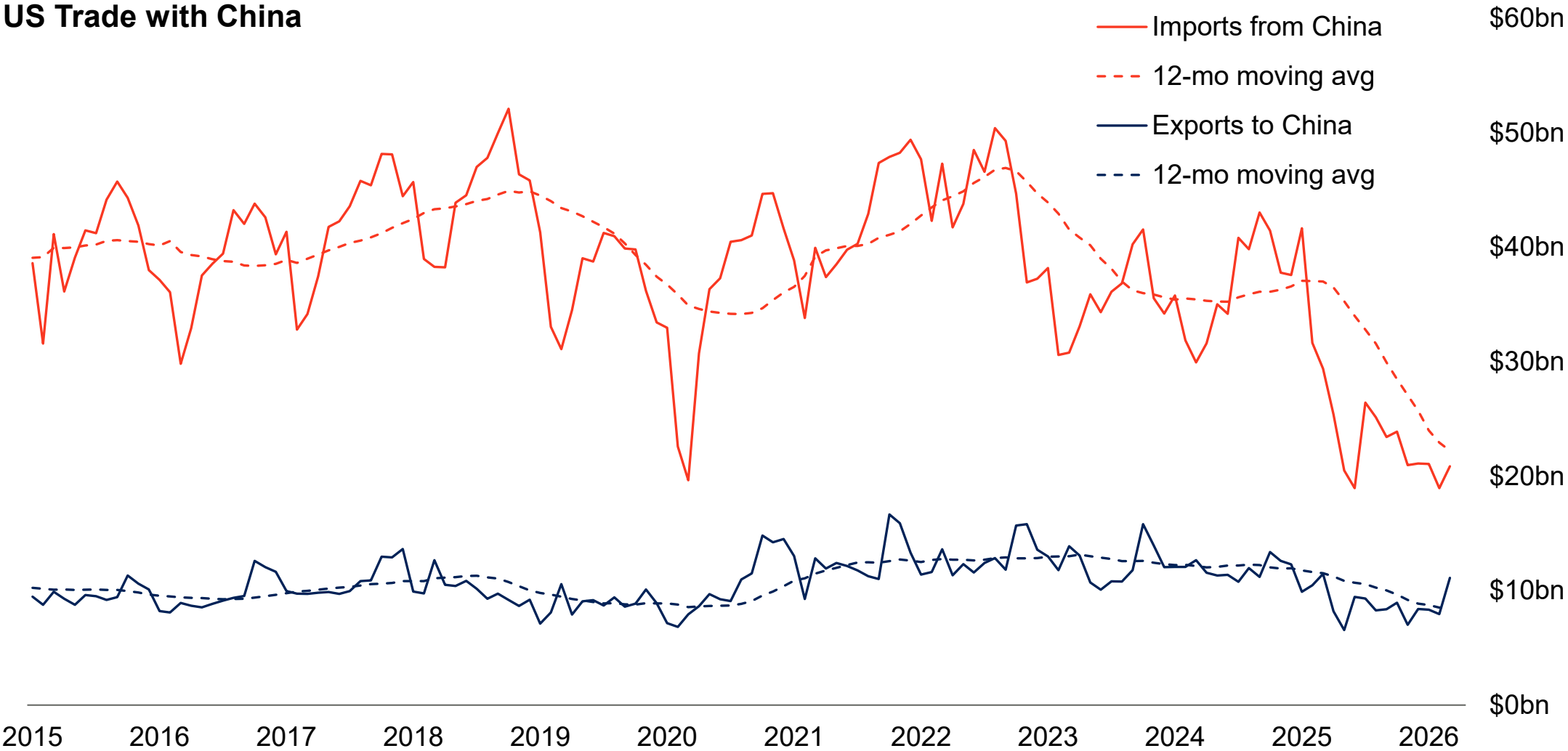
## Software and IT equipment supporting growth

Pct point contribution to GDP growth

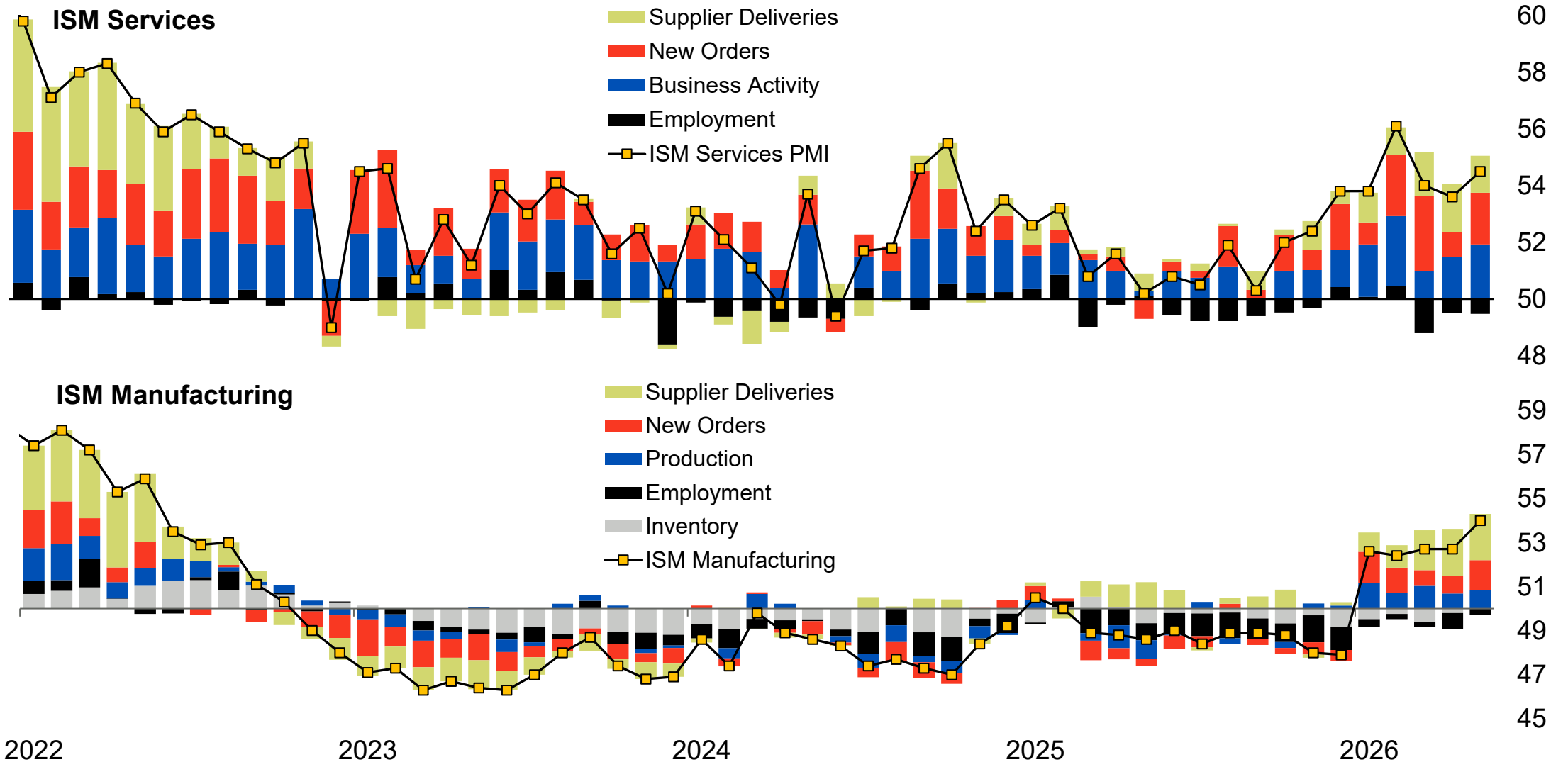


# Onshoring is real

## US Trade with China



# ISMs strongest since 2022



# YTD S&P 500 sector performance

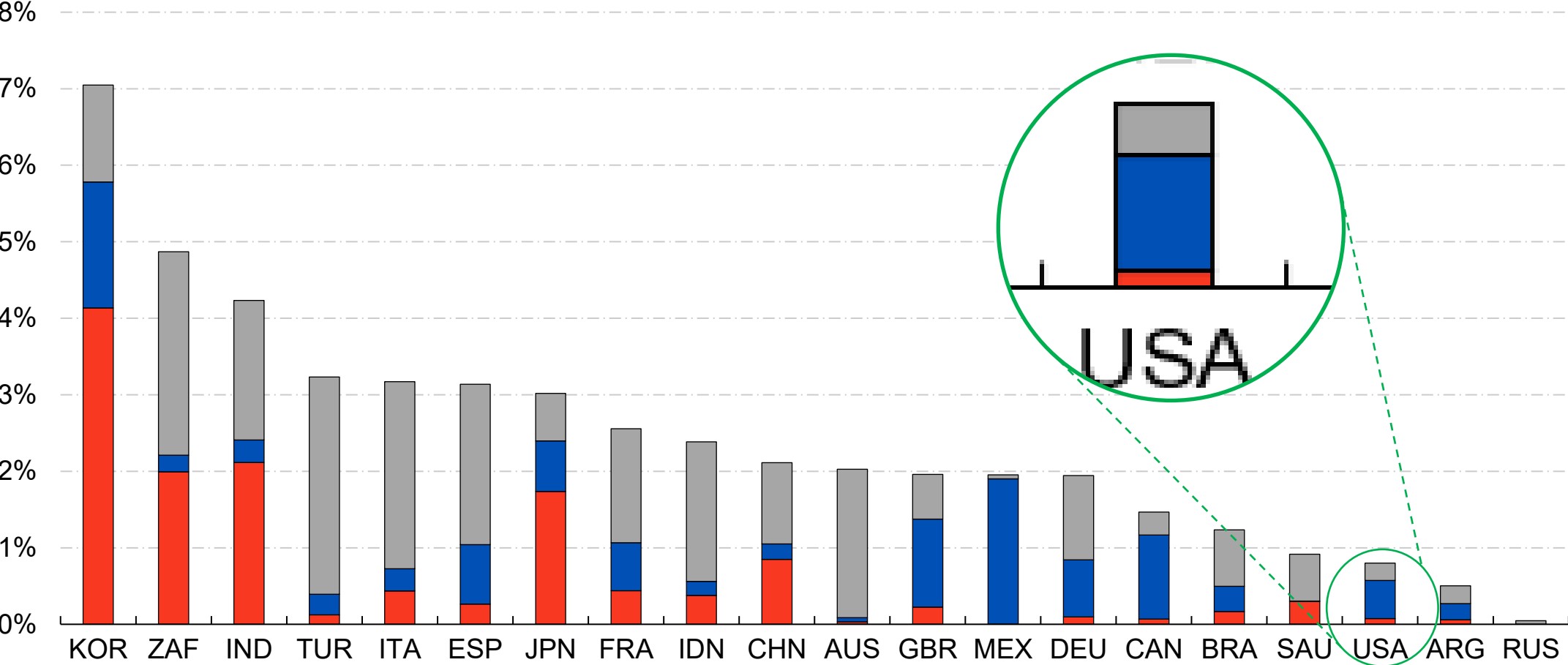


# Global disparity in oil & gas imports

## OECD: Oil & Gas Imports

% of GDP 2024

■ Middle East    ■ Selected OECD    ■ Rest of World





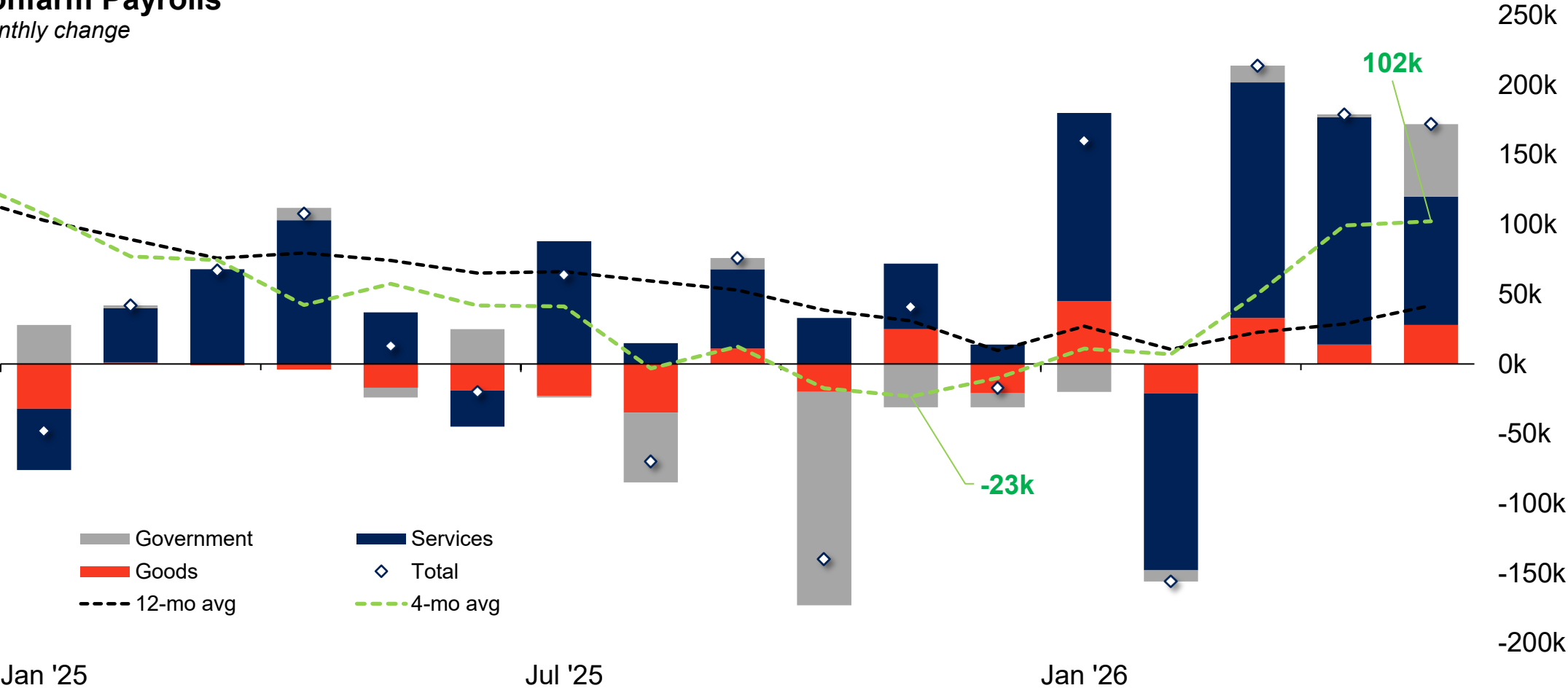
Employment recovery continues

# Strengthening payroll recovery

2024 avg 121k; 2025 avg 9.6k; YTD avg 111.4k

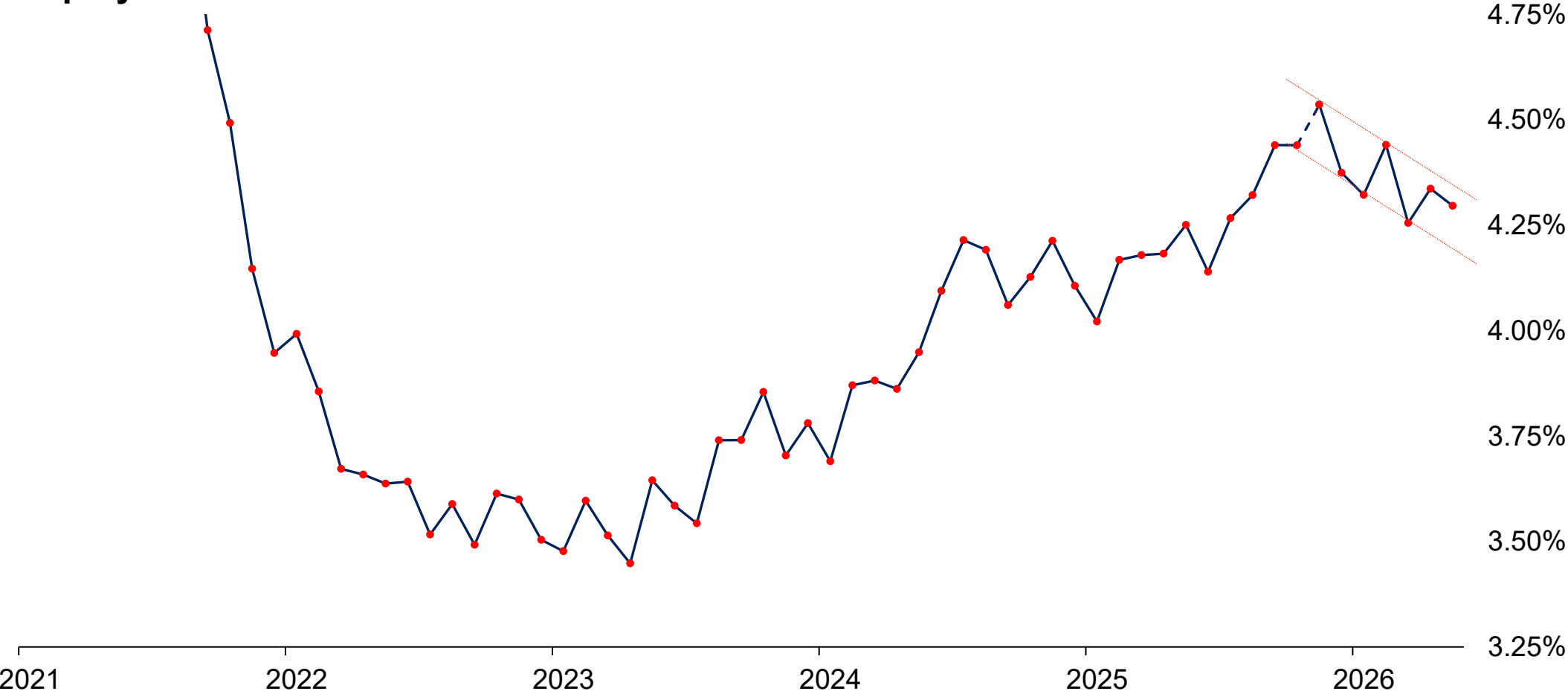
## Nonfarm Payrolls

Monthly change



# Unemployment slowly dropping

Unemployment Rate



# Inflation jumps on gas price spike

- Core PCE inflation creeping higher
- Fed will not cut until with PCE rising
- Fuel prices jumped in March and April
- Could lift inflation through 4% this week



# PCE inflation 3.8%

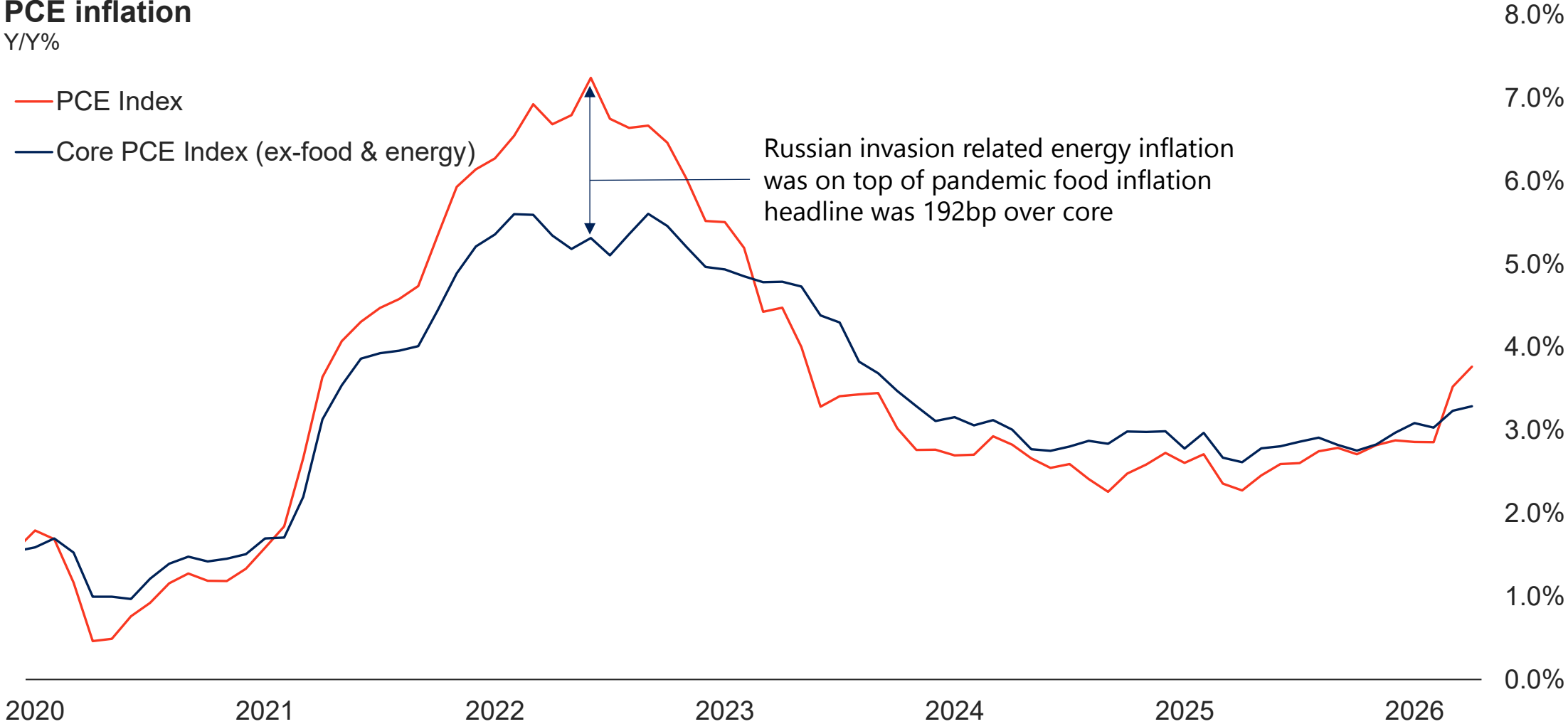
## PCE inflation

Y/Y%

— PCE Index

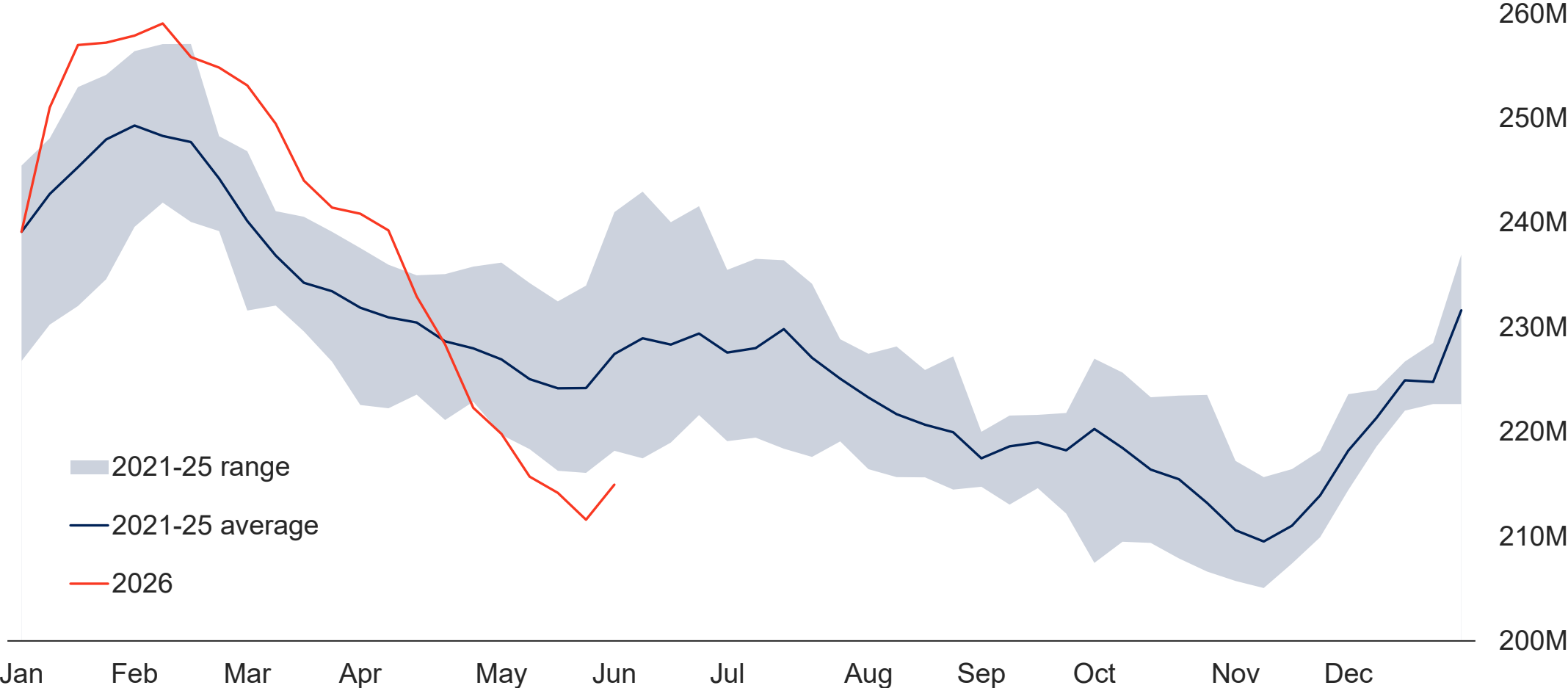
— Core PCE Index (ex-food & energy)

Russian invasion related energy inflation was on top of pandemic food inflation headline was 192bp over core



# Gasoline inventories are tight

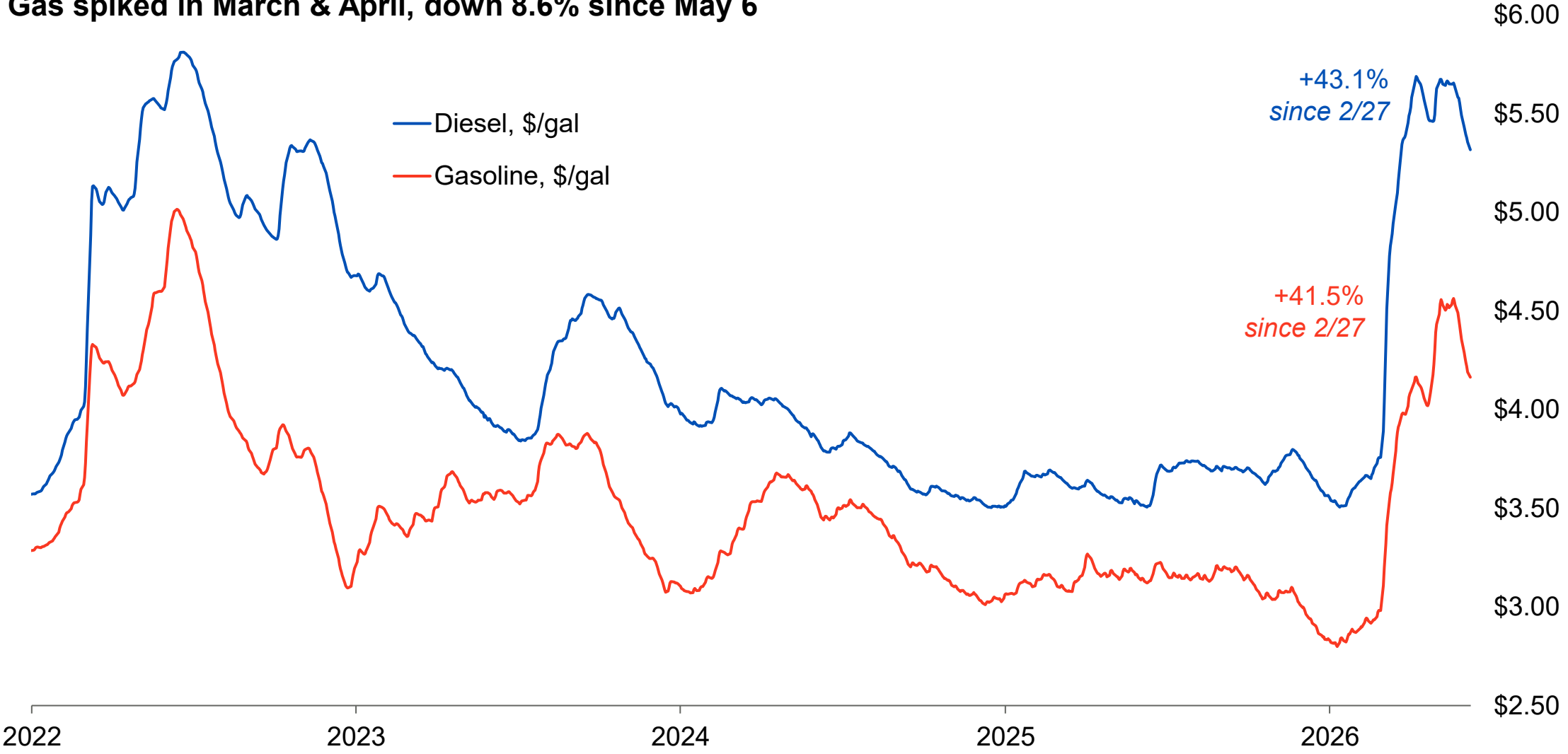
Gasoline inventories



Source: Department of Energy

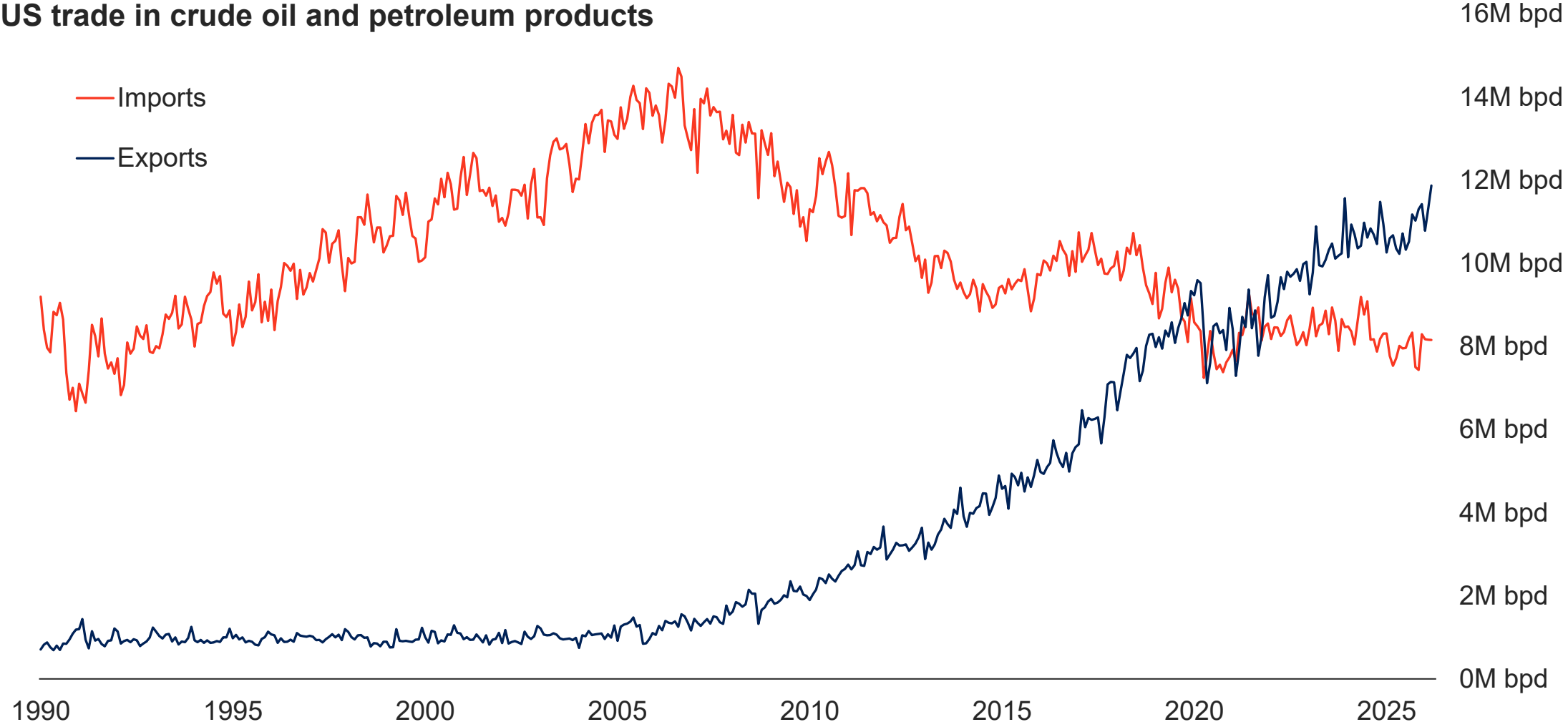
# Fuel prices starting to subside

Gas spiked in March & April, down 8.6% since May 6



# US exports more petroleum than it imports

US trade in crude oil and petroleum products

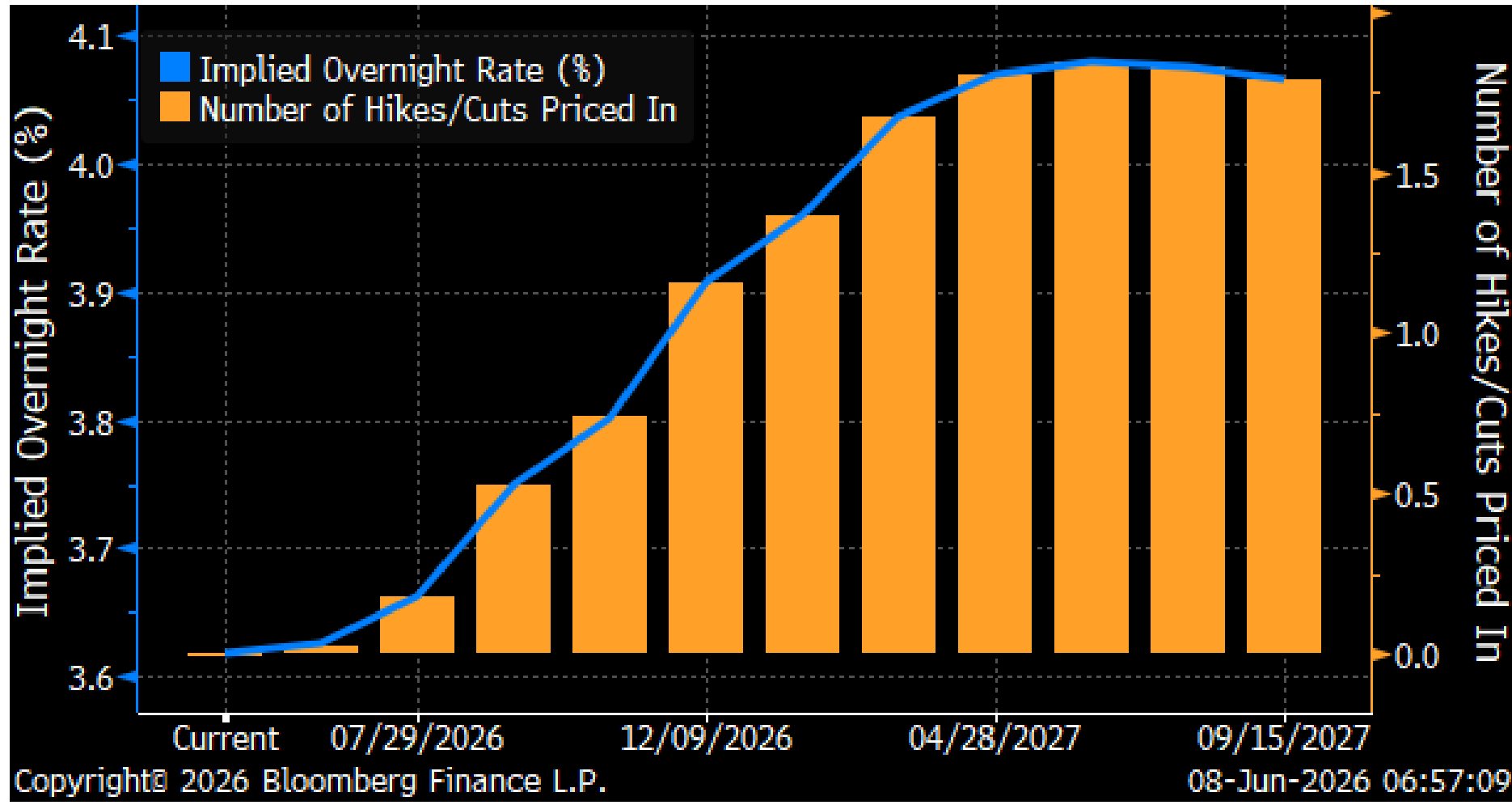


# Fed sidelined by inflation

- No cuts until inflation definitively lower
- Traders see no cuts in '26 & '27
- One hike now in by December
- Expect ECB & BOE hikes in Jun and Dec

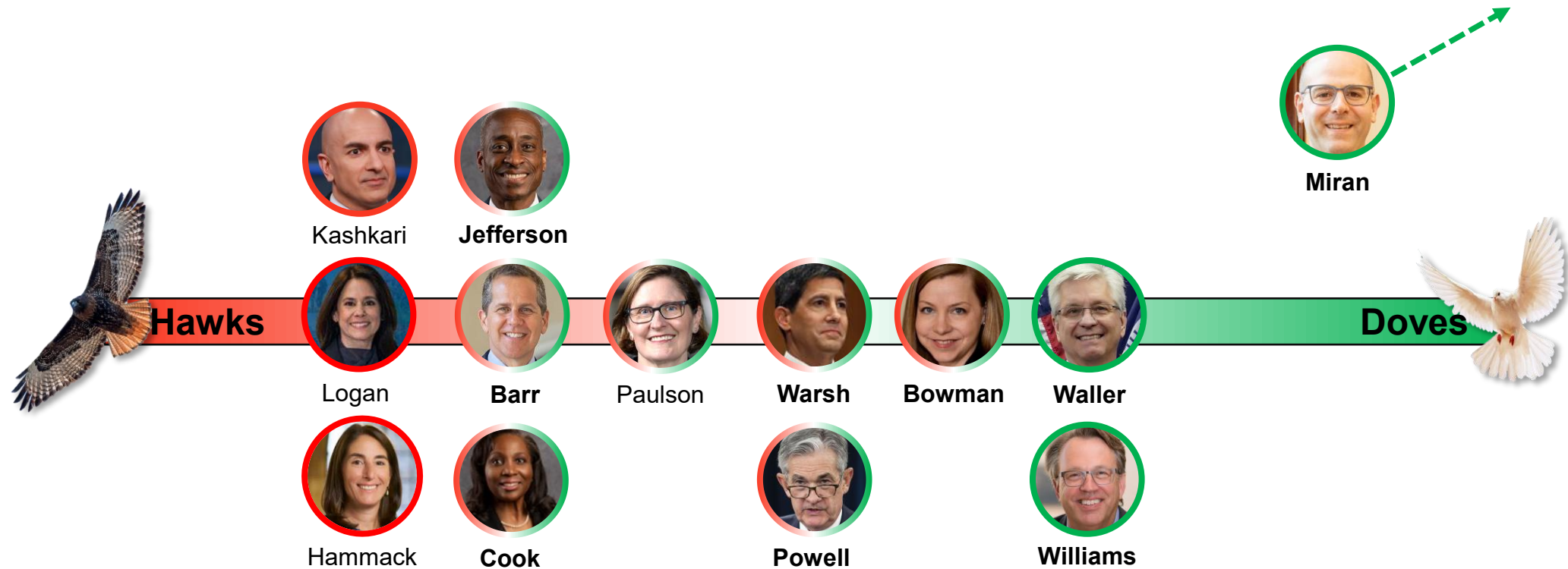


# Traders leaning toward early 2027 rate hike



# The FOMC Hawkometer – 2026 voters

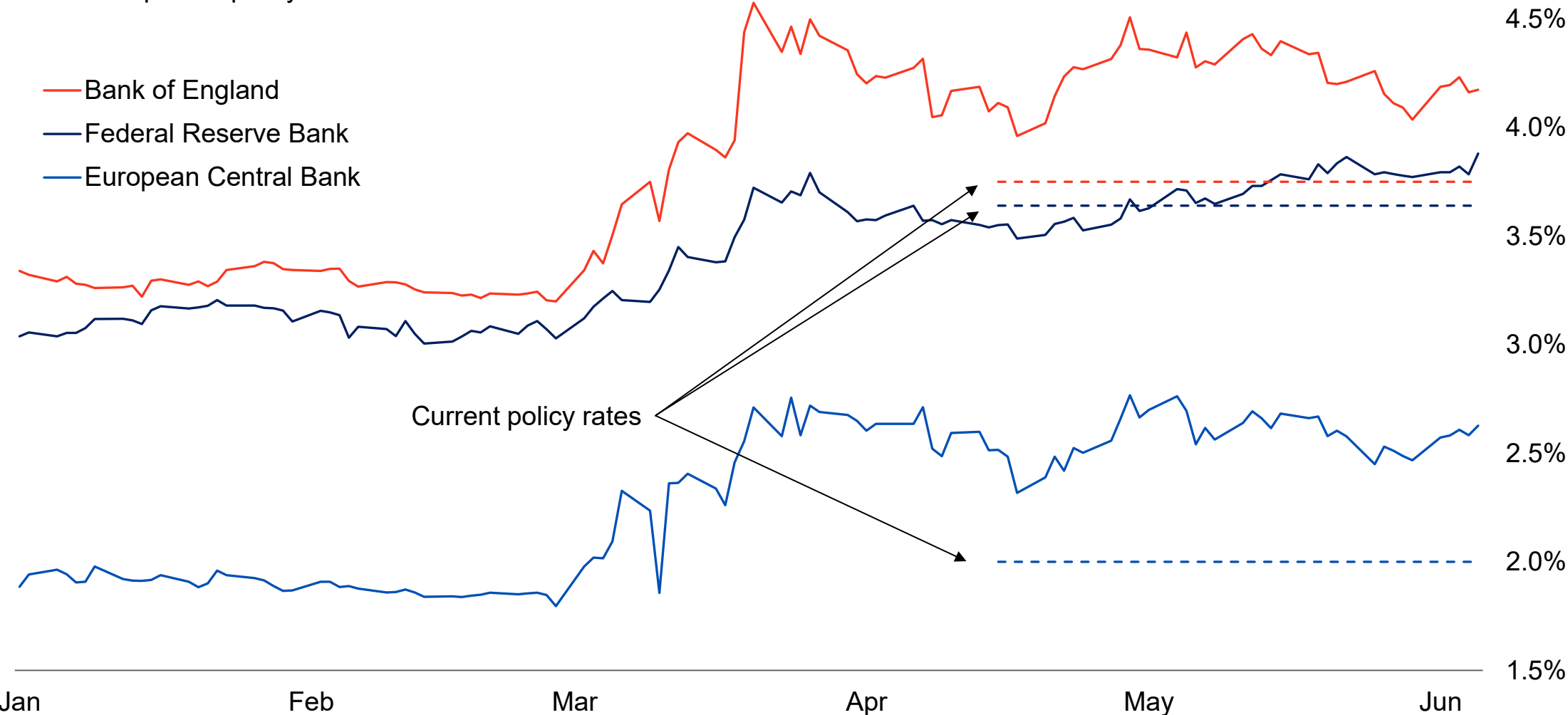
Governors in bold



# World interest rate end-2026 expectations

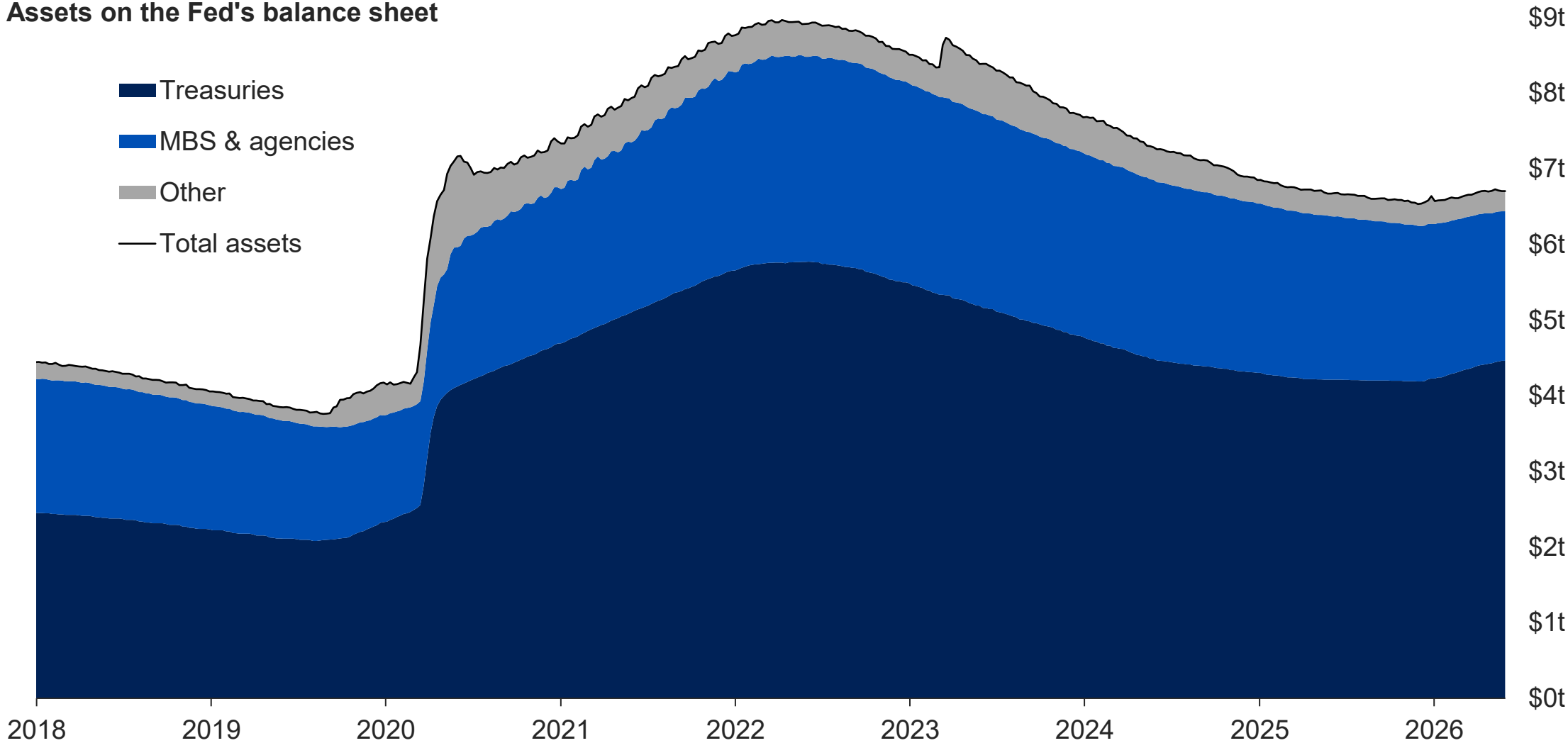
## BOE and ECB expected to hike, but not the Fed

Year-end expected policy rates



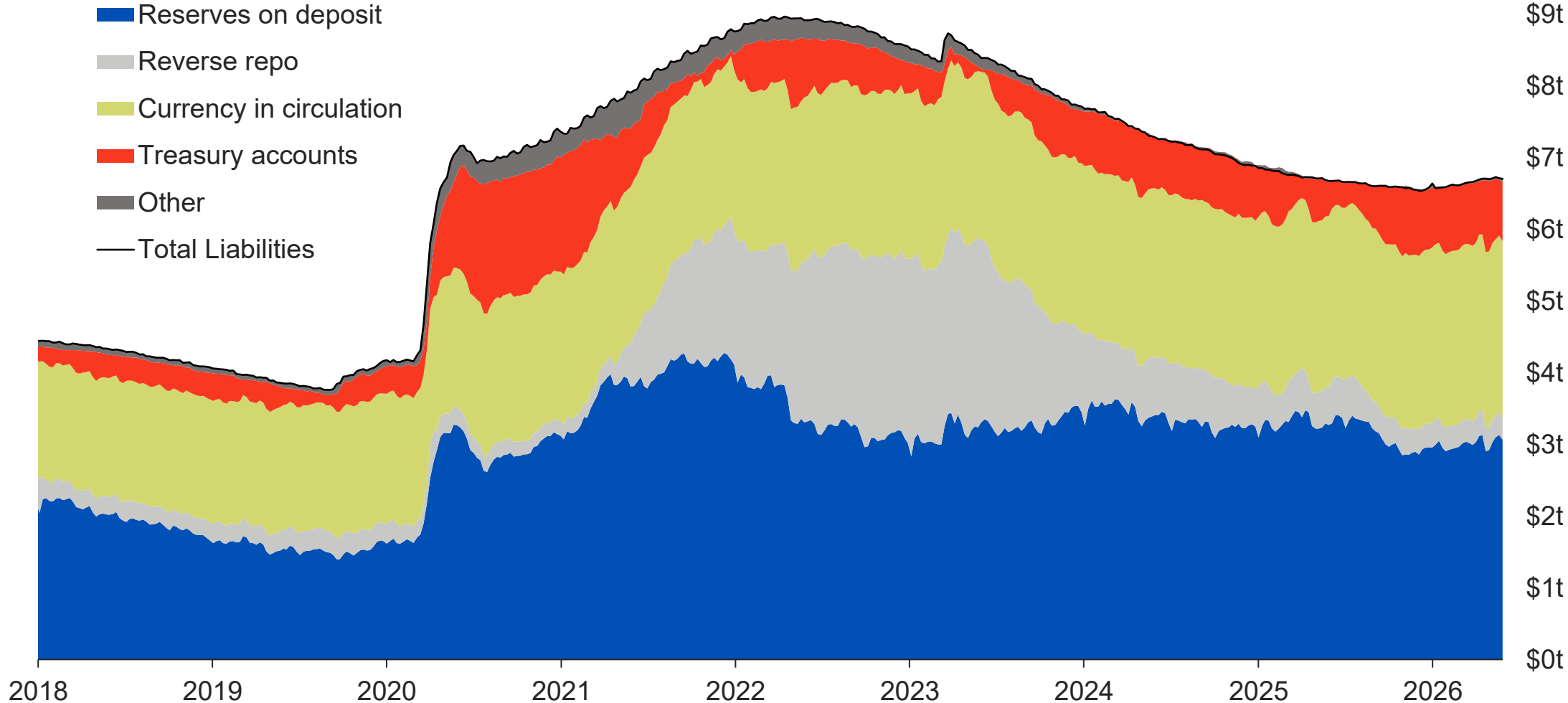
# Assets on Fed balance sheet

Assets on the Fed's balance sheet



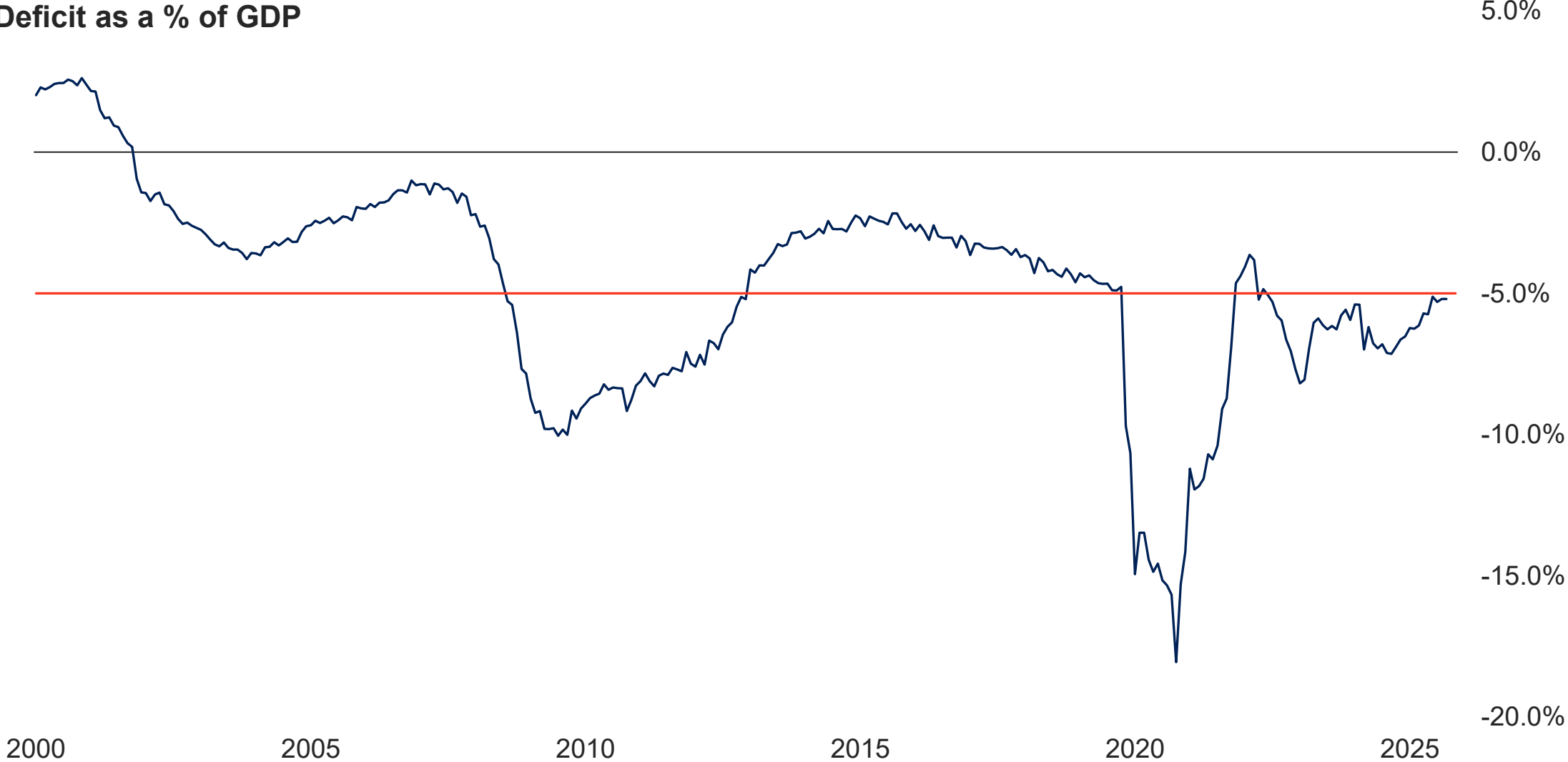
# Liabilities on Fed balance sheet

## Liabilities on the Fed's balance sheet

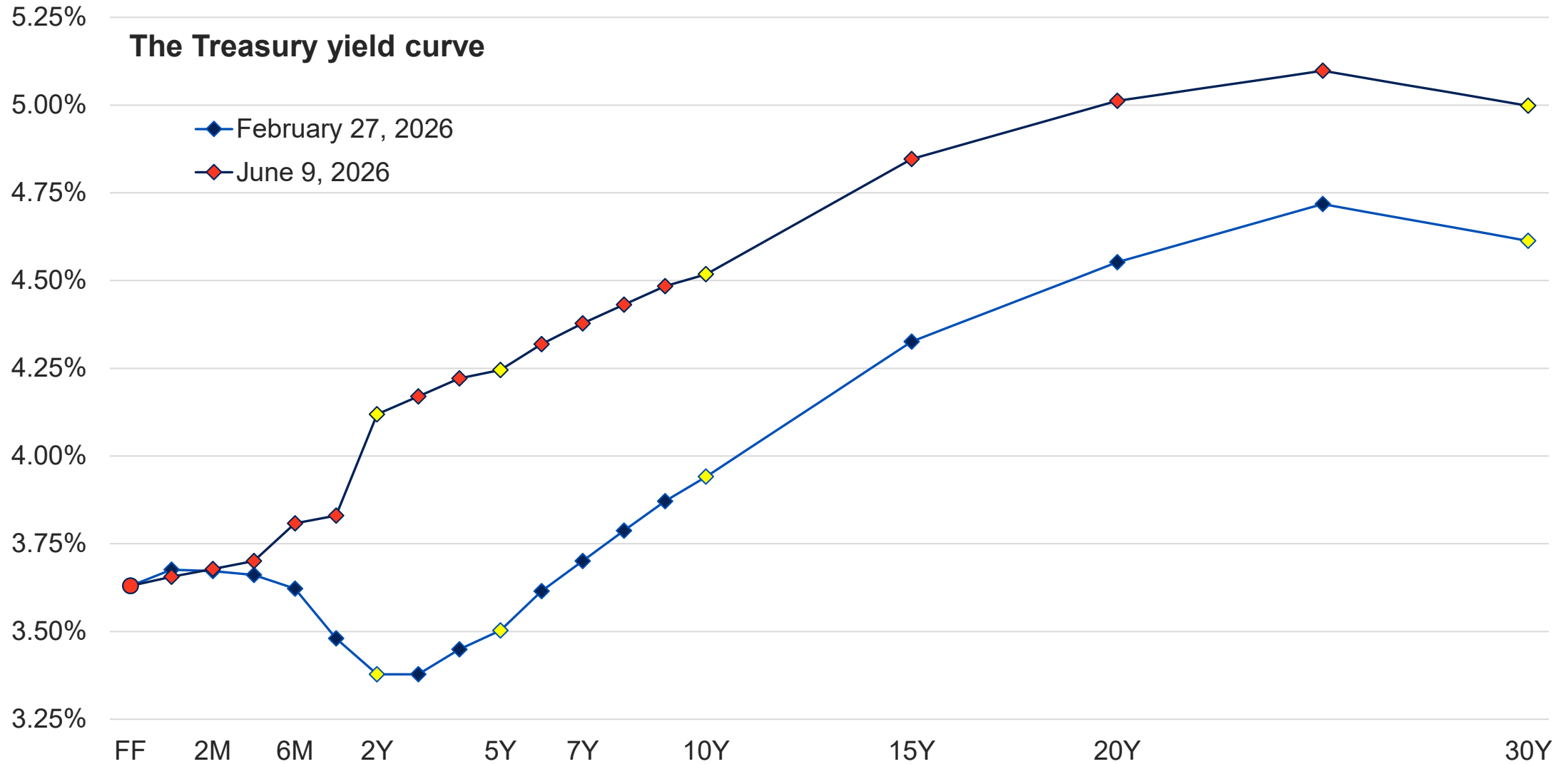


# Federal deficit as a percent of GDP

Deficit as a % of GDP



# Yields pushing to 3-yr highs



# Waiting game

- US economy best equipped to weather Iran storm
- Modest-positive growth effect
- Employment recovery to continue
- War-related oil-price bump significant. Will slow Fed.
  - Makes K-shaped inequality worse
  - Boosts inflation
  - Sidelines Fed



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