FOMC Delivers a Hawkish Hold in June

Headlines

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- **The Federal Open Market Committee (FOMC) left the fed funds rate unchanged for the fourth meeting in a row.**
- **The statement officially dropped a reference to an "easing bias" and nine participants penciled in at least one rate hike according to the Summary of Economic Projections (SEP).**
- **The updated SEP revealed the median projection for the fed funds rate this year was revised higher compared to the March projection.**
- **The FOMC removed forward guidance from its statement.**
- **PNC expects the FOMC to remain on hold for the remainder of 2026 and into 2027.**

Details

As widely anticipated, the FOMC left the fed funds rate unchanged in a range of 3.50%-3.75% for the fourth straight meeting "in support of the Federal Reserve's dual mandate." The decision was unanimous.

Moreover, the Committee "reaffirmed its policy of maintaining ample reserves in the banking system." The statement officially dropped a reference to an "easing bias" and nine participants voted for at least one rate hike according to the SEP.

The Committee stated that "economic activity is expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East." Also, "productivity growth and capital investment are strong, job gains have kept pace with the workforce, and the unemployment rate has changed little."

The Committee went on to say "inflation remains elevated to its 2% goal, in part reflecting supply shocks that have driven price increases in certain sectors, including energy. The final sentence in the press release stated, "the Committee **will deliver** price stability."

There was also an updated SEP "dot plot" at this meeting. The median real GDP projection for this year was revised down to 2.2% from 2.4% in March, 2027 growth was unrevised and 2028 growth was revised up to 2.2% from 2.1%.

The median unemployment rate projections were little changed compared to March, but the PCE inflation projections were revised up significantly, particularly for this year. The median projection for headline PCE inflation for 2026 is 3.6%, up from 2.7% in March, while the median projection for core PCE inflation this year is 3.3%, up from 2.7%. In 2027, headline was revised up a tenth to 2.3% while core was revised up to 2.5% from 2.2%, reflecting the view that inflation is sticky.

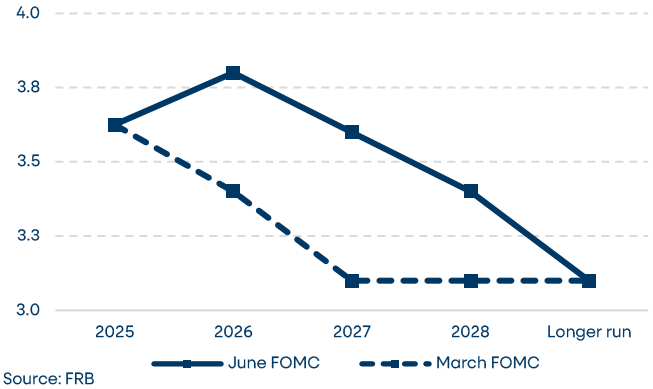
The median fed funds rate projection for the end of 2026 was revised up to 3.8% from 3.4%. That's just above the top of the current range of 3.50-3.75%, implying a tightening bias for this year. The median projections for 2027 and 2028 are 3.6% and 3.4% respectively, pointing to a gradual easing cycle.

In his press conference, new Fed Chairman Warsh stated there would be no forward guidance and announced the formation of five task forces to re-evaluate the central bank's core operations, data mechanisms, and policy execution.

PNC's baseline forecast is for the FOMC to leave the fed funds rate unchanged in a range of 3.50%-3.75% for the balance of this year and into 2027 in an effort to lower inflation.

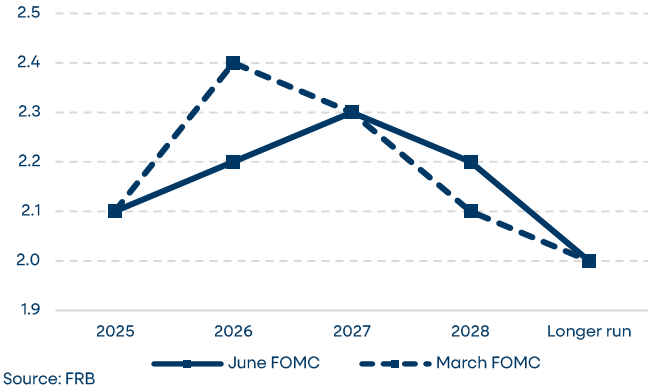
Market reaction was negative. The S&P 500 fell by 1% in the aftermath of the statement release while the 10yr yield rose by 6bps.

Figure 1: SEP Median Fed Funds Midpoint (%)



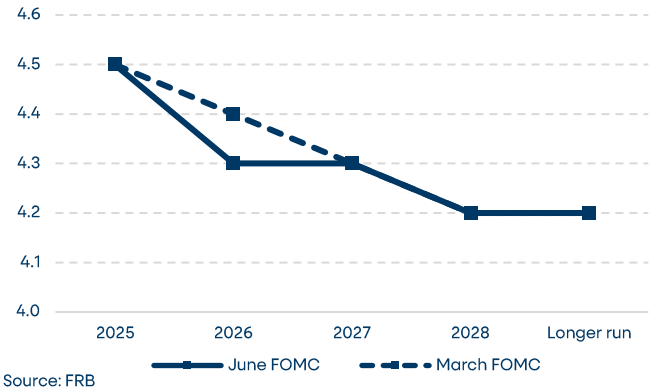
Source: FRB

Figure 2: SEP Median Real GDP (y/y)



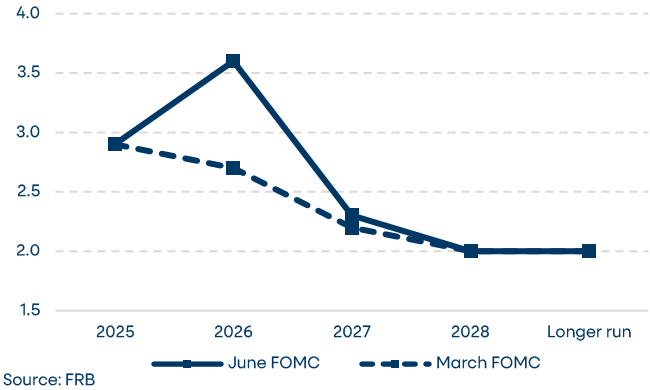
Source: FRB

Figure 3: SEP Median Unemployment Rate (%)



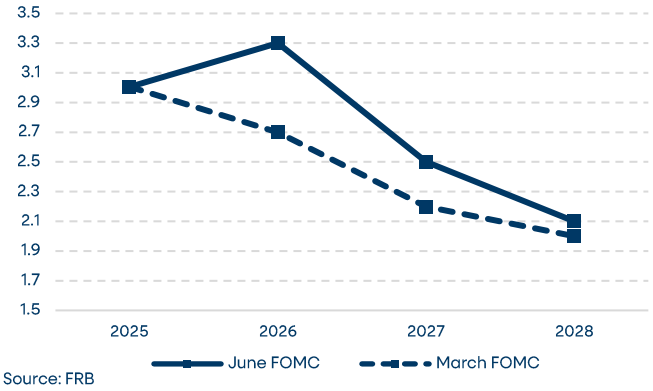
Source: FRB

Figure 4: SEP Median Headline PCE (%)



Source: FRB

Figure 5: SEP Median Core PCE (%)



Source: FRB

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