First Trust Weekly OUTLOOK

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www.ftportfolios.jp • 3 August 2026

Warsh Deserves Time

Kevin Warsh became Fed Chair barely ten weeks ago. He has presided over just two sets of monetary meetings and held two press conferences. Nonetheless, more than any chairman since at least Alan Greenspan, he has come under harsh criticism by the press right out of the gate.

Long-term interest rates have risen by 20 basis points or more in recent weeks, with the 10-year Treasury now yielding 4.68% and the 30-year at 5.23%. The popular narrative is that this is all Warsh's fault because he hasn't moved quickly to raise short-term rates. On top of this, Warsh wants the Fed out of the "guidance" business as much as possible. So, as the theory goes, investors are charging a premium based on potentially higher inflation, or uncertainty, or maybe a little of both.

The press criticism dovetails with the three dissents from Fed policymakers (all Regional Bank Presidents) at the meeting last week in favor of raising short-term rates.

What's peculiar about the criticism is that it's coming from quarters that were never as critical about outgoing chairman Jerome Powell, in spite of his presiding over an inflation spike that peaked at 9.0% and did so without the excuse of a war in the Middle East. Back then, these journalists were OK with the Fed exercising patience and calling it "transitory." And they hardly ever spoke ill of 0% interest rates.

Long-term interest rates have moved up lately, but a better explanation than blaming Warsh is that bond-market vigilantes are finally reacting to $39+ trillion in debt and deficits as far as the eye can see.

None of this is to say that a rate hike would be completely unreasonable. As we wrote two weeks ago, it's been more than five years since inflation has been at or below the Fed's 2.0% target. Warsh has stated clearly that his goal is not 2.0% over time, but 2.0% or less forever. And with short-term interest rates still below the growth rate of nominal GDP, it's hard to justify rate cuts at this time.

And what economic journalist wouldn't want to cover a situation where President Trump's recently appointed Fed Chair raises rates and then suffers a bombastic response from the White House? This situation puts us in mind of what happened to former British Prime Minister Liz Truss back in 2022, when after proposing tax cuts, she got the blame for higher bond yields even though the Bank of England raised rates at the same time. In the end, she was run out of office after only 49 days.

We also can't casually dismiss the notion that some of the criticism might be related to Warsh's interest in taking the Fed in a new direction, including a smaller balance sheet. If you have a vested interest in the status quo, undermining the top official promising change could be an effective strategy.

The shift to "abundant reserves" in 2008 has created a situation where the Fed is now more involved in government finance than ever before. The US Treasury has roughly $900 billion in its Treasury General Account (TGA) and Secretary Bessent has suggested that it may use that money to enter the repo market.

In other words, as Chair of the Fed, Kevin Warsh is presiding over a more complicated scenario than any Chair since Paul Volcker. It's only right to give him time. We think he is moving in the right direction.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-3 / 9:00 am	ISM Index – Jul	53.9	**53.8**	55.6	53.3
9:00 am	Construction Spending – Jun	+0.2%	**-0.2%**	+0.1%	0.0%
afternoon	Total Car/Truck Sales – Jul	16.3 Mil	**16.8 Mil**		16.5 Mil
8-4 / 7:30 am	Int'l Trade Balance – Jun	-$73.0 Bil	**-$72.7 Bil**		-$77.6 Bil
9:00 am	Factory Orders – Jun	+0.2%	**-0.7%**		-1.3%
8-5 / 9:00 am	ISM Non Mfg Index – Jul	54.5	**54.4**		54.0
8-6 / 7:30 am	Initial Claims – Aug 1	202K	**200K**		197K
7:30 am	Q2 Non-Farm Productivity	+0.5%	**+0.4%**		+0.3%
7:30 am	Q2 Unit Labor Costs	+2.1%	**+2.6%**		+1.8%
8-7 / 7:30 am	Non-Farm Payrolls – Jul	80K	**96K**		57K
7:30 am	Private Payrolls – Jul	86K	**101K**		49K
7:30 am	Manufacturing Payrolls – Jul	3K	**3K**		3K
7:30 am	Unemployment Rate – Jul	4.2%	**4.2%**		4.2%
7:30 am	Average Hourly Earnings – Jul	+0.3%	**+0.3%**		+0.3%
7:30 am	Average Weekly Hours – Jul	34.3	**34.3**		34.3
2:00 pm	Consumer Credit – Jun	$11.2 Bil	**$11.2 Bil**		-$0.8 Bil