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Weekly Commentary

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Mark Weiss, CFA

Senior Vice President

Senior Portfolio Manager

Federated Investment Counseling

Family feud

Federal Reserve Chair Kevin Warsh has said debate, even impassioned, should be a part of monetary policy discussions by the Federal Open Market Committee (FOMC). He got just that at the July meeting, which concluded last week. He characterized it as a "family fight," and it brought the first dissent of his young tenure. Three of them, to be exact, each wanting a quarter percentage-point hike.

The obvious question was why they disagreed. The assumption was to curb inflation. But you would not know that by the meeting statement: "Voting against the monetary policy action were Beth M. Hammack, Neel Kashkari and Lorie K. Logan, who preferred to raise the target range for the federal funds rate by 1/4 percentage point at this meeting." Chair Warsh did not help, remarking in his presser that: "I shouldn't give you their best arguments."

Friday, those arguments finally came. In separate interviews, each said, in so many words, that the Fed cannot avoid the inevitable need to tighten policy if it is serious about deflating price pressures. "Inflation has remained stubbornly above 2% for more than five years, and I am not confident it will return to our objective on its own," said Cleveland Fed President Hammack. Minneapolis Fed president Kashkari went so far to say that one hike might not suffice: "To manage against the risk that high inflation could become entrenched, I would rather tighten policy incrementally as we gather more data on the path of inflation and employment."

The fight might become a revolt at the September FOMC meeting or the on-hold voters could stand their ground once again. Policymakers will have much new economic data by that meeting, so the jury is still out on their decision. Regardless, it seems the Warsh Fed will be lively.

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