House View Briefcase

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31 August 2026, 08:19 UTC Chief Investment Office GWM Investment Research What does the Warsh era mean for Fed policy? UBS House View Briefcase Andrew Dubinsky , US Economist, UBS Financial Services Inc. (UBS FS); Vincent Heaney , Strategist, UBS AG London Branch; Alison Parums , Strategist, UBS Switzerland AG Key message Federal Reserve Chair Kevin Warsh delivered a more hawkish message on US inflation at the Jackson Hole Symposium, prompting markets to raise the implied probability of a September rate hike. But our base case remains that the Fed will stay on hold, as we expect underlying inflation data to moderate in the coming months. We continue to favor quality bonds with maturities of two to five years as a way to lock in yields. 01 Chair Warsh delivered a more hawkish message on inflation in his Jackson Hole speech. • The FOMC kept the federal funds rate unchanged at 3.50-3.75% in July, though three hawkish dissents highlighted ongoing US inflation concerns. • At the Jackson Hole Symposium in August, Warsh said policymakers need to see clear evidence that underlying inflation is moving toward the Fed's 2% target. • Rate futures raised the implied probability of a rate hike at the 15-16 September meeting to nearly 60%, from roughly 35-40% before the speech. 02 Our base case remains that the Fed will keep rates on hold. • US inflation data has moderated. Core PCE inflation ran close to 0.2% month over month in June and July, a pace that should allow the Fed to remain on hold if it persists. • Employment growth has moderated, reducing the urgency for tighter policy. • Likely slower economic growth trends and disinflation in the US in the second half should support a gradual shift toward lower policy rates in 2027. 03 We continue to like short- and medium-duration quality bonds. • We see currently elevated yields on short- and medium-term bonds as appealing. • We continue to favor quality bonds with maturities of two to five years as a way to lock in yields. • We believe Fed policy overall will remain supportive for US equities, and we favor a balanced and diversified approach to the asset class. New this week Chair Warsh used his Jackson Hole speech on Friday to set a higher bar for inflation progress in the US. “We must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Otherwise, we have work to do,” he said. One liner Although the risk of a rate hike has increased, our base case is that the Fed will stay on hold as underlying inflation likely cools in the coming months. Did you know? • The FOMC removed forward guidance from its statement in June and has shortened the statement significantly, now offering only a high-level assessment of economic conditions. • Chair Warsh has not submitted rate projections, consistent with his earlier criticism of the dot-plot framework. This partial participation highlights growing skepticism of the dot-plot framework and raises questions about its role over time. • Cash tends to underperform other assets over time: Stocks have outperformed cash in 86% of all 10-year periods and 100% of all 20- year periods since 1926. Investment view We believe elevated yields on short- and medium-duration quality bonds offer an opportunity to lock in durable portfolio income. We also expect Fed policy to remain broadly supportive for US equities. This report has been prepared by UBS Financial Services Inc. (UBS FS) and UBS AG London Branch and UBS Switzerland AG. Please see important disclaimers and disclosures that begin on page 3 . Page 1 of 4

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