What's The Fed's Next Move?

J.P. Morgan · 2026-08-05 · English original

J.P. Morgan Global Research now sees the Fed hiking rates in December, especially as the central bank has yet to lay out a roadmap for tackling inflation.

The Federal Reserve (Fed) voted to leave rates unchanged at 3.5–3.75% during its July meeting, in line with market expectations. But inflation concerns are reaccelerating, and Fed chair Kevin Warsh has yet to unveil a concrete plan to address persistent price pressures. How might this disconnect shape the monetary policy path?

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J.P. Morgan Global Research has revised its interest rate outlook and now sees the first hike of 25 basis points (bp) taking place in December, with rates holding at 3.75–4.0% thereafter.

"In Warsh's press conference, he once again failed to specify how he intended to achieve his stridently asserted inflation resolve. He also cast doubt on whether Personal Consumption Expenditures (PCE) inflation will remain the Fed's inflation target in the medium run," noted Michael Feroli, chief U.S. economist at J.P. Morgan. "Both of these points raise questions about the new chair's credibility in delivering lower inflation, and we believe this will add some urgency for the rest of the committee to act on its mandate. As such, we are pulling forward our forecast for the next rate hike from the second half of 2027 to December this year."

An earlier hike remains possible, depending on upcoming jobs and Consumer Price Index (CPI) data. "Hot inflation readings could result in a hike as early as September. Conversely, softer numbers combined with June's low inflation reading could delay any action," Feroli added. "Employment numbers will also matter for the committee, but we don't expect the incoming data to raise concerns about an overheating labor market."

Could the new Fed task forces impact monetary policy?

Warsh recently mandated five task forces to conduct an independent review of the Fed's policymaking process, and they are expected to deliver their findings by year-end 2026. However, this is not expected to alter J.P. Morgan Global Research's baseline forecast for interest rates.

The task forces cover the following areas:

The issues up for debate here include dispensing with forward guidance such as the dot plot, which is a chart that depicts each Fed official's projection for short-term interest rates. "This is not a sure thing, however, particularly as the dot plot amplifies the influence of the Reserve Bank presidents in policy messaging," Feroli said. "Moreover, it's not clear what would replace the dot plot if it's eliminated. Without a replacement, this would be a step backward in transparency."

The communications task force might also recommend shortening press conferences or making them less frequent. "While this is an option that would align with some of Warsh's stated preferences, it would also be ceding more of the monetary policy narrative to other members of the committee, thereby diminishing his own importance," Feroli added.

The Fed currently maintains a large balance sheet to ensure ample bank reserves. However, Warsh has advocated for a smaller balance sheet, which could reduce the Fed's control over the financial markets. This would, at least on paper, reduce market distortions and control inflation by withdrawing liquidity from the financial system.

This will be closely scrutinized by the balance sheet task force, which could make the case for consolidation. "There is a way to reduce bank demand for reserves without disrupting the money markets and the effective transmission mechanism for monetary policy," said Jay Barry, head of Global Rates Strategy at J.P. Morgan. "However, it will take significant changes to the supervisory backdrop, the liquidity regulatory framework and, frankly, the payment system."

"The remit of the data task force will inherently be constrained by the Fed's mission; after all, the Fed is a central bank, not a statistical agency," Feroli said. That said, its members might still recommend greater use of alternative data sources, such as private-sector transactions and payrolls, to inform policy decisions.

While Warsh has been critical of official government data — arguing that it is published too late and updated too infrequently — J.P. Morgan Global Research has found that the accuracy of the first print of the U.S. jobs report has actually improved over time, even though the real budgets of the statistical agencies have shrunk. "In recent polling, a large majority of economists say sufficient funding for the statistical agencies should be a priority, and bipartisan groups have made similar arguments. Whether the data task force agrees with this consensus or instead sticks closer to Warsh's views will be interesting to watch," Feroli added.

Warsh has stated this task force's mandate would include both the economic impact of AI and other general-purpose technologies, as well as the implications for Fed policy. While he previously declared that the U.S. "is on the verge of a productivity boom" and that "AI will be a significant disinflationary force," he has been vague about the exact mechanisms through which faster productivity could lead to lower inflation.

"One possible channel could be lower unit labor costs if wages don't rise in sync with productivity. Another channel could be faster GDP growth leading to a jump in government tax revenue that reduces budget deficits — assuming policymakers don't respond with offsetting fiscal easing," Feroli said.

Overall, however, J.P. Morgan Global Research does not see any near-term implications for monetary policy stemming from this task force. "The Federal Open Market Committee (FOMC) likely agrees that AI could spur faster productivity, but will want to pursue a wait-and-see approach to how that affects inflation and unemployment," Feroli added.

Warsh has spoken out against the Fed's current framework, instead promoting two alternative ideas for thinking about inflation determinants: firstly, that inflation is caused by the government's fiscal actions, and secondly, that AI will be disinflationary. As such, he might look to this task force to broaden the committee's analytical toolkit.

"This task force could recommend more diverse approaches to modeling inflation, consider target bands, and place more weight on monetary, credit, balance-sheet and financial indicators," Feroli said.

"Overall, while the task forces are likely to generate recommendations aligned with Warsh's preferences, any significant change to the Fed's policy framework or interest rate outlook will require broader buy-in from the full FOMC," Feroli said. "The structure of these being the chairman's task forces

— rather than systemwide efforts — means that translating recommendations into actual policy may be gradual and subject to internal debate."

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