Fed holds rates
but signals hawkish bias

Market update

Summary

- **The Fed held rates steady, but signalled a more hawkish stance, with projections skewed towards further hikes and a stronger focus on inflation.**
- **Fed Chairman Warsh's preference for reduced forward guidance is likely to lead to greater volatility in the rates as well as other asset markets going forward. We remain focused on quality carry in the bond markets and disciplined on valuations in the equity markets.**

The Fed turns hawkish

The Federal Reserve (Fed) kept the Fed Funds target rate unchanged, as expected, at 3.50% - 3.75%. However, the June FOMC leaned hawkish with 9 policymakers projecting rate hikes in 2026 and 8 members expecting no change. Only one member expects a cut. New Fed Chairman Warsh did not submit a projection again, as expected.

The FOMC statement shortened significantly but reads slightly hawkish with a new, greater emphasis on inflation. Markets are now pricing in 27 bps of hikes by the October meeting and a peak of 47 bps by March 2027. At the point of writing, 2-yr and 10-yr Treasury yields rose 13.3 bps and 4.7 bps respectively. The 30-yr yield fell 1.2 bps, perhaps an early reflection that Warsh would recommit the Fed to low inflation. The S&P 500 fell 1.2% and the USD rallied, pushing the DXY Index just below its highs of the past year.

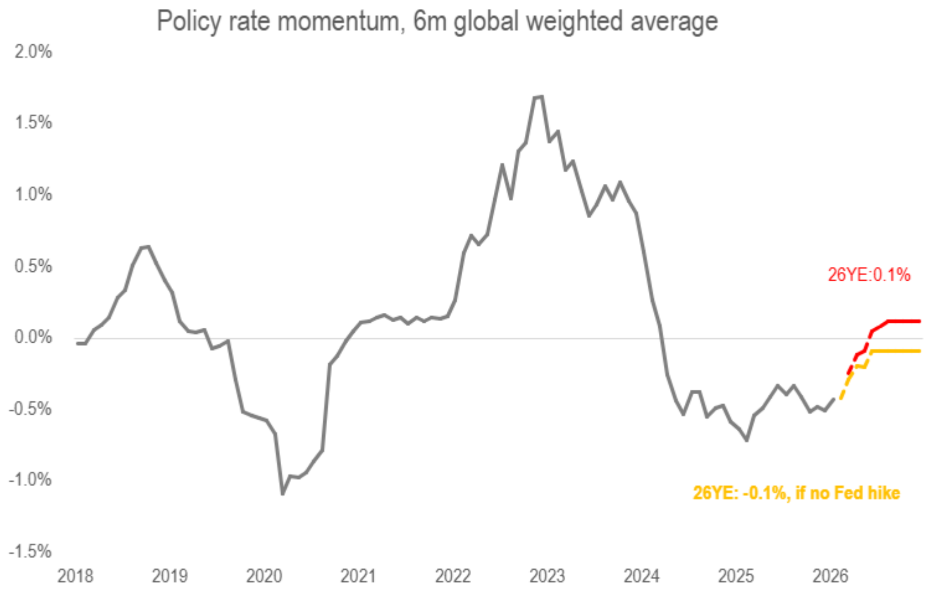
The FOMC statement shortened significantly but reads slightly hawkish with a new, greater emphasis on inflation.

Warsh gave little guidance at his press conference, as he moved the Fed away from forward guidance and market handholding. He did, however, characterise Fed policy as restrictive for some sectors but not for others because of different Fed tools. Policy is restrictive for housing, but stimulative for financial markets and Warsh believes that much of the latter is due to the size of the Fed's balance sheet, i.e. its holdings of Treasury and Agency securities. He announced five new task forces to examine the Fed's operations including its balance sheet, how it communicates, and forecasts inflation.

Investment implications

Our **Chief Economist Ray Farris** believes that the Fed will hike 25 bps this year as recent indicators suggest that US employment has improved. While payrolls over the next month or two could be softer than the prior two, employment is likely to continue to expand and the US labour market should appear relatively robust in time for the October FOMC meeting.

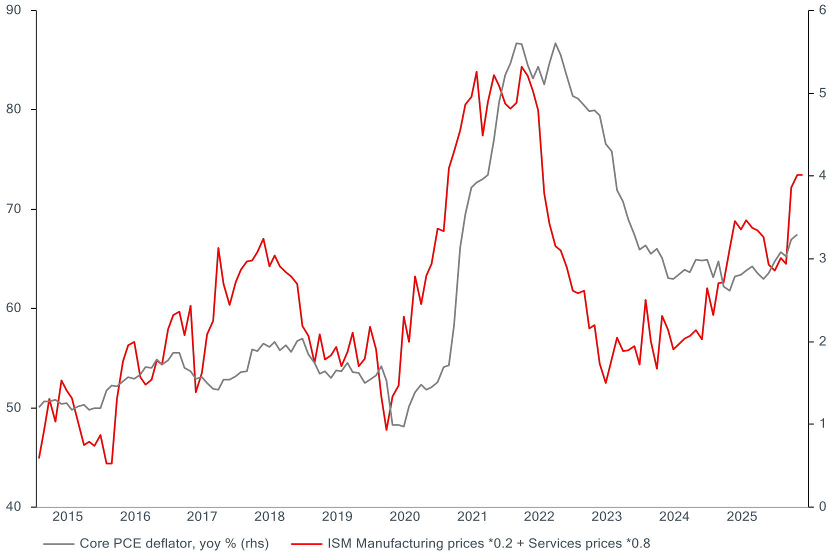
If the Fed does end up hiking, it would shift the global monetary policy cycle from the easing trend of the past two years towards tightening.



Inflation is likely to grind higher based on the recent sharp increases in both US and Asia PMI price indexes and what corporates have been saying about pricing pressure. To note, Apple announced yesterday that it will be raising prices on the back of surging memory and storage costs. Ray also expects the Fed to announce a programme by year-end that will shrink its holdings of Treasuries and Agencies starting from early 2027. The likelihood that the Fed may cease its purchases of T-bills ahead of this cannot be ruled out.

We believe that the Fed will hike 25 bps this year.

Rising ISM prices paid point to higher inflation



Source: LSEG Datastream, 18/06/2026

With Fed Chairman Warsh's preference for reduced forward guidance, rates volatility is likely to lead to increased volatility in other asset markets. Having defensive income-paying or low volatility strategies can help anchor portfolios. While we like **long-term structural themes such as AI**, we remain **disciplined on valuations** given potential crowding and concentration risks.

While we like long-term structural themes such as AI, we remain disciplined on valuations given potential crowding and concentration risks.

With the cycle of falling rates behind us, our **Asia fixed income team** remains prudent on duration and focused on **quality carry**. They are selective on local currency credit opportunities and believe that **SGD credits** offer **attractive volatility-adjusted returns**.

We remain prudent on duration and focused on quality credit.

Our **multi-asset solutions team** has a neutral 3-month tactical view on global equities. Valuations appear increasingly stretched following the recent market rally that pushed the S&P 500 to record highs. Underlying fundamentals may be more challenged going forward as rising energy prices and yields begin to weigh on US consumer spending and housing. In addition, elevated volatility and crowded positioning particularly in tech and AI suggest a higher risk of near-term fluctuations in their view. Within equities, the team currently maintain a **tactical preference for Emerging Markets and Asia** over the US and Europe given more attractive relative valuations.

We maintain a tactical preference for Emerging Markets and Asia given more attractive relative valuations.

Important Disclosure Notes

The information and views expressed herein do not constitute an offer or solicitation to deal in shares of any securities or financial instruments and it is not intended for distribution or use by anyone or entity located in any jurisdiction where such distribution would be unlawful or prohibited. The information does not constitute investment advice or an offer to provide investment advisory or investment management service or the solicitation of an offer to provide investment advisory or investment management services in any jurisdiction in which an offer or solicitation would be unlawful under the securities laws of that jurisdiction.

Past performance and the predictions, projections, or forecasts on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments or any of the strategies managed by Eastspring Investments. An investment is subject to investment risks, including the possible loss of the principal amount invested. Where an investment is denominated in another currency, exchange rates may have an adverse effect on the value price or income of that investment. Furthermore, exposure to a single country market, specific portfolio composition or management techniques may potentially increase volatility.

Any securities mentioned are included for illustration purposes only. It should not be considered a recommendation to purchase or sell such securities. There is no assurance that any security discussed herein will remain in the portfolio at the time you receive this document or that security sold has not been repurchased.

The information provided herein is believed to be reliable at time of publication and based on matters as they exist as of the date of preparation of this report and not as of any future date. Eastspring Investments undertakes no (and disclaims any) obligation to update, modify or amend this document or to otherwise notify you in the event that any matter stated in the materials, or any opinion, projection, forecast or estimate set forth in the document, changes or subsequently becomes inaccurate. Eastspring Investments personnel may develop views and opinions that are not stated in the materials or that are contrary to the views and opinions stated in the materials at any time and from time to time as the result of a negative factor that comes to its attention in respect to an investment or for any other reason or for no reason. Eastspring Investments shall not and shall have no duty to notify you of any such views and opinions. This document is solely for information and does not have any regard to the specific investment objectives, financial or tax situation and the particular needs of any specific person who may receive this document. Eastspring Investments Inc. (Eastspring US) primary activity is to provide certain marketing, sales servicing, and client support in the US on behalf of Eastspring Investment (Singapore) Limited ("Eastspring Singapore"). Eastspring Singapore is an affiliated investment management entity that is domiciled and registered under, among other regulatory bodies, the Monetary Authority of Singapore (MAS). Eastspring Singapore and Eastspring US are both registered with the US Securities and Exchange Commission as a registered investment adviser. Registration as an adviser does not imply a level of skill or training. Eastspring Singapore and Eastspring US are both investment advisers registered with the US Securities and Exchange Commission ("SEC"). Registration as an adviser with the SEC does not imply a level of skill or training. Additional information about Eastspring Singapore and Eastspring US is also is available on the SEC's website at www.adviserinfo.sec.gov.

Certain information contained herein constitutes "forward-looking statements", which can be identified by the use of forward-looking terminology such as "may", "will", "should", "expect", "anticipate", "project", "estimate", "intend", "continue" or "believe" or the negatives thereof, other variations thereof or comparable terminology. Such information is based on expectations, estimates and projections (and assumptions underlying such information) and cannot be relied upon as a guarantee of future performance. Due to various risks and uncertainties, actual events or results, or the actual performance of any fund may differ materially from those reflected or contemplated in such forward-looking statements.

Eastspring Investments companies (excluding JV companies) are ultimately wholly-owned / indirect subsidiaries / associate of Prudential plc of the United Kingdom. Eastspring Investments companies (including JV's) and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.