

WEEKLY COMMENTARY

The 12 Labours of Kevin Warsh

By Francis Généreux, Lead Economist

Kevin Warsh officially became the new Federal Reserve chair on May 22, but his real work begins at the Federal Open Market Committee (FOMC) meeting on June 16 and 17. From that point on, his words and actions will be judged by markets, politicians and the general public, and he'll gradually find his place among his distinguished predecessors. Will he go down in history alongside Paul Volcker, hailed as one of the Fed's best chairs, or Arthur Burns, viewed as one of its worst?

Like Hercules, who was forced to complete 12 labours to earn his place among the gods of antiquity, the new Fed chair also faces a series of challenges that will reveal whether he can effectively lead the world's most powerful central bank.

I. Managing the Fed's Messaging and Market Expectations

Since Ben Bernanke's tenure as Fed chair, the institution has stressed clear communications and transparency. The Fed uses speeches, testimony, written reports (like the Beige Book and meeting minutes) and quarterly projections to steer market expectations and avoid shocks that could trigger volatility. But this has also made markets extremely sensitive to, and even dependent upon, the Fed's signals. In particular, they read far too much into the Fed's projected policy rate trajectory (commonly referred to as the dot plot). This forward guidance hints at the future direction of monetary policy but can also limit Fed officials' scope of action and lead to a loss of credibility if they deviate from it too abruptly or too often. In fact, Warsh himself has often criticized the Fed's use of forward guidance in the past.

He'll need to strike a balance between satisfying the markets' desire for clarity regarding the direction of monetary policy and giving Fed policymakers more flexibility.

II. Protecting Fed Independence and Restoring Confidence

Donald Trump's repeated criticisms of the Fed, and more specifically of Warsh's predecessor Jerome Powell, have weakened the institution's standing and created an additional constraint for its new chair. What will Warsh do if the President of the United States renews his attacks on the central bank? During his Senate confirmation hearing, Warsh said that elected leaders are entitled to state their views, and that Donald Trump wasn't the first to do so. But it's ultimately up to the Fed to decide on the course of action that best supports its mandate. That said, previous Fed chairs have yielded to attempts at interference that weren't nearly as blatant as Trump's attacks. For example, President Nixon's influence over Arthur Burns in the early 1970s was one of the factors leading to that decade's high inflation. Warsh will also have to contend with legal pressure from the Trump administration with respect to Governor Lisa D. Cook and the now-internal investigation into cost overruns for renovating the Fed's headquarters. Finally, public confidence in the Fed and its chair has been damaged both by Trump's repeated criticisms and especially by what many saw as its poor handling of monetary policy in the aftermath of the pandemic (graph 1 on page 2). Restoring the institution's credibility should be a major priority for Warsh.

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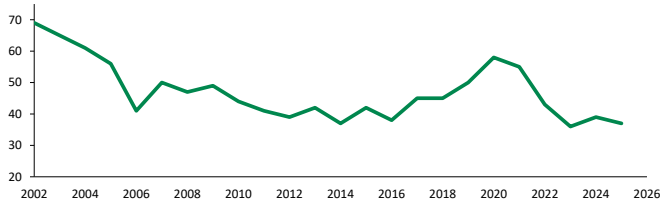
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 Oskar Stone, Macro Strategy Associate • LJ Valencia, Economist

Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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Graph 1 The Inflationary Surge of 2022 Weakened the Credibility of the Fed and Its Chair

Confidence that the Federal Reserve chair will do or recommend the right thing for the economy
Respondents with a great deal or fair amount of confidence (%)



Gallup and Desjardins Economic Studies

III. Balancing Trump's Demands with Market Pressures

The question of Fed independence may influence monetary policy decisions in the near term. It's clear that Trump always wants policy rates to go down, reflecting both his present role as a politician and his past as a real estate developer. The current occupant of the Oval Office believes that lower rates are needed even when the economy is running hot, which runs counter to conventional economic thinking. But, based on economic and inflation forecasts, the market may expect higher policy rates and build those expectations into bond yields. The Fed will need to follow its own forecasts and analysis, and focus more on ensuring markets remain orderly than responding to the whims of the President of the United States. We should also keep in mind that as of January 2029, Warsh will have to deal with a new US president who will decide whether to renew his term.

IV. Managing the Current Situation, Including the Impact of Rising Energy Prices

In the very short term, Warsh and the other FOMC members will need to decide on the best monetary policy for the current economic environment. And that's no simple matter. On the one hand, energy prices have sent US inflation above 4%. A few months ago, the slack labour market caused some concern, but it's less of a problem now after three months of relatively strong hiring. If the economy remains resilient and the cost of living continues to rise, inflation expectations could once again become de-anchored from the Fed's inflation target. That said, the US economy does have weak spots that are currently being concealed by tech sector growth and the artificial intelligence boom.

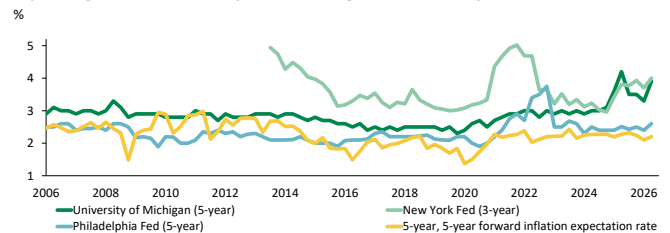
V. Bringing Long-Term Inflation Expectations Back to Pre-Pandemic Levels

Long-term inflation expectations were unsettled at the beginning of the post-pandemic period. After two decades of stability—and even fears of persistently below-target inflation in the 2010s—those expectations shifted in just a few years.

Although expectations have been contained by the sharp decline in inflation after the 2022 peak, they remain higher than they were before COVID-19 (graph 2). This continues to undermine Fed credibility, but bringing expectations down even further entails some real risks. Under Warsh, the Fed will simultaneously want to avoid policy rates that are too high for current economic conditions and an overly accommodative monetary policy that would entrench high inflation expectations.

Graph 2 Broadly Speaking, Medium- and Long-Term Inflation Expectations Remain Above Pre-Pandemic Levels

Expected growth in consumer prices according to various surveys



University of Michigan, Federal Reserve Bank of New York, Federal Reserve Bank of Philadelphia, Bloomberg and Desjardins Economic Studies

VI. Dealing with a Possible Recession

The United States will eventually have to deal with another recession. Since the Fed was founded in 1913, only two of its chairs have not experienced a recession during their term: William Miller, who was in office for only 17 months, and Janet Yellen, who served from 2014 to 2018. In fact, Fed chairs are often judged based on their response to economic downturns. At such times, the FOMC needs to respond to the situation appropriately by recognizing the first signs of recession and reacting in accordance with its dual mandate of price stability and full employment. How much should monetary policy be eased given the depth of the economic slump? Will unconventional measures be needed? To what extent will the Fed and the government need to coordinate their actions to avoid a severe recession? Although the US economy has remained resilient since the pandemic, these questions will inevitably arise again.

VII. Watching Out for a Potential AI Bubble

The 2001 and 2008–2009 recessions were partly triggered by the collapse of financial bubbles. Is another such risk on the horizon? It's a definite possibility given the AI boom, and Warsh and his colleagues at the Fed will need to pay attention to it. For the time being, markets are focusing more on the benefits of AI, such as increased investment, stronger asset values, potential improvements in productivity (which Warsh has already mentioned) and higher earnings. But that line of thinking sounds a lot like the claims made about the internet in the 1990s and

the financial innovations that made it possible for more people to buy homes in the 2000s. In light of this, if it seems like a speculative bubble and asset overvaluation are starting to pose too much of a risk, the Fed will need to take away the punch bowl, as William Martin so famously put it.

VIII. Reducing the Fed's Balance Sheet

The Fed still holds a significant amount of assets following the quantitative easing measures implemented during the pandemic. It has made some progress in trimming its holdings, but its balance sheet remains historically bloated. Warsh has long been a critic of the policies that expanded the balance sheet and led to the market's overreliance on the Fed. He may want to introduce a new balance sheet reduction policy that is independent of monetary policy. But the market's ability to absorb such measures will have to be taken into account. If poorly implemented, such a policy could drain too much liquidity from the system, thereby increasing financial stress.

IX. Ensuring Financial Stability in the Event of a Debt Crisis

In addition to setting monetary policy, the Fed is also tasked with promoting the stability of the financial system. That system obviously depends on the smooth flow of credit within the economy. In fact, concerns about the banking sector and the availability of credit exacerbated the 2008–2009 recession. As a result, the Fed and the government had to intervene directly to support the markets. The Fed must therefore monitor any risks that could undermine credit quality in the United States, starting with federal public debt. Although government debt continues to rise, investors still view it relatively favourably. But that confidence could eventually fade, and the Fed may need to take action to stabilize markets. A US public debt crisis could be triggered by policy decisions (increased spending, more tax cuts), partisan gridlock (yet another tussle over the debt ceiling is expected in spring 2027), fresh credit downgrades and so on. How should Warsh and his colleagues react under those circumstances? In addition, private debt is raising some questions that could present another challenge for the Fed. For now, the issue remains contained, but the risk of contagion from this relatively opaque market is increasing. Since this type of credit falls more outside the Fed's direct mandate, the central bank's ability to intervene is limited. But private debt could eventually have a significant impact on financial stability.

X. Refocusing the Mandate

In the past, Warsh has sharply criticized the Fed for overstepping its official mandate. In his view, by taking on issues that aren't directly tied to inflation or employment, the Fed has played into politicians' hands and consequently lost some of its credibility. Under Warsh, the Fed is less likely to be concerned about climate change, income inequality and social mobility.

XI. Reforming the Fed

Many of the administrative and policy reforms introduced by the Trump administration since taking office bear the imprint of Project 2025, which sparked intense discussion during the 2024 election campaign. That document lays out the blueprint for redefining the role of government, including the Fed. It calls for a less interventionist central bank that's more tightly focused on fighting inflation, even if that means eliminating the maximum employment side of the Fed's dual mandate. It also talks up the merits of a strictly rules-based monetary policy and even considers the possibility of returning to the gold standard, which would remove the Fed's authority to make discretionary decisions about monetary policy. It remains to be seen whether Kevin Warsh can and will move ahead with deep reform of the Fed. But he recently hired Paul Winfree, the author of Project 2025's chapter on the Fed, as an advisor.

XII. Addressing the Rise of Digital Currencies

Digital currencies pose several challenges for central banks, especially the Fed. Along with the Treasury Department, the Fed is the guarantor of the US dollar, which is the world's principal medium of exchange. However, as digital currencies gain ground, they are beginning to challenge the greenback's dominance and fostering parallel systems of exchange. This could reduce the effectiveness of monetary policy transmission, limiting the tools that the Fed can use to stabilize the economy and the financial system. It also disrupts the money supply in the economy by making alternative financing—without Fed regulation or oversight—more feasible. Cryptocurrencies are also highly speculative assets that are often volatile and could destabilize financial markets. The Fed therefore has to consider how far it can tolerate the rise of these assets, or even the extent to which it should play a role in this market. It's also worth noting that President Trump has signed an executive order prohibiting the Fed from developing a central bank digital currency for the United States.

Of course, Warsh probably won't have to face all of these challenges. But what he does with the Fed when some of them inevitably arise will tell us whether Trump made the right choice when picking him to lead the US central bank.

What to Watch For

MONDAY June 15 - 9:15

May	m/m
Consensus	0.2%
Desjardins	0.5%
April	0.7%

TUESDAY June 16 - 8:30

May	ann. rate
Consensus	1,430,000
Desjardins	1,400,000
April	1,465,000

WEDNESDAY June 17 - 8:30

May	m/m
Consensus	0.4%
Desjardins	-0.1%
April	0.5%

WEDNESDAY June 17 - 14:00

June	
Consensus	3.75%
Desjardins	3.75%
April 29	3.75%

UNITED STATES

Industrial production (May) – After falling 0.3% in March, industrial production jumped 0.7% in April, its biggest month-over-month gain since February 2025. The automotive sector was behind much of April’s increase but, given the decline in hours worked in the sector, likely contributed to an anticipated negative print in May. Overall, we expect the rest of the manufacturing sector to post similar growth to April’s 0.3%, in line with the recent strong performance of the ISM index. We’re also forecasting increased production from energy suppliers and the mining sector. Look for industrial production to have grown 0.3% and manufacturing output to have risen 0.5%.

Housing starts (May) – The number of new builds remains highly volatile in the United States. After falling 2.8% in February and surging 12% in March, housing starts saw a 2.8% decline in April. However, new builds remain relatively high compared to their long-term trend. We expect housing starts to have fallen again in May. Although housing starts fell in April, they remained higher than the number of permits issued, which typically signals a pullback in new construction. Residential construction payrolls also fell for the second month in a row in May. Finally, the 6.2% decline in new single-family home sales in April is also a step in the wrong direction. We expect housing starts decreased to 1,400,000 units.

Retail sales (May) – Retail sales rose 0.5% in April. Once again, this increase was driven by higher gas station receipts, which were inflated by the rise in gasoline prices. This same factor likely continued to underpin retail sales in May. We’re also projecting modest growth in motor vehicle sales and in the food services sector. Based on preliminary indicators, other sectors may have had a more challenging month. Downbeat consumer confidence in May and the drawn-out conflict with Iran suggest some weakness at play. As a result, we expect a 0.1% decline in total sales and a 0.3% decrease in sales excluding motor vehicles and gasoline.

Federal Reserve meeting (June) – A new era is dawning for the Federal Reserve (Fed). It’ll be interesting to see if things change significantly at this first FOMC meeting since Kevin Warsh was appointed chair. The Fed is expected to keep its key interest rates unchanged, but many other questions remain. We don’t know whether Chair Warsh will want to highlight the dovish position that undoubtedly helped him secure President Trump’s nomination. He could also move closer to the median position of his peers and thereby demonstrate more independence from the White House. It’ll also be interesting to see how the Fed’s forecasts have changed since March, particularly with regard to the path of interest rates. Three months ago, the Fed’s guidance indicated that cuts were still on the table, but given the adjustments made to the April press release, we think this will now be removed from this meeting’s statement. More broadly, whether the Fed will immediately change how it communicates is a legitimate question. Should we expect a major overhaul of the meeting statement that accompanies the Fed’s rate decision, and will the published quarterly projections contain all the same information? The outcome of Tuesday and Wednesday’s meeting, including Warsh’s first press conference as Fed chair, will help answer these questions.

MONDAY June 15 - 8:15

May	ann. rate
Consensus	255,200
Desjardins	250,000
April	279,300

MONDAY June 15 - 8:30

April	m/m
Consensus	4.5%
Desjardins	4.6%
March	3.0%

TUESDAY June 16 - 5:00

May	m/m
Consensus	n/a
Desjardins	1.0%
April	0.7%

FRIDAY June 19 - 8:30

April	m/m
Consensus	0.6%
Desjardins	0.6%
March	0.9%

MONDAY June 15 - 22:00
May
THURSDAY June 18 - 7:00

June	
Consensus	3.75%
Desjardins	3.75%
April 30	3.75%

CANADA

Housing starts (May) – We estimate that housing starts averaged roughly 250k (saar) in May, broadly in line with recent homebuilding trends. The composition of activity likely continued to shift, with purpose-built rental construction—supported by government programs—accounting for a growing share of starts. By contrast, condo construction probably remained subdued, reflecting ongoing weakness in investor demand and less favourable presale conditions.

Manufacturing sales (April) – We anticipate that manufacturing sales increased by 4.6% m/m in April, in line with Statistics Canada’s flash estimate. Sales of petroleum and coal likely contributed the most to sales growth. In real terms, manufacturing sales appear to have risen by 2.9%, as seasonally adjusted industrial product prices rose by 1.7%.

Existing home sales (May) – National seasonally adjusted home sales likely rose by about 1% in May, although preliminary year-over-year data from local real estate boards still point to declines across most major markets relative to May 2025. In Toronto, however, momentum appears to be strengthening. The Toronto Regional Real Estate Board reported that seasonally adjusted sales rose 10% from April, marking a third consecutive monthly gain.

Retail sales (April) – Retail sales are expected to have risen by 0.6% in April, matching Statistics Canada’s preliminary flash figure. Receipts at gasoline stations likely posted a nominal gain, supported by higher seasonally adjusted fuel prices and a modest increase in volumes. In contrast, sales at motor vehicle and parts dealers probably declined owing to weaker volumes. Excluding autos and gasoline, core retail sales are expected to be close to flat, pointing to subdued household spending. Tepid consumer confidence, ongoing softness in labour market conditions and sustained cost pressures—particularly for energy and food—continue to restrain discretionary expenditures. Looking ahead to May’s flash estimate, a pullback in retail sales is anticipated, with motor vehicle purchases likely to lose further traction. Gasoline station receipts may also level off following two consecutive months of price-driven gains.


OVERSEAS


China: Industrial production and retail sales (May) – China’s economy has performed fairly well so far in 2026. Its Q1 2026 real GDP growth was the strongest quarterly expansion since Q4 2024. That said, the situation was less positive at the beginning of Q2, particularly for domestic demand. Retail sales posted their weakest year-over-year growth since 2022 in April. Growth in industrial production also eased back, but to a lesser extent. May’s data for these two indicators will provide more information on China’s broader economic trend in the second quarter. We already know that exports and imports both picked up in May. This is positive for industrial production, which derives much of its strength from foreign demand.

United Kingdom: Bank of England meeting (June) – The Bank of England is widely expected to hold rates unchanged at 3.75% next week. Policymakers continue to echo the message delivered in April that tighter financial conditions alone may be sufficient to restrain inflation. We expect the Bank will remain on hold the rest of this year, even though the ECB just raised interest rates.

Economic Indicators

Week of June 15 to 19, 2026

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 15	8:30	Empire State Manufacturing Index	June	12.5	5.0	19.6
	9:15	Industrial production (m/m)	May	0.2%	0.5%	0.7%
	9:15	Production capacity utilization rate	May	76.2%	76.4%	76.1%
	10:00	NAHB Housing Market Index	June	36	n/a	37
TUESDAY 16	8:30	Housing starts (ann. rate)	May	1,430,000	1,400,000	1,465,000
	8:30	Building permits (ann. rate)	May	1,428,000	1,400,000	1,423,000
	8:30	Export prices (m/m)	May	n/a	0.3%	3.3%
	8:30	Import prices (m/m)	May	n/a	0.3%	1.9%
WEDNESDAY 17	8:30	Retail sales				
		Total (m/m)	May	0.4%	-0.1%	0.5%
		Excluding automobiles (m/m)	May	0.4%	-0.1%	0.7%
	10:00	Business inventories (m/m)	April	0.5%	0.5%	0.9%
	14:00	Federal Reserve meeting	June	3.75%	3.75%	3.75%
14:30	Speech by Federal Reserve Chair K. Warsh					
THURSDAY 18	8:30	Initial unemployment claims	June 8–12	n/a	222,000	229,000
	8:30	Philadelphia Fed index	June	12.0	5.0	-0.4
	10:00	Leading indicator (m/m)	May	n/a	0.0%	0.1%
	16:00	Net foreign securities purchases (US\$B)	April	n/a	n/a	81.3
FRIDAY 19	---	Markets closed (Juneteenth National Independence Day)				
CANADA						
MONDAY 15	8:15	Housing starts (ann. rate)	May	255,200	250,000	279,300
	8:30	Wholesale sales (m/m)	April	0.2%	0.1%	1.9%
	8:30	Manufacturing sales (m/m)	April	4.5%	4.6%	3.0%
TUESDAY 16	5:00	Existing home sales (m/m)	May	n/a	1.0%	0.7%
	8:30	International securities transactions (\$B)	April	n/a	n/a	4.62
WEDNESDAY 17	---	---				
THURSDAY 18	8:30	Industrial product price index (m/m)	May	n/a	0.5%	2.0%
	8:30	Raw materials price index (m/m)	May	n/a	1.1%	2.6%
FRIDAY 19	8:30	Retail sales				
		Total (m/m)	April	0.6%	0.6%	0.9%
		Excluding automobiles (m/m)	April	0.7%	1.1%	1.4%

Note: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours).  Desjardins Economic Studies forecast.

Economic Indicators

Week of June 15 to 19, 2026

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 15								
Japan	---	Bank of Japan meeting	June	1.00%		0.75%		
Japan	0:30	Tertiary Industry Activity Index	April	0.6%		-0.2%		
Italy	4:00	Trade balance (€M)	April	n/a		4,709		
Eurozone	5:00	Trade balance (€B)	April	n/a		3.5		
Eurozone	5:00	Industrial production	April	0.2%	0.4%	0.2%	-2.1%	
China	22:00	Industrial production	May		4.3%		4.1%	
China	22:00	Retail sales	May		-0.2%		0.2%	
TUESDAY 16								
Australia	0:30	Reserve Bank of Australia meeting	June	4.35%		4.35%		
Italy	4:00	Consumer price index – final	May	n/a	3.2%	0.4%	3.2%	
Germany	5:00	ZEW Current Conditions Survey	June	-78.0		-77.8		
Germany	5:00	ZEW Expectations Survey	June	-5.8		-10.2		
Japan	19:50	Trade balance (¥B)	June	-207.0		236.4		
WEDNESDAY 17								
United Kingdom	2:00	Consumer price index	May	0.4%	3.0%	0.7%	2.8%	
United Kingdom	2:00	Producer price index	May	0.5%	4.0%	1.4%	4.0%	
Sweden	3:30	Bank of Sweden meeting	June	1.75%		1.75%		
Eurozone	5:00	Consumer price index – final	May	0.1%	3.2%	0.1%	3.2%	
Brazil	17:30	Central Bank of Brazil meeting	June	14.25%		14.50%		
THURSDAY 18								
United Kingdom	2:00	ILO unemployment rate	April	5.0%		5.0%		
Switzerland	3:30	Swiss National Bank meeting	June	0.00%		0.00%		
Norway	4:00	Bank of Norway meeting	June	4.25%		4.25%		
Eurozone	4:00	Current account (€B)	April	n/a		14.9		
Italy	4:00	Current account (€M)	April	n/a		1,748		
Eurozone	5:00	Construction	April	n/a		0.8%	-1.2%	
United Kingdom	7:00	Bank of England meeting	June	3.75%		3.75%		
United Kingdom	19:01	Consumer confidence	June	-23.0		-23.0		
Japan	19:30	Consumer price index	May		1.5%		1.4%	
FRIDAY 19								
United Kingdom	2:00	Retail sales	May	0.5%	1.9%	-1.3%	0.0%	
Germany	2:00	Producer price index	May	0.7%	2.5%	1.2%	1.7%	
France	2:45	Wages – final	Q1	n/a		0.7%		
Russia	6:30	Bank of Russia meeting	June	14.50%		14.50%		

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours).