CIBC PRIVATE WEALTH



JAMES DIXON, CIM®: MACRO THOUGHTS – JUL 1, 2026

THE NEW FED REGIME

EXECUTIVE SUMMARY

The appointment of Kevin Warsh as Federal Reserve Chair may represent the most important shift in U.S. monetary policy since the post-Global Financial Crisis (GFC) era.

While markets have spent nearly two decades operating under increasingly transparent and interventionist central banks, Warsh appears intent on restoring a more traditional model: one where markets absorb economic information independently and the Fed intervenes less frequently and communicates less explicitly.

The immediate implication is not higher interest rates. What it rather suggests, it is a higher tolerance for short-term market volatility in exchange for restoring long-term policy credibility.

Several themes emerge from Warsh's first FOMC meeting and subsequent commentary:

- Inflation has reasserted itself as a key objective over employment.
- Forward guidance is likely to diminish significantly.
- Markets may receive less "hand-holding" from policymakers.
- Liquidity support could be predominantly fiscally driven.
- Monetary policy could revert to primarily focusing interest rates over QE (Quantitative Easing). This critically comes at a time when credit demand is rising.
- Term premia and bond volatility are likely to increase.
- The Fed may tolerate equity corrections unless financial stability itself becomes threatened.
- While not explicitly stated, regaining credibility now and replacing QE with rate policy as the primary support measure suggests broader alignment with the longer term theme I continue to underscore – an alignment of Fed policy with state objectives which requires a lower rate policy.

For UHNW investors, this suggests a period of choppier markets and higher dispersion across asset classes. It also places a greater premium on active management as pure beta is unlikely to grant investors the success that was prevalent during the post-GFC era.

Most importantly the long-term earnings-driven bull market remains intact! Investors simply need to brace for the fact that the path forward is likely to become less linear with these shifts adding volatility.

1. A NEW FED PHILOSOPHY

Kevin Warsh's first meeting as Chair provided an important signal: The Fed intends to restore credibility before restoring accommodation.

This is a notable shift as markets have become accustomed to central banks:

- Guiding expectations years into the future.
- Responding quickly to financial stress.

- Prioritizing employment over inflation.
- Using balance sheet expansion as a routine policy tool.

Warsh appears inclined to reverse many of these practices. His philosophy rather seems to resemble the pre-2008 Fed framework. Recall the implementation of QE (Quantitative Easing) only become a policy tool after the 2008 GFC. At the time (as a young trader), I still remember trying to digest what QE meant as we had never seen it before.

To take readers back, in those days:

- Markets discovered prices.
- The Fed reacted to economic realities.
- Policy credibility mattered more than short-term asset prices.

---

2. INFLATION > EMPLOYMENT

Since 2024 the Fed has placed notable emphasis on employment despite elevated inflation levels.

Warsh's first meeting as chair suggests a change in that backdrop to renewed emphasis on inflation. This is likely because employment conditions have improved. For context:

- Payroll growth has stabilized.
- Labor demand has improved.
- Economic activity remains resilient.

In contrast inflation conditions are sticky (particularly in services) and affordability has become a hot political topic. The problem is much of this inflation backdrop is structural.

Previously: weak growth = markets priced lower rates. Today: persistent inflation = markets pricing rates need to stay higher for longer. In fact, markets have not begun to price in the probability of rate hikes.

This is a double edged sword.

- **Policy credibility**. On one hand, more aggressive messaging lends credibility. History suggests central bank credibility is rarely established through accommodation. Instead, credibility often requires policymakers to tolerate short-term discomfort.
- **Financial stability.** On the other hand elevated rates are pressuring the Treasury's funding ability. For context, T-bills now account for almost 85% of gross Treasury issuance, near the highest share in over two decades. By tilting issuance toward short-dated debt, the government ties its borrowing costs more closely to the front end of the curve, making its financing increasingly dependent on Fed policy. **Bottom line:** Higher rates are creating funding headwinds.

It's up for debate on which of these drivers ultimately dictates policy. I believe it's the latter. Here's why:

- **Politics.** Trump and Bessent both pushed for Wash to replace Powell as the new chair. Both want lower rates.
- **Economic stability > inflation**. Economic stability matters more than inflation. This matters not only from a funding standpoint but also from a debt erosion perspective – higher inflation erodes debt.
- **Geopolitical fragmentation**. It a world where geopolitical fragmentation is becoming more evident, achieving state objectives is likely to become more important that controlling inflation.

Bottom line: Priced hikes seem highly unlikely. I still believe we see cuts but they could be pushed out further as Warsh builds credibility before making his move. This is chess!

---

3. THE END OF FORWARD GUIDANCE

Perhaps the most important structural change is communication.

Since Bernanke, central banks have increasingly attempted to manage expectations through:

- Dot plots.
- Extensive forecasts.
- Frequent press conferences.
- Explicit future guidance.

Warsh has long criticized this approach. His emerging philosophy appears to be: "*The Fed should provide a framework—not a roadmap.*"

This has several consequences.

1. **More Data Dependence.** Policy decisions become increasingly contingent on incoming information.
2. **Greater Market Uncertainty**. Investors lose the comfort of pre-announced policy paths.
3. **Higher Volatility**. Asset prices become more sensitive to: inflation releases; payroll data; and economic surprises.
4. **Elevated Term Premium.** Less forward guidance raises term premium as investors will demand greater returns for the elevated risk of a longer duration investment. This is particularly bad for private credit where funds are already struggling under refinancing weights.

Ironically, in the long run this shift may ultimately produce healthier markets. This is because prices once again become independent information signals rather than merely reflections of anticipated Fed actions.

This environment is a macro traders world. Its less ideal for beta investors.

---

4. LIQUDITY SUPPORT

Liquidity is the core driver of all asset prices.

Several tailwinds have supported markets over the last year:

- Federal Reserve programs.
- Reduced banking capital constraints (Macro Jul 9, 2025: THE BIG BEAUTIFUL BILL)
- Treasury buyback activity.
- Broader financial stability measures.

While the pace of liquidity expansion is now slowing, it is not stopping. This matters!

Slower liquidity growth is not the same as liquidity withdrawal. It simply suggests that markets are moving from highly accommodative conditions toward moderately supportive conditions—not into outright tightening.

While new Fed messaging suggests a short term further reduction of liquidity from Fed programs as Warsh build credibility, mid-term (as outlined in point 2 above), I believe the conditions remain ripe from a funding perspective to boost support via looser rate policy.

Importantly, despite a greater willingness to tolerate: Market drawdowns; Temporary tightening of financial conditions; and Higher volatility it does not mean no support! Intervention is still likely to come hard and fast if stress spreads into: Funding markets; Credit markets; and Treasury market functioning. An environment we could be approaching.

---

5. CONCLUSION

Investors should not get lost in the noise. My base case remains highly constructive!

This thesis is supported by strong earnings, a healthy economy, no signs of aggressive tightening (slowing liquidity expansion, not tightening) and supportive fiscal policy.

Kevin Warsh's first act as Federal Reserve Chair was not about removing support. It was rather about restoring credibility. This distinction matters!

The old post-GFC era characterized by: QE liquidity measures; Extensive guidance; and Rapid intervention is changing to a new regime. The new regime is characterized by: less communication; more market-driven pricing; and a greater tolerance for volatility. This is not a bad thing, it simply means investors need to adapt.

While adjustments of this magnitude may feel unsettling, investors need to remember: periods when markets rediscover price discovery and policy discipline often lay the foundation for stronger, more durable expansions. This is good for investors in the long run.

Importantly, we are still in an earnings-driven bull market. The market is simply more choppy!

Under this new monetary regime, patience; liquidity; and active management will remain the critical advantages. Individual security selection will matter more today than it did over the last 15years.

CONTACT

James Dixon, CIM ®
Investment Advisor, CIBC Wood Gundy
277 Lakeshore Rd E, Oakville, ON, L6J 6J3
Tel: 905-631-3905 (w)
James.dixon@cibc.com

DISCLAIMERS

The contents of this communication are for informational purposes only and are not being provided in the context of an offering of any security, sector or financial instrument, and is not a recommendation or solicitation to buy, hold or sell any security. The enclosed research report(s) from FINRA dealers or other CIRO-recognized foreign regulators are not prepared subject to Canadian disclosure requirements under CIRO Rules.

CIBC Private Wealth consists of services provided by CIBC and certain of its subsidiaries, including CIBC Wood Gundy, a division of CIBC World Markets Inc. The CIBC logo and “CIBC Private Wealth” are trademarks of CIBC, used under license. “Wood Gundy” is a registered trademark of CIBC World Markets Inc.

This information, including any opinion, is based on various sources believed to be reliable, but its accuracy cannot be guaranteed and is subject to change. CIBC and CIBC World Markets Inc., their affiliates, directors, officers and employees may buy, sell, or hold a position in securities of a company mentioned herein, its affiliates or subsidiaries, and may also perform financial advisory services, investment banking or other services for, or have lending or other credit relationships with the same. CIBC World Markets Inc. and its representatives will receive sales commissions and/or a spread between bid and ask prices if you purchase, sell or hold the securities referred to above. © CIBC World Markets Inc. 2026.

James Dixon is an Investment Advisor with CIBC Wood Gundy in Oakville. He/she and his/her clients may own securities mentioned in this column. The views of James Dixon do not necessarily reflect those of CIBC World Markets Inc. If you are currently a CIBC Wood Gundy client, please contact your Investment Advisor. The views of referenced authors, commentors and guest speakers do not necessarily reflect those of CIBC World Markets Inc. Securities mentioned do not constitute a recommendation to buy or sell and are for discussion purposes only.