OPTIMUM®
Global Asset Management

Our View :

The Warsh Cycle: Principles Washed by Reality

Kevin Warsh has spent the past decade arguing that the Federal Reserve has lost its way. His position has been consistent: inflation is ultimately a policy choice, quantitative easing was overused, and the Fed's balance sheet expanded well beyond what was necessary. Drawing on Volcker and Friedman, his framework emphasizes price stability, institutional credibility, and a disciplined, limited role for central banks.

His critique of post-2008 policy has been sharp. Repeated asset purchases, in his view, distorted market signals, encouraged risk-taking, and blurred the line between monetary and fiscal policy. More broadly, he warned of "mission creep"—arguing that central banks should not attempt to solve structural or political problems.

But the world he may have to govern is very different from the one he critiqued.

The closure of the Strait of Hormuz and the voracious AI buildout are presenting a direct inflation shock. The result: rising inflation that contrasts heavily with his assessment of longer term disinflation from AI's productivity improvements which could be compounded by the eventual end of the war.

At the same time, the Treasury funding backdrop is fragile. Large fiscal deficits, heavy bond issuance from the government and corporations, and significant refinancing needs leave markets sensitive to interest rates. A sharp rise in long-term yields would not stay contained in bond markets and would tighten financial conditions broadly, impacting housing, credit, and debt sustainability.

This is where the tension becomes real.

Warsh's instinct is discipline: contain inflation, maintain tighter policy.But the system may demand something else: prevent disorder, stabilize markets, cap yields.

In practice, that could mean deploying the very tools he once criticized such as balance sheet expansion, liquidity facilities, or interventions aimed at containing long-term rates.

This is less a contradiction than a shift in vantage point. As a critic, the objective is coherence and discipline. As a policymaker, the objective is stability under constraints that leave no clean choices.

The irony is clear: the same conditions Warsh warned about like market distortion, fiscal dominance, financial fragility may be the ones that force his hand.

If inflation continues higher while Treasury yields rise in tandem, the Fed's challenge will not be choosing between inflation and growth. It will be balancing inflation control against the risk of a disorderly tightening in financial conditions.

Because in markets, purity rarely survives contact with reality.

June 17, 2026 is Kevin Warsh's first meeting at the helm of the Federal Reserve. During this meeting, we expect the removal of the easing bias and some tough talk on the eventual reduction of the balance sheet but, in the end, we should soon see capital rules easing for financial institutions to buy Treasuries without capital cost. If long term rates continue higher, we expect a pragmatic Chairman that will not tolerate long term interest rates closing in on 6%: he will use all the tools at his disposal.

Your Team

François Bourdon
President
fbourdon@gestion-optimum.com

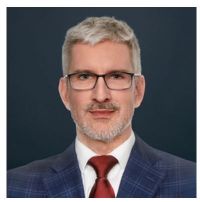
Martin Delage
Global and Canadian Chief Investment Officer
mdelage@optimumgam.ca

Hugues Sauvé
Chief, Canadian Fixed Income
hsauve@optimumgam.ca

Pierre-Olivier Boulanger
Vice President, Responsible Investment
pboulanger@optimumgam.ca

Nicolas Poirier
Director, Equities
npoirier@optimumgam.ca

Brigitte Gascon
Executive Vice President
bgascon@optimumgam.ca



Jean-Martin Aussant
Senior Vice President, Private Wealth Management and Alternative Distribution
jaussant@gestion-optimum.com

Patrick Beaudoin
Vice President, Operations and Client relations
pbeaudoin@optimumgam.ca

Martin Joanis
Assistant Manager, Investments
mjoanis@optimumgam.ca

Yannick Renaud-Blondeau
Assistant Manager, Investments
yrenaud-blondeau@optimumgam.ca

Robert Hesselbo
Vice President, Financial Technology
rhesselbo@optimumgam.ca

Jonathan Helleboid
Analyst, Investments
jhelleboid@optimumgam.ca

William Sirois
Analyst, Technology & Investments
wsirois@optimumgam.ca

Earvin Hemou
Analyst, Financial Technology & Investments
ehemou@optimumgam.ca

info@optimumgam.ca

optimumgam.ca

514 288-7545

PRI Principles for Responsible Investment

OPTIMUM®