Capital Markets Strategy

Essential inCights for the C-Suite

MUFG

The Fed Under Kevin Warsh

Policy Priorities, Banks & Markets

JUL 2026

"I have known Kevin for most of his adult life. I first met him as a student in my international politics class at Stanford University, and it was clear even then that he was exceptional.

Kevin is uniquely suited to lead the Federal Reserve at this moment. He is battle-tested, principled, and brings the breadth of judgment this role demands. Just as important, he understands how deeply international relations and monetary policy are intertwined - a reality that will only grow more consequential in the years ahead."

Former Secretary of State, Condoleezza Rice,
in a statement from the Hoover Institution
(May 13, 2026)

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1 Academic Rigor and Market Experience

“Monetary policy independence is essential. Monetary policymakers must act in the nation's interest – their decisions the product of analytic rigor, meaningful deliberation, and unclouded decision-making.”

Kevin Warsh, during his testimony at the
Senate Banking Committee Confirmation Hearing
(April 2026)

The Fed Under Kevin Warsh

- Hawkish instincts
- Wall Street credibility
- Politically fluent
- Pragmatic reformer
- Principled dissent
- Advocate of institutional neutrality
- Ideological discipline
- Sharp communicator
- Crisis composure
- Cultural disruptor potential

Kevin M. Warsh

1992	B.A. Public Policy from Stanford University
1995	J.D. from Harvard Law School
1995 - 2002	Joined Morgan Stanley
2002-06	Named Executive Secretary of the NEC
2006-11	Appointed to the Fed Board of Governors
2011	Resigned from the Fed Became a Hoover Institute Fellow & partner at Duquesne Family Office
2014	Joined Group of 30
2017	Passed over for Fed Chair for Jerome Powell
2022	Joined CBO Panel of Economic Advisors
2024	Passed over for Treasury Sec. for Scott Bessent
May 2026	Confirmed as 17th Fed Chair
Jun 2026	First Fed meeting as Fed Chair

- *Only Fed Chair in modern history to have deal-making experience prior to working in the public sector* **1995**
- *Heavily involved in Bush administration's response to corporate accounting scandals (Sarbanes-Oxley)* **2002**
- *Youngest person ever appointed to the Board of Governors (35)* **2006**
- *Pivotal in formulating policy during the GFC (Bear Stearns sale, Lehman Brothers bankruptcy, and AIG bailout)* **2008**
- *Resigned from the Fed prior to his term ending due to opposition of QE2* **2011**
- *Served on the boards of UPS and Coupang* **2014-19**
- *Confirmed by the narrowest margin in Fed Chair history* **2026**

2 Ode to Independence

“Ensuring Fed independence – as the cornerstone of institutional credibility – is our charge to keep. It is central to what the Federal Reserve represents, and to how policy is conducted.”

Kevin Warsh, *An Ode to Independence*
(March 2010)

Historical Perspective: US Presidents & Fed Chairs

Year	President	Fed Chair	Monetary Policy Observation
1951	 Harry Truman	 Thomas McCabe	**President Truman urged the Fed to cap interest rates** during the Korean War, led to the establishment of the 1951 Treasury-Fed Accord.
1965	 Lyndon B. Johnson	 William Martin	Fed Chair Martin revealed that **President Johnson repeatedly "bullied" him on monetary policy** after he raised rates.
1971-72	 Richard Nixon	 Arthur Burns	**President Nixon pressured Fed Chair Burns to cut rates** leading up to the 1972 election, resulting in the worst inflationary decade in American history.
1978-79	 Jimmy Carter	 Paul Volcker	Some **Democrats blamed the Fed for raising rates before the election** and causing Jimmy carter to lose, though inflation was above 14%.
1984	 Ronald Reagan	 Paul Volcker	Fed Chair Volcker revealed that Chief of Staff Jim Baker, with President Reagan present, strongly **encouraged him to not raise rates in an election year**.
1991-92	 George H.W. Bush	 Alan Greenspan	Years later (1998), former **President Bush attributed his 1992 re-election loss to Greenspan not cutting rates** aggressively after the 1990-91 recession.
2018 / 2025	 Donald Trump	 Jerome Powell	**President Trump reprimanded Fed Chair Powell repeatedly** for not lowering rates to stimulate growth, even as inflation ran well above target.
2026	 Donald Trump	 Kevin Warsh	President Trump nominated Fed Chair Warsh with **expectations of lower interest rates,** even as inflation runs well above target.

Source: (1) Vintage Financial Partners, "When Presidents Go to War With the Fed".

Tightest Senate Confirmation Margin in History

In a highly partisan vote, Kevin Warsh's confirmation passed the US Senate by the slimmest margin on record since Senate approvals began in 1977. Importantly, once confirmed, the Fed Chair's formal authority is the same regardless of margin, with no impact on statutory power or FOMC voting structure. However, the narrow vote highlights the political sensitivity to radical policy change or substantive departure from historical precedent.

US Senate confirmation votes for Federal Reserve Chair

Name	Year	Yay Votes	Nay Votes	Other
 **Paul Volcker**	1979	98	0	
	1983	84	16	
 **Alan Greenspan**	1987	91	2	
	1992	*Unanimous consent*		
	1996	91	7	
	2000	89	4	
 **Ben Bernanke**	2006	*Unanimous consent*		
	2010	70	30	
 **Janet Yellen**	2014	56	26	18
 **Jerome Powell**	2018	84	3	3
	2022	80	19	1
 **Kevin Warsh**	**2026**	**54**	**45**	

Source: (1) US Federal Reserve. Data as of May 2026.

More Divided FOMC

Warsh's ability to deliver on his policy agenda hinges on building committee consensus. Former Fed Chair Powell's unprecedented decision to remain on the Board of Governors (for now) adds a structural check on that process, effectively limiting President Trump's ability to install additional allies.

FOMC voting members

Trump nominee

Kevin Warsh
Fed Chair
Term Expires:
Jan 2040

Michelle Bowman
Vice Chair for Supervision
Jan 2034

Chris Waller
Governor
Jan 2030

Biden

Philip Johnson
Vice Chair
*Jan 2036**

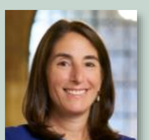
Lisa Cook
Governor
Jan 2038

Michael Barr
Governor
Jan 2032

Obama / Trump / Biden

Jerome Powell
Governor
Jan 2028

John Williams
NY Fed President
Feb 2031



Beth Hammack
Cleveland Fed Pres.
Feb 2031

Neel Kashkari
Minneapolis Fed Pres.
Feb 2031

Lorie Logan
Dallas Fed President
Feb 2031

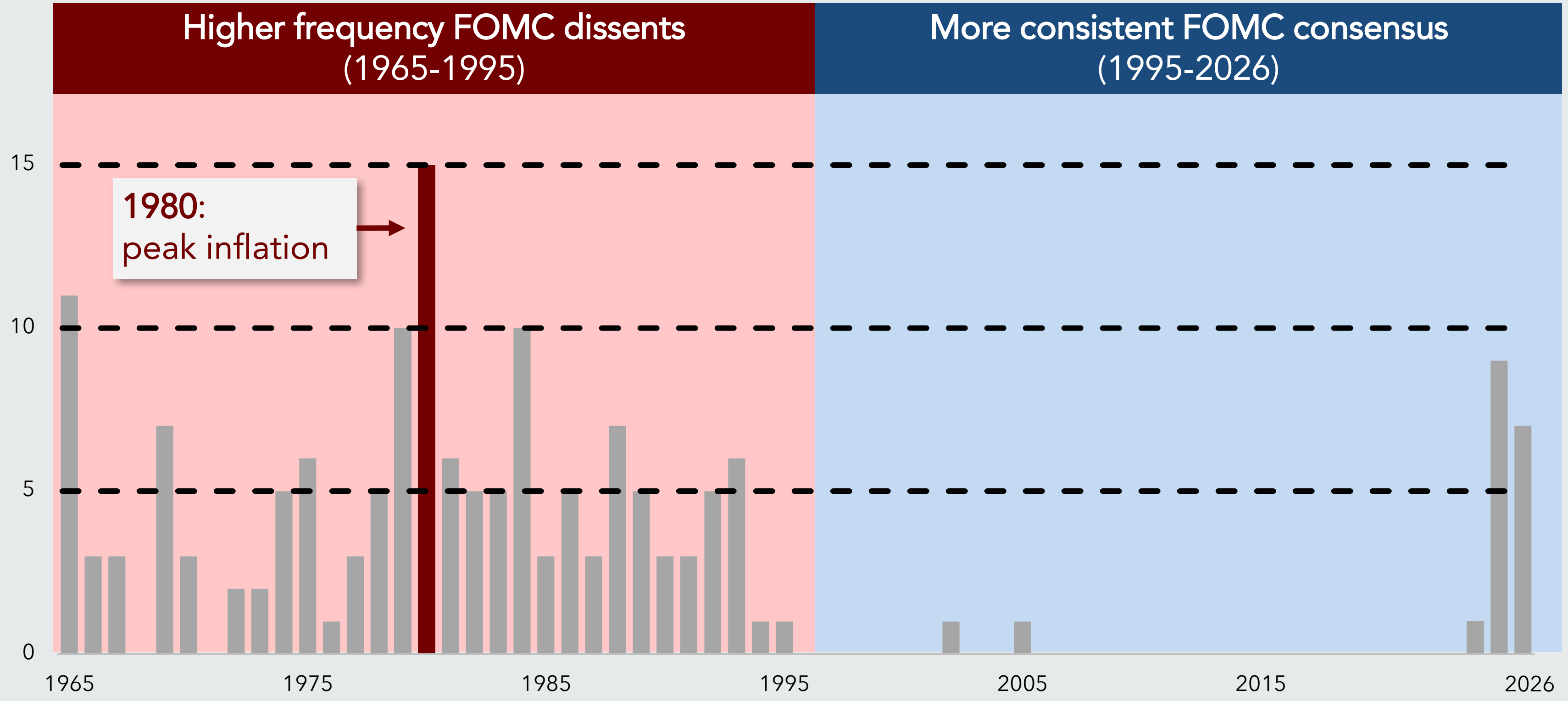
Anna Paulson
Philadelphia Fed Pres.
Feb 2031

*Source: (1) US Federal Reserve. *Philip Johnson & Michael Barr are filling unexpired terms, so they could be reappointed". Regional presidents are nominated by selection committees, with final approval by the Board of Governors.*

New Era of Fed FOMC Dissent Expected

FOMC dissents surged in 2025 and 2026, culminating in four members voting against Powell's final decision in April 2026, the most fractured vote since 1992. This structural shift makes Kevin Warsh's "regime change" agenda more challenging. He has spoken out against forward guidance, the dot plot and press conferences after each meeting, all of which are within the chair's unilateral power to modify. Those elements are likely to arrive faster than rate or balance sheet policy changes, which require consensus buy-in.

Number of Federal Reserve Board governor dissents per year



Source: (1) FOMC Dissent Data Appendix to "Making Sense of Dissents: A History of FOMC Dissents." Federal Reserve Bank of St. Louis Review. Data as of June 2026.

3 Return to Orthodoxy

“I tend to favor messier meetings than some, where people don’t show up with rehearsed scripts, but we can have a good family fight.”

Kevin Warsh, during his testimony at the
Senate Banking Committee Confirmation Hearing
(April 2026)

A Return to Orthodoxy at the Fed

Fed Chair Warsh has signaled regime change across most of the Fed's core policy levers: balance sheet structure, policy communication, the Fed's reaction function and the scope of their policy mandate.

	 Jerome Powell	 Kevin Warsh
Policy remit	• Broader • Incorporated climate, inequality, ESG & social objectives into supervisory frameworks	• More narrow and cautious on mission creep • Policy scope around price stability and employment
Dual mandate	• Strongly emphasized full employment and inflation	• Adjustments to implementation • Inflation first price stability
Inflation targeting	• Flexible 2% avg. inflation targeting (AIT) • Traditional core PCE metric	• Stricter 2% target with less tolerance of overshoots • Trimmed mean & median PCE
Reaction function	• Data-driven meeting-by-meeting	• Decisive action, less gradualism • Less backward-looking; more model and expectations-driven
Balance sheet	• QE as core tool • Passive runoff approach	• Accelerated balance sheet reduction • Treasury-only balance sheet • Strict limits on future QE

A Return to Orthodoxy at the Fed


	Jerome Powell	Kevin Warsh
Communication	• Forward guidance • Dot plot, press conferences and detailed signaling	• Framework guidance • Shorter horizon communication that preserves flexibility (less forward guidance)
Frequency of FOMC meetings	• 8 per year	• Fewer than 8 per year (minimum of 4 required by law)
Fed independence	• Resisted Trump pressure in 2nd term • Stayed on as Governor post-Chair (for now)	• Strict independence on monetary policy • More collaboration on non-monetary issues
Financial stability	• Financial stability as distinct objective addressed via supervision and macro-prudential tools	• Less likely to deploy emergency facilities • Skeptical of the Fed as perpetual market backstop
Regulation & supervision	• More stringent supervisory position • More global reg cooperation (Basel)	• Pushback on excessive regulation • More US-centric approach

4 The Macro Inheritance

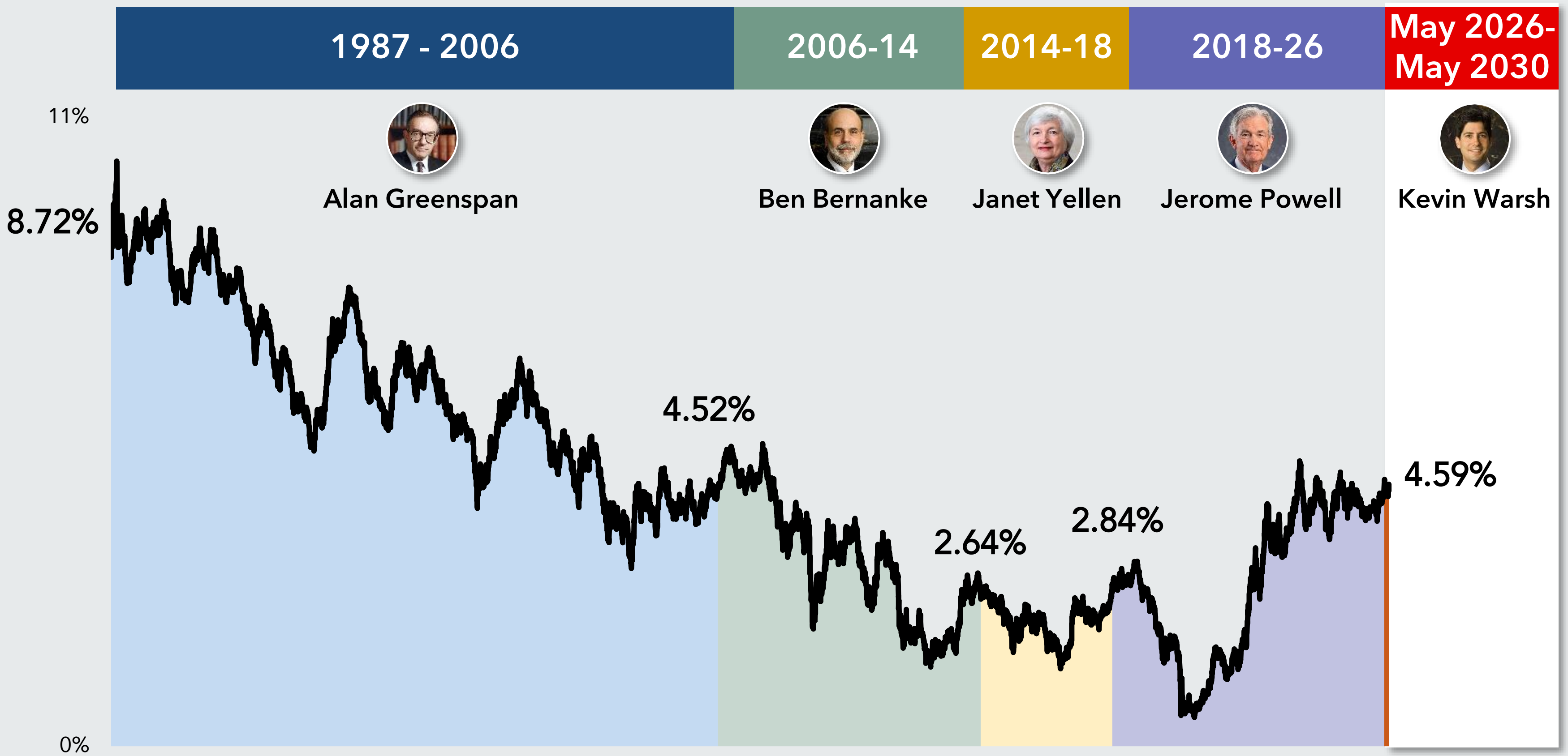
“Inflation is a choice, and the Fed must take responsibility for it. Congress tasked the Fed with the mission to ensure price stability, without excuse or equivocation, argument or anguish.”

Kevin Warsh, during his testimony at the
Senate Banking Committee Confirmation Hearing
(April 2026)

Fed Chair Warsh's Macro Inheritance

Kevin Warsh steps into the Fed Chair with a uniquely messy macro inheritance: structurally higher, war-induced inflation; a bond market that is already tight; and an outsized Fed balance sheet that has drifted into fiscal-political territory. More pressing near term, reaccelerating supply-side inflation from the Iran war and fiscal policy largesse are difficult to remedy with the Fed's demand-side tools.

10 yr UST

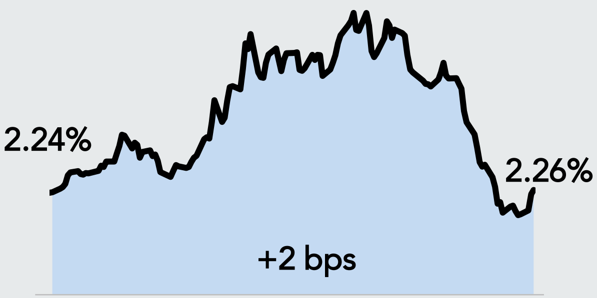


Source: (1) Bloomberg. Data as of July 8, 2026.

Fed Chair Warsh's Macro Inheritance

Supply-side inflation shock

1 year US breakevens, 2026 YTD

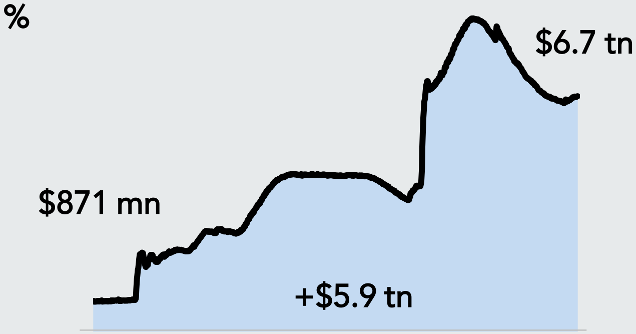


Bond market tightening

2 yr UST, 2026 YTD

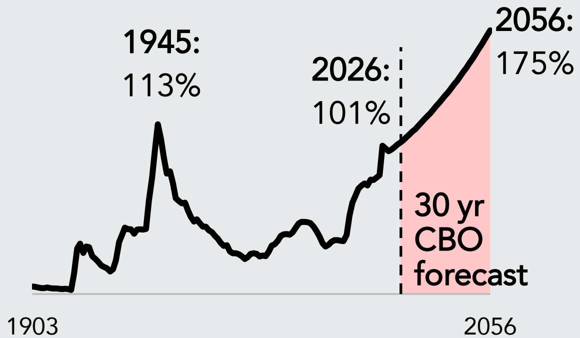
Outsized Fed balance sheet

Fed balance sheet since 2007, USD



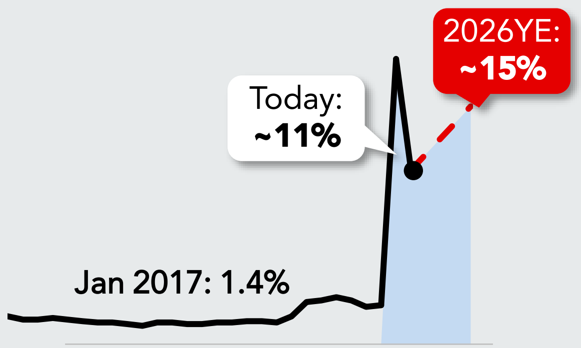
US fiscal largesse

Federal debt held by the public, % of GDP



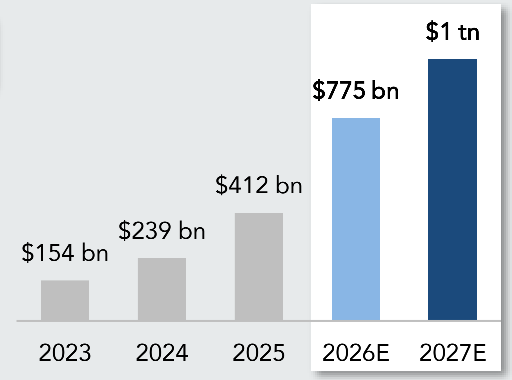
Trade war

Average US tariffs since 2000



AI capex supercycle

Hyperscaler capex, USD



Source: (1-4) Bloomberg. Data as of July 8, 2026. (5) US International Trade Commission. US Census Bureau. The Tax Foundation. 2026 rate is an estimate from Yale Budget Lab, Capital Econ & Oxford as of May 2026. (6) Bloomberg. Data trailing 12 months. Oracle's quarters end a month earlier than the other companies. 2026E data is based on company announcements, including Q1. Oracle estimate for FY 2026. 2027 projections based on high-end of analyst estimates.

5 Historically Hawkish on Inflation

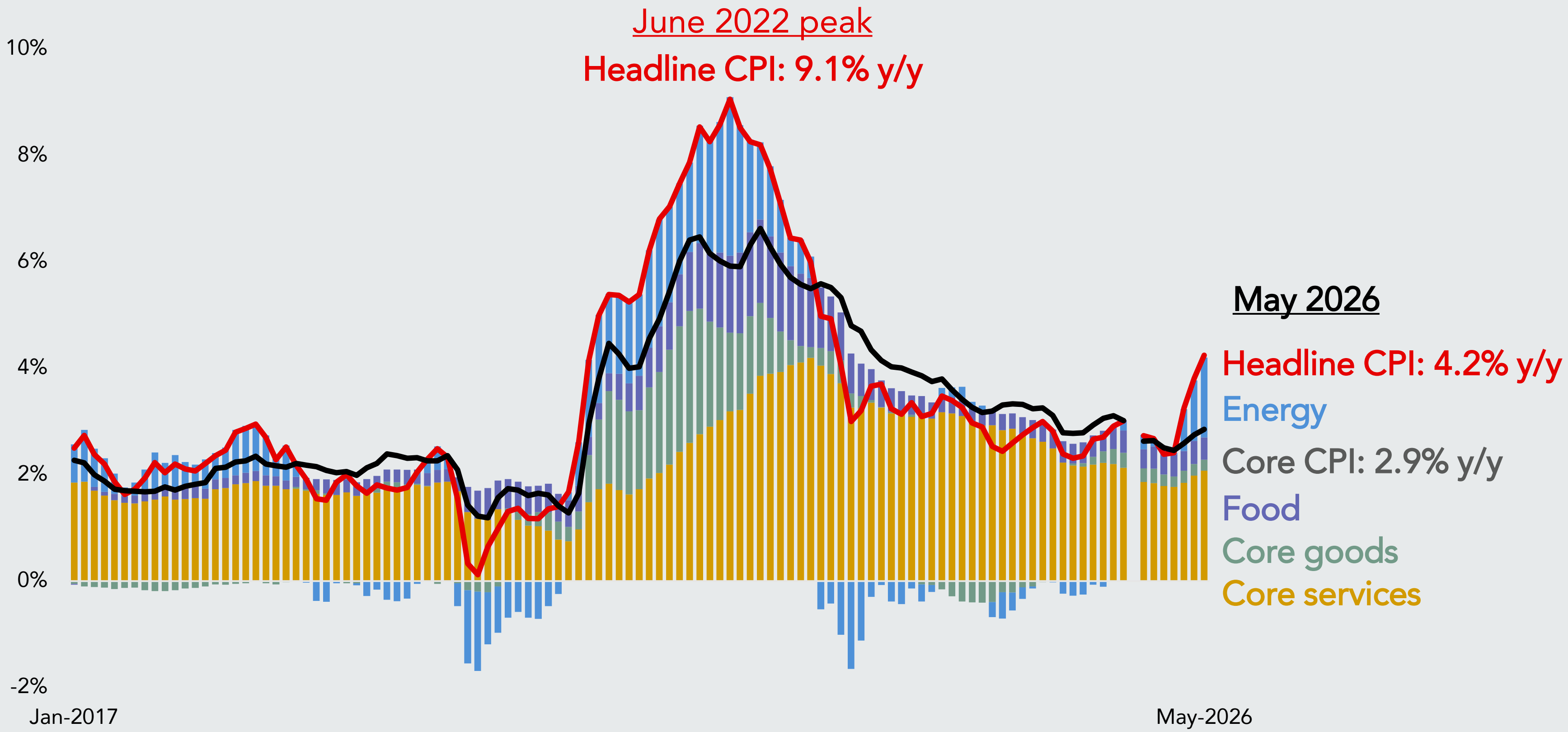
“Central bankers around the world…seem more comfortable with inflation closer to 3% than I wish were the case. That’s very dangerous stuff. And certainly we can have an economic boom in that scenario, but there’ll be a very high price to pay.”

Kevin Warsh, interview with
Larry Kudlow on Fox Business
(March 2024)

Warsh Historically Hawkish on Inflation

The supply-side inflation shock emanating from the US-Iran war continues to filter its way through the economic data. The energy index rose 3.9% in May, following a 3.8% rise in April and 10.9% in March, accounting for over 60% of the monthly all-items increase. Food prices re-accelerated this month and are expected to continue to increase, as roughly one-third of global fertilizer supply originates in the Persian Gulf.

Breakdown of CPI by components

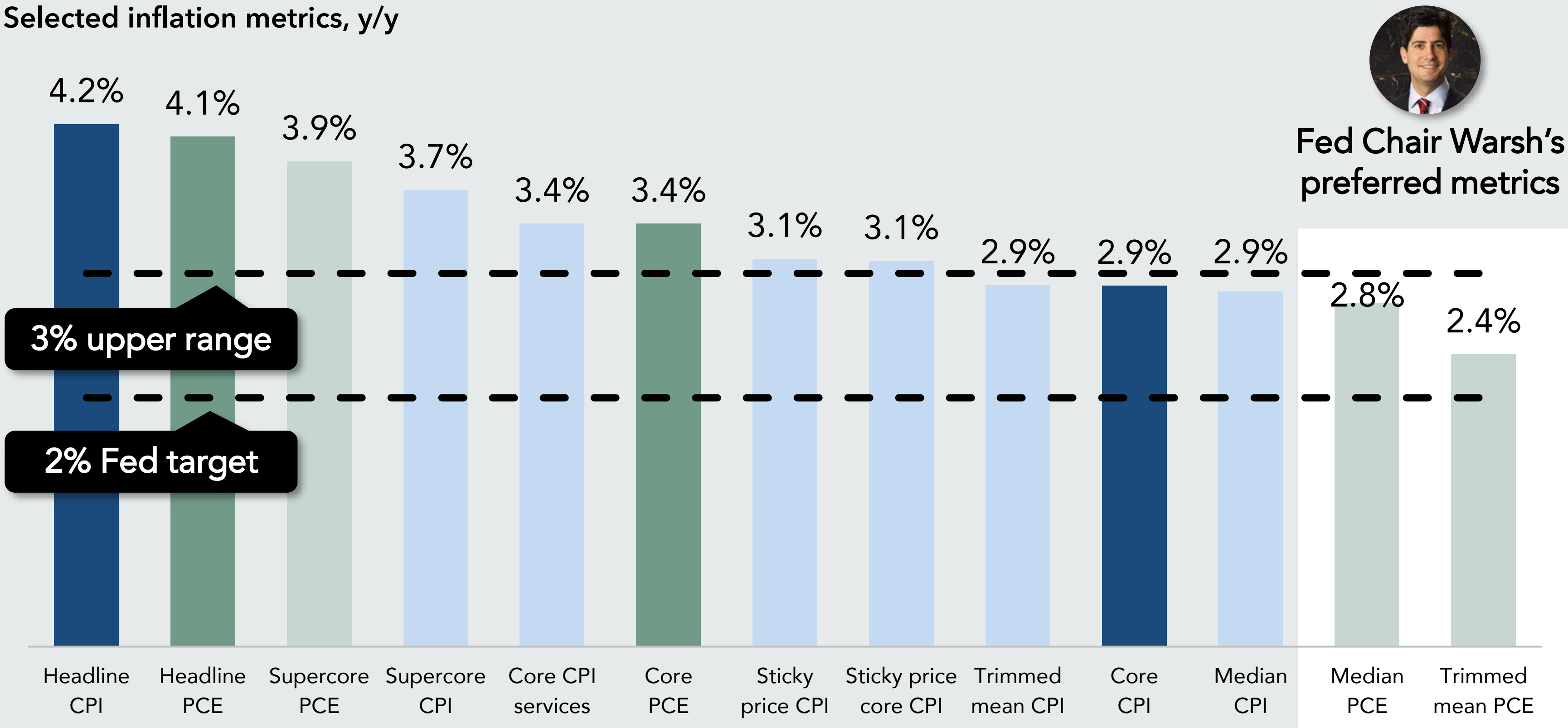


Source: (1) Bureau of Labor Statistics. CPI Report May 2026. Bloomberg. Data as of July 7, 2026.

Menu of US Inflation Metrics All Above Target

Fed Chair Warsh views the inflation dashboard as overcrowded and has expressed a preference for the median PCE and trimmed mean PCE metrics because of the manner in which they systematically strip out the tails of the price-change distribution, and in his view, represent a statistically cleaner estimate. He has also advocated for abandoning average inflation targeting and pulling back on forward guidance, arguing that a less committal communications framework allows the Fed to move earlier and more decisively when inflation signals emerge.

Selected inflation metrics, y/y



Source: (1) Bloomberg. Data as of July 7, 2026. CPI & PCE metrics latest data is May 2026.

Breaking Down the Menu of Inflation Metrics

US inflation CPI and PCE calculations vary in: (1) scope of the data (PCE captures more); **(2) weighting** of data (CPI more heavily weighs shelter, PCE more heavily weighs healthcare); **(3) frequency** of weight updates (CPI annually, PCE monthly); and **(4) formula** of the calculation itself. Generally speaking, the Fed prefers PCE metrics for the broader scope of coverage, frequency of weight-adjustments to reflect consumer behavior, and its integration with US national accounts data.

Selected inflation metrics, y/y

Metric	Description
Headline CPI	All items price change
Headline PCE	Broad consumption-based price measure
Super core CPI	Services less energy and housing
Super core PCE	Services less energy and housing
Core CPI services	Services less energy services; important proxy for US economy
Core PCE	PCE ex-food and energy; Fed's preferred metric
Sticky price CPI	Slow-moving prices; reflects entrenched inflation expectations
Sticky price core CPI	Sticky price CPI ex-food and energy
Trimmed mean CPI	Removes top / bottom 8% of price changes by weight
Core CPI	CPI ex-food and energy
Median CPI	Price change at 50th percentile, filters outliers
Median PCE	Price change at 50th percentile, filters outliers
Trimmed mean PCE	Removes most extreme price changes

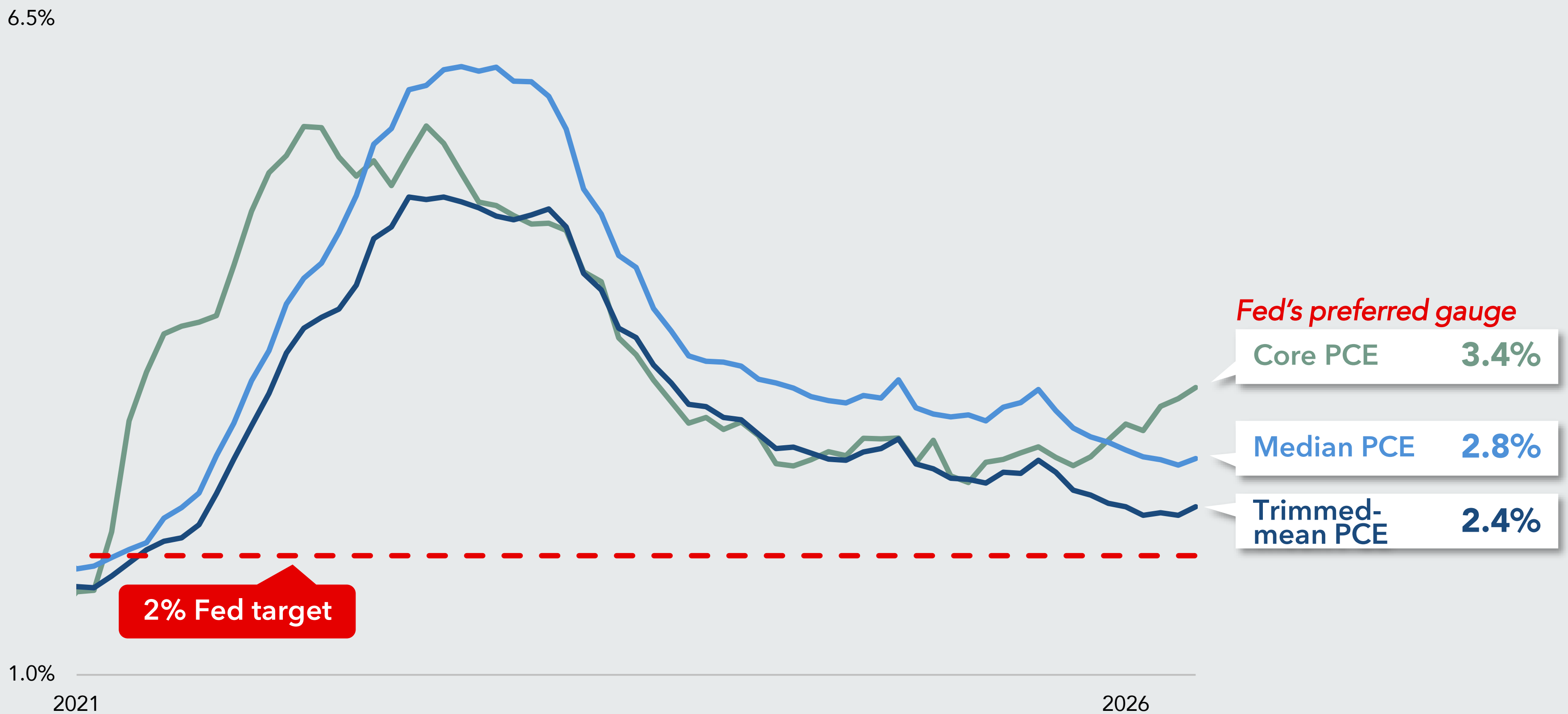
CPI metrics
PCE metrics

Source: (1) Bloomberg. Data as of July 7, 2026. CPI & PCE metrics latest data is May 2026.

Fed Chair Warsh's Preferred Inflation Measures

Alongside a return to strict 2% inflation targeting, Fed Chair Warsh favors the Dallas Fed trimmed mean and Cleveland Fed median PCE over the Fed's preferred core PCE gauge. He argues that removing one-off distortions produces a cleaner read on underlying price pressures. Notably, his preferred measures are not inherently dovish instruments, though in the current environment they suggest more flexibility and an earlier transition toward monetary easing.

Core, median, & trimmed-mean PCE, y/y



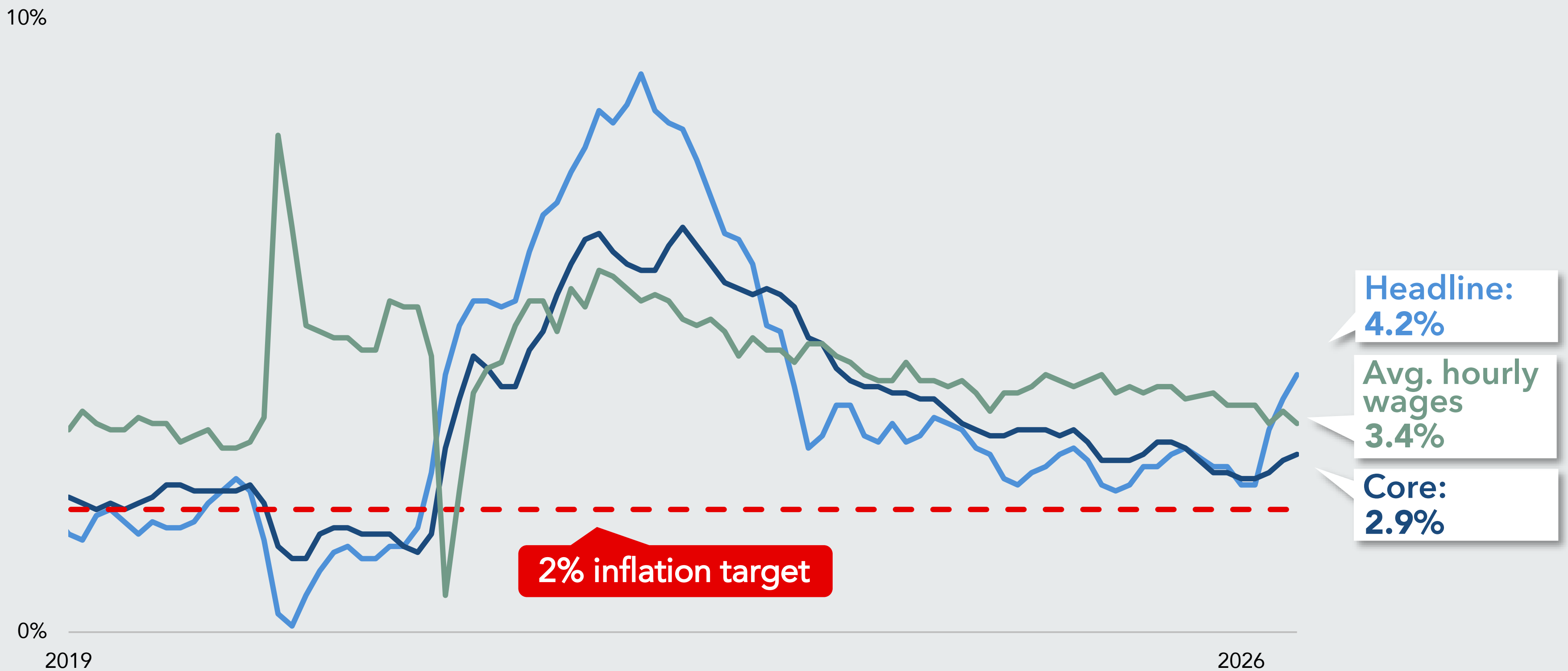
Source: (1) Bloomberg. Data as of July 7, 2026.

Real Wages Slightly Negative on Resurgent Inflation

As post Iran war inflation has re-accelerated, US real wages have been slightly negative in 2026, though not in steep decline. Significant variance by type of worker, income bracket and US state also clouds the outlook.

Inflation above 2% and re-accelerating

Headline & core CPI vs. average hourly wages, y/y



Source: (1) Bloomberg. Data as of July 7, 2026.

6 Leaning into Bond Market Led Tightening

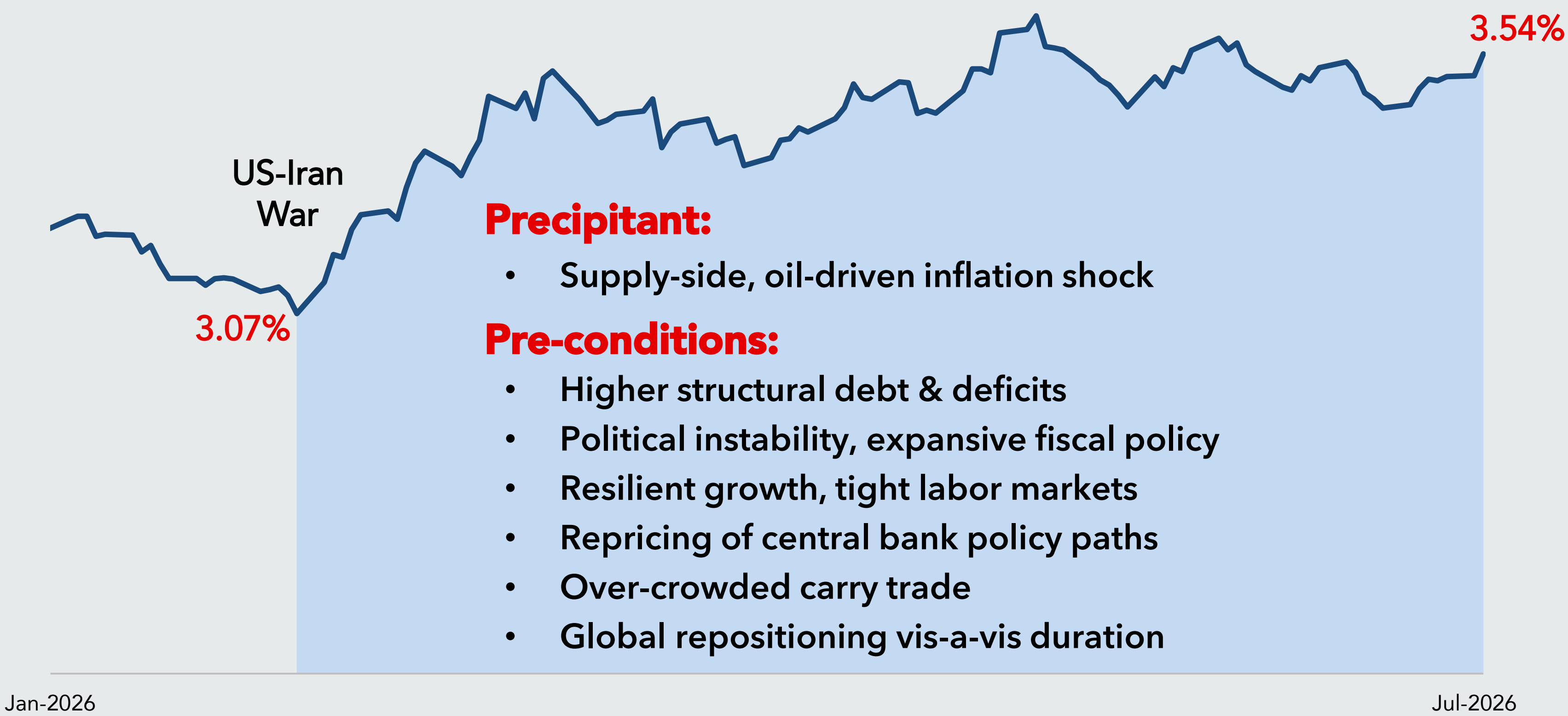
"The Fed is the most influential economic agency in the world. Its policy choices are transmitted through several channels, including the bond market and foreign exchange markets."

Kevin Warsh, *Commanding Heights: Central Banks at a Crossroads* IMF Lecture Hosted by the G30 (April 2025)

Hormuz Quagmire Triggered Global Rates Selloff

The AI super-cycle, economic resilience, elevated deficits and policy uncertainty created the **pre-conditions** for a global rates selloff. The supply-side inflation shock became the **precipitant**. Though energy prices have improved significantly following the cease-fire, global rates have disconnected and remained high.

Global aggregate treasury index, YTW

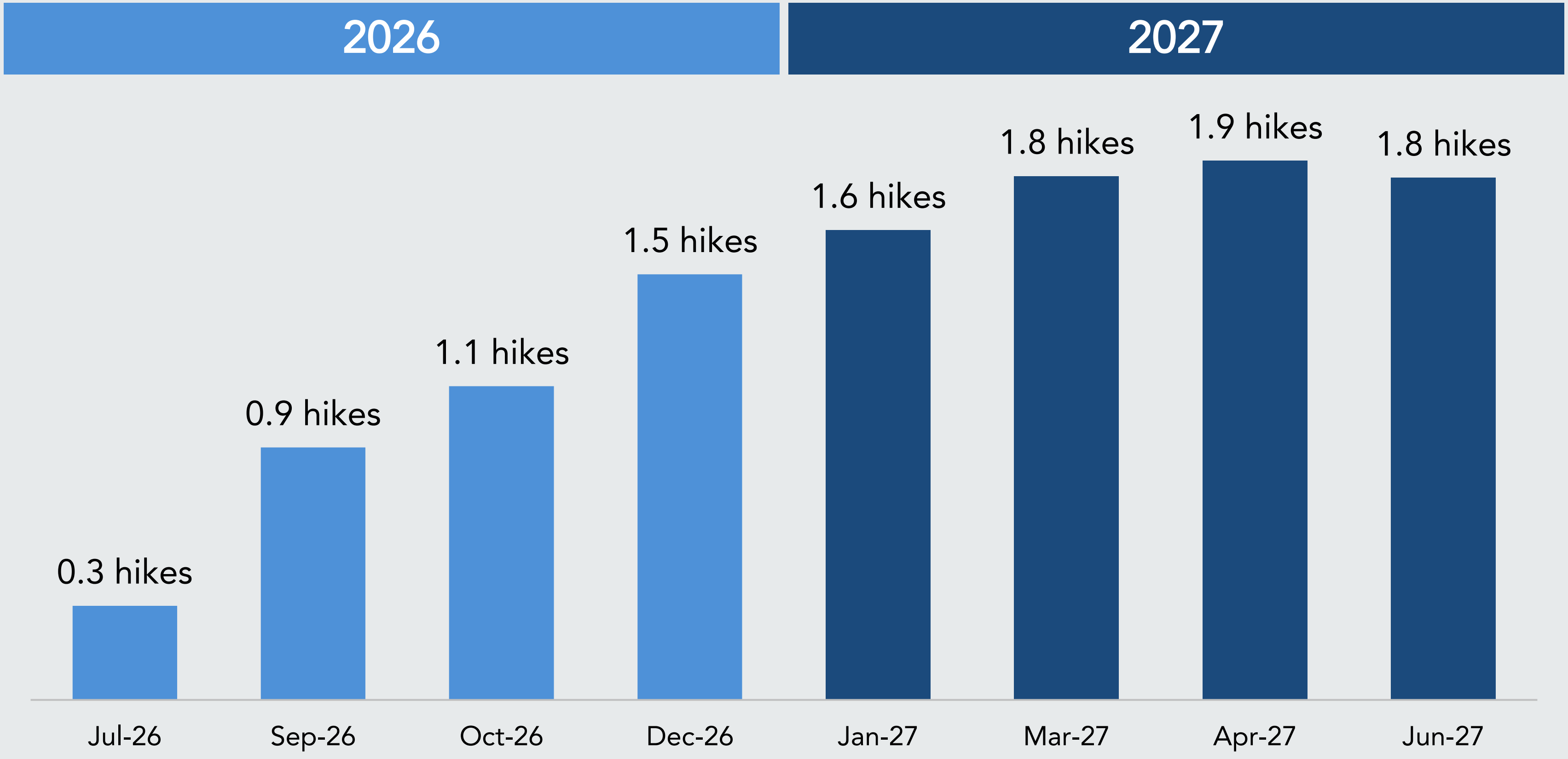


Source: (1) Bloomberg. Data as of July 8, 2026. Global aggregate index is yield to worst.

Markets Pricing Modest Fed Tightening in Warsh's First Year

Kevin Warsh built his reputation as a Fed governor by prioritizing inflation control and warning against the dangers of extended easy monetary policy.

Market implied Fed Funds rate moves, # of hikes

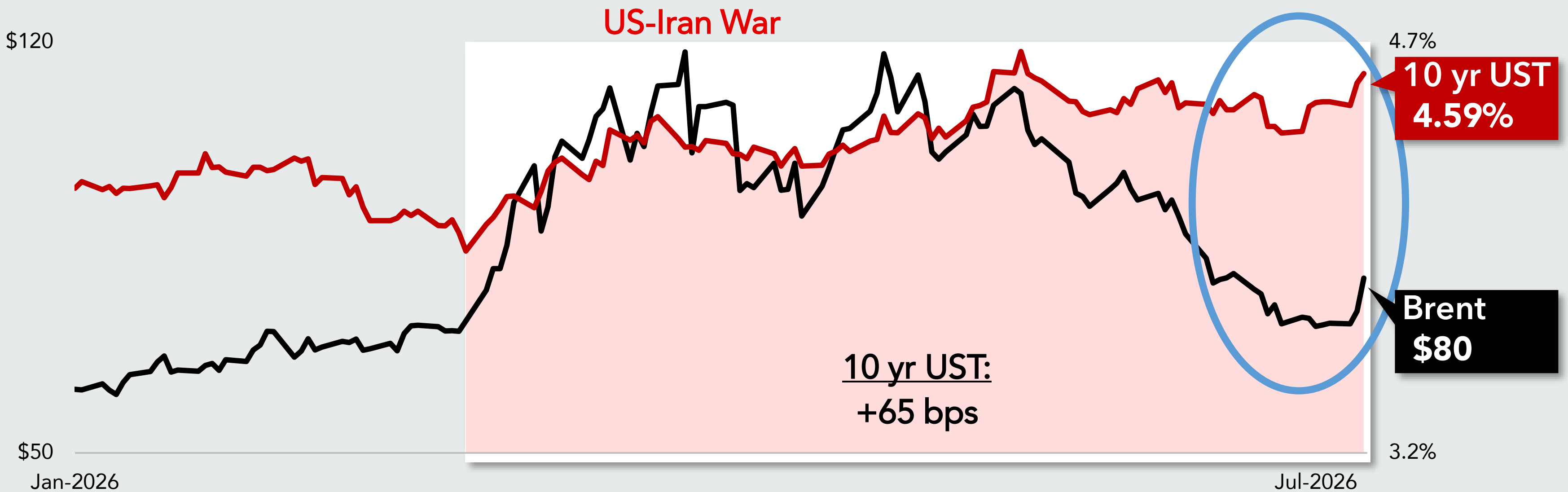


Source (1) Bloomberg. Data as of July 8, 2026.

US Rates Decouple from Oil

Historically, rising oil prices have pushed nominal US Treasury yields and breakevens higher by augmenting both realized and expected inflation. As the US-Iran ceasefire has driven oil prices lower, UST yields have not declined in tandem. Rather, the rates curve is now taking its cue from the Fed's reaction function, term premium, fiscal concerns and election-related policy risk. While the war may have precipitated a higher structural premium in rates markets, the ceasefire has not paved the way for a cyclical move lower in yields in lockstep with oil.

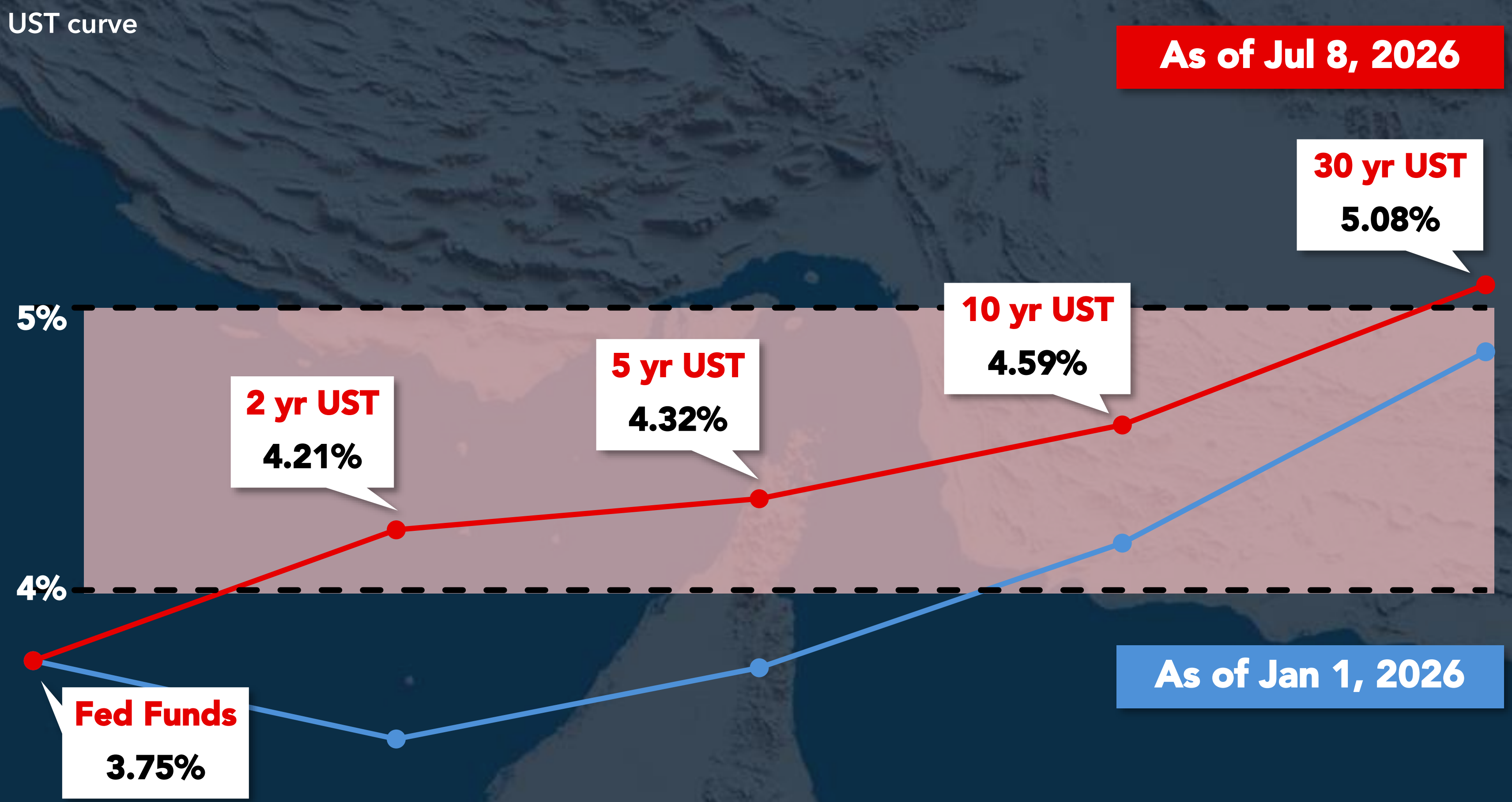
Brent (LHS) vs. 10 yr UST (RHS)



This disconnect was reinforced by Kevin Warsh's inaugural FOMC meeting as Fed Chair. Though communication was sparse by design, Warsh signaled an unambiguous return to orthodoxy and the Fed's mission to safeguard price stability.

Source: (1) Bloomberg. Data as of July 8, 2026.

UST Curve Repricing Higher

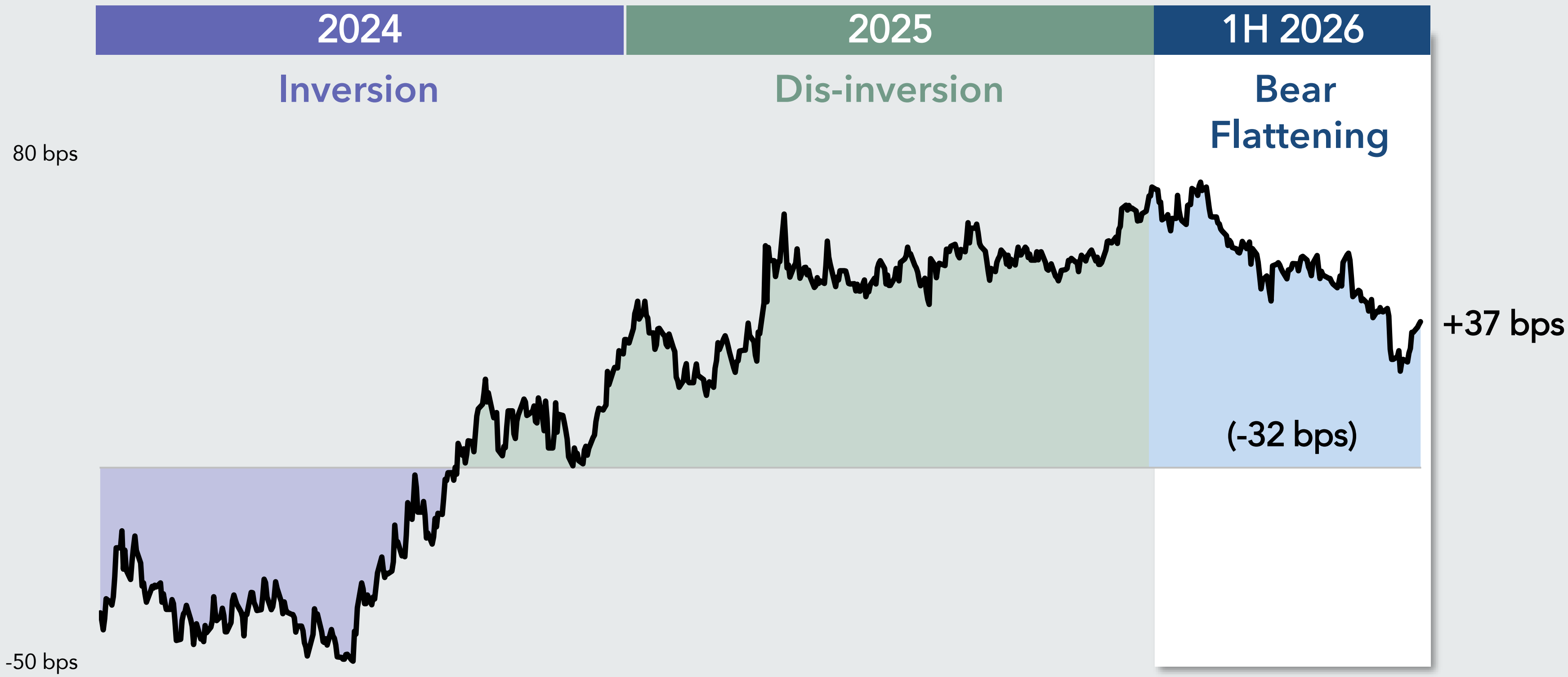


Source: (1) Bloomberg. Data as of July 8, 2026. Fed funds is upper bound.

Bearish Flattening of UST Curve Signaling "Higher for Longer"

The benchmark 2s10s UST yield curve, after a period of dis-inversion that began in late 2024, commenced its rapid descent into a "bear flattening" during the 1H 2026, though not necessarily for benign reasons. With a supply-side inflation shock driving front end 2yr UST yields up more rapidly than 10yr UST yields, the market has become more focused on "higher-for-longer" policy risk than war-induced stagflation concerns.

2s10s curve

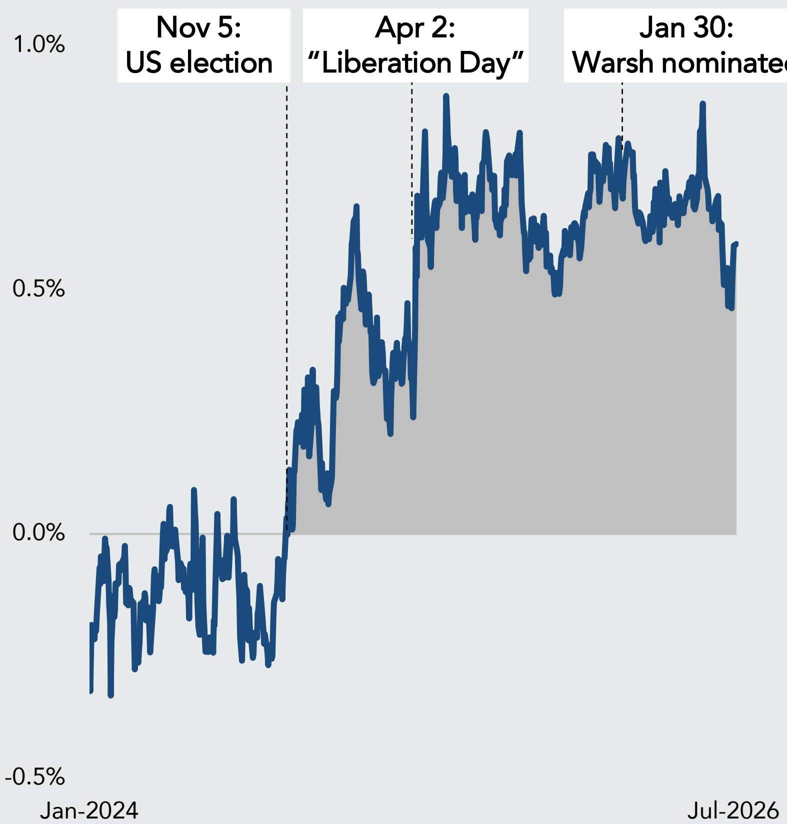


Source: (1) Bloomberg. Data as of July 8, 2026.

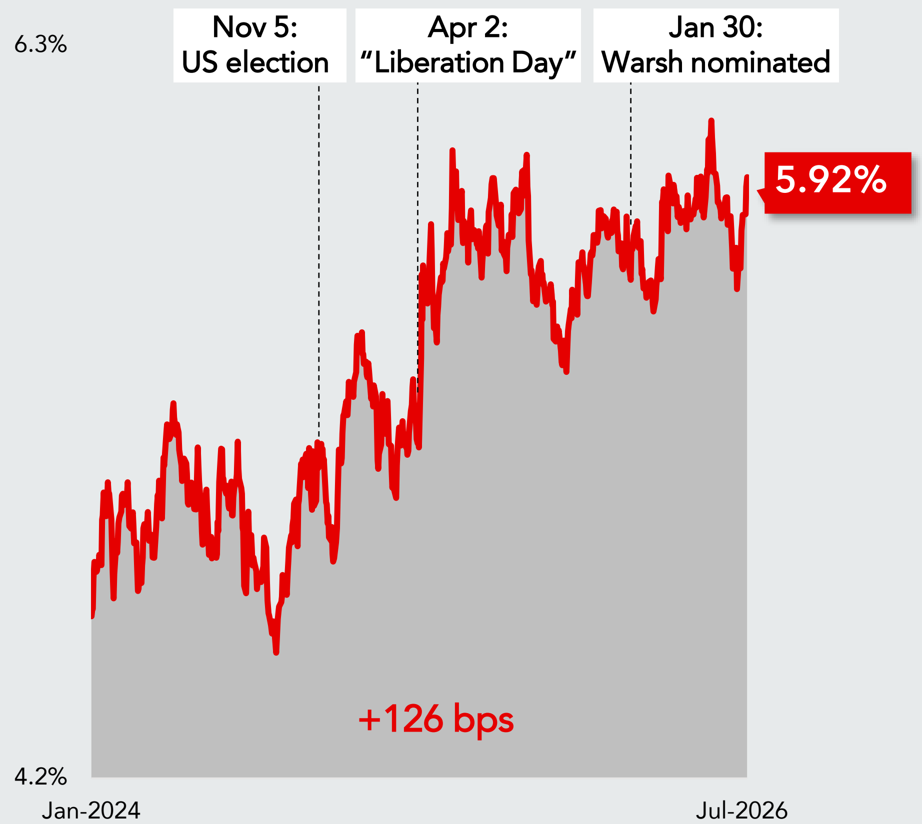
Term Premium Resetting Higher

Warsh's policy framework will likely drive a structural reset higher in term premium by dismantling the three pillars that artificially suppressed it for over a decade: **(1) the balance sheet backstop; (2) the forward guidance anchor; and (3) the implicit "Fed put" on bond volatility.**

10-year term premium estimate

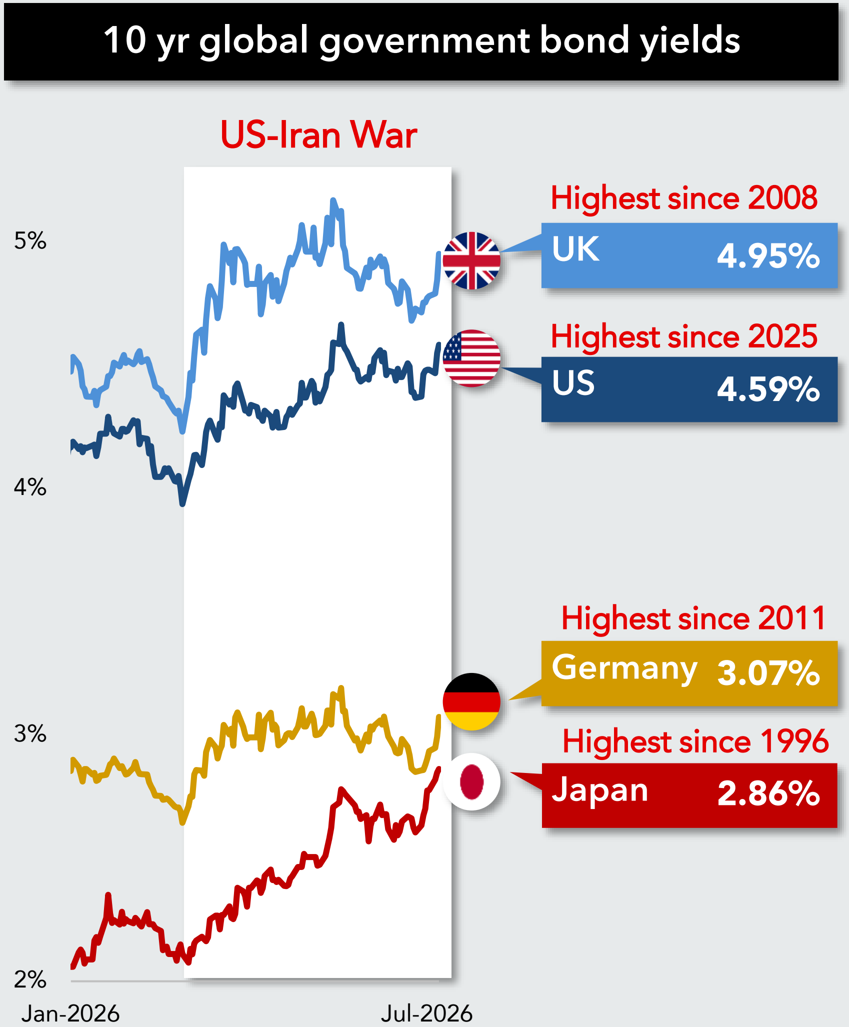


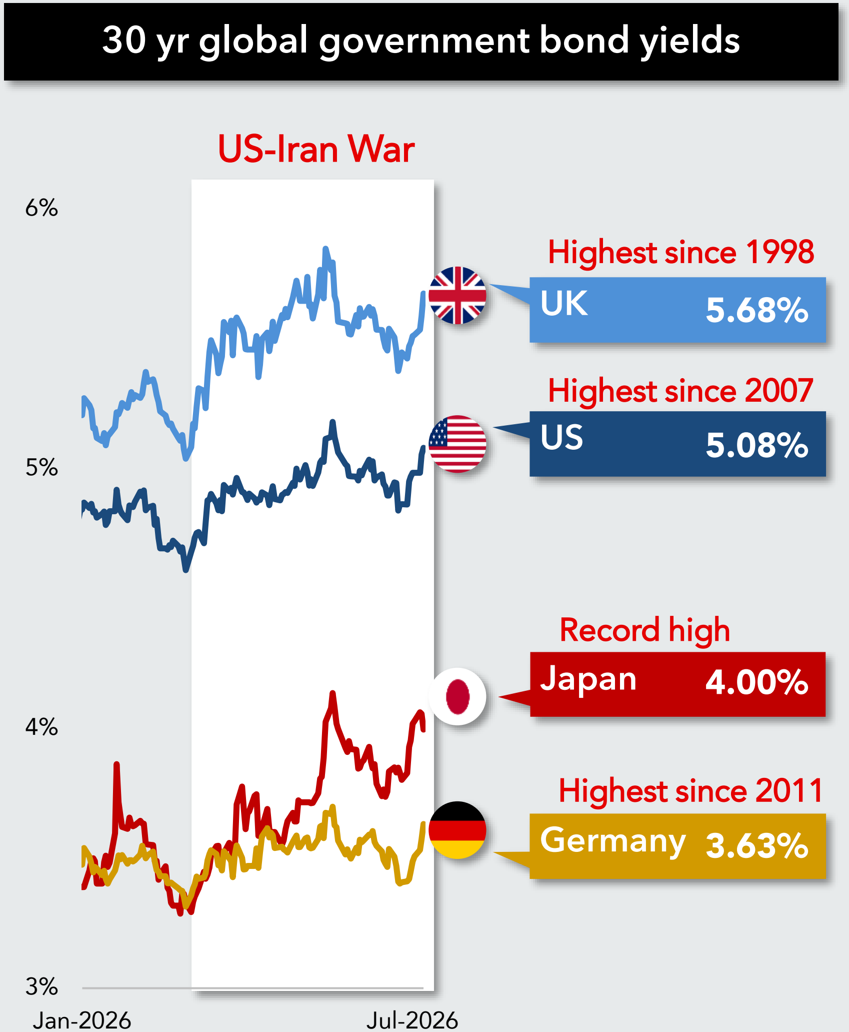
US 10y10y forward



Source: (1-2) Bloomberg. Data as of July 8, 2026.

Global Markets Repricing Duration Risk





Source: (1) Bloomberg. Data as of July 8, 2026.

7 Supply-Side Optimist

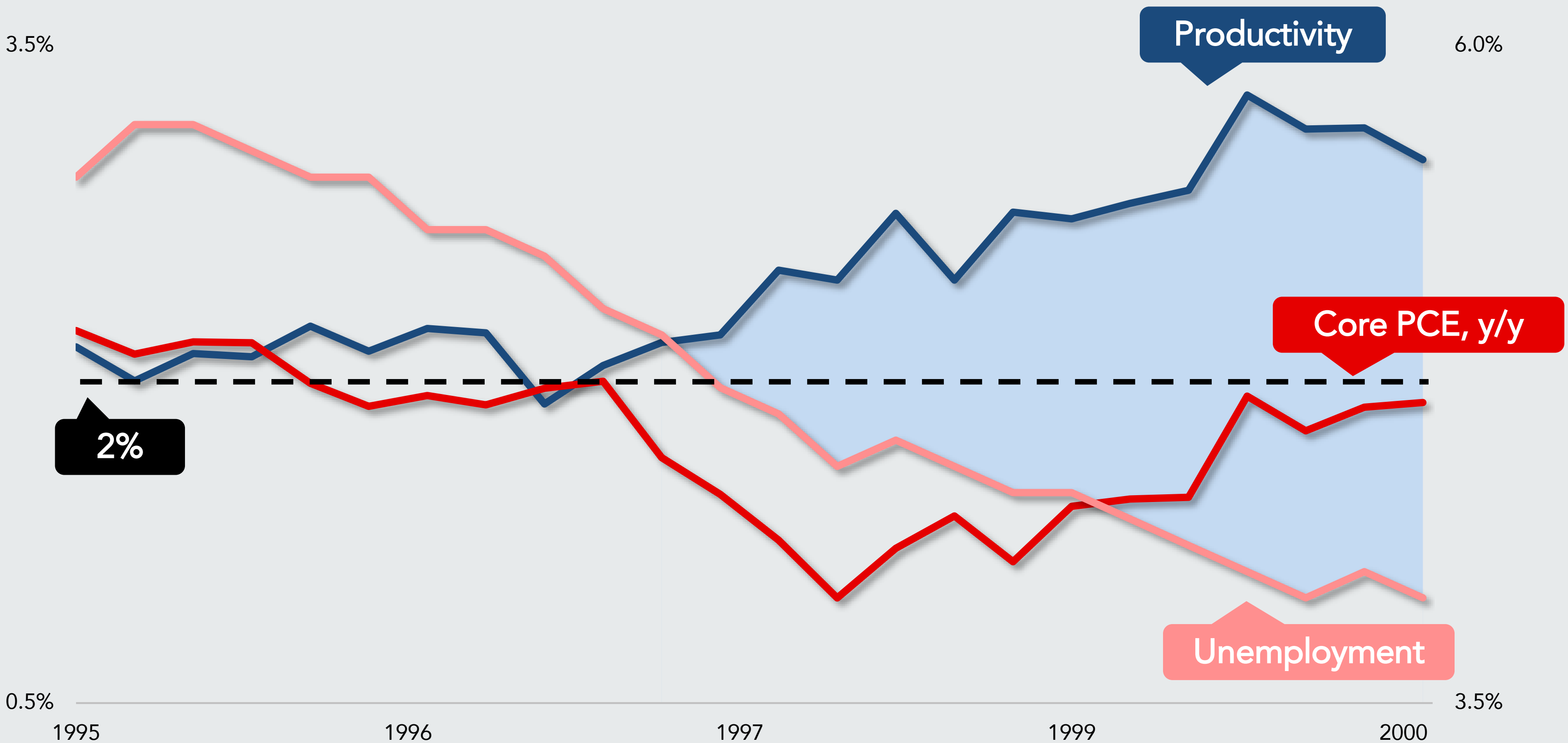
“This is the most disruptive moment in modern economic history in the U.S. and the world. Today we call it artificial intelligence. Two years from now we’re going to call it business capex, and three years from now we’re going to call it just ordinary business.”

Kevin Warsh, during his testimony at the
Senate Banking Committee Confirmation Hearing
(April 2026)

Case Study: 1990s IT-Driven Productivity Cycle

During the late 1990s productivity boom, Fed Chair Greenspan resisted conventional pressure to aggressively raise rates, despite unemployment falling well below traditional inflation-warning thresholds. He correctly identified that IT-driven productivity gains were structurally raising potential GDP while keeping unit labor costs flat. This allowed the economy to run hot while keeping inflation anchored near 2%.

Productivity (LHS) vs. core PCE (LHS) vs. unemployment rate (1995-2000)

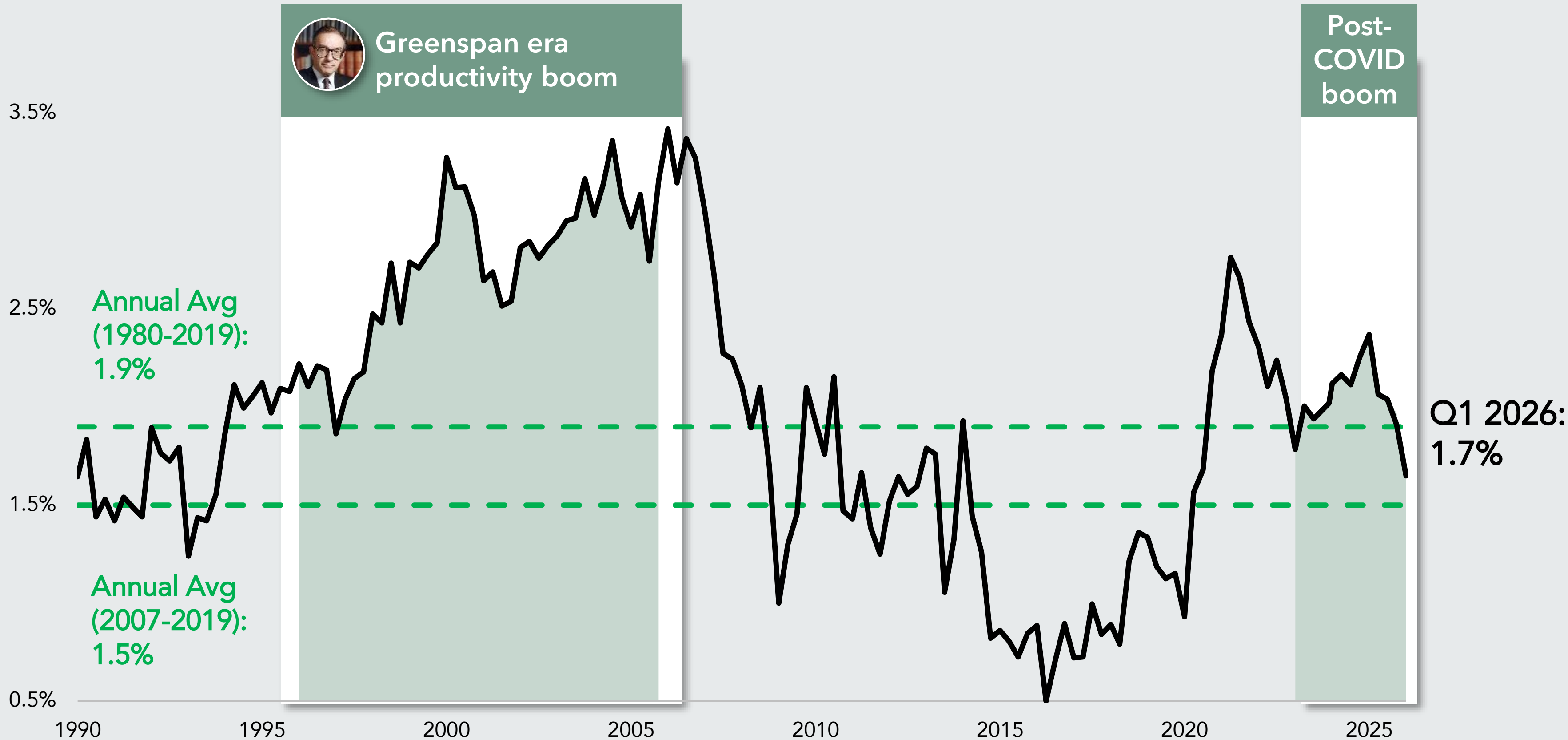


Source: (1) Bureau of Labor Statistics. Productivity is 5-year average, q/q. Bloomberg.

AI Tailwind as Disinflationary Force

Warsh's central thesis on AI is that its supply-side productivity gains could justify lower rates. If AI drives growth fast enough without generating inflation the Fed loses its justification for keeping policy restrictive.

US non-financial corporates productivity 5-year average, q/q

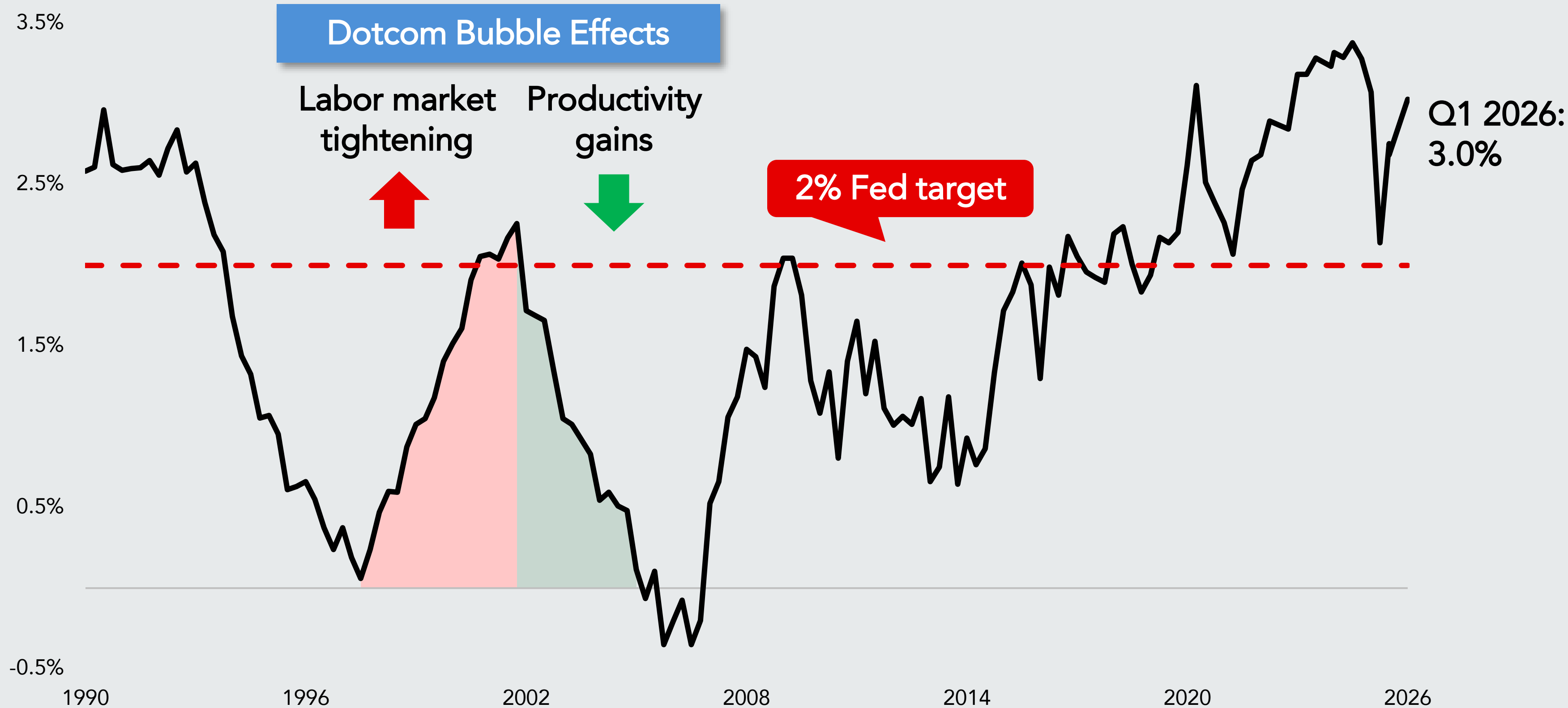


Source: (1) Bureau of Labor Statistics. Data through Q1 2026.

Supply-Side to Manage Labor Market

Warsh's framework hinges on AI delivering disinflation before the labor market deteriorates. His thesis requires productivity gains to help compress unit labor costs, which in turn feed into lower price-setting behavior and softer inflation. The key risk is that this sequencing inverts and AI disrupts labor markets before broad productivity gains materialize in GDP and inflation data, leaving the Fed with rising unemployment and sticky prices simultaneously.

US non-financial corporates unit labor costs 5-year average, q/q



Source: (1) Bureau of Labor Statistics. Data through Q1 2026.

8 Less Room to Feign Indifference to Funding Stress

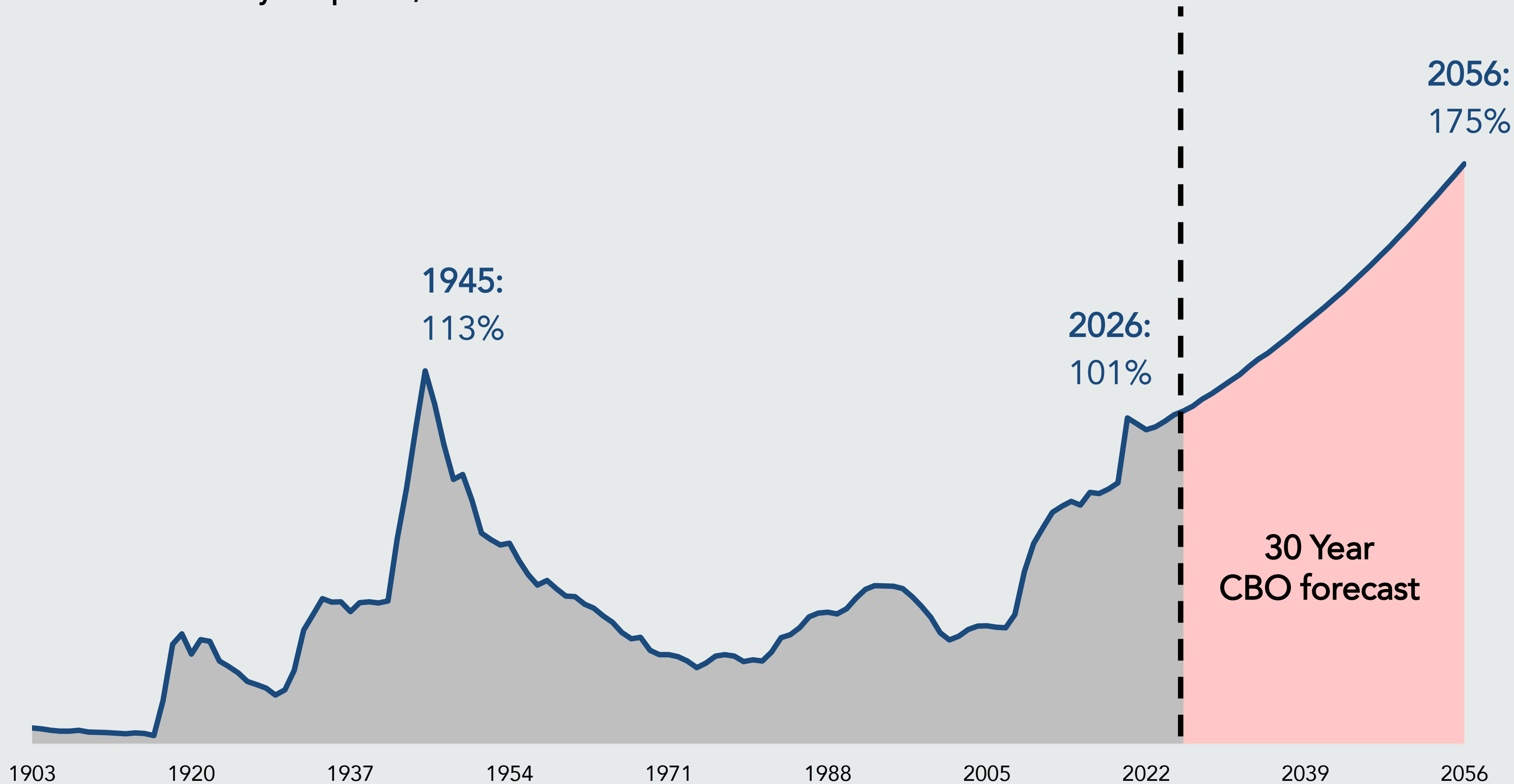
“The line between the central bank and the ostensible fiscal authority has grown harder to identify. The spirit of Treasury-Federal Reserve accord of 1951 is at odds with recent practice.”

Kevin Warsh, *Commanding Heights: Central Banks at a Crossroads* IMF Lecture Hosted by the G30 (April 2025)

Federal Debt to Reach 175% of GDP in 2056

Over the six years since COVID began, US Government debt/GDP increased from approximately 75% to over 100% today, a milestone previously not expected to be reached for a decade. Current CBO projections have US debt rising to 120% in 2036, and 175% in 2056.

Federal debt held by the public, % of GDP

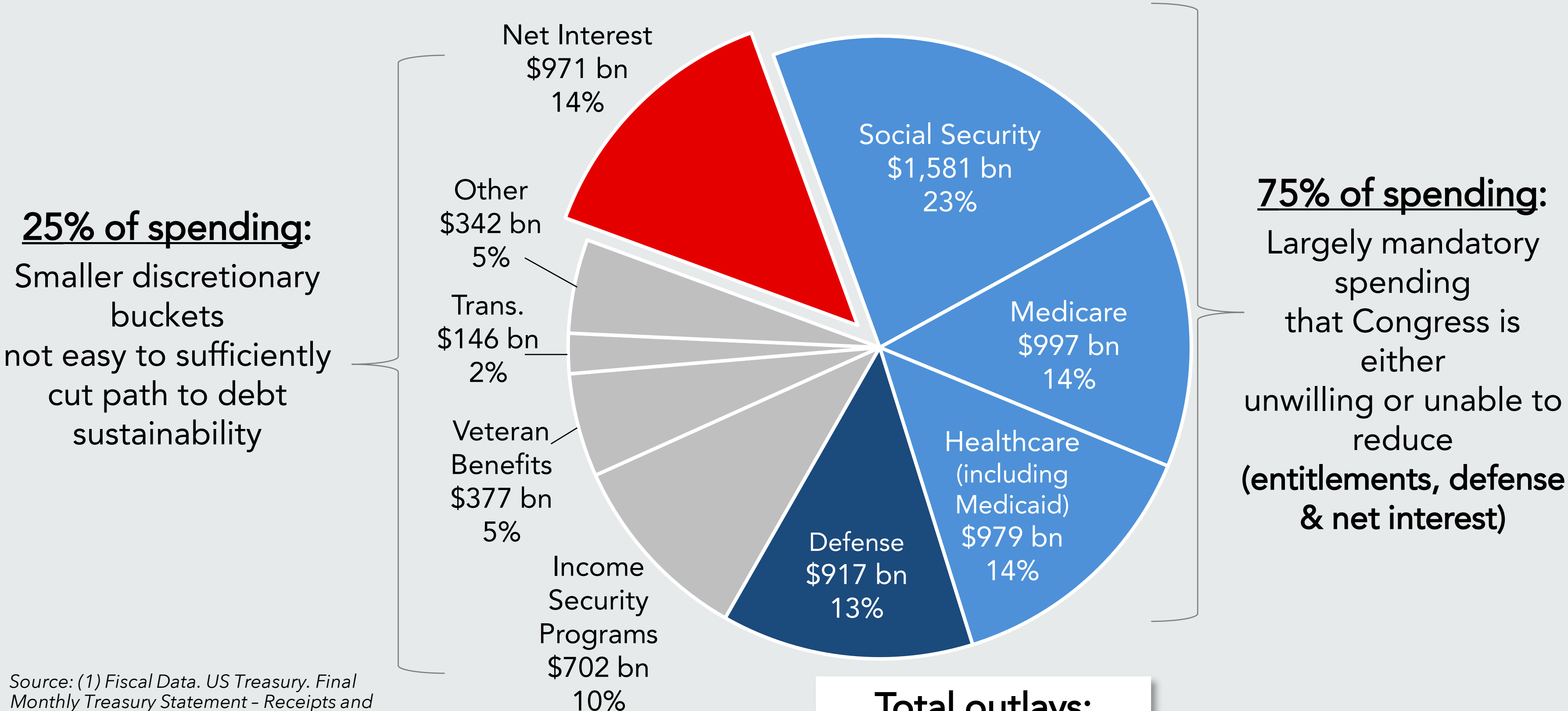


Source: (1) Congressional Budget Office. Long-Term Budget Projections (Feb 2026). Historical Data on federal Debt Held by the Public.

Breaking Down US Government Spending

The three largest categories of "mandatory US spending" – Social Security, Medicare and Medicaid – accounted for 50% of US Government outlays in 2025. Defense spending, which Congress is highly unlikely to reduce, accounts for an additional 13%. In the years ahead, net interest expense on US Gov't debt will rise to become the US government's largest individual outlay.

US federal budget in fiscal year 2025, USD bn

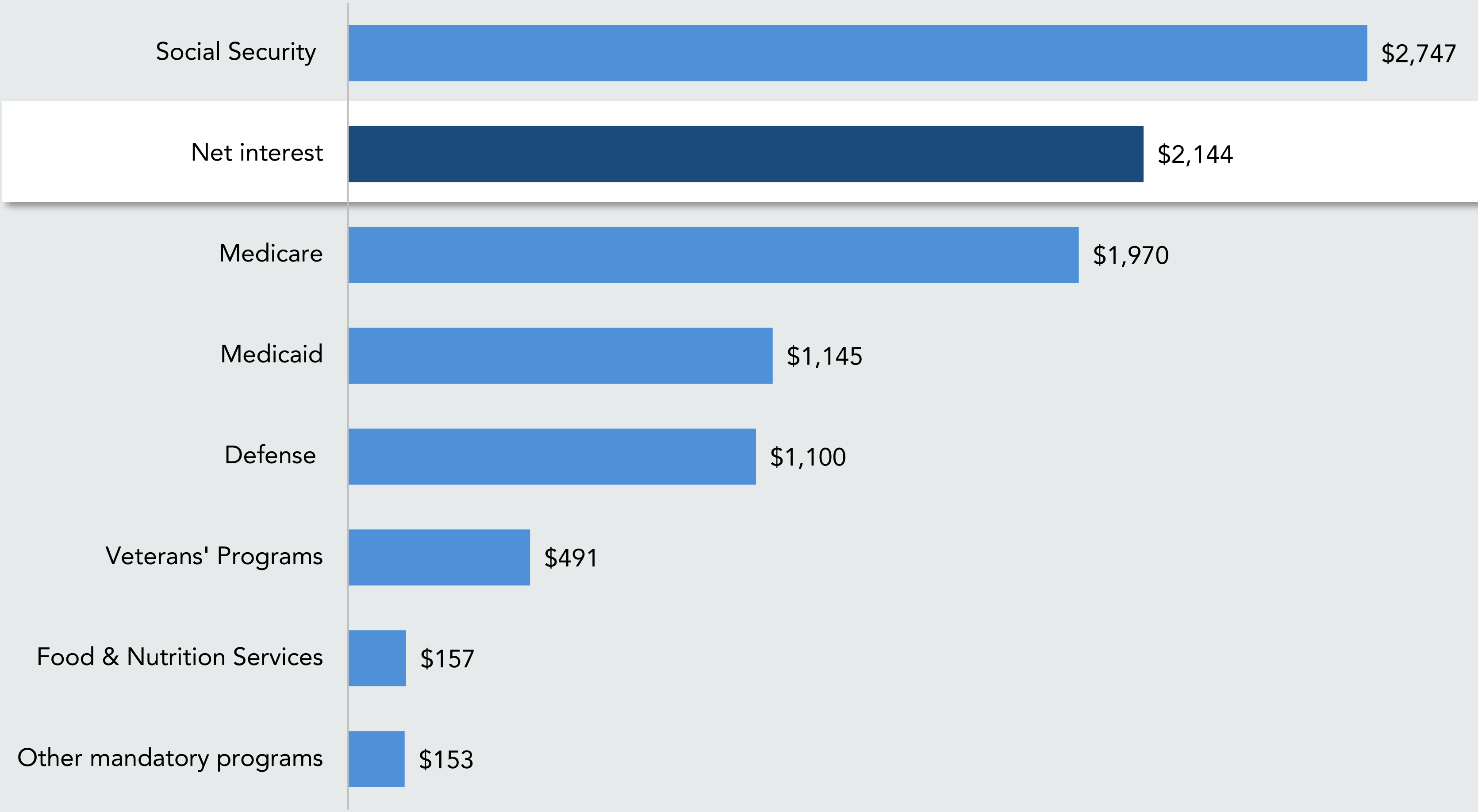


Total outlays: $7.01 trillion

Source: (1) Fiscal Data. US Treasury. Final Monthly Treasury Statement – Receipts and Outlays of the US Government. Data for FY 2025 (Oct 1, 2024 – Sep 30, 2025).

Net Interest Will Exceed Key Programs in 2036

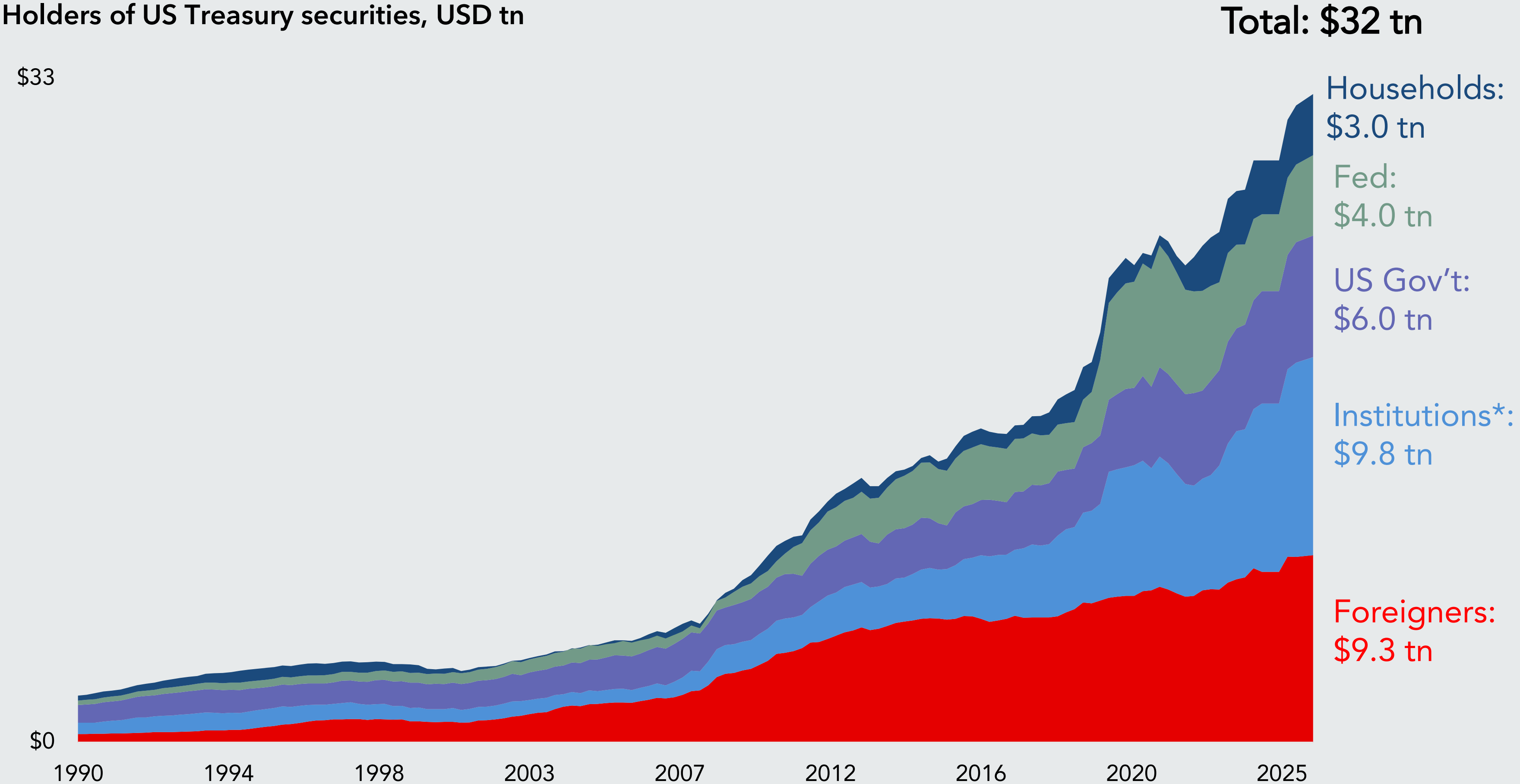
Cost of key programs, USD bn (2036)



Source: (1) CBO, "10-year Budget Projections" (February 2026).

Structural Shift in Ownership of $30 Trillion UST Market

Holders of US Treasury securities, USD tn



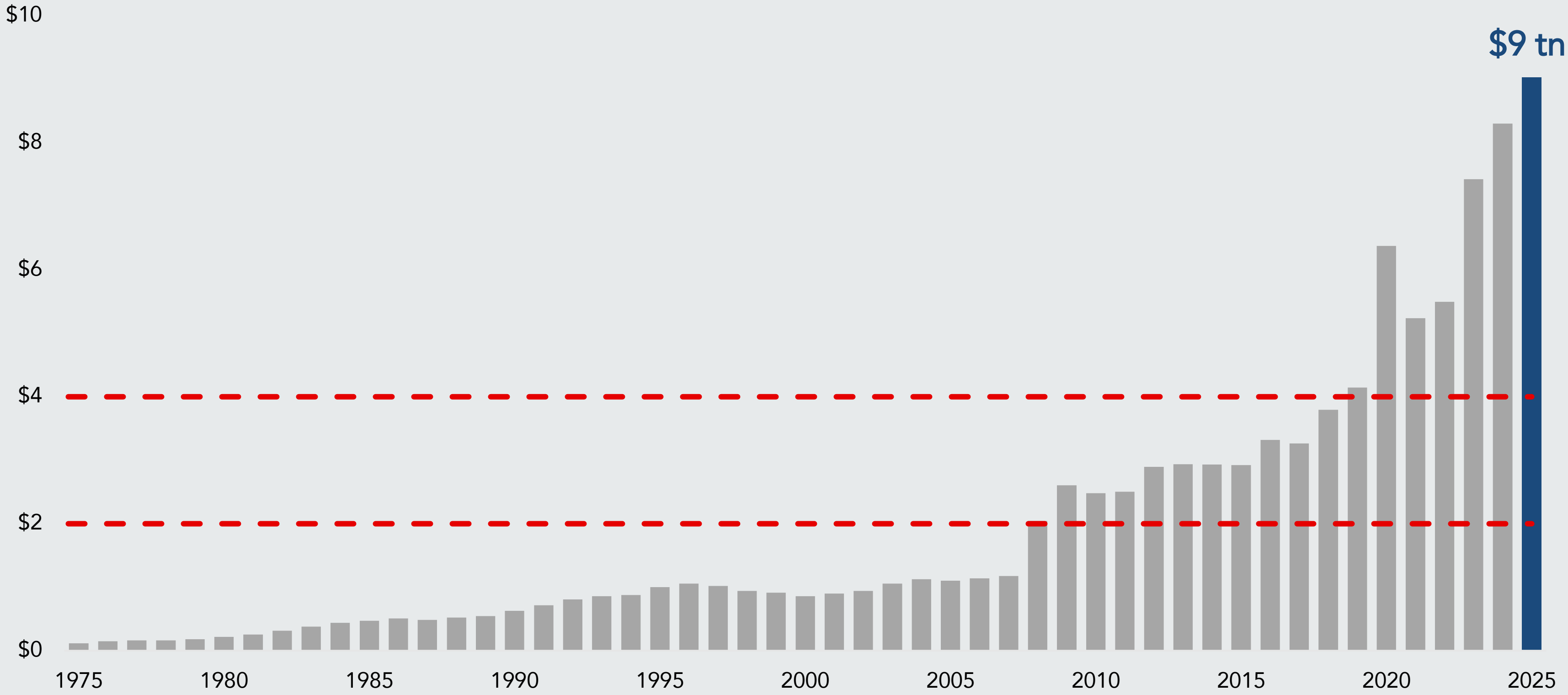
**Institutional ownership includes banks, mutual, closed-end & ETF funds, pensions, insurance, ABS issuers & broker-dealers*

Source: (1) Federal Reserve. Data through Q1 2026. Financial Accounts of the United States, L.210 Treasury Securities. Gov't includes Federal, State & local governments, retirement funds and gov't sponsored enterprises. Total represents total marketable US Treasury debt.

Short Term Reliance & Vulnerability in UST Market

The US Treasury's funding profile has become remarkably front-loaded, with over $9 trillion of marketable securities maturing per annum (~30% of US GDP). Consequently, the US Treasury has become: (1) more rate sensitive, vulnerable to rapid market repricing; **(2)** more auction and liquidity-dependent given sharply higher annual issuance; and **(3)** more reliant on more short-duration focused investors such as MMFs, hedge funds and other entities.

Privately held marketable US Treasury debt maturing within one year, USD tn

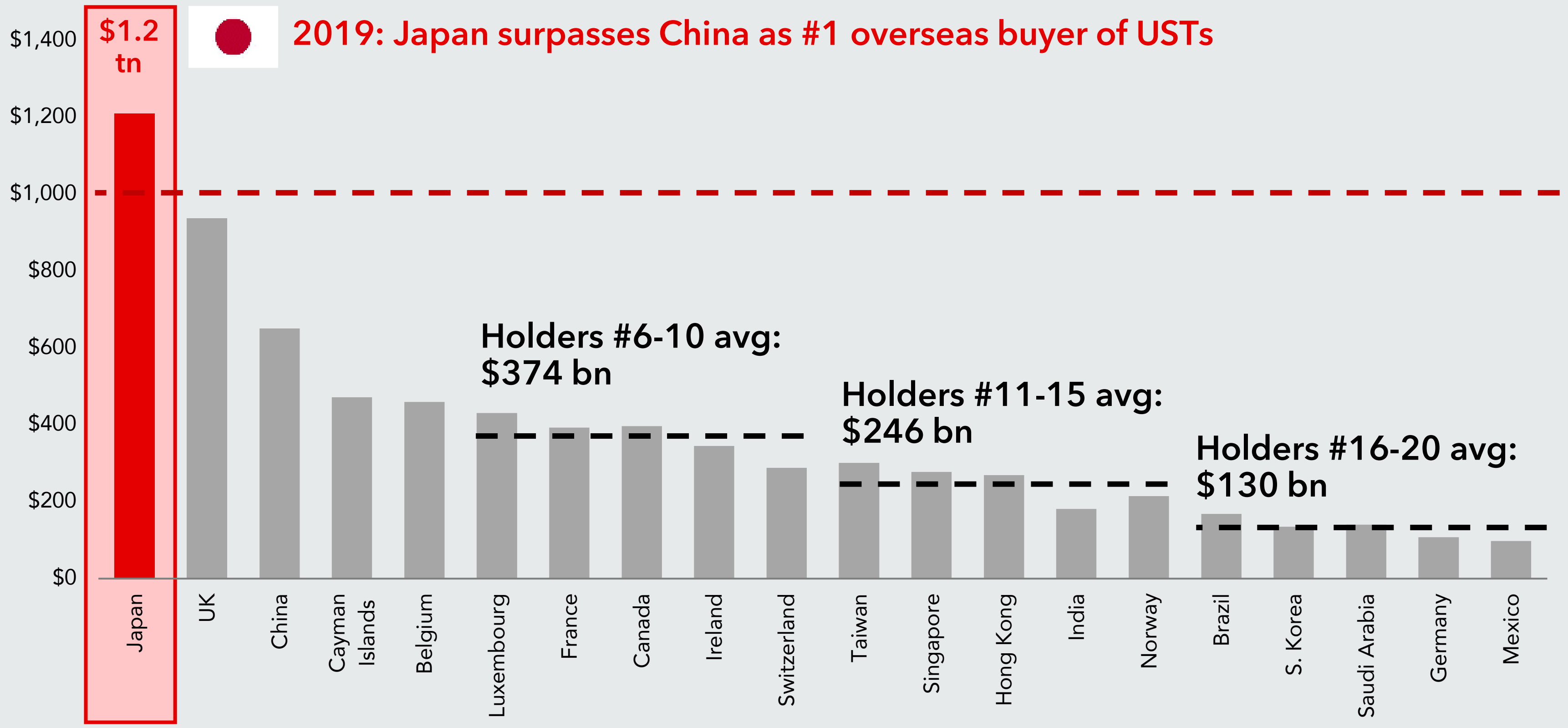


Source: (1) US Treasury. Data through 2025, based on fiscal year-end data.

Japan is #1 Overseas Buyer of US Treasuries

Japan is the largest non-US holder of US Treasury securities, with a position of $1.2 trillion that plays a structurally core role in funding the UST curve. The combination of Yen weakness, yield differentials and regulatory treatment make Japan's holdings a key macro lever: large enough that shifts in Japanese demand or policy can matter at the margin for US long-end rates.

Foreign holders of US Treasury securities , USD bn



Source: (1) US Department of the Treasury. Data is latest available – April 2026. Reuters "China slips away from Treasuries but sticks with dollar bonds".

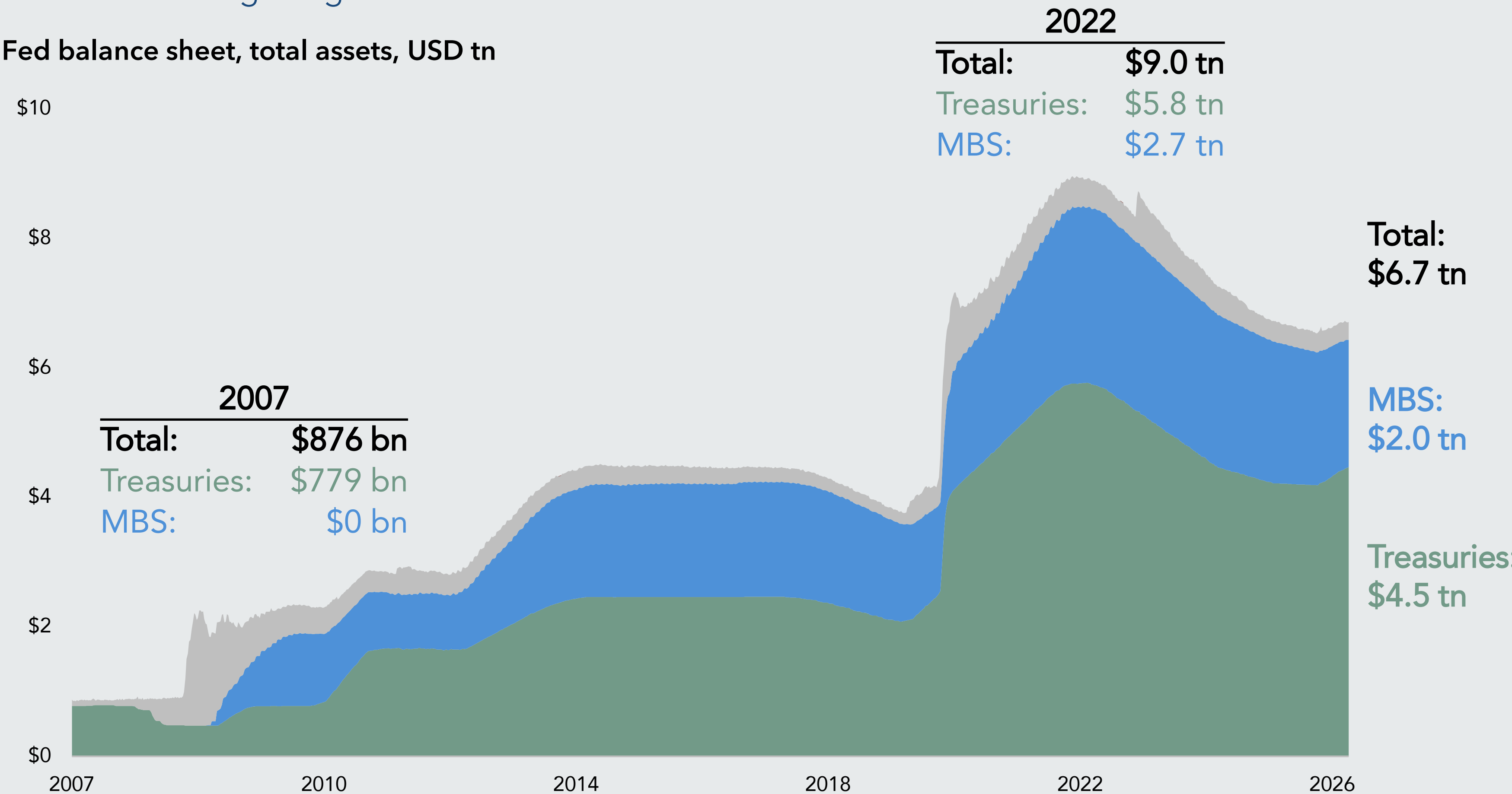
9 Structurally Smaller Footprint

"The Fed's bloated balance sheet, designed to support the biggest firms in a bygone crisis era, can be reduced significantly. That largesse can be redeployed in the form of lower interest rates to support households and small and medium-size businesses."

Kevin Warsh, WSJ Opinion,
The Federal Reserve's Broken Leadership
(Nov 2025)

The Path to a Leaner Balance Sheet

At the core of Warsh's policy framework is the belief that the Fed's post-GFC balance sheet expansion stoked inflation, worsened inequality and distorted asset price discovery. His proposed remedy is a "QT for cuts" approach, shrinking the balance sheet to create the room needed to lower short-term rates without reigniting the distortions of the QE era.



Source: (1) Bloomberg. Data as of July 7, 2026. FRED.

The QT Dilemma

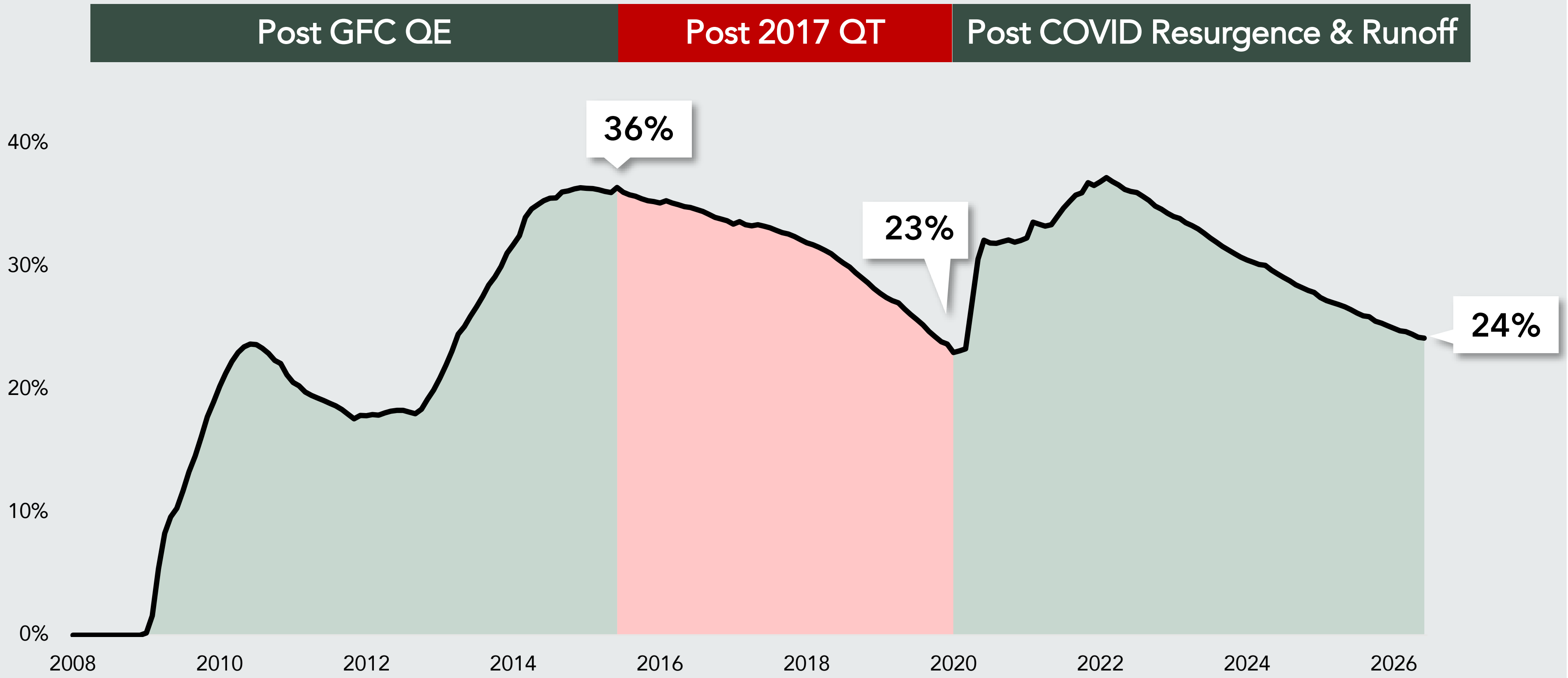
Challenges to shrinking the Fed's balance sheet

- Building consensus among FOMC
- Rate offset dilemma
- Higher mortgage rates and housing affordability concerns
- Increased rate market volatility
- Repo market strains
- Coordination to shrink the Treasury General Account (TGA)
- Bank leverage restrictions (UST holdings)
- Rising GDP and currency in circulation "floor"

The Fed's Evolving Footprint in the MBS Market

Over the last 20 years, the Fed's MBS footprint has moved through three distinct regimes: (1) post GFC QE expansion; (2) past 2017 QT runoff; and (3) post COVID QE resurgence and runoff. Fed Chair Warsh is expected to pursue a deliberately aggressive shrinkage of the Fed's MBS book, favoring a "Treasury only" balance sheet and potentially transitioning from passive runoff toward active MBS sales, even while cutting the policy rate.

Fed agency MBS holding share of total agency MBS outstanding, %

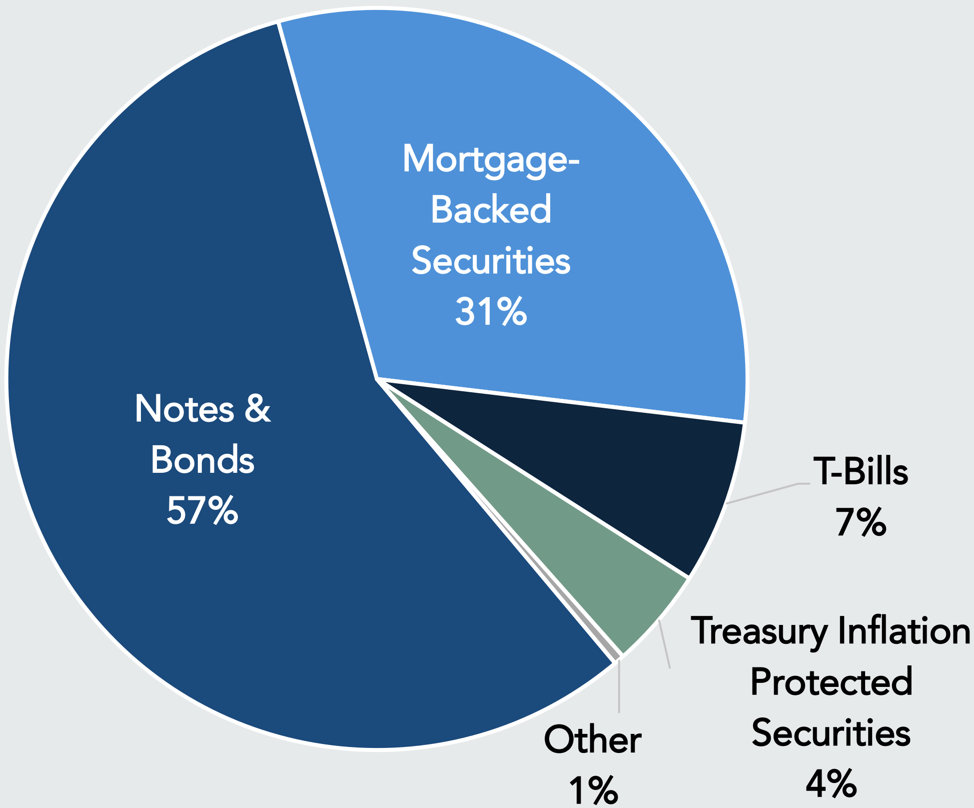


Source: (1) Bloomberg. Data as of July 7, 2026. Total agency MBS outstanding index is Bloomberg US MBS index.

Strategies to Reduce the Fed's Balance Sheet

While the Fed has multiple tools at its disposal to reduce its balance sheet, Warsh has been clear that any meaningful shrinkage will need to proceed gradually with full FOMC buy-in.

Composition of the Fed's $6 trillion balance sheet



Available strategies to reduce Fed's balance sheet

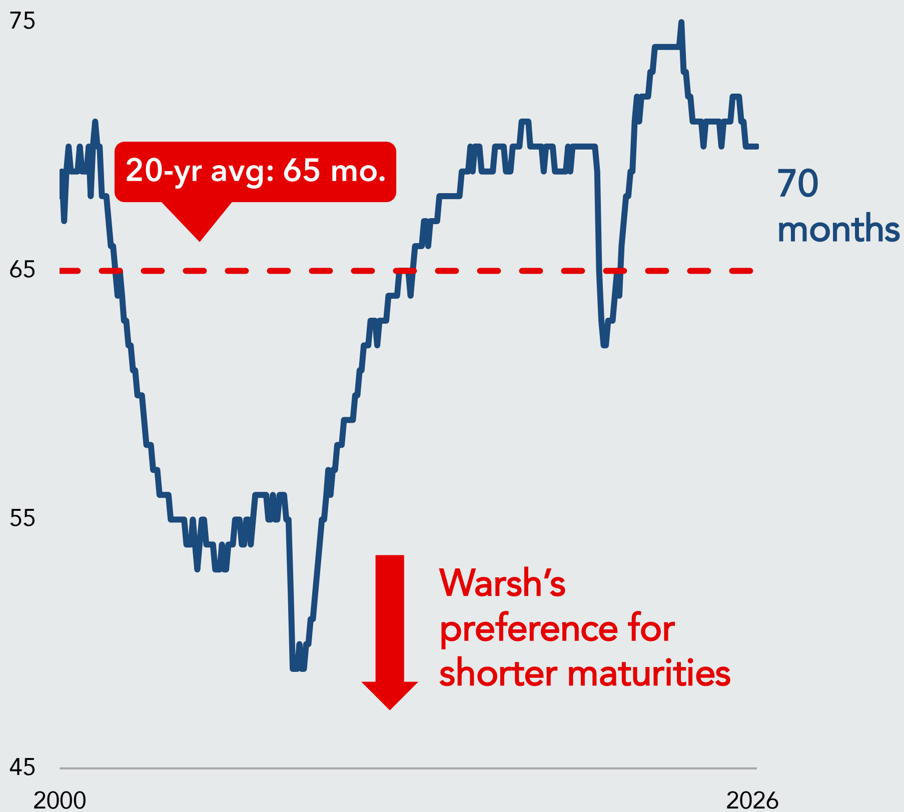
- Decrease the pace / stop purchases of T-bills
- Active MBS sales
- MBS to Treasury conversion
- Treasury portfolio maturity shortening
- Raising the Interest on Reserve Balances (IORB) to drain reserves
- Coordinate with Treasury on debt management

Source: Bloomberg, "Warsh Will Face Challenges Shrinking Fed's Portfolio." Federal Reserve of NY. SOMA holdings as of July 7, 2026. Other category includes floating-rate notes and agency securities.

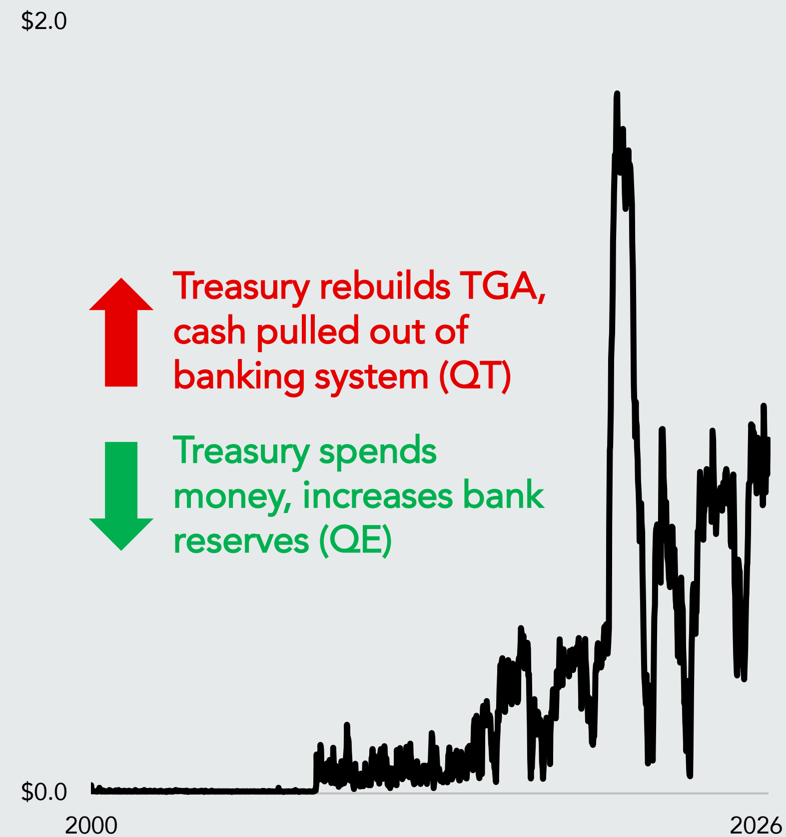
Treasury-Fed Accord

Fed Chair Warsh has called for a new Treasury-Fed accord to coordinate balance sheet reduction, restore market discipline and retire the “Fed put”. Under such an arrangement, Treasury could adjust its issuance mix, shifting supply toward the front end of the curve to offset changes in Fed holdings.

Weighted average maturity of USTs outstanding, # of months



US Treasury general account (TGA), USD tn



Source: (1) US Department of the Treasury. Latest data is through March 2026. (2) Bloomberg. Data as of July 7, 2026.

10 Pro-Growth Stewardship

"The Fed must stay in its lane. Fed independence is placed at greatest risk when it strays into fiscal and social policies where it has neither authority nor expertise. The Fed should not act as some general-purpose agency of the US government."

Kevin Warsh, during his testimony at the
Senate Banking Committee Confirmation Hearing
(April 2026)

Warsh's Pro-Growth Stewardship

Kevin Warsh's regulatory framework marks a significant departure from the expansive oversight seen under Chair Powell. His approach is focused on narrowing the Fed's mandate, reducing its footprint in private markets and prioritizing financial innovation.

Institutional Accountability

Move away from "mission creep" to focus on price stability

Transparency & Disclosure

Reforming the "opaque" stress test

Supervisory De-escalation

Shift in bank supervision away from Fed and to FDIC / OCC

Structural Capital Reforms

Capital and leverage framework overhaul

Digital Asset Integration

Pro-innovation regulatory path

Market-Based Accountability

End of "Fed Put"

Bank Reform Already Underway

Kevin Warsh's regulatory reform and balance sheet reduction are two sides of the same coin. For the Fed to exit its bold holdings without disrupting credit markets, bank regulations must be eased first. This would expand private sector capacity to absorb the credit and duration risk the central bank is vacating.

Selected banking regulatory reforms underway (2025-26)

Reform	Detail	Status
Enhanced Supplementary Leverage Ratio (eSLR)	G-SIBs to hold treasuries without capital penalty	Finalized – Effective **Apr 1, 2026**
Basel III Endgame	Scrapped 2023 capital hike; single-stack simplification for largest banks	Comment deadline **Jun 18, 2026**
Global Syst. Important Banks (G-SIB) surcharge	Ends escalating surcharge that outpaced actual systemic risk growth	Comment deadline **Jun 18, 2026**
Community Bank Leverage Ratio (CBLR)	Lowers the capital bar for community banks	Finalization expected in **2026**
Stress testing	Models and scenarios now public	Finalization expected in **2026**

Source: Federal Reserve. FDIC. Federal Registrar. Moore & Van Allen.

Bowman & Warsh Alignment

Michelle Bowman, the Vice Chair for Supervision, has helped spearhead the Fed's deregulatory agenda over the last two years. We expect Fed Chair Warsh to be aligned with the regulatory and supervisory reforms in motion under VC Bowman while seeking to forge consensus amongst FRB governors prior to moving forward on any consequential reg reform (e.g., liquidity reform) initiative.

Selected areas of <u>potential</u> banking regulatory reforms

• Liquidity framework (ILST / LCR / NSFR)	• Digital assets
• GDP-indexed regulatory thresholds	• Fed debanking anti-coercion rule
• Discount window	• CAMELS rating system
• Bank M&A HHI framework	• Mutual bank capital framework

Source: Federal Reserve. FDIC. Federal Registrar. Moore & Van Allen.


FEDERAL RESERVE

2026 Global Growth Revised Lower

GDP growth forecasts, y/y (January 2026 vs. July 2026)

Region	Jan 2026	Jul 2026	
North America			
US	2.5%	**2.3%**	↓
Mexico	1.4%	**0.9%**	↓
Canada	0.9%	**0.7%**	↓
Eurozone	0.9%	**0.6%**	↓
Spain	2.4%	**2.7%**	↑
Italy	0.6%	**0.8%**	↑
France	0.8%	**0.5%**	↓
Germany	0.7%	**0.5%**	↓
Other Europe			
Poland	3.8%	**3.5%**	↓
Sweden	2.4%	**2.0%**	↓
Norway	2.2%	**1.3%**	↓
Switzerland	0.9%	**1.2%**	↑
UK	1.0%	**0.9%**	↓
Russia	(-0.1%)	**0.5%**	↑
LatAm			
Colombia	3.0%	**2.9%**	↓
Argentina	2.3%	**2.8%**	↑
Brazil	1.6%	**1.8%**	↑
Chile	2.2%	**0.9%**	↓

Region	Jan 2026	Jul 2026	
MENA			
Iran	2.1%	**?**	↓
Israel	4.2%	**3.3%**	↓
Saudi Arabia	4.3%	**0.5%**	↓
UAE	4.5%	**(-0.04%)**	↓
Qatar	6.4%	**(-24.5%)**	↓
Kuwait	3.4%	**(-19.3%)**	↓
Oman	2.3%	**2.1%**	↓
Bahrain	3.0%	**(-16.0%)**	↓
Egypt	4.9%	**4.5%**	↓
Türkiye	3.0%	**2.3%**	↓
APAC			
India	6.5%	**6.7%**	↑
Indonesia	5.1%	**5.0%**	↓
China	4.5%	**4.8%**	↑
Philippines	5.4%	**3.5%**	↓
Singapore	3.1%	**3.4%**	↑
South Korea	2.1%	**2.5%**	↑
Australia	2.5%	**2.0%**	↓
Thailand	1.5%	**2.0%**	↑
Japan	0.7%	**0.5%**	↓

Source: (1) Oxford Economics. Data as of July 7, 2026. Bahrain, Iran, Israel Jan 2026 forecast is Bloomberg consensus.

2026 Global Currency Forecasts

Currency pair	Spot (Jul 8)	Q3 2026	Q4 2026	Q1 2027	Q2 2027
EUR / USD	**1.14**	1.16	1.18	1.20	1.20
GBP / USD	**1.34**	1.33	1.34	1.36	1.35
USD / JPY	**163**	160	158	156	154
USD / CNY	**6.80**	6.70	6.65	6.60	6.60
AUD / USD	**0.69**	0.70	0.71	0.72	0.73
NZD / USD	**0.57**	0.57	0.58	0.59	0.60
USD / CAD	**1.42**	1.40	1.38	1.36	1.35
USD / NOK	**9.79**	9.74	9.49	9.33	9.25
USD / SEK	**9.71**	9.48	9.24	9.00	8.92
USD / CHF	**0.81**	0.79	0.78	0.76	0.76
USD / MXN	**17.61**	17.50	17.50	17.25	17.25
USD / BRL	**5.16**	5.20	5.10	5.00	4.90
USD / CLP	**937**	900	890	880	870

Source: (1) Bloomberg. MUFG Foreign Exchange Outlook – July 2026 (Derek Halpenny). Data as of July 8, 2026.

2026 MUFG Global Rates Forecasts

		Q3 2026		Q4 2026		Q1 2027		Q2 2027	
	Spot (Jul 8)	MUFG	Consensus	MUFG	Consensus	MUFG	Consensus	MUFG	Consensus
Fed Funds	3.75%	3.75%	3.76%	3.50%	3.74%	3.25%	3.68%	N/A	3.57%
2 yr UST	4.21%	4.00%	3.95%	3.63%	3.85%	3.25%	3.78%	N/A	3.72%
5 yr UST	4.32%	4.13%	4.10%	3.88%	4.03%	3.63%	3.98%	N/A	3.93%
10 yr UST	4.59%	**4.25%**	**4.41%**	**4.13%**	**4.38%**	**4.00%**	**4.34%**	N/A	**4.33%**
30 yr UST	5.08%	4.50%	4.90%	4.50%	4.85%	4.38%	4.84%	N/A	4.85%

Source: (1) MUFG Global Macro Research (George Goncalves). Bloomberg. Data as of July 8, 2026. Fed funds is upper bound.

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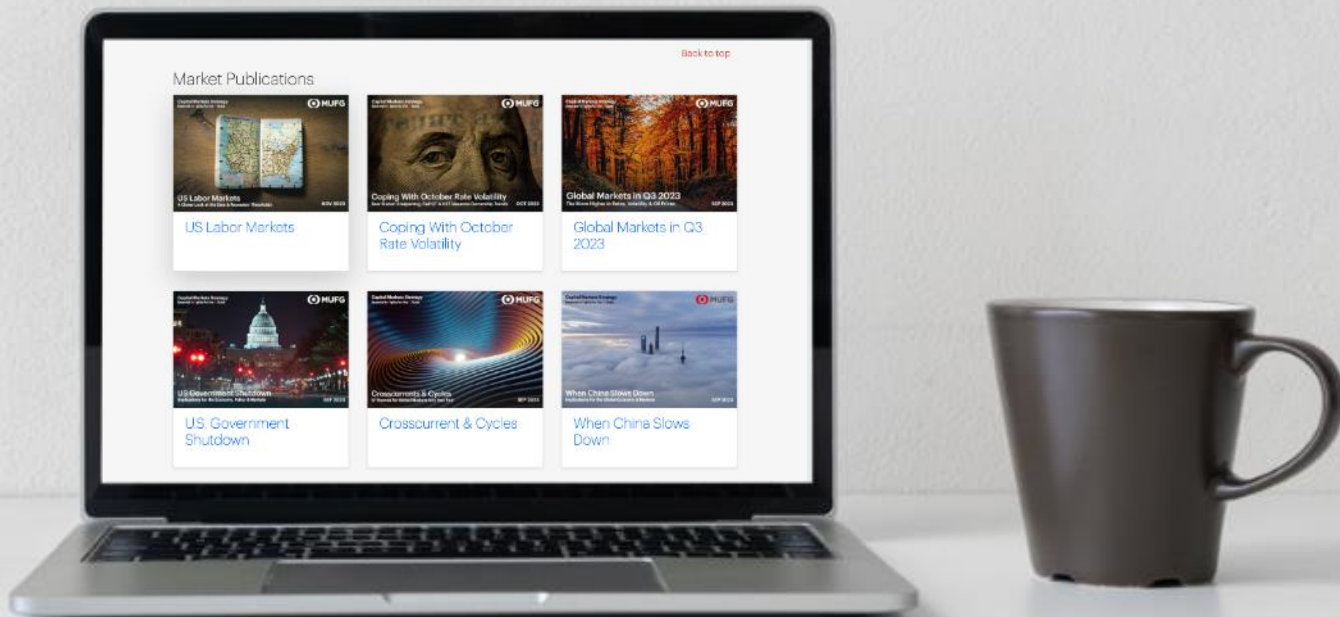

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Role

Tom Joyce is a Managing Director and Capital Markets Strategist within MUFG's global capital markets and investment banking business. Based in New York, Tom heads a team that creates customized analytical content for multi-national S&P 500 companies. His team provides in depth analysis on the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Tom has over 30 years of Investment Banking experience in New York, London, Hong Kong, and San Francisco. Tom created and built the Capital Markets Strategy role, advising corporate C-Suite executives (Boards, CEOs, CFOs, and Treasurers) on the pervasive macro forces driving markets. Tom also presents at dozens of corporate events each year including Board meetings, CEO ExCo sessions, CFO and Treasury off-sites, corporate leadership events and conferences.

Education

Tom's educational background includes a year of study at Oxford University from 1991 - 1992, a Bachelor of Arts in Political Science from Holy Cross College in 1993, and a MBA from Kellogg Business School, Northwestern University in 2000.

Personal

Tom resides in New Canaan, CT with his wife and four sons, where he previously served on the Board of Trustees of the New Canaan Library. Tom also serves on the President's Council of Holy Cross College.

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Experience

Stephanie has spent nearly ten years as a Capital Markets Strategist. She is an active member of the University of Michigan recruiting team and is focused on the diversity recruiting effort at MUFG. Stephanie is also a part of MUFG's DEI, Culture & Philanthropy (DCP) Council.

Education

Stephanie graduated with honors from the University of Michigan's Ross School of Business with a BBA .

Personal

Stephanie is involved in NYC's iMentor program, mentoring high school students with their journey to college graduation. She also volunteers at Experience Camps, a free summer camp program for grieving children, as the associate program director.

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Experience

Angela previously interned at MUFG working in Capital Markets within the Equity Capital Markets and Leveraged Finance divisions. She is also an active member of the Carnegie Mellon University recruiting team.

Education

Angela graduated with honors from Carnegie Mellon University's Tepper School of Business with a BS in Business Administration with an additional major in Statistics and a minor in Media Design. She was a member of Alpha Kappa Psi business fraternity and the Undergraduate Entrepreneurship Association.

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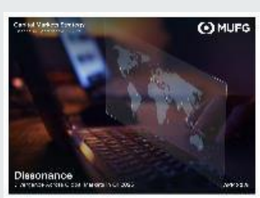

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