

MACRO & POLICY COMMENTARY

Why a “Hawkish” Fed Debut Could Still Be Good for Gold

Our research suggests the real signal from Chair Kevin Warsh’s first month isn’t the interest rate he didn’t cut — it’s the balance-sheet plan being quietly assembled behind it.

Museum Park Capital Research explores long-duration macroeconomic, geopolitical, and structural themes that may shape capital markets over multi-year investment horizons.

Our Take, Up Front

Since Kevin Warsh’s first press conference as Federal Reserve Chair on June 17, 2026, the price of gold has fallen roughly 5 to 6%. The reason most investors have settled on is simple: Warsh looked hawkish. Nine of eighteen Fed officials penciled in at least one more rate hike this year — a sharp reversal from the “cuts are likely” tone that prevailed before he took over. Markets reacted fast: short-term bond yields jumped, the dollar hit a 13-month high, and gold sold off.

We think that story is real, but incomplete. Reading the full press conference transcript alongside Warsh’s first personnel decision and an opinion piece published by one of his closest outside allies — on the very day of his swearing-in — points to something more specific: a plan to ease financial conditions substantially without the Fed ever cutting its main interest rate. If that plan moves forward, even partially, it could turn out to be meaningfully supportive of gold, even while the Fed keeps sounding tough on inflation in public.

What We Found

A Second Lever the Fed Rarely Talks About

Most investors watch one number from the Fed: the federal funds rate, its main interest rate. But the Fed has a second, quieter lever — the size of its balance sheet, and the interest it pays banks to leave cash parked there overnight (currently paid on \$3.1 trillion of a \$6.7 trillion balance sheet). Shrinking the balance sheet and cutting that rate would push banks to move cash out of the Fed and into Treasury bonds instead. That extra demand would raise bond prices and pull down long-term yields — easing financial conditions broadly, without a single cut to the headline rate.

Three Signals Pointing the Same Direction

- **The Winfree hire.** On June 2, before he had even been sworn in, Warsh made his first personnel move: hiring Paul Winfree, an author of the Heritage Foundation’s conservative blueprint for reforming the Fed. Winfree’s own writing includes a practical, near-term wish list — and it names exactly this idea: shrink the balance sheet and reduce the interest the Fed pays banks on reserves.
- **The Shelton op-ed.** On May 22 — the day of Warsh’s swearing-in — Judy Shelton, a former Fed board nominee and one of the most prominent outside advocates for Warsh’s agenda, published a Wall Street Journal op-ed titled “Kevin Warsh Can Tame Inflation Without Higher Rates.” It laid out this exact mechanism, and noted pointedly that if it works, it isn’t politically an indictment of Warsh, since the Fed’s official rate never has to move.
- **Warsh’s own words.** At his June 17 press conference, Warsh described the Fed’s interest rate and its balance sheet as two distinct tools with different effects. He also announced a task force specifically chartered to study the size of the balance sheet. And in a notably candid moment, he downplayed his own committee’s hawkish rate forecast: “I did not submit a dot.”

Why This Matters More for Gold Than the Interest Rate Does

Gold prices respond mainly to two things: long-term bond yields, after accounting for inflation, and the strength of the dollar. They respond much less to the Fed’s headline interest rate on its own. The plan taking shape targets exactly the two levers gold actually cares about, while leaving the funds rate — and the hawkish signal built around it — untouched. That is the disconnect we think the market is underpricing: a Fed that can look tough on paper while easing conditions underneath.

Three Ways This Could Play Out

To be clear about what is confirmed and what is our own read: the balance-sheet task force is real, and Warsh announced it personally. What it will actually recommend, and whether the full committee adopts it, is not yet known. Warsh has said work will begin “in the next couple of weeks,” with initial findings “starting in the fall.” Below are three ways this could unfold, in our own view.

Scenario
What Happens
Illustrative Gold Path*
No Adoption
The task force studies the issue, but the Fed doesn’t act on its findings this year.
Continued pressure; possible retest of \$3,700–3,900/oz

Partial Adoption

A modest cut to the rate paid on reserves and/or faster balance-sheet runoff, framed as “normalization” rather than easing.

Partial recovery toward \$4,400–5,000/oz

Full Adoption

The complete plan is implemented — meaningful cuts to the reserve rate plus active balance-sheet sales — while the funds rate stays flat.

Potential re-rating into \$5,000+/oz over several months

*Illustrative only, not a price forecast or prediction. See disclosure below.

We currently think Partial Adoption is the most likely outcome, given how much Warsh has emphasized incremental, task-force-driven change and his comment that the Fed is “not outsourcing decisions to anybody.” Full Adoption is a real possibility worth watching, not our base case. No Adoption remains entirely plausible too, particularly if summer inflation data keeps firming.

What We’re Watching

A handful of concrete, dated developments will tell us which scenario is playing out:

- Who gets named to the balance-sheet task force, and what they say once seated
- Any shift in Warsh’s public language toward “shrinking the Fed’s footprint in markets,” distinct from his usual inflation-fighting message
- The gap between 2-year and 10-year Treasury yields — a widening gap, with short-term rates staying high while long-term rates fall, would be the cleanest real-time sign the market is starting to price this in
- July and August inflation data, especially whether the Fed’s preferred “core” inflation measure keeps cooling
- Whether the Fed’s own rate forecasts at the August meeting move toward or away from June’s hawkish lean
- The task force’s first public output, possible as early as this fall

What Everyone Else Is Watching — And What We Think It Misses

For now, gold is trading mostly off the simpler story: a hawkish rate forecast and a strong dollar. Futures markets currently price roughly a 68% chance of another rate hike by September, up sharply from 29% a week earlier. The dollar is at a 13-month high. That is not an unreasonable read — the market had access to the same June 17 transcript we did, in real time. Where we differ is in how much weight to put on the rate forecast versus the balance-sheet story developing alongside it. Our sense is that a meaningful share of gold’s recent move has also been driven by momentum and algorithm-driven trading, rather than a fresh reassessment of the fundamentals — which

argues for a wider band of uncertainty around where gold goes from here, in either direction, rather than high conviction in the simple hawkish narrative.

Bottom Line

We don't think current gold prices reflect the balance-sheet scenario laid out above. We see this as a credible, unresolved policy question rather than a settled case in either direction, with two concrete events ahead — the August Fed meeting, and the task force's fall findings — that should help clarify which of the three scenarios is playing out.

For now, we think it's worth treating this as an evolving, staged story, rather than a single directional bet on gold.

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Important Disclosure. Museum Park Capital publishes independent macroeconomic and market research on long-term structural investment themes. This piece was prepared from primary source materials, including the Federal Reserve's June 17, 2026 press conference transcript, Judy Shelton's May 22, 2026 Wall Street Journal op-ed, the Heritage Foundation's Project 2025 Federal Reserve chapter, and public reporting on Chairman Warsh's advisory appointments. The scenarios above are Museum Park Capital's own analysis; they have not been confirmed by the Federal Reserve, any task force, or any named individual.

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