Dow Retreats from Record Highs as Hawkish Fed Outlook Sends Treasury Yields Surging

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The U.S. and European markets closed lower Wednesday after the Federal Reserve delivered its first policy decision under Chairman Kevin Warsh and signaled a more restrictive interest-rate outlook than investors had anticipated. While policymakers left rates unchanged, updated economic projections revealed that several Federal Reserve officials now expect an additional rate increase in 2026, prompting a sharp rise in Treasury yields and a broad-based selloff across equities.

The market reaction reflected growing concern that inflation remains persistent enough to keep monetary policy tighter for longer. Treasury yields surged immediately following the Fed announcement, with the two-year Treasury yield posting its largest one-day increase in months as investors recalibrated expectations for future rate cuts. The shift in policy expectations weighed heavily on growth-oriented sectors, particularly large-cap technology shares, while renewed volatility in recently public companies added further pressure to investor sentiment.

Although lower energy prices and resilient economic growth continue to support the broader economic outlook, the Federal Reserve's emphasis on price stability reinforced the message that inflation remains the central bank's primary concern. Investors now face a market environment characterized by strong economic fundamentals but a monetary policy path that may prove less accommodative than previously expected.

U.S. Markets

U.S. equities closed sharply lower as investors reacted to a hawkish shift in the Federal Reserve's economic projections and a significant rise in Treasury yields. The Dow Jones Industrial Average declined 507.12 points, or 0.98%, to close at 51,492.55 after reaching another intraday record high earlier in the session. The S&P 500 fell 1.21% to 7,420.10, while the Nasdaq Composite dropped 1.34% to 26,021.66.

Technology stocks lowered the market as higher interest-rate expectations reduced the appeal of growth-oriented valuations. Microsoft, Meta Platforms, Alphabet, and Amazon all posted notable declines. Recently public SpaceX also fell, contributing to weakness in momentum-oriented shares following its strong post-IPO performance. Gains in semiconductor stocks, including Intel and Micron Technology, helped limit losses but were insufficient to offset broader market selling pressure.

The Federal Open Market Committee maintained the federal funds target range at 3.50% to 3.75%, as widely expected. However, the updated Summary of Economic Projections proved considerably more influential. The median year-end 2026 federal funds rate projection increased to 3.8%, compared with 3.4% in March, signaling that policymakers now anticipate the possibility of at least one additional rate increase next year.

Adding to investor uncertainty, Chairman Kevin Warsh did not submit an individual interest-rate projection, leaving markets with fewer clues regarding his long-term policy preferences. During his press conference, Warsh repeatedly emphasized the Federal Reserve's commitment to restoring and maintaining price stability, leading investors to conclude that the central bank is unlikely to pivot toward easier monetary policy anytime soon.

The bond market responded swiftly. The two-year Treasury yield surged more than 16 basis points to 4.22%, while longer-term yields also moved higher. The sharp increase in yields pressured equity valuations and triggered profit-taking across several sectors that had recently led the market higher.

Despite Wednesday's decline, major indexes remain near record levels, supported by resilient consumer spending, strong labor markets, moderating energy prices, and improving geopolitical conditions. However, the market's focus has now shifted toward whether inflation continues to cool sufficiently to prevent the Federal Reserve from following through on its newly projected tightening path.

European Markets

European markets traded mostly higher on Wednesday as investors awaited the Federal Reserve's interest rate decision under new Chair, Kevin Warsh. The STOXX Europe 600 advanced roughly 0.4%, holding near record territory after gaining close to 3% over the prior four sessions. France's CAC 40 added about 0.2% and Spain's IBEX 35 rose roughly 0.5%, while Italy's FTSE MIB stayed modestly positive. Germany's DAX lagged the broader advance, weighed down by a sharp selloff in automakers after BMW cut its annual profit outlook, which also pulled down Volkswagen and Mercedes-Benz. Investors continued to weigh the benefits of sharply lower energy prices and easing inflation pressures following the U.S.-Iran agreement to reopen the Strait of Hormuz, with sentiment shifting from geopolitics toward the Fed as energy-shock concerns fade. The interim deal, expected to be formally signed in Switzerland on Friday, has reinforced expectations that lower energy costs can provide a meaningful tailwind for the Eurozone. Investors are also watching incoming data for confirmation that regional growth is stabilizing after a prolonged stretch of sluggish expansion.

Energy Markets

Oil prices extended their slide for a fifth straight session Wednesday, with WTI crude near $75 to $76 per barrel and Brent crude just under $79, both at three-month lows as markets price in a rapid return of supply tied to the U.S.-Iran agreement. The interim deal, set for signing in Switzerland on Friday, would let Tehran resume oil exports immediately and ease shipping restrictions through Hormuz, with more than 100 tankers currently idled in the Gulf positioned to release pent-up supply once the route reopens. The International Energy Agency added to the bearish tone, warning that global oil supply could rise by as much as 8 million barrels per day in 2027 against demand growth of only 2 million barrels per day, raising the prospect of a renewed global surplus. That said, a partial offset came from US crude inventories, which industry data showed fell by 8.3 million barrels last week. Crude prices have now retreated nearly 40% from their conflict-era peak, a decline that has meaningfully improved the inflation outlook for both developed and emerging economies. Lower fuel costs should continue easing pressure on consumers, reducing transportation and production expenses, and supporting corporate margins. Even so, the durability of the ceasefire and the pace of the broader diplomatic settlement remain the key variables that could quickly shift market expectations.

Federal Reserve Bank Outlook

The Federal Reserve's Federal Open Market Committee left interest rates unchanged at its June 2026 meeting, a move widely expected by markets, voting 12-0 in what was Chairman Kevin Warsh's first meeting at the helm since succeeding Jerome Powell. The accompanying Summary of Economic Projections, also released for the first time under Warsh, marks a clear hawkish pivot from the committee's March outlook. The median projection for 2026 PCE inflation jumped to 3.6% from 2.7%, while core PCE inflation rose to 3.3% from 2.7%, reflecting the inflationary pressure transmitted through the Iran-driven energy shock earlier this year. Growth and labor market projections moved in the opposite direction but by smaller magnitudes: real GDP growth for 2026 was trimmed to 2.2% from 2.4%, and the unemployment rate ticked down slightly to 4.3% from 4.4%, suggesting the committee still views the economy as fundamentally healthy even as it raises its inflation forecast.

The more consequential shift sits in the policy path itself. The median federal funds rate projection for 2026 rose to 3.8% from 3.4%, with 2027 climbing to 3.6% from 3.1% and 2028 to 3.4% from 3.1%, while the longer-run estimate held at 3.1%. Nine of eighteen participants now see at least one rate increase before year-end, a sharp reversal from March's expectation of a quarter-point cut.

Combined with the unanimous hold, the projections indicate a committee prioritizing inflation control over the next leg of easing, even as energy prices retreat from their conflict-era highs. For markets, the signal is that any further policy support is on hold, and the bar for resuming rate cuts has moved meaningfully higher than it stood three months ago.

The Final Word: Market Perspective

Markets had entered Wednesday's decision pricing in a relatively benign outcome, expecting a steady Fed against a backdrop of resilient growth and improving energy-driven disinflation. Chairman Warsh delivered something more hawkish instead: a unanimous hold paired with a dot plot showing nearly half the committee anticipating a hike by year-end and a meaningfully higher inflation path. The market reaction was immediate. The S&P 500 fell roughly 1.2%, the Nasdaq Composite dropped about 1.3%, and the Dow shed more than 500 points, while the two-year Treasury yield jumped 16 basis points to 4.21% and the ten-year approached 4.5%. The dollar index posted its best session in nearly a year, and gold fell more than 2%. CME FedWatch pricing now shows better than a 60% probability of a rate hike by October. The session is a reminder that the inflation overhang from the Iran-driven energy shock has not fully worked its way through the system even as oil prices retreat, and that Warsh's terser, less forward-guidance-dependent communication style will put more weight on incoming data than on Fed signaling. Equity leadership may prove more contested in the second half of 2026 than the steady rotation narrative suggested heading into this meeting, with rate-sensitive growth and small-cap names likely facing renewed scrutiny as long as hike odds continue to build.

GDPNow Update:

- The GDPNow estimate for the second quarter of 2026 was updated to 3.00% from 2.80%, up 7.14%.

Economic Data:

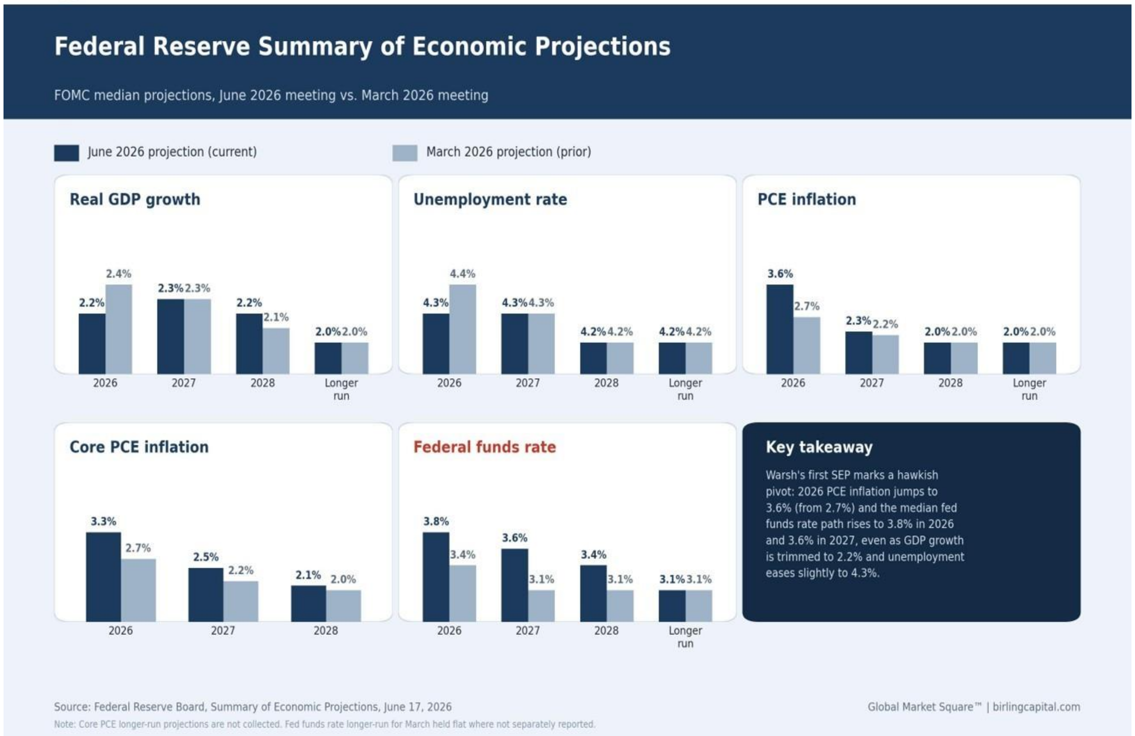
- **Target Federal Funds Rate Upper Limit:** are unchanged at 3.75%, compared to 3.75% yesterday.
- **US Retail and Food Services Sales MoM:** rose to 0.88%, compared to 0.40% last month.
- **US Pending Home Sales YoY:** rose to 4.77%, compared to 2.07% last month.
- **US Business Inventories MoM:** fell to 0.50%, compared to 0.99% last month.
- **US Wholesalers Inventories MoM:** fell to 0.61%, compared to 1.54% last month.

Eurozone Summary:

- **Stoxx 600:** closed at 639.31, up 3.31 points or 0.52%.
- **FTSE 100:** closed at 10,508.61, up 14.40 points or 0.14%.
- **DAX Index:** closed at 24,934.67, up 24.26 points or 0.10%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 51,492.55, down 507.12 points or 0.98%.
- **S&P 500:** closed at 7,420.10, down 91.25 points or 1.21%.
- **Nasdaq Composite:** closed at 26,021.65, down 354.68 points or 1.35%.
- **Birling Capital Puerto Rico Stock Index:** closed at 4,619.73, up 12.12 points or 0.26%.
- **Birling Capital U.S. Bank Index:** closed at 10,275.05, up 194.99 points or 1.93%.
- **U.S. Treasury 10-year note:** closed at 4.49%.
- **U.S. Treasury 2-year note:** closed at 4.20%.


Federal Reserve Summary of Economic Projections
FOMC median projections, June 2026 meeting vs. March 2026 meeting
June 2026 projection (current)
March 2026 projection (prior)
Real GDP growth
2026: 2.2% / 2.4%
2027: 2.3% / 2.3%
2028: 2.2% / 2.1%
Longer run: 2.0% / 2.0%
Unemployment rate
2026: 4.3% / 4.4%
2027: 4.3% / 4.3%
2028: 4.2% / 4.2%
Longer run: 4.2% / 4.2%
PCE inflation
2026: 3.6% / 2.7%
2027: 2.3% / 2.2%
2028: 2.0% / 2.0%
Longer run: 2.0% / 2.0%
Core PCE inflation
2026: 3.3% / 2.7%
2027: 2.5% / 2.2%
2028: 2.1% / 2.0%
Federal funds rate
2026: 3.8% / 3.4%
2027: 3.6% / 3.1%
2028: 3.4% / 3.1%
Longer run: 3.1% / 3.1%
Key takeaway
Warsh's first SEP marks a hawkish pivot: 2026 PCE inflation jumps to 3.6% (from 2.7%) and the median fed funds rate path rises to 3.8% in 2026 and 3.6% in 2027, even as GDP growth is trimmed to 2.2% and unemployment eases slightly to 4.3%.
Source: Federal Reserve Board, Summary of Economic Projections, June 17, 2026
Note: Core PCE longer-run projections are not collected. Fed funds rate longer-run for March held flat where not separately reported.
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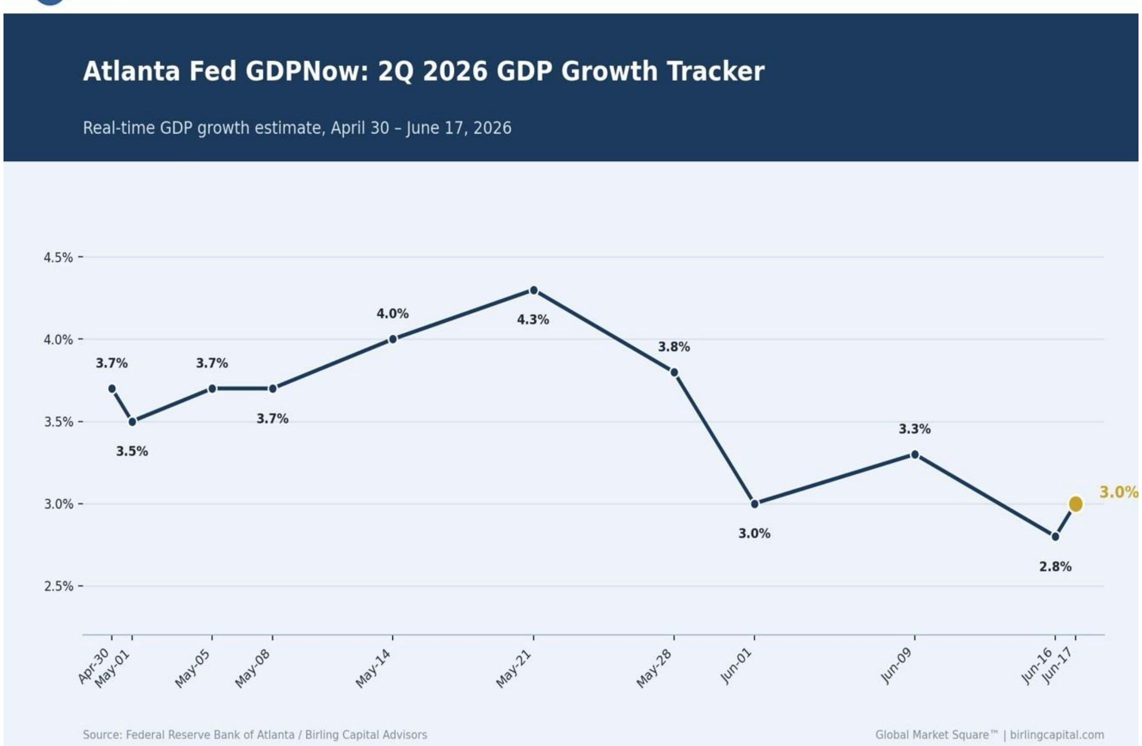
Atlanta Fed GDPNow: 2Q 2026 GDP Growth Tracker
Real-time GDP growth estimate, April 30 – June 17, 2026
4.5%
4.0%
3.5%
3.0%
2.5%
3.7%
3.5%
3.7%
3.7%
4.0%
4.3%
3.8%
3.0%
3.3%
2.8%
3.0%
Apr-30
May-01
May-05
May-08
May-14
May-21
May-28
Jun-01
Jun-09
Jun-16
Jun-17
Source: Federal Reserve Bank of Atlanta / Birling Capital Advisors
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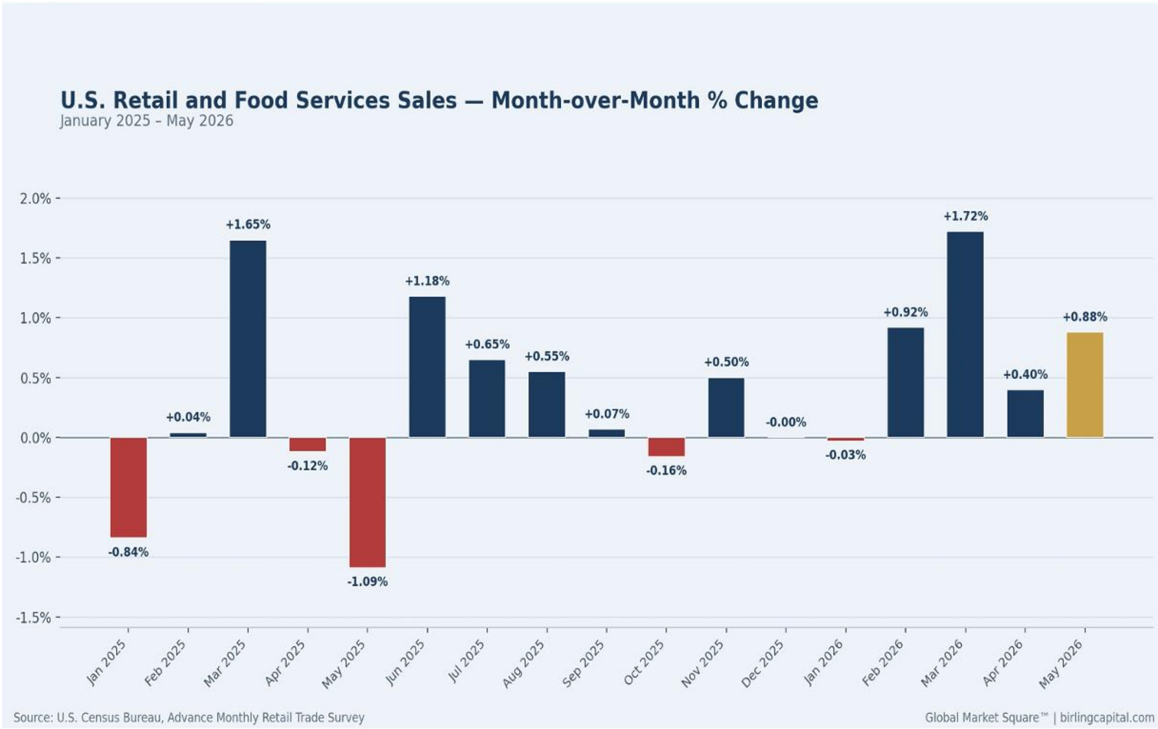

U.S. Retail and Food Services Sales — Month-over-Month % Change
January 2025 – May 2026
2.0%
1.5%
1.0%
0.5%
0.0%
-0.5%
-1.0%
-1.5%
-0.84%
+0.04%
+1.65%
-0.12%
-1.09%
+1.18%
+0.65%
+0.55%
+0.07%
-0.16%
+0.50%
-0.00%
-0.03%
+0.92%
+1.72%
+0.40%
+0.88%
Jan 2025
Feb 2025
Mar 2025
Apr 2025
May 2025
Jun 2025
Jul 2025
Aug 2025
Sep 2025
Oct 2025
Nov 2025
Dec 2025
Jan 2026
Feb 2026
Mar 2026
Apr 2026
May 2026
Source: U.S. Census Bureau, Advance Monthly Retail Trade Survey
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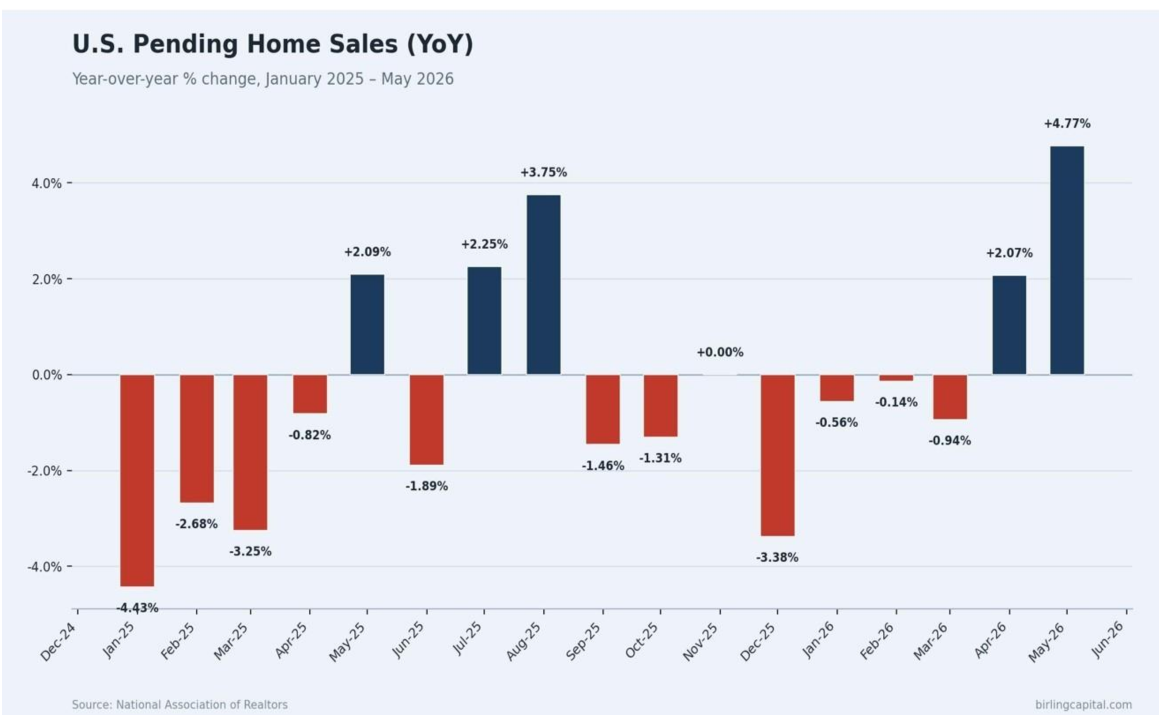

U.S. Pending Home Sales (YoY)
Year-over-year % change, January 2025 – May 2026
4.0%
2.0%
0.0%
-2.0%
-4.0%
-4.43%
-2.68%
-3.25%
-0.82%
+2.09%
-1.89%
+2.25%
+3.75%
-1.46%
-1.31%
+0.00%
-3.38%
-0.56%
-0.14%
-0.94%
+2.07%
+4.77%
Dec-24
Jan-25
Feb-25
Mar-25
Apr-25
May-25
Jun-25
Jul-25
Aug-25
Sep-25
Oct-25
Nov-25
Dec-25
Jan-26
Feb-26
Mar-26
Apr-26
May-26
Jun-26
Source: National Association of Realtors
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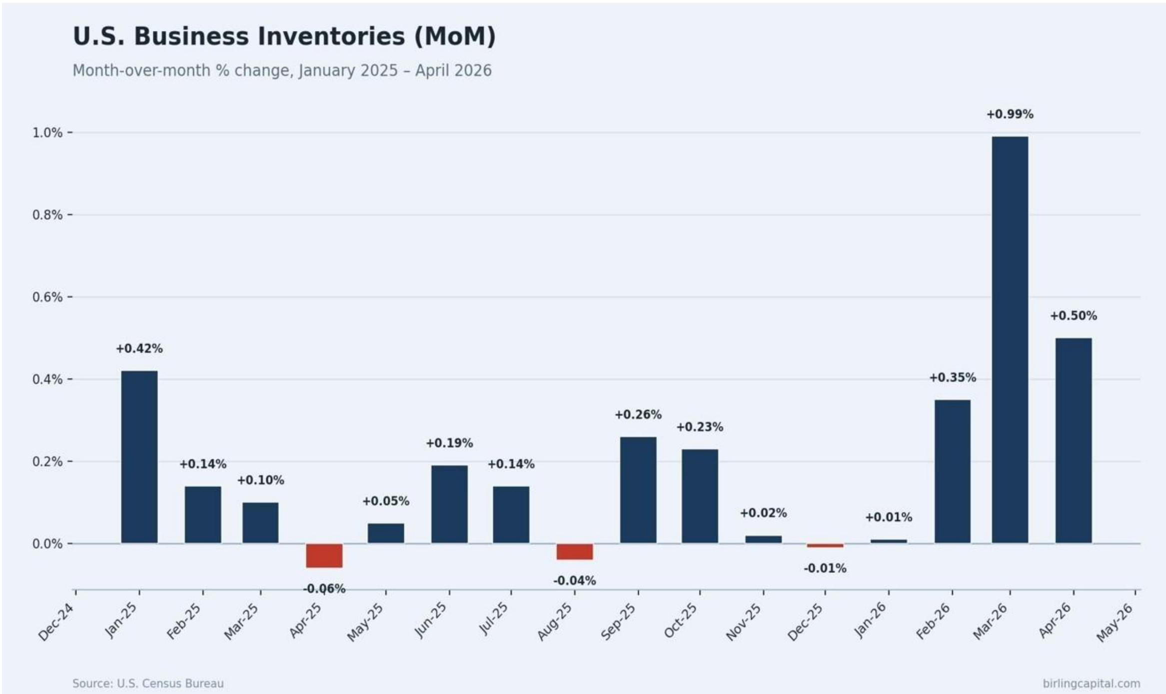
U.S. Business Inventories (MoM)
Month-over-month % change, January 2025 – April 2026
1.0%
0.8%
0.6%
0.4%
0.2%
0.0%
+0.42%
+0.14%
+0.10%
-0.06%
+0.05%
+0.19%
+0.14%
-0.04%
+0.26%
+0.23%
+0.02%
-0.01%
+0.01%
+0.35%
+0.99%
+0.50%
Dec-24
Jan-25
Feb-25
Mar-25
Apr-25
May-25
Jun-25
Jul-25
Aug-25
Sep-25
Oct-25
Nov-25
Dec-25
Jan-26
Feb-26
Mar-26
Apr-26
May-26
Source: U.S. Census Bureau
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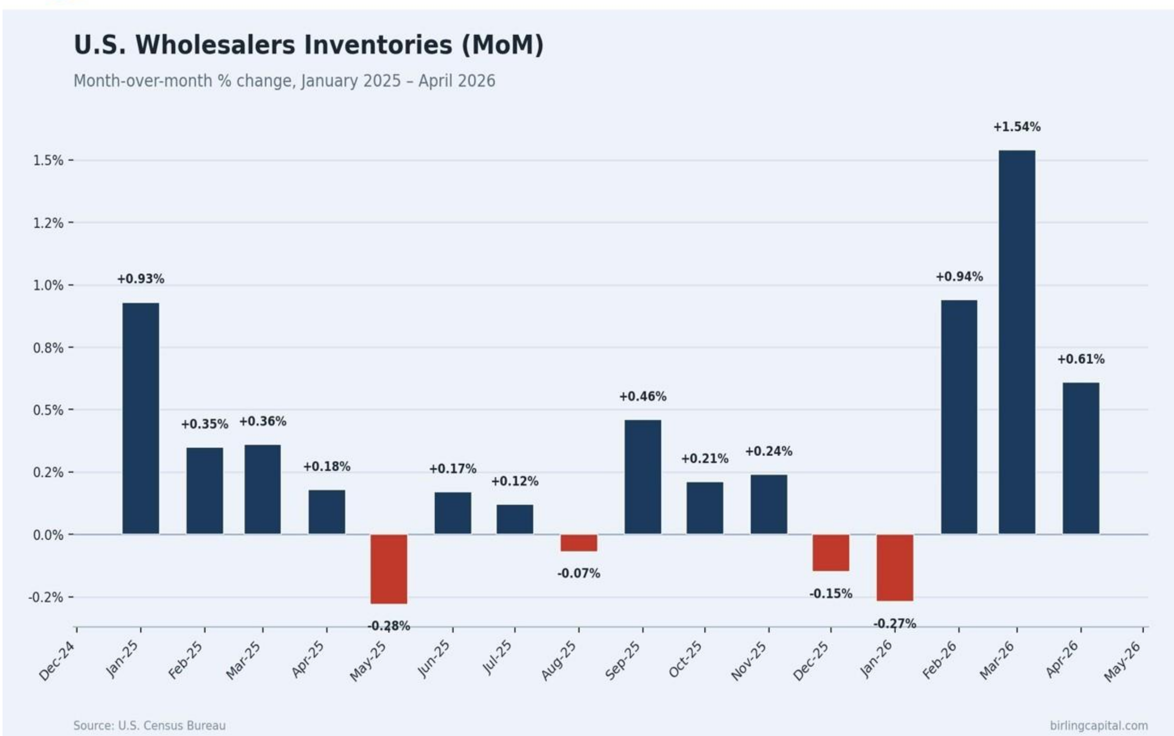
U.S. Wholesalers Inventories (MoM)
Month-over-month % change, January 2025 – April 2026
1.5%
1.2%
1.0%
0.8%
0.5%
0.2%
0.0%
-0.2%
+0.93%
+0.35%
+0.36%
+0.18%
-0.28%
+0.17%
+0.12%
-0.07%
+0.46%
+0.21%
+0.24%
-0.15%
-0.27%
+0.94%
+1.54%
+0.61%
Dec-24
Jan-25
Feb-25
Mar-25
Apr-25
May-25
Jun-25
Jul-25
Aug-25
Sep-25
Oct-25
Nov-25
Dec-25
Jan-26
Feb-26
Mar-26
Apr-26
May-26
Source: U.S. Census Bureau
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Eurozone Markets Close

June 17, 2026

STOXX 600	FTSE 100	DAX INDEX
639.31	10,508.61	24,934.67
▲ +3.31 (0.52%)	▲ +14.40 (0.14%)	▲ +24.26 (0.10%)

Source: Bloomberg / Birling Capital Advisors

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Wall Street and Birling Capital Indexes Close

June 17, 2026

DOW JONES INDUSTRIAL AVERAGE	S&P 500	NASDAQ COMPOSITE	BIRLING CAPITAL PR STOCK INDEX	BIRLING CAPITAL U.S. BANK INDEX
51,492.55	7,420.10	26,021.65	4,619.73	10,275.05
▼ 507.12 (0.98%)	▼ 91.25 (1.21%)	▼ 354.68 (1.35%)	▲ 12.12 (0.26%)	▲ 194.99 (1.93%)

U.S. TREASURY 10-YEAR NOTE		U.S. TREASURY 2-YEAR NOTE
4.49%	10Y–2Y Spread: 29 bps	4.20%

Source: Bloomberg / Birling Capital Advisors

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Wall Street Close for June 17, 2026 for: Dow Jones, S&P 500, Nasdaq, Birling Puerto Rico Stock Index & Birling US Bank Index