



Market Snapshot

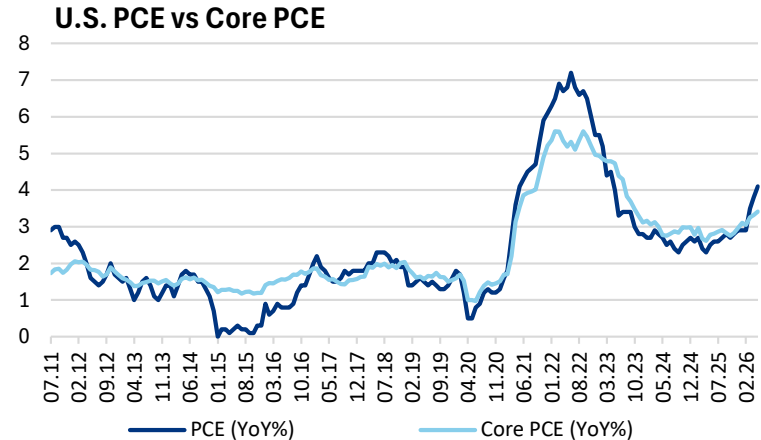
Is Warsh Challenging the Fed's Preferred Inflation Gauge ?

July 2026

U.S. Federal Reserve

Rethinking How Inflation Is Measured

- Kevin Warsh, the new Fed Chair since May, brings unconventional views on inflation measurement.** During his confirmation hearing, he said that "the data that's being used to judge inflation is quite imperfect" and **argued in favor of trimmed averages to better capture the "underlying, generalized change in prices in the economy."**
- Warsh followed through on this stance in his first press conference, announcing the creation of five independent task forces to conduct a comprehensive review of the Fed's operating framework, **including one dedicated to data sources and methodology.**
- The Fed currently prefers the core Personal Consumption Expenditures (PCE)** measure of inflation because it is viewed as a reliable indicator of future inflation trends. It captures underlying inflation by excluding food and energy prices from the headline number.
- Food and energy are highly volatile components, largely influenced by external factors** such as oil supply disruptions or global agricultural conditions. Core PCE tries to isolate the domestic price pressures that monetary policy can actually influence.

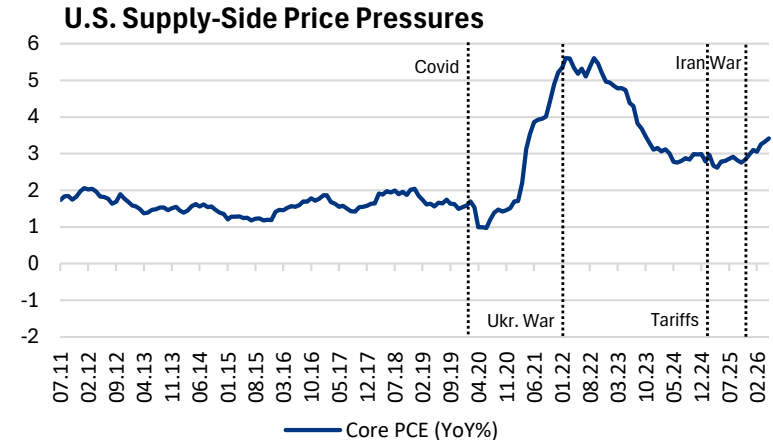


Sources: Bloomberg, BCP Asset Management

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Price Distribution Matters for Trimmed Averages

- **The Dallas Fed has been publishing a Trimmed PCE series for decades.** Trimmed averages exclude the components with the most extreme price movements each month, rather than permanently removing fixed components from the index.
- More specifically, the Dallas Fed ranks all components by their monthly price change and excludes those falling below the 24th percentile and above the 69th percentile of that weighted distribution, **retaining only the middle portion to calculate the average.**
- These thresholds are asymmetrical, justified by the historically left-skewed distribution of price changes in the U.S. **In other words, price declines have tended to be more extreme than price increases.**
- **Since 2020, however, a succession of supply-side shocks, from the pandemic to the Russia-Ukraine war, tariff disruptions, and the Iran war, have contributed to significant price rises.**



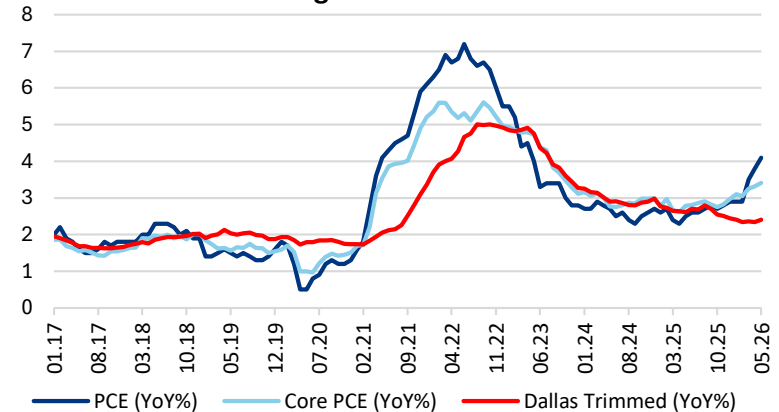
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Two PCE Measures, Two Different Stories

- As a result, the Dallas Trimmed PCE has run below core PCE in recent years.** In December 2021, the gap reached its widest point on record, with the Dallas measure sitting 185 basis points below the conventional reading.
- It remains exceptionally wide today at around 100 basis points, with the two measures facing different dynamics: Trimmed PCE is stable around 2.4% since the beginning of the year, while core PCE is accelerating to 3.4%.**
- Moreover, Trimmed PCE was late to capture the 2021 inflation surge,** as the earliest price increases typically occur in the tails of the distribution, and the measure only reflects them once the pressure spreads to mid-distribution items.
- Favoring a trimmed measure similar to the Dallas Fed version could raise credibility concerns:** the measure is currently exhibiting a downward bias, just as the inflation target has gone unmet for five years and monetary policy needs to be reactive to early signs of inflation pressures.

U.S. Inflation Readings



Sources: Bloomberg, BCP Asset Management



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