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Instant Thoughts

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Not a Typical Placeholder

- **Fed Chair Warsh is in no mood to offering clarity. He made the case that the "medicine starting to work" and the Fed should not "throw sands in the gears". The message of self-healing was however interwoven with his half-hearted concession that the current monetary stance is not "tight".**
- **Old habits die hard. Warsh's disdain for forward guidance stance once again invites a steeper Treasury yield curve and softening dollar.**
- **We read the urgency to move in September as one of removal of stimulus, rather than a textbook case of a behind-the-curve catch-up. Warsh's non-committal stance is a result of a lack of urgency, not a hesitation about the hiking cycle itself.**
- **Eventually, it's time to show, not tell. We glean from this less stained glass enough to validate the move back above 5% on the 10-year.**

The FOMC decision to stay on hold today did not come as a surprise. What stunned me is, first, Governor Cook dissented this time. Family fight unburied. And second, the Fed will have seven and six "live" policy meetings in 2027 and 2028, respectively, instead of eight. The skipped meetings will be replaced by strategy meetings. It takes a plan to beat a plan.

These changes rarely tell the whole story. The descriptions of economic activities were upgraded as “strong” and inflation as “too high.” It leaves many wonder: why wait for another six weeks? Again, Chair Warsh is in no mood to offering clarity. He made the case that the “medicine starting to work” and the Fed should not “throw sands in the gears”. The message of self-healing was however interwoven with his half-hearted concession that the current monetary stance is not “tight”.

We read the urgency to move in September as one of removal of stimulus, rather than a textbook case of a behind-the-curve catch-up. Over the past few weeks, the severity of the data was simply not enough to get the doves on board with a back-to-back hike. So pausing at 4% seemed a good vantage point to look around and reassess.

Old habits die hard. The initial market reaction was reminiscent of July. Warsh’s disdain for forward guidance once again invites a steeper Treasury yield curve and a softening dollar. In our view, Warsh’s reluctance to pledge is a result of a lack of urgency, not a hesitation about the hiking cycle itself. Eventually, it’s time to show, not tell. We glean from this less stained glass enough to validate the move back above 5% on the 10-year Treasury.

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