

Monthly Cash Review: September 2026 (USD)

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Persistent inflation, shifting Federal Reserve expectations and attractive front-end yields continue to shape opportunities for USD cash investors.

August began with the market slowly believing we might be on hold, perhaps for the rest of the year. Inflation appeared to be moderating, payroll growth disappointed, Treasury yields drifted lower, and expectations for a September hike fell toward 30% over the first two weeks.

By the middle of the month, investors had settled comfortably into a narrative that the Fed would remain on hold through year-end. Economic data was softening, inflation was improving, and the front end of the Treasury curve was rallying accordingly. The market appeared confident that inflation was not as big a threat as had been thought, and everyone could move on to arguing about AI and football season.

Chair Kevin Warsh did not explicitly promise a September rate hike. What he did provide, though, was something arguably more important: detailed principles explaining how he views inflation and why the Fed's work is not done. Markets may not have received forward guidance, but they did receive a trail map, and that map is directing us to a hike.

The response was immediate. September hike probabilities surged from roughly 30% to more than 60%, and markets quickly began pricing the possibility of the target rate being above 4% by 2027. The policy-sensitive 2-year Treasury yield, which had spent much of August declining, abruptly reversed course and moved sharply higher following the speech. As has become tradition, whenever a Fed Chair opens their mouth, the 2-year Treasury reacted with the calm and composure of a caffeinated squirrel.

Inflation: Better, but not good enough

The challenge facing policymakers is not that inflation is accelerating. The challenge is that inflation refuses to behave.

July inflation reports generally moved in the right direction. Headline CPI increased only modestly, while Core CPI continued its gradual descent. Housing inflation showed further moderation, and several goods categories remained firmly disinflationary. Under normal circumstances, these reports would have been viewed as clear evidence that policy restraint was working.

Unfortunately for inflation optimists, the Federal Reserve does not target "better."

The Fed's preferred inflation gauge, Core PCE, remained stubbornly above target in July, while broader measures of underlying inflation continued to signal that price pressures remain uncomfortably persistent. Various trimmed-mean, median, sticky-price, and cyclical inflation measures all remain elevated relative to historical norms.

Most importantly, inflation remains broad.

One of the more compelling statistics highlighted by Warsh was the continued breadth of inflation across the economy. Approximately 54% of the 199 components within the PCE basket have experienced inflation above 3% over the past year, compared with a pre-pandemic average of roughly 32%. Even

looking only at the most recent six months, nearly half of all PCE components continue to run above 3%.

A single inflation measure can be distorted by falling gasoline prices, temporary supply disruptions, or statistical quirks. Inflation breadth tells us whether inflation is becoming concentrated in a few sectors or remains deeply embedded throughout the economy.

The good news is that inflation breadth has improved meaningfully from its post-pandemic peak. The bad news is that it remains nowhere near normal. In other words, the inflation toddler has stopped screaming in the grocery store but still refuses to leave the candy aisle.

Warsh's framework: Seven principles, three that matter most

One of the most important outcomes from Jackson Hole was not a specific policy signal but rather Warsh's articulation of seven guiding principles for monetary policy.

His framework can be summarized as follows:

- Use contemporaneous, accurate, and actionable data while focusing on trends rather than isolated data releases.
- Keep aggregate demand broadly consistent with aggregate supply, while recognizing that supply is difficult to measure precisely.
- Treat the Fed's 2% PCE inflation target as a firm and fixed objective.
- Recognize that price stability and maximum employment are not at cross-purposes over the medium term.
- Use short-term interest rates as the primary monetary policy tool.
- Remember that money and credit creation still matter.
- Favor a quieter, more purposeful Federal Reserve that is judged by results rather than the quantity of its communication.

For money market investors, principles three, five, and seven carry the greatest significance.

First, the 2% inflation target is not a suggestion, a guideline, or one of those New Year's resolutions abandoned by Valentine's Day. It remains the destination. Warsh made clear that inflation is not automatically self-correcting and that policymakers should not assume price stability simply because inflation has improved from its peak.

Second, short-term interest rates remain the Fed's primary policy tool. For money market investors, that effectively places Treasury bills, commercial paper, repo markets, and short-duration credit instruments directly at the center of the policy transmission mechanism. Put differently, if the Fed decides it has more work to do, money market investors will likely be among the first to notice.

Third, Warsh advocated for a quieter Fed.

After years in which every speech, interview, podcast appearance, and slightly cryptic remark generated a dozen market headlines, the new approach appears to be: "We'll tell you less and let the data tell you more."

Economists call this reduced forward guidance. Traders call it unemployment.

The implication is straightforward: future economic releases may matter more, while Fed communication may matter less. Markets accustomed to detailed policy roadmaps may need to navigate with fewer signposts.

That is both refreshing and mildly terrifying. Importantly, it takes us back to a pre-2008 Fed, when market participants had to work hard and not be led by the hand down an interest rate path. The forward guidance era was important, as we climbed out of the wreckage of 2008, but may be less appropriate in an inflationary environment.

The events of August reinforce a theme that has defined much of the past two years: flexibility remains more valuable than conviction.

Money market investors entered the month increasingly more comfortable with modestly extending duration out the curve as rate-cut expectations slowly migrated into 2027 and inflation appeared to be moderating. By month-end, however, the conversation had shifted back toward when, not if, the Fed will tighten.

Liquidity conditions remain healthy. Money market fund balances remain elevated, funding markets continue to function smoothly, and Treasury bill supply continues to be readily absorbed. The front end of the curve remains attractive from both an income and liquidity perspective.

However, Jackson Hole reminded investors that policy uncertainty remains alive and well and the Fed may ultimately hike in September.

Conclusion

August ended with a reality check. Inflation is improving, but not improving quickly enough to satisfy a Federal Reserve that remains intensely focused on credibility and price stability. Warsh did not explicitly endorse a September rate hike, but he clearly raised the hurdle for remaining on hold.

The result was a significant repricing of rate expectations, a sharp move higher in front-end Treasury yields, and renewed debate regarding how much tightening may still be required.

Markets entered Jackson Hole expecting nuance and received something considerably more hawkish. As we move into September, one thing appears increasingly clear: the Fed may be quieter, but its message is getting louder. And much like every blockbuster movie that insists there is "one final sequel," investors are once again being forced to consider the possibility that the Fed's path likely involves higher rates for longer, and we are not in expansionary monetary policy mode anymore.

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