No rate-hiking map from the Federal Reserve

Invesco · 2026-08-31 · English original

Federal Reserve (Fed) Chair Kevin Warsh’s speech at the Jackson Hole Economic Symposium tempered, but didn’t change, my view that the Fed stays on hold for the rest of the year.

Less forward guidance from the Fed may widen the range of possible outcomes, in my opinion, and has the potential to increase the term premium and push longer-term bond yields higher.

Earnings season ended with positive surprises in most markets, one of the better beat-to-miss ratios the S&P 500 has produced in decades, and double-digit growth in both Europe and Japan.

My family and I spent the long weekend in the woods, grabbing the last of the calm before school starts and the end-of-year rush begins. The plan was fresh air, fewer screens, some reading, and a couple of hikes. Then the weather turned for the first time all summer, and we didn't get to hike.

Federal Reserve (Fed) Chair Kevin Warsh opened the Jackson Hole Economic Symposium on Friday with a speech about hikes too. (The same kind we missed.) He used the word three times, all of them about walking. The rest of the speech was on the hawkish side, and it tempered, but didn’t change, my view that the Fed stays on hold for the rest of the year. I don’t think we got much of a hiking map last week from him.

Warsh recommitted the Fed to its 2% inflation target and pointed out that it has now missed that target for 65 months. He said he was "hard pressed to describe broad financial conditions as restrictive," and that the Fed's focus "right now should be on prices." To me, that suggests he feels under no political pressure to cut. That might explain why the long end of the US yield curve rallied briefly as he spoke. But by Friday's close, 10-year and 30-year bond yields were higher, although less so than 2- and 5-year yields.1

The reason I think yields rose on Friday, and why I think they could still move higher, is because Warsh is taking down the “trail markers.” Forward guidance, as we’ve known it, is going away. If the Fed stops signaling a path, then investors may have to work out the range of outcomes themselves. They’ll see those ranges as wider, in my view, and will likely want to be paid for the trouble, which should mean more term premium in my opinion. With an economy that has continued to grow, I think yields may have further to climb.

Warsh called labor markets “quite stable,” and I think he’s likely not wrong. As he stood up to speak, the Bureau of Labor Statistics quietly published its quarterly revisions to payrolls (the Quarterly Census of Employment and Wages). Job creation for April 2025 to March 2026 was revised down by 79,000,2 which is a fraction of the revisions that came before it. That’s a resilient labor market to me rather than a deteriorating one.

Earnings season ended last week with Nvidia rounding out generally strong results in many regions. We’ve seen positive surprises across many markets, one of the better beat-to-miss ratios the S&P 500 has produced in decades, and double-digit earnings growth in Europe and Japan.3

The US dollar rose on Friday, but I doubt that holds. Ordinarily, a hawkish Fed and higher yields could support the dollar, but why yields are rising matters. If the long end climbs because investors need compensation for a central bank that no longer tells them where it's going, that isn't a vote of confidence. In his speech, Warsh said the dollar is something he watches, and then made it clear that he intends to rebuild the Fed around his own discretion. I don't think those two things sit together and support the dollar.

It's worth stepping back from Friday and looking at 2026. Markets have absorbed a lot of disruption and held up better than many people expected. There have been points where panicking might have felt like a sensible thing to do, and more than once I have contemplated moving to a cabin and living off-grid. I'm confident that the remainder of the year will bring new disruptions, but one disruption I'm less concerned about is higher yields. Because the private sector has less leverage than in prior cycles,4 it has shown itself to be far less sensitive to rates, in my opinion.

A global economy and stock markets that appear to have taken what 2026 has thrown at them can likely live with the US 10-year bond at 5%, in my view. I'm confident too that markets can find their way with less Fed guidance. Perhaps what we might worry about is sharply falling rates, because that may likely mean a real growth scare. My reading of current data says that remains a low probability.

So, for now, I'm in a cabin in the woods with rain on the roof and no map, and I'm not worried about finding one. I feel good about the rest of the year. I hope you do too.

Source: Bloomberg L.P., as of Aug. 28, 2026. Treasury yields are the market interest rates on US Treasury securities across different maturities.

Source: Bureau of Labor Statistics, based on the preliminary estimate of the Current Employment Statistics (CES) national benchmark revision to total nonfarm employment, as of Aug. 28, 2026.

Source: Bloomberg L.P., as of Aug. 28, 2026, based on earnings data for the S&P 500 Index, STOXX 600 Index, and TOPIX Index. The beat-to-miss ratio is currently 86% versus the 71% historical median. The S&P 500 Index is an unmanaged index considered representative of the US stock market. The STOXX Europe 600 Index represents large-, mid-, and small-capitalization companies across 17 countries of the European region. The TOPIX Index is a free-float-adjusted market-capitalization-weighted index measuring the performance of large-cap stocks listed on the Tokyo Stock Exchange.

Source: Bloomberg L.P and the Federal Reserve, as of Aug. 28, 2026, based on metrics such as household net worth to income and household debt service expense to income.

All investing involves risk, including the risk of loss.

Past performance does not guarantee future results.

Investments cannot be made directly in an index.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

A beat-to-miss ratio measures how often a company's reported earnings results exceed analyst expectations versus how often they fall short.

The Consumer Price Index (CPI) measures the change in consumer prices and is a commonly cited measure of inflation.

Earnings per share (EPS) refers to a company's total earnings divided by the number of outstanding shares.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic, and political conditions.

Inflation is the rate at which the general price level for goods and services is increasing.

Leverage measures a company's total debt relative to the company's book value.

The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

Purchasing Managers' Indexes (PMI) are based on monthly surveys of companies worldwide and gauge business conditions within the manufacturing and services sectors.

References to specific companies aren't buy/sell recommendations.

The S&P 500® Index is an unmanaged index considered representative of the US stock market.

Term premium is the excess yield that investors require to commit to holding a long-term bond instead of a series of shorter-term bonds.

The yield curve plots interest rates at a set point in time for bonds of equal credit quality but differing maturity dates in order to project future interest rate changes and economic activity.

The opinions referenced above are those of the author as of Aug. 31, 2026. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties, and assumptions; there can be no assurance that actual results will not differ materially from expectations.

This link takes you to a site not affiliated with Invesco. The site is for informational purposes only. Invesco does not guarantee nor take any responsibility for any of the content.
