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Maybe the market doesn't always know best

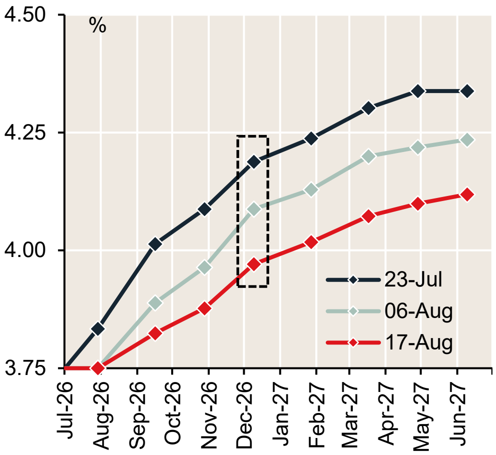
By Taylor Schleich & Vy Le

Following softer-than-expected inflation and economic data in recent weeks, short-term U.S. Treasury yields have been able to enjoy some relief. With the recent rally, traders are no longer pricing a rate hike by year-end (Chart 1). Of course, a tightening bias remains clearly intact, and the first fully priced hike has just been pushed out a meeting, into January 2027. But while markets continue to price eventual tightening, private sector forecasters, on aggregate, are unconvinced that hikes are on the horizon. Of the 67 submitters to Bloomberg's monthly survey, just 8 forecast a hike this year (Chart 2) and only 16% see one at any point in their projection horizons.

Today, a 17 basis point gap separates the average private sector Fed forecast from the target rate implied by OIS markets (Chart 3). While the two entities are typically closely aligned, notable divergences have emerged in recent years. Measured at the same point in the calendar year (i.e., mid-August), the three largest recent gaps came in 2019, 2024 and 2025 (Chart 4).

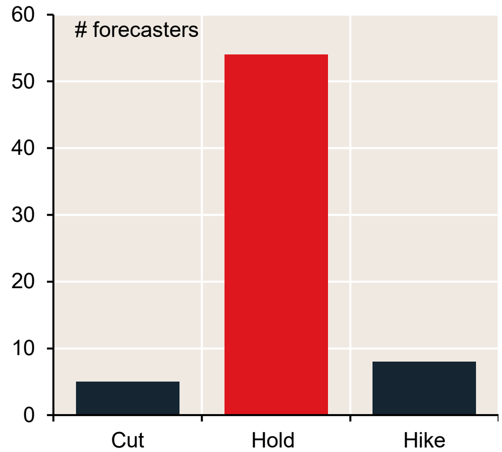
Credit where credit is due. In each of these episodes, markets were closer to the mark than rates strategists were. But we wouldn't take that as evidence that markets are inherently better at forecasting the Fed. The more important commonality is that markets were leaning in the *more dovish direction* each of these years. That's consistent with an evident pattern in the Fed's own guidance, which we've identified **before**: the dot plot has tended to overstate where the policy rate ultimately ends the year. In those same years (i.e., 2019, 2024 and 2025), the year-end fed funds rate finished *below* the level signaled in the June dot plot (Chart 5). Put differently, the winning bet has been to fade the more hawkish path and/or the one the Fed lays out. If this historical pattern holds then, which we think it will, there's scope for the market's tightening bias to retreat further, giving strategists a rare chance to declare victory.

Chart 1: Dec hike no longer *fully* priced
OIS-implied Fed policy rate path



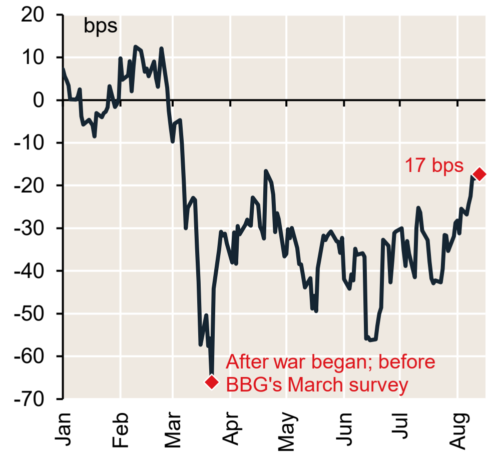
Source: NBC, BBG | Note: OIS-implied rate path adjusted by target-EFFR spread (12 bps)

Chart 2: '26 hike unlikely, per strategists
Distribution of private sector Fed forecasts: Dec-26



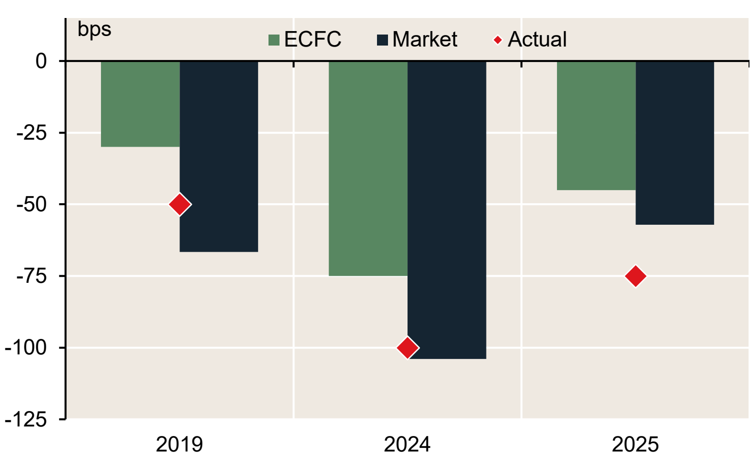
Source: NBC, Bloomberg | Note: Forecasts dates range from 24-Jul to 11-Aug.

Chart 3: Traders & strategists disagree
Dec-26 consensus Fed forecast less OIS-implied rate



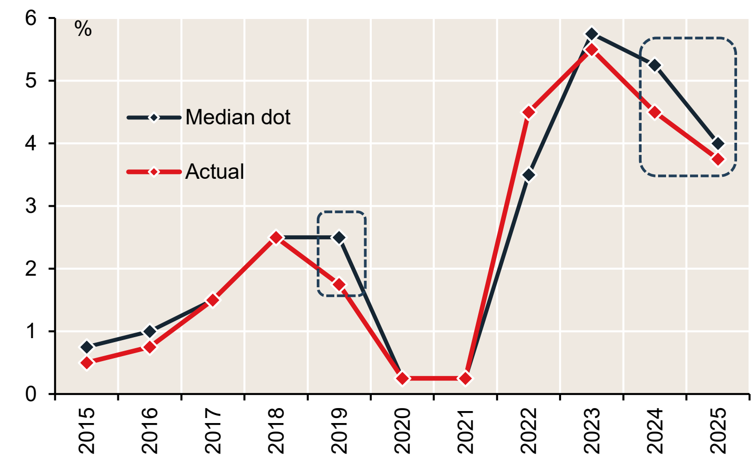
Source: NBC, BBG | Note: OIS-implied rate adjusted by target-EFFR spread (12 bps). Consensus = avg. projection.

Chart 4: Historically, markets have been closer to reality
Expected change in Fed policy rate to year-end as of 14-Aug: Consensus vs. OIS



Source: NBC, BBG | Note: OIS-implied rate adjusted by target-EFFR spread (12 bps). ECFC/Consensus = avg. projection

Chart 5: The Fed is often less restrictive than signaled in dots
Year-end policy rate projected in June dot plot vs. actual year-end policy rate



Source: NBC, FRB

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