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No guidance on the Western front?

By Taylor Schleich, Ethan Currie & Vy Le

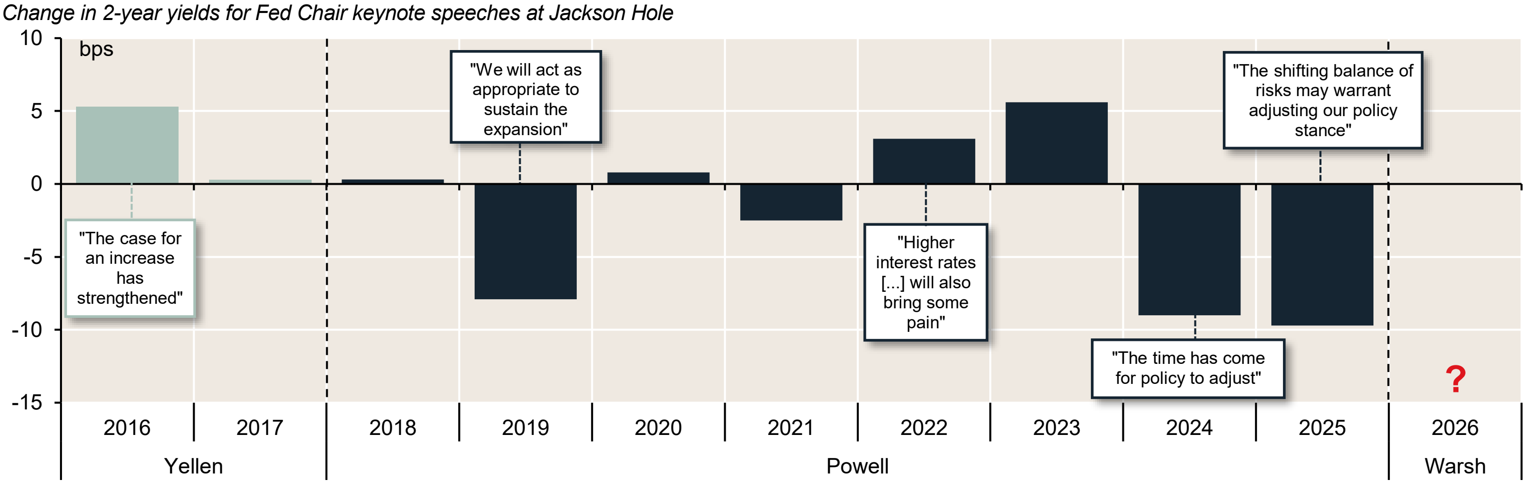
Historically, the Jackson Hole Symposium has at times been used by Fed Chairs to establish the direction of monetary policy. Powell had some notable examples during his tenure including, “we will act as appropriate to sustain the expansion” (2019), “higher interest rates, […] will also bring some pain” (2022), “the time has come for policy to adjust” (2024) and “the shifting balance of risks may warrant adjusting our policy stance” (2025). Before Powell, Yellen used the 2016 event to tee up hikes: “The case for an increase has strengthened”. Suffice to say, this annual address has moved markets before. You’re up, Mr. Warsh.

Like everyone, we’ll be parsing the Chair’s every word on Friday, but we’re prepared to be underwhelmed by the lack of a clear signal about the policy path. By now, Warsh’s disdain for guidance is clear and he’s thus unlikely to tip his hand on the 16-Sep decision (which should remain priced as a ‘toss up’) or on the trajectory of monetary policy further out.

A lack of guidance does not mean a lack of market reaction, however. The Fed’s two meetings under Warsh have made that clear. June’s meeting saw one of the more extreme front-end Fed day reactions in recent memory. This had the perhaps desirable result of tightening conditions without needing to deliver a hike. Less desirable was the reaction in July, which saw long-end yields push materially higher, in part reflecting uncertainty about the Fed’s reaction function and its credibility.

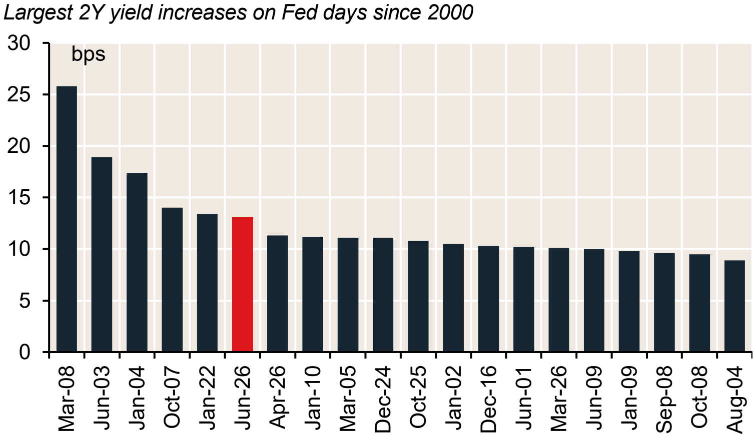
On Friday, Warsh has his work cut out for him. He’ll want to avoid a repeat of last month but at the same time, he’ll avoid exerting too much influence as the ‘referee’ of markets, allowing investors to continue ‘playing the ball’. The likely result? He’ll seek to say as little as possible about the likely policy path while also *trying* to offer greater clarity on the Fed’s reaction function and plans to tackle inflation—perhaps by more explicitly outlining the conditions that might warrant tightening or offering preliminary task force findings. But threading that needle—clarifying *how* the Fed makes decisions without signalling *what* it will decide—will be difficult. Unless the Chair focuses the entirety of his speech on the Symposium’s topic—Financial Innovation—it’s hard to envision Friday being a quiet affair (even then, ignoring the economy/monetary policy altogether could increase risk premia). With no press conference afterward, any ambiguity will be left for markets to resolve which could show up in greater rate volatility and a higher term premium.

Chart 1: Jackson Hole keynote speeches have the ability to move markets
Change in 2-year yields for Fed Chair keynote speeches at Jackson Hole



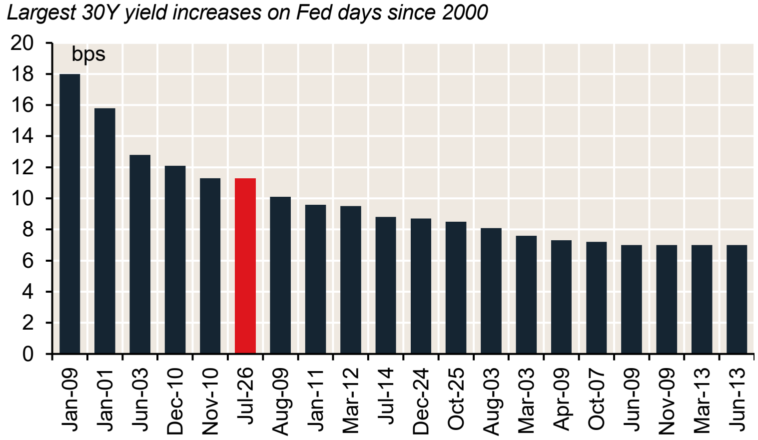
Source: NBC, BBG, FRB

Chart 2: June’s Fed decision saw front-end yield surge…
Largest 2Y yield increases on Fed days since 2000



Source: NBC, BBG

Chart 3: …while the July meeting repriced the long end
Largest 30Y yield increases on Fed days since 2000



Source: NBC, BBG

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NBC.EconomicsStrategy@nbc.ca

To contact us:
514-879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@nbc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@nbc.ca

Jocelyn Paquet
Senior Economist
jocelyn.paquet@nbc.ca

Kyle Dahms
Senior Economist
kyle.dahms@nbc.ca

Alexandra Ducharme
Senior Economist
alexandra.ducharme@nbc.ca

Daren King, CFA
Senior Economist
daren.king@nbc.ca

Warren Lovely
Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich
Rates Strategist
taylor.Schleich@nbc.ca

Ethan Currie
Strategist
ethan.currie@nbc.ca

Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

Nathalie Girard
Senior Coordinator
n.girard@nbc.ca

Giuseppe Saltarelli
Desktop Publisher
giuseppe.saltarelli@nbc.ca

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