2 GRAY BEARDS | Week 181 · June 20, 2026 · Warsh, Forward Guidance & the Yield Curve

WARSH DOCTRINE: END OF FORWARD GUIDANCE

Warsh signaled a major shift: substantially reduce or eliminate forward guidance, returning the Fed to the Greenspan/Volcker model. Andy clarified — it's not that he abandoned the tool entirely, but this environment (geopolitical shock, AI uncertainty, deficit expansion) makes forward guidance unhelpful. He deflected every rate-path question. If there's any implicit signal from his five institutional reform initiatives, it's pause.

DOT PLOTS: A HAWKISH COMMITTEE

- A majority of FOMC members penciled in at least one hike by year-end.
- 6 members (a third of the committee) see two or more hikes.
- Warsh did not endorse the dots — leaving the front end unanchored and data-dependent.

YIELD CURVE: MAJOR FLATTENING

- 2s sold off sharply: committee's hawkish dots required repricing of terminal rate.
- 30s rallied: Warsh's "I will deliver 2%" anchored long-term inflation expectations; 5% yield = ~3% real = fair value.
- 10s-30s compressed substantially on lower oil and peace deal news — supportive of equities.

VOLATILITY REGIME CHANGE

Without a Fed anchor, every data print is a full terminal rate pricing event. 2-year moves on big days go from 5–10 bps to potentially 20–25 bps. This forces position sizing down → de-risking in bonds → de-risking in equities. Andy expects 5–10 bps of structural yield widening until the hiking/cutting cycle is cleanly priced.

THE TEST: HOT CPI SCENARIO

One CPI print before July FOMC. If it's hot:

- Market immediately prices a July hike — 50 bps priced by July, 75–100 in the tail.
- If Warsh hikes → credibility intact, long end holds.
- If Warsh blinks → 30s test him → long bond +20 bps in a day → equity market breaks.
- Cool CPI = Goldilocks, buy everything. Nick thinks this is less than 50/50.

POSITIONING

- Nick post-FOMC: flatteners, short gold, long dollars. Refused to sell equities — long bond support intact.
- Andy: bought beta broadly.
- Both: equities don't break until the long bond breaks, and the long bond doesn't break until Warsh disappoints. First window is July FOMC.

KEY UPCOMING CATALYSTS

Catalyst	Timing	Market Implication
CPI Print	Mid-July	Single most important data point. Hot = July hike priced. Cool = Goldilocks rally.
Treasury Supply (2s, 5s, 7s)	Next week	Cheapens front end further; adds upward pressure on short rates.
July FOMC	Late July	First Warsh credibility test. Hike or no hike determines long bond trajectory and equity outlook.
PMIs, PCE, Durables	Next week	Secondary — directional color only. PCE already well-telegraphed.

BOTTOM LINE Warsh has credibility at the long end — for now. Short rates are unanchored and will move violently with data. Hot CPI forces a July hike decision; if Warsh blinks, long bond breaks and equities follow. Until that failure window, equities have support and the trade is flatteners, long dollars, short gold. Don't make large capital allocations anywhere on the curve.

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