2 GRAY BEARDS | Week 181 Summary

June 20, 2026 | Warsh, Forward Guidance, and the Yield Curve After the FOMC

THE WARSH DOCTRINE: END OF FORWARD GUIDANCE

The week's dominant theme was Chair Warsh's post-FOMC framework speech, in which he signaled an intent to substantially reduce or eliminate forward guidance — a tool the Fed has relied on heavily since the GFC. Nick framed this as a return to the Greenspan and Volcker eras, when markets had to independently price the full arc of hiking or easing cycles rather than receiving explicit Fed signposting.

Andy nuanced this: Warsh didn't throw forward guidance out entirely — he said this environment (post-tariff, post-war shock, AI uncertainty, ongoing deficit expansion) is simply not a moment when forward guidance is useful. Its utility is highest at the zero lower bound ("we'll stay at zero for X years") or during an explicit tightening cycle ("we'll hike until inflation is dead"). With so many structural unknowns, he stopped. Andy expects him to hold to that.

The practical read: if you want forward guidance from Warsh's five institutional reform initiatives, it's pause. Markets will now trade data, not Fed communications. That is a structural change in how vol is priced.

DOT PLOTS: THE COMMITTEE IS HAWKISH

The dot plot told a clearer story than Warsh's rhetoric. A majority of FOMC members are penciling in at least one hike by year-end. Six members — a third of the committee — are projecting two or more hikes. This is not fringe hawkishness; it's a committee that has moved meaningfully in a tightening direction.

The disconnect: Warsh deflected every question about the rate path. He did not validate the dots. So markets are left holding a hawkish committee signal with no explicit Fed endorsement — a combination that makes the front end unstable and data-driven.

YIELD CURVE DYNAMICS: MAJOR FLATTENING

Wednesday's market reaction split cleanly across the curve:

- Front end (2s): sold off sharply. The committee's hawkish dots and Warsh's 2% inflation commitment required pricing in potential hikes — a meaningful repricing of where terminal rate expectations sit.
- Long end (30s): rallied. Warsh's credibility on inflation — "I will deliver 2%" — anchored long-term inflation expectations. If believed, a 5% 30-year yield implies ~3% real — exactly the long-run fair value Nick and Andy have been targeting.
- 10s-30s: came in substantially. Lower oil prices (and the associated peace deal in the Middle East war) added disinflationary pressure at the long end, compressing term premia and supporting equities.

Nick's framing: the long bond is now more or less anchored. It will only move significantly higher in yield if Warsh disappoints on inflation follow-through. The front end, by contrast, is now fully data-dependent and asymmetrically reactive — hot data moves it far more than cool data.

THE VOLATILITY REGIME CHANGE

Both hosts agreed this is the most durable takeaway from the week: short-end volatility is going structurally higher.

Before this shift, big data days produced 5–10 basis point moves in 2-year notes. That range could now go to 20–25 basis points on a high-impact print. The mechanism is straightforward: without a Fed anchor, every data point becomes a full market pricing event for the terminal rate.

The knock-on effect:

- Higher realized vol on the STIR curve forces position sizing down — traders can't hold the same notional when daily P&L swings double.
- De-risking in bonds tends to propagate into equities, even when the fundamental backdrop for equities is intact.
- Andy expects slightly higher yields across the curve (5–10 bps) as risk premiums adjust to a higher-vol world, until the hiking or cutting cycle is cleanly priced.

THE TEST: WHAT HAPPENS IF CPI COMES IN HOT?

The central scenario the hosts worked through: one more CPI print before the July FOMC meeting. If it comes in above expectations — implying lower oil prices have not offset services inflation — the market will immediately price a July hike. Both Nick and Andy said "absolutely" when asked whether that would happen.

The decision tree:

- Hot CPI → market prices July hike → 2s go to 50 bps of hikes by July, potentially 75–100 bps in further pricing → extreme curve flattening, 10s hold because trust in Warsh intact → Warsh hikes → credibility maintained, long end stable.
- Hot CPI → Warsh doesn't hike → market gives him brief benefit of the doubt → curve flattens further, 30s stay just below 5% → Warsh still doesn't act, offers excuse (e.g. "AI will fix it in 2 years") → long bond pukes 20 bps in a day → equity market breaks.
- Cool CPI → Goldilocks → steepener → buy everything → Nick thinks this is less than 50/50 probability.

Nick's position summary immediately after the FOMC: flatteners, short gold, long dollars. Explicitly refused to short equities because the long bond hadn't broken down — and with term premia compressing, equities had support. He expected and got a multi-day equity rally off the lows.

NEAR-TERM CATALYSTS & POSITIONING

The upcoming data calendar is secondary in importance to the next CPI print, but next week includes:

- Treasury supply: 2s, 5s, and 7s — will cheapen the front end further.
- PMIs, home sales, PCE (already well-telegraphed), durable goods, jobless claims.
- None of these are marquee data, but they'll give directional color.

On 2-year note levels: Nick sees the floor at 4.05% (where the FOMC statement landed) as durable. The ceiling is open. 4.25% is easily reachable; above it is equally plausible. The direction of short rates is unambiguously higher in a hot-data scenario.

On equities: they go down when the long bond makes them go down. The long bond doesn't break until Warsh disappoints. The first disappointment window is the July FOMC. Until then, Andy said he's bought beta broadly.

KEY UPCOMING CATALYSTS

Catalyst	Timing	Market Implication
CPI Print	Mid-July	Most important data point; hot = July hike priced, cool = Goldilocks rally
Treasury Supply (2s, 5s, 7s)	Next week	Cheapens front end; further upward pressure on short rates
July FOMC	Late July	First window for Warsh to disappoint or deliver; pivotal for long bond and equities

PMIs, PCE, Durable Goods	Next week	Secondary; directional color only — PCE already well-telegraphed

BOTTOM LINE Warsh has made a credibility bet: he'll deliver 2% inflation. The long end believes him — for now. Short rates are untethered from Fed guidance and will move violently with data. The next CPI is the fulcrum: cool and everything rallies; hot and the market prices a July hike immediately. If Warsh blinks on a hot print, the long bond breaks and equities follow. Until that failure, equities have support and the trade is flatteners, long dollars, short gold.

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