

2 GRAY BEARDS | Week 186 Summary

July 25, 2026 | Playbook Unchanged Into a Nothing FOMC

BOTTOM LINE

The FOMC is very likely a nothing meeting — pause, task force talk, a repeat of June/Humphrey-Hawkins language. A 25bp hike is possible but would itself read as “nothing,” since anything short of 50bp+ signals a hiking cycle without the conviction to back it. 30-year real yields keep grinding toward 3% (closed the week at 2.97%, high of 2.98%) with no rush to buy yet. Playbook is unchanged: buy real yields in six 5% increments from 3% to 3.25%, add to gold on weakness once real yields bite, add to equities only if they've sold off enough on higher yields.

WHAT HAPPENED LAST WEEK

- Bond yields rose across the curve again: 2s +14bp, 10s +12bp, 30s +8–9bp. Real yields keep climbing with “no stopping” the move.
- 30-year real yields closed at 2.97%, high of 2.98% — close to but not yet at the 3% allocation trigger. No rush to buy; staying patient.
- Heavy Treasury supply (more auctions next week) is giving the bond market “indigestion” — part of this week's move was auctions being priced in ahead of time.
- Weekly claims were the lowest print of the cycle — the only real data point last week, and it confirms a strong, not weakening, economy.
- Oil continued higher on the Iran situation, weighing on bonds, which weighed on equities (roughly -1% on the week).
- No panic in equities — the equal-weight RSP held up fine. This was sector rotation (bond-sensitive, high-beta names hit) rather than broad risk-off.
- A think tank floated a 50bp hike probability, which added modestly to bond weakness.

FOMC PREVIEW: WHAT THEY SHOULD DO VS. WHAT THEY WILL DO

Both hosts agree on the diagnosis: inflation has run too high for 65 months, and it's the Fed's choice to let it persist. Under a new chair with a chance to “rewrite history,” the case for genuinely killing inflation — while growth is strong and unemployment low — is real. Where they differ is on what the Fed will actually do.

- Only a genuine hiking cycle (100bp+) or outright short-rate hikes of 3–5% would actually kill inflation. Cosmetic moves of 25 or 50bp “insurance hikes” won't do it — to kill inflation you have to kill asset prices, and the committee doesn't want to do that.
- A 50bp hike is viewed as essentially impossible. Only Warsh would push for it, and the rest of the voting committee (Bowman, Waller, Powell) would see it as reckless and undermining the new chair's credibility — the opposite of the “serious, get-the-job-done” image the new chair wants to project.
- A 25bp hike is possible but viewed as functionally equivalent to nothing: it signals the start of a hiking cycle without the conviction to follow through, which would draw a negative bond market reaction (sellers hitting any rally, no help to the long end) while offering no real disinflationary bite.
- Highest-odds outcome, and what markets are pricing: a pause, more task-force language, and a repeat of the June press conference / early-July Humphrey-Hawkins testimony tone — essentially “wait until after the midterms.”
- One host's personal preference (not a forecast) is a Volcker-style shock hiking move; the other frames it as an academic “what if the stock market just absorbed a 100bp hike” scenario — both agree this is not what actually happens.

Net: a “nothing” outcome most likely continues the small steepening bias already underway, and real yields keep grinding toward — and eventually through — the 3% trigger, continuing on toward 3.25%.

CURRENCIES & GOLD

- Dollar view is broadly neutral vs. euro and pound even with higher real yields — no change to international equity allocation on that basis.
- Yen is treated separately: dollar strength vs. yen right now is mostly a game-theory exercise around the timing/size of Japanese FX intervention, not a straightforward economic/rate-differential trade.
- Rising real yields are expected to keep weighing on gold. The dollar may strengthen against gold specifically, without necessarily strengthening broadly against other currencies.

EQUITIES & EARNINGS

- Earnings have been solid, largely because companies guided low enough to guarantee a beat — not a genuine surprise, and the market has treated it that way.
- Dispersion has been sharp: Google fell substantially post-earnings, while Intel spiked 10% on strong results before reversing to close down 18%.
- Next week brings the bulk of remaining earnings (Nvidia isn't until August), so near-term chop is expected as results roll through.
- Despite decent earnings, the standing view is that higher real yields — which haven't bottomed — argue against chasing equities here, even on good prints.

PORTFOLIO POSITIONING — UNCHANGED

Asset	Stance	Rationale
30Y Real Yields	Buy at 3%, scale to 3.25%	Six equal ~5% tranches; not there yet (2.97% close, 2.98% high). Supply and a strong economy keep pushing yields higher.
Gold	Add on weakness	Higher real yields should keep pressuring gold; add to allocation once that weakness shows up.
Equities	Hold, don't chase	Earnings solid but real yields haven't bottomed; would add only after a real yield-driven selloff.
Intl Equities	Maintain	Dollar view roughly neutral vs. euro/pound even with higher real yields — no change warranted.

COMING UP

- Wednesday: FOMC decision. Base case is a pause with task-force/wait-for-midterms language; a 25bp hike is the only other plausible outcome and would still read as “nothing.”
- More Treasury auctions next week — continued supply pressure on the long end.
- Bulk of remaining earnings season hits next week; expect equity chop around results.
- Standing instruction to subscribers: if the FOMC delivers something genuinely significant (which they doubt), an email will go out immediately — otherwise the playbook holds.