2 GRAY BEARDS | Week 187 — One Page Summary

August 1, 2026 | Warsh's "Magnitude" Signal, QRA Preview & Term Premium Risk

The FOMC "Non-Event" That Wasn't

Fed held rates, but the curve steepened hard on language: Warsh's phrase that markets will respond in the "direction and magnitude they see fit" signals the Fed is stepping back from controlling how far markets move, echoing a pre-2000s regime where the market led and the Fed nudged.

Andy's Framing: 18 Years of Suppression Unwinding

Rates have been suppressed almost continuously since 2008/COVID, propping up growth but fueling persistent inflation. Killing inflation requires killing demand, which requires killing asset prices and/or higher yields — you can't do both. What they're hearing is hints the Fed will stop suppressing rates, not that it's turned aggressively hawkish. Still just a bet, not confirmed.

QRA This Week — The Real Test

Base case: no change to auction sizes or the "several quarters" language, despite $4T of added debt since last adjustment. Dropping that language (coin flip) would be a louder confirmation. Jackson Hole, another Fed speech, and heavy AI-driven corporate issuance are stacked catalysts ahead.

Out-of-Consensus Call: Term Premium Expansion

Sizable, not certain, risk of a real bond market "puke" as curve steepness normalizes — worth roughly 50bp on the long end, with overshoot risk. If risk premia expand: gold stalls or falls, equities stall even with good earnings since multiples must compress (~5% per point at a 20x multiple).

The Trade

Nominal yields rise more than real yields, but both rise — e.g. 30Y reals to 3.25–3.40%, 30Y nominal +50–60bp. Expect a retest of last Wednesday's pre-earnings lows within 1–2 weeks. With earnings season largely behind the market, this is the window to buy options/protection rather than direction.

Positioning

Asset	Stance	Note
Long-end nominals	Short / avoid duration	+50–60bp expected on the 30Y as term premium re-prices.
30Y Real Yields	Watch 3.25–3.40%	Part of the same steepening move.
Gold	Neutral / lower	Rising risk premia is a headwind here.
Equities	Buy protection	Earnings support largely spent; multiple compression is the threat.
Vol	Add exposure	No confirmed Fed put — higher realized vol likely.

Coming Up

- This week: Quarterly Refunding Announcement — base case no change, watch for dropped "several quarters" language.
- Jackson Hole and another Fed speech ahead — next venues to confirm or walk back the "magnitude" framing.
- Nvidia earnings late August — last major single-name catalyst; macro dominates until then.
- Circle the wagons while the Fed talks tough; buy stocks when he blinks, not before.