2 GRAY BEARDS | Week 187 — Full Summary

August 1, 2026 | The FOMC That Steepened the Curve: Warsh's "Magnitude" Signal

1. THE FOMC "NON-EVENT" THAT WASN'T

The Fed held rates steady, but the yield curve steepened sharply on the language, not the decision. Nick flagged a specific phrase from Chair Warsh's prepared remarks: the reduction in forward guidance means "market prices will continue to respond in the direction and magnitude they see fit." To Nick, the operative word is "magnitude" — the Fed is signaling it will no longer try to control how far the market moves, not just which way.

The read: this is a deliberate return to a pre-2000s regime (Volcker/early Greenspan) where the FOMC meeting itself mattered less than what the market and the yield curve were doing on their own, with the Fed nudging afterward rather than leading. Real rates moved with nominals last week, confirming this isn't just an inflation-expectations story — it's a genuine policy-stance shift.

2. ANDY'S FRAMING: 18 YEARS OF SUPPRESSED RATES, UNWINDING

Andy reframes the same shift in structural terms. Since 2008 (monetary) and accelerating since COVID (fiscal), policymakers have suppressed long-term interest rates almost continuously — supporting growth and employment, but also a weak dollar and persistent inflation across goods, services, gold, and asset prices.

His core thesis: to kill inflation you must kill demand, and to kill demand you must kill asset prices and/or raise yields — you cannot keep suppressing rates while claiming to fight inflation. What he and Nick are hearing from Warsh isn't confirmation of a new hawkish policy so much as hints that the Fed will stop actively suppressing rates — a passive withdrawal rather than aggressive tightening. Warsh has said for months he's comfortable letting rising interest rates do the Fed's tightening work for it. The caveat: this is a bet, not yet a confirmed regime change, and the market will need further proof before it fully believes the Fed won't cave at the first sign of weakness, as it typically has.

3. THE QUARTERLY REFUNDING ANNOUNCEMENT — THE REAL TEST

This week's QRA is the near-term confirmation point. The national debt has grown by $4 trillion since Treasury last adjusted long-term issuance sizes, creating pressure to increase coupon supply — which would itself be a tightening/steepening force independent of the Fed. Base case: no change to auction sizes and no change to the "auction sizes remain stable for several quarters" language, which would itself be a form of continued suppression.

The one wildcard Nick flags as a coin flip: Treasury could drop the "several quarters" language, since that runway is running out. If they do, it reads as a louder confirmation of the same steepening thesis. Other catalysts stacking up over the coming weeks: Warsh's Jackson Hole speech, another Fed speech, the balance-sheet task force, and heavy corporate issuance to fund AI capex competing for the same long-end demand.

4. RISK PREMIUM EXPANSION — THE OUT-OF-CONSENSUS CALL

Andy states this is genuinely out-of-consensus — not something showing up on Substack or Twitter yet: there is sizable (not certain) risk of a real bond market "puke" in the coming weeks/months as term premium and curve steepness normalize. If risk premia expand: gold likely falls (or at best stalls), and equities "spin their wheels" even with solid earnings, because the multiple those earnings are valued at has to compress. At a 20x multiple, every full point of multiple compression is worth roughly 5% — no plausible earnings beat offsets even a 1x multiple hit.

Their estimate: a meaningful term premium expansion is good for roughly 50bp on the long end, with real risk of overshoot beyond that if it actually gets going.

5. THE TRADE: NOMINALS UP MORE THAN REALS, BUT BOTH RISE

Nick's specific call: nominal yields rise more than real yields, but real yields still move meaningfully higher too — e.g., 30-year reals to 3.25–3.40% (30–35bp higher) while the 30-year nominal moves 50–60bp higher. He expects markets to retest last Wednesday's pre-earnings lows within one to two weeks, and argues this is precisely the environment to be buying options rather than outright directional exposure — asymmetric setups where a small loss is possible but a large gain is too. He's already doing this in his alpha book and plans to extend it to the beta book.

Both agree the setup favors buying protection now: earnings season is essentially behind them (aside from smaller names and Nvidia later in the month), meaning there's little single-name catalyst left to support prices — leaving the macro (rates) as the dominant driver into a period with reduced offsetting support.

6. POSITIONING — THE FED PUT IS OFF

Asset	Stance	Note
Long-end nominals	Short / avoid duration	Expect 50–60bp higher on the 30Y as term premium re-prices.
30Y Real Yields	Watch for 3.25–3.40%	Nick's target range; part of the same steepening move.
Gold	Neutral to lower	Rising risk premia is a headwind, not a tailwind, here.
Equities	Buy protection / options	Earnings support is largely spent; multiple compression risk is the dominant threat.
Vol	Add exposure	Warsh's “you're on your own” framing on magnitude reads as no Fed put — higher realized vol likely.

Both hosts converge on the same tactical read: “Circle the wagons” while the Fed talks tough, and buy stocks only when the Fed blinks — not while Warsh is signaling he doesn't care about the magnitude of market moves. A hawkish Fed chair talking tough, with no dot plot to anchor expectations, means no implicit floor under risk assets — higher vol, lower prices is the base case as long as that posture holds.

7. KEY CATALYSTS AHEAD

Event	Timing	Significance
Quarterly Refunding Announcement	This week	Base case: no change to auction sizes/language. Dropping the “several quarters” language would confirm the steepening thesis.
Jackson Hole speech (Warsh)	Coming weeks	Next scheduled venue for the Fed to reinforce or walk back the “magnitude” framing.
Balance sheet task force	Ongoing	Mechanism by which the Fed could formally stop suppressing long-end rates.
Corporate AI-capex issuance	Ongoing	Heavy new long-term treasury/corporate supply competing for the same demand — adds to steepening pressure.
Nvidia earnings	Late August	Last major single-name catalyst of the season; until then, macro dominates.

BOTTOM LINE

The FOMC held rates but delivered a real policy shift in tone: Warsh's “direction and magnitude” language signals the Fed is stepping back from actively suppressing long-term rates, ending an 18-year-old policy of rate suppression that Andy ties directly to persistent inflation. Nick and Andy see this as the start of a genuine term premium expansion — good for roughly 50bp on the long end, with

real overshoot risk — that pressures nominals higher, real yields higher, gold flat-to-lower, and equity multiples lower even with solid earnings. With earnings season mostly behind the market and no confirmed Fed put, both hosts favor buying protection now and waiting for the Fed to blink before adding risk. The quarterly refunding announcement this week is the next real confirmation point.