



Market Commentary
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Insigneo Weekly Dispatch

The Fed's Next Pitch?

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The Fed’s Next Pitch?

This year’s Jackson Hole Symposium marked Fed Chair Jerome Powell’s final symposium. Markets initially reacted positively to his speech, which acknowledged a complex macroeconomic backdrop, with inflation risks still present along with labor market challenges, while leaving the door open for potential policy adjustments.

While equity markets surged on hopes of an imminent rate cut, the Treasury market showed a more cautious stance, with the short end reflecting potential cuts but the long end remaining bearish due to inflation concerns, fiscal uncertainty, and political pressure on the Fed, leading to a steepening yield curve.

Despite strong market optimism, the Fed’s path forward remains data-dependent and uncertain. A balanced strategy favoring high-quality debt in the short-to-mid end of the curve and maintaining equity exposure in resilient companies, coupled with interest rate-sensitive sectors, could be the best approach, emphasizing risk management over aggressive positioning.

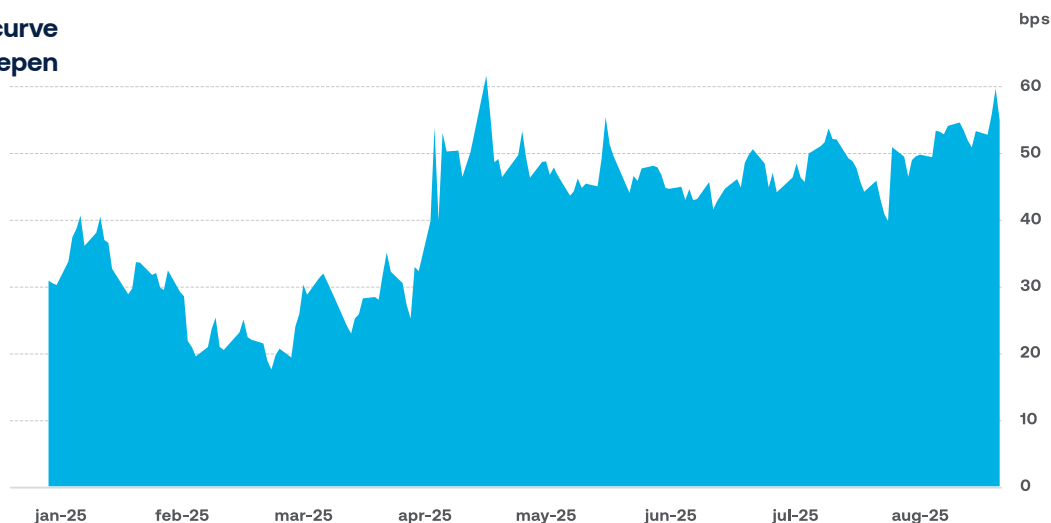
Welcome to Disneyland for Central Bankers, better known as the Jackson Hole Symposium. Once a year, central bankers from all around the world gather at Jackson Hole, Wyoming, to listen to other central bankers’ perspectives and share their views on monetary policy around a specific topic that the symposium is based on. This year, however, the symposium had a different energy. Aside from the Fed standing at a complicated point both politically and with respect to policy, it was Chairman Jerome Powell’s last time leading the event, so market participants were eagerly awaiting his final speech. Since what has interested markets most has not been the speech itself, but its aftermath, we thought we would focus on the latter, to assess the market’s takeaways from Jackson Hole, and how those could affect them going forward.

On Friday, August 22, the initial market reaction to Powell’s speech was positive. Granted, Powell’s remarks were still relatively constructive on the economy. He highlighted its resilience while stressing that, even if the labor market “appears to be in balance,” this equilibrium is the byproduct of a sharp slowdown in both the supply and demand for

workers. However, Powell stressed that with risks to inflation tilting to the upside, and risks to employment to the downside, the Fed was facing a challenging situation. Despite the importance of these macro-economic details, the market’s focus was centered on Powell’s guidance with respect to any potential rate movements. To this point, even if Powell stressed that policy remained in restrictive territory, he stated that “the baseline outlook and the shifting balance of risks may warrant an adjustment” to the FOMC’s policy stance. This statement was what, at face value, led to a positive market reaction to Powell’s speech. Despite this reaction, the FOMC members remain divided over a potential September cut.

The Treasury market seems to be aligned with those Fed governors that do not see the need for a cut in the upcoming September meeting. The short end of the curve remains anchored to the Fed Funds rate, with a potential cut being penciled in by the three-month tenor at the time of this writing. However, the long end of the curve has remained less sanguine, with the 10-year being range-bound and unable to break the 4% threshold. Bear in mind that it is the short end of the Treasury curve that reacts to actual monetary policy moves, whereas the long end better reflects expectations about future macroeconomic variables. Furthermore, the expectations of looser fiscal policy, together with the still uncertain effect of tariffs on inflation, have kept the longer end of the Treasury curve anchored bearishly, leading to curve steepening (see graph 1).

Graph 1: The Treasury curve has continued to steepen since Liberation Day in 2025



Source: Bloomberg. Data as of August 28, 2025

Even if the Treasury curve flattened at the end of August for reasons tied to Stephen Miran’s nomination to the Fed’s Board of Governors or stronger-than-expected upward revisions to 2Q GDP data, most economic fundamentals continue to point towards a curve steepening move. While the Fed’s independence has come into question by some due to President Trump’s increased pressure on the

Central Bank to effectuate the rate cuts he considers would benefit the economy, this has led some market participants to pencil in that said political pressure could imply both a higher risk premium and higher inflation expectations going forward. Coupled with the attempt to remove Fed Governor Lisa Cook from her position, this has led to a heightened degree of uncertainty for markets to grapple with.

In sum, a steeper Treasury curve, together with a divided FOMC, continues to underscore our favored approach to a laddered exposure to the short-to-mid end of the curve both in sovereign and in corporate debt. Moreover, in the case of corporate debt, we continue to favor quality over yield, especially now at a time when spreads are very tight.

On the equity front, markets have behaved in a peculiar manner since Powell's comments. On Friday the 22nd, the day of the Jackson Hole speech, the S&P 500 and Nasdaq 100 both closed over 1.5% higher, while small-cap stocks, represented by the Russell 2000, jumped close to 4%. Equity markets were quick to react, taking Powell's words to mean that a September rate cut was a near certainty, immediately pricing in a 91% probability of occurrence, 20% higher than the previous day. At the same time, markets seemed to believe that a September cut would also mark the beginning of a smooth, new interest rate easing cycle.

The probabilities of a rate cut in September have ratcheted down since, currently standing closer to 85%, while markets have continued to inch higher. However, even if the Fed does cut rates in September, it is important to keep in mind that it could be a preemptive cut, aimed at stabilizing the labor market, while maintaining flexibility if inflation continues to rise. It may not be the clear demarcation of the beginning of a new easing cycle, as equity markets seem to be pricing in. **To be clear, we do expect that the Fed will lower rates over the next year, likely beginning with its September or December meetings. However, the path of these cuts may not be as smooth as the equity markets expect.** We would not be surprised to see a cut this year, coupled with ambiguous language that leaves the door open to future cuts or future pauses. This would reflect the Fed's increased data dependency, particularly in the face of the uncertain impact of tariffs on inflation.

The reason for the cuts, not the exact months of their occurrence, is what should continue to drive equity markets.

Some would argue that the Fed has become too data dependent, providing little sense of direction at this point in the cycle. **In times like this, a mix of offense and defense could be the best way to position for current uncertainty, focusing on interest rate sensitive sectors such as Financials or Industrials, while retaining a quality tilt through companies with strong balance sheets in industries such as the AI hyperscalers.** Such an approach might not lead to a proverbial homerun, but it should not lead to a strike out either. The uncertainty surrounding the inflection point in the current environment requires more nuanced risk management, rather than just blindly swinging for the fences. To elaborate on a baseball analogy, sometimes we have the chance to hit a home run, sometimes just getting on base is enough. We just have to recognize the pitch coming our way.

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