Weekly Market Flash

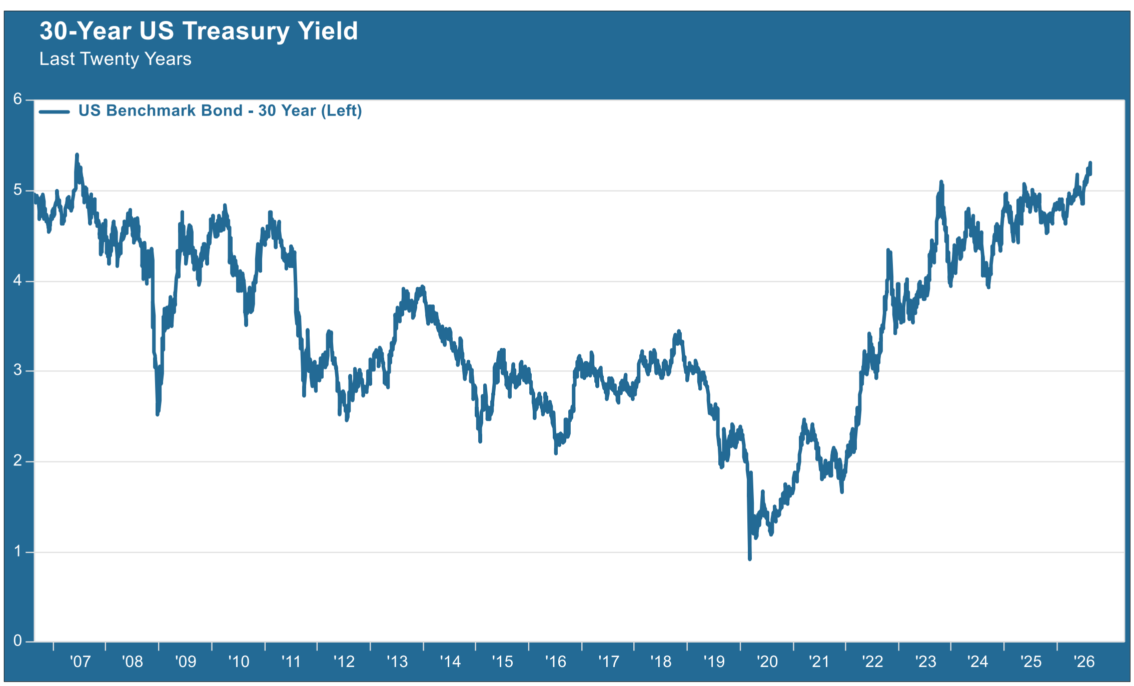
Wyoming Week Looms Large

August 21, 2026

It's that time of year again. As August transitions from lazy days at the beach to frenetic back-to-school activities, the great and good stewards of monetary policy, central bank mandarins from the world over, gather amid the delicious beauty of the Grand Tetons in Jackson Hole, Wyoming, for their annual get-together. The Kansas City Federal Reserve Bank, which hosts the annual Jackson Hole confab, has let it be known that the topic for this year's event will be "Financial Innovation: Implications for Payments and Policy." Well, there should be plenty to talk about on this subject, because financial innovations of many colors are giving central bankers headaches as they try to adapt their thinking around monetary policy to a tumultuous new environment far removed from the certitudes of the economics and finance textbooks they studied in school all those decades ago.

Thoughts, Warsh?

Of course, the main draw at Jackson Hole will not be some panel of payment system wonks hashing out the nuts and bolts of alternative digital currency platforms (though those materials will be worth perusing for anyone wondering what currency markets are going to look like in five or ten years). It will be the speech next Friday by Fed chair Kevin Warsh in his Jackson Hole debut. It will be interesting to hear what he has to say, because a lot of things have been happening in US credit markets over the past couple weeks and the Fed chair, true to recent form, has been largely absent from the scene. This week, for instance, as yields on the 30-year Treasury bond reached levels last seen in 2007, the institutional presence dominating the airwaves has been not Warsh, but Treasury Secretary Scott Bessent.



Source: MVF Research, FactSet

Bond yields have been rising at a brisk clip this year for a host of reasons, including persistent inflationary pressures, the massive supply of corporate debt being issued to fund AI infrastructure projects, renewed concerns about the level of US government debt (which drew scrutiny this week when it passed another round number, this one being $40 trillion) and, yes, credibility concerns around the central bank itself in the early weeks of the Warsh Fed (remember that when bond yields go up, bond prices go down). On Tuesday this week the 30-year bond yield briefly breached 5.3 percent, and that seemed to be the catalyst for Bessent, a one-time hedge fund guy, to shake things up with a new twist on an old mechanism: buybacks of outstanding long-dated bonds.

Not Quite QE

Treasury buybacks may sound like what the Fed was doing for years with its various quantitative easing (QE) programs, but it is a very different thing. The Treasury Department has conducted these operations for many years, typically in small amounts for technical reasons, and not as part of a broad-based strategy to influence and shape the direction of the yield curve (which was a big part of the motivation for QE). What Bessent announced, though, was exactly that – an intention to put downward pressure on rates at the long end of the yield curve by doubling, at least, the volume of buybacks for the next three months (ending, curiously, the day after the midterm elections in November).

Bessent's announcement on Wednesday triggered a rally in bonds, but the rally was brief, and the commentary from market participants was largely skeptical. Imagery like "Band Aid on a major gash" or "walk loudly and carry a small stick" floated through the financial commentariat on Thursday as yields resumed their upward trend. Unlike the Fed, the Treasury Department cannot just create new money. It must pay for buybacks by issuing more debt, most likely short-maturity notes. There are limits to how much effect that can have on a Treasury market worth some $32 trillion in total.

Which brings us back to those fundamental challenges to credit markets we noted above, and the commensurate challenge Kevin Warsh will face next week as he attempts to (we assume) convey a message of "keep calm and carry on" when he addresses his fellow bankers in Wyoming next Friday. Treasury securities have long been the market's de facto "risk free rate" – the benchmark against which all other assets are priced according to the particular risk properties of each. The forces driving rates higher, whether deriving from instability in the Middle East or the $220 billion in AI-related debt already issued by the hyperscalers this year or whatever else, are beyond the purview of regulatory countermeasures like the Bessent plan. What does Warsh himself think? What is the Fed prepared to do? A world well beyond the elite coterie of bankers at Jackson Hole wants to know.

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