
Weekly Market Flash

Credit and Credibility

August 28, 2026

From the Latin word “credere,” many meanings flow. The verb’s primary definition, according to Cassell’s Latin dictionary, is “to entrust, commit, trust something to someone.” Hence our English word “credit” as it applies to financial instruments and much else besides. But “credere” also means to believe, to rely on, to give credence to something. Two related adjectives in Latin are “credibilis,” which we translate as “credible” or “worthy of belief,” and “credulus,” which means precisely what it means in English: credulous, easily believing in something no matter how silly or far-fetched that something is.

Okay, that’s it for the Latin lesson. Promittimus (we promise).

Treasury Shenanigans

The Treasury Department is the steward of the \$32 trillion market for US Treasury securities, and as such is expected to be the very epitome of credibility. This is, after all, the globe’s most important financial market, the securities from which all other assets are priced and derive their value. That credibility has been called into question somewhat over the past several days. Treasury Secretary Scott Bessent has seemed at times to be hoping that bond investors are, well, more credulous than we know them to be. Following last week’s abrupt announcement that the Treasury would be doubling the amount of money used to buy back long-dated Treasuries, with the explicit intention to put a cap on rates rather than addressing periodic technical matters as is the usual purpose of buybacks, Bessent doubled down this week and suggested that \$4 billion might just be a starting point. If the Fed can’t lower interest rates because of all those pesky Federal Open Market Committee votes worried about inflation or something, Bessent seemed to be saying, then we’ll just have to see what we can do over here at Treasury.

The bond market’s reaction has not been, shall we say, credulous. Scorn for Bessent’s interventionist tactics has come from all corners of the market, most prominently from legendary bond investor Stanley Druckenmiller. Druckenmiller, a one-time mentor of both Bessent and Fed chair Kevin Warsh, had nothing good to say about his former protégé’s doings in a scathing essay published in the Wall Street Journal this week. Nor have Bessent’s actions done much to push long-maturity rates lower. The 30-year Treasury yield is within a few basis points of where it was to begin the week, and likewise for the 10-year. Credit markets have been in a bit of a waiting mode this week ahead of Kevin Warsh’s speech on Friday at the Jackson Hole symposium.

Which...just concluded as we have been writing this. Anything new from the Fed chair?

Missed Opportunity

Unfortunately, no. Warsh’s Jackson Hole keynote speech was not much more than an embellished version of his press conference remarks following the July Federal Open Market Committee meeting. That event, as you may recall, did not go over particularly well with the financial chattering class types. Hot takes are starting to come in from said chattering class denizens in the wake of Warsh’s speech today, and the overall gist seems to be: could have been better, could have been worse.

It could have been a lot better, in our opinion. Warsh had nothing to say, explicitly or implicitly, about the Treasury Department's incursion into the world of interest rate intervention. A year ago, when he was still campaigning for the job of Fed chair, Warsh noted on one occasion that it might be time for closer cooperation between the Fed and Treasury on monetary policy, even a revisit of the milestone Treasury – Fed Accord of 1951 that solidified the central bank's independence (it was not independent during the Second World War when the government maintained a 2.5 percent cap on interest rates to facilitate funding the war effort).

A year ago, of course, the talk of interest rate cuts was still in the air and very much a part of Warsh's commentary as he angled for the Fed job. Does he still think that way today? Should the Fed be a silent partner as Bessent's Treasury tries to push down the long end of the yield curve? It would be nice to know what Warsh thinks about all this. Sadly, we got no insight into that today, and we are unlikely to be any the wiser tomorrow or the next day. Credibility is at stake here. And neither we, nor the bond market, are credulous.

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