Weekly Market Flash

The Age of the Fed Is Over

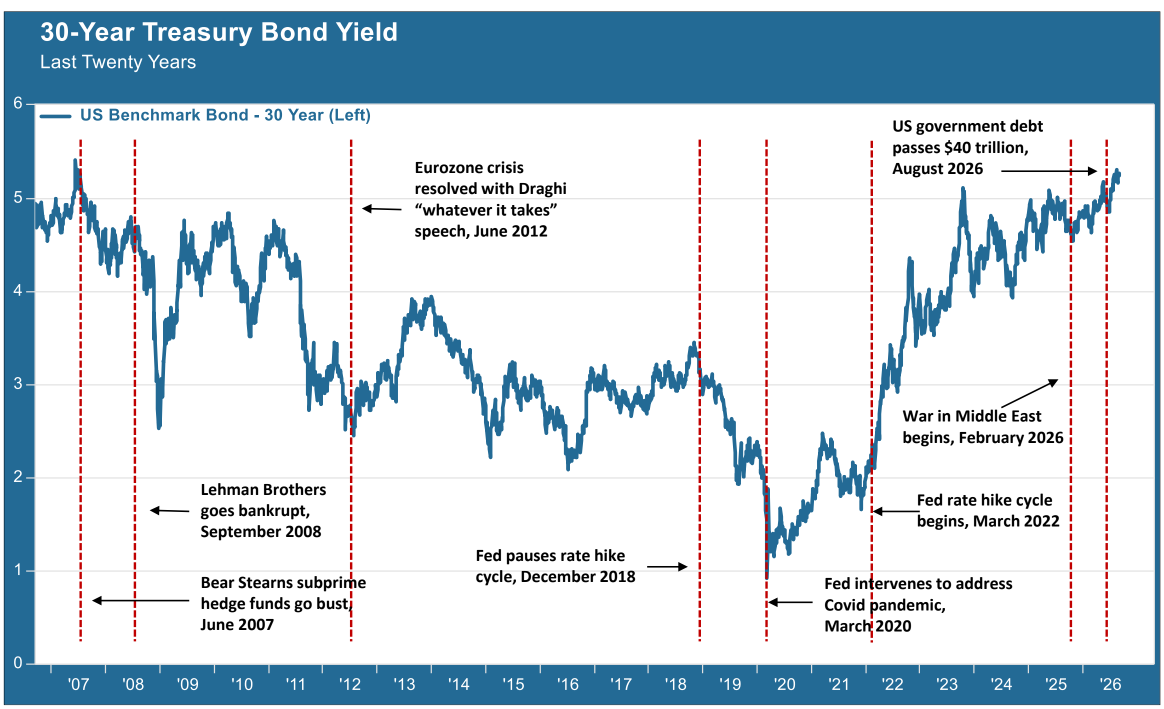
September 11, 2026

The Federal Open Market Committee, the monetary policymaking arm of the Federal Reserve, has a very important meeting coming up next week. By the time you read this, on Friday afternoon or later, you will have a better sense than we do right now whether the FOMC is going to vote to raise rates next week or to keep them at the current level. You will have this additional insight because the August Consumer Price Index report will have been published by then and, according to certain members of the Committee itself, that report will be pivotal.

Whatever the Fed does or doesn't do next week, though, may matter less than you think, because the market has already spoken on rates. The Fed funds rate, the overnight lending rate which is the sole rate that moves invariably according to Fed policy, has not changed at all since it was cut by 0.25 percent last December. But other interest rates, including the 10-year and 30-year yields that serve as benchmarks for many other interest rates like mortgages and auto loans, have risen considerably – more than 0.5 percent since the beginning of the year for each. The FOMC has stayed put. The market has not. Whether or not the FOMC does anything next week – more likely if today's forthcoming CPI report runs hot – the market has already made its views known. The Fed, as the nation's central bank, remains a systemically important institution. But its days as the de facto manager of the US (and, by extent, global) economy are, in our opinion, over. Let's take a brief trip back in time through the Age of the Fed.

Bailouts, Caution and Crisis Management

Here, to help us relive those fun-filled days of the Age of the Fed, is a chart showing the 30-year Treasury bond yield from 2007 to the present.



Source: MVF Research, FactSet

The Fed's interventionist tendencies go much further back, all the way to the aftermath of Black Monday, October 19, 1987, when the Greenspan Fed rushed in to shore up liquidity in the wake of the worst one day crash in US stock market history. But the Age of the Fed began, in our opinion, following the spectacular collapse of two subprime mortgage hedge funds run by Bear Stearns in the summer of 2007. The Fed began to cut the Fed funds rate, which then stood at an upper bound of 5.25 percent, following the bond market disruption that followed the Bear Stearns carnage. That carnage got a whole lot worse the next year, of course, when Lehman Brothers filed for bankruptcy in September 2008, precipitating the freefall of the global financial crisis. The Fed funds rate plummeted to an upper bound of just 0.25 percent by the beginning of 2009, and it stayed there for six years until December 2015.

Meanwhile there were crises aplenty threatening to undo the fragile recovery from the worst of the Great Recession. The Eurozone nearly split up in 2012, saved only by European Central Bank head Mario Draghi's famous three words: Whatever it takes. China announced an abrupt currency devaluation, which triggered a stock market collapse over there, in August 2015. During this time the Fed tried out other innovative ways of bailing out the market from natural forces and human error, most visibly in the form of so-called quantitative easing. When the FOMC gingerly tried to resume raising rates in 2017 (pausing again after the China concerns), investors screamed, and in 2018 the stock market showed that it couldn't imagine life without near-zero interest rates. The Fed, now under Jay Powell, paused again.

Covid Changed the Equation

Then came the Covid pandemic in 2020, and the Fed's influence reached its peak. On March 23 of that year, the central bank gave its own version of the Draghi "whatever it takes" pledge and applied it to all manner of fixed income securities. Markets rallied in what was by 2021 called the "everything rally" with all manner of assets moving up to the tune of ZIRP or NIRP – zero or negative interest rate policy.

Unfortunately, the everything rally came with a cost, and the cost was inflation at a level not experienced in developed economies since the 1970s. The Powell Fed hoped beyond hope that the inflation produced by a combination of supply side disruptions and hot demand (those pandemic checks and the rest of the $5 trillion-plus of fiscal stimulus) would be "transitory," a word Chairman Powell would ruefully cop to regretting years later. The FOMC began raising rates in March 2022. This was the beginning of the end of the Age of the Fed.

Four and a half years later, the US inflation rate remains well above the Fed's two percent target. A combination of forces, some good (stronger than expected consumer resiliency, the AI boom) and some decidedly not good (tariffs, trade wars and an actual hot war in the Middle East) has kept inflation high and been a buzzkill on vibes among consumers and businesses alike (the consumer sentiment indexes we have been talking about all year tell that story). Meanwhile, outstanding US government debt recently passed the $40 trillion level, and interest payments on that debt are the second-largest government budget line item, trailing only Social Security and ahead of defense spending, Medicare and Medicaid.

So the bond market has spoken. Interest rates are high for structural reasons, and these reasons are largely beyond the Fed's control. It will have to move accordingly, sooner or later. For the sake of its own credibility, sooner would be better.

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