

**JAMES DIXON, CIM®: MACRO THOUGHTS – AUG 12, 2026****THE FED OUTLOOK**

EXECUTIVE SUMMARY

The market narrative surrounding the U.S. Federal Reserve remains dominated by one question: Why isn't the Fed hiking rates when inflation remains above target? Bond have responded with long end yields pushing higher.

The answer is that the debate is increasingly being framed incorrectly.

The traditional framework assumes the Federal Reserve exists solely to minimize inflation while maximizing employment. That framework was largely appropriate during the globalization era when debt burdens were manageable, geopolitics was secondary, and supply chains optimized for efficiency.

Today's environment is fundamentally different. The United States is simultaneously attempting to:

- Refinance an unprecedented debt burden.
- Rebuild domestic manufacturing.
- Finance AI infrastructure and energy investment.
- Preserve financial stability.
- Compete strategically with China.
- Maintain the dominance of the USD.

These objectives increasingly sit alongside—not beneath—the inflation mandate.

In line with this thesis, it is noteworthy that Fed Chair Kevin Warsh has deliberately raised the bar for further tightening while becoming less prescriptive about future policy. Markets interpreted this as an important signal that the Fed is willing to tolerate temporary inflation overshoots provided inflation expectations remain anchored and underlying disinflation resumes (driven by factors like AI productivity enhancements).

This view of lower rates is broadly consistent with research from Morgan Stanley, Goldman Sachs, JPMorgan and Bank of America. They all continue to expect policy easing over the next 12–18 months. The core difference between their thesis and mine is their narrative centers on inflation gradually moderating, labour market momentum softening and restrictive policy becoming increasingly unnecessary rather.

Irrespective, the conclusion is straightforward: The direction of travel for US interest rates remains lower.

For UHNW long-term investors, this reinforces my constructive outlook for equities, long-duration quality assets and selective credit while supporting the ongoing repricing toward AI, infrastructure, industrial reshoring and productivity-enhancing technologies.

1. THE MARKET IS ASKING THE WRONG QUESTION

Markets continue to ask: When will inflation reach 2%?

The better question is: What does the US now require monetary policy to accomplish?

That distinction matters enormously!

The Federal Reserve still has a dual mandate. But today's policy environment requires balancing far more than inflation and unemployment.

Monetary policy now sits inside a much broader framework of national economic strategy.

The Fed is no longer operating in isolation. Instead it operates alongside Treasury financing needs, industrial policy, trade policy, energy security and geopolitical competition.

As outlined in my thoughts on Mar 4 (Statecraft and the Repricing of Capital), monetary policy is increasingly functioning as one component of a broader statecraft framework rather than as an entirely independent stabilization mechanism.

Importantly, this does not imply the Fed has abandoned independence. It rather suggests that policy decisions increasingly recognize structural realities extending well beyond monthly inflation prints.

2. THE FED IS DELIBERATELY KEEPING OPTIONALITY

Perhaps one of the most defining characteristics of the Warsh Fed could become a lack of policy guidance. Chair Warsh increasingly appears willing to allow incoming data to dictate decisions while reducing forward guidance.

Several observations stand out.

1. INFLATION REMAINS ABOVE TARGET

- Core PCE remains above 3%
- Manufacturing price indices remain elevated
- Inflation has not yet fully normalized

Under previous frameworks this might have justified another rate increase.

Instead.....

2. THE FED CHOSE NOT TO TIGHTEN

Equally importantly... The Fed did not even strongly suggest additional tightening. Markets interpreted this as evidence that:

- Rate hikes face a very high hurdle.

- Inflation alone is unlikely to trigger additional tightening.
- Policy will instead wait for broader evidence.

If inflation moderates (though I continue to believe it's still structurally higher than prior targets), today's patience will appear justified.

Only if inflation soars will markets demand a clearer reaction function. For now though, the Fed appears comfortable maintaining policy rather than tightening further. That is an important shift.

3. HIGHER RATES CONFLICT WITH STRATEGIC OBJECTIVES

In my thoughts on Mar 4 (Statecraft and the Repricing of Capital) I argued that the global macro regime has fundamentally changed.

Three realities now dominate policy.

1. DEBT SUSTAINABILITY

Federal debt continues to expand rapidly.

Persistently high real interest rates increase:

- Treasury financing costs.
- Fiscal deficits.
- Debt servicing burdens.

While monetary policy should never directly finance government spending, sustained restrictive policy becomes increasingly costly in a highly indebted economy.

Lower rates gradually relieve this pressure while allowing inflation to erode the real value of debt balances.

2. INDUSTRIAL REBALANCING

The US is investing hundreds of billions of dollars into:

- Semiconductor manufacturing.
- AI infrastructure.
- Power generation.
- Grid modernization.
- Defense production.
- Supply-chain reshoring.

These investments are capital intensive and funded by debt issuance. This means high borrowing costs slow deployment.

In contrast lower financing costs improve investment returns while accelerating domestic capacity expansion.

3. FINANCIAL STABILITY

Higher rates expose financial vulnerabilities across:

- Commercial real estate.
- Regional banks.
- Leveraged borrowers.

- Private credit.
- Housing affordability.

While systemic risks have remained contained, restrictive policy becomes increasingly unnecessary once inflation is on a sustainable downward path or at least marginally moderating.

4. HISTORICAL CONTEXT MATTERS

One of the most misunderstood aspects of central banking is independence itself. Complete central bank independence is historically unusual rather than the market normal.

For context, for much of history:

- The Bank of England financed historical wars between Britain and France.
- The Federal Reserve supported Treasury financing during World War II.

This means monetary policy frequently aligned with broader national objectives. It further suggests that the post-1980 globalization period, characterized as normal, actually represents something of an historical exception.

If one further looks at the environment today, it increasingly deviates from the globalization era and rather resembles earlier periods characterized by:

- Strategic competition.
- Elevated public debt.
- Industrial mobilization.
- National security priorities.

While this context is important it does not eliminate Fed independence!

It simply broadens the context within which policy decisions are made.

5. MAJOR BANKS EXPECT LOWER RATES IN 2027

Whether its moderating inflation or geopolitical developments, what's important for investors is that all the major institutions agree that the rate path is lower in 2027 (even if timing differs, the direction is consistent). For context:

- **Morgan Stanley.** Morgan Stanley expects inflation to continue moderating, reducing the need for additional tightening. It sees the bar for rate hikes as high and believes easing becomes appropriate as disinflation resumes and growth gradually slows.
- **Goldman Sachs.** Goldman Sachs continues to argue that US inflation is moving lower without a meaningful deterioration in economic activity. As wage growth moderates and supply-side improvements continue, it expects the Fed to gradually normalize policy rather than maintain unnecessarily restrictive rates.
- **JPMorgan.** JPMorgan expects policy easing as economic momentum cools. While acknowledging upside inflation risks, its economists believe restrictive policy has already achieved much of the necessary tightening and that maintaining elevated rates for too long risks an unnecessary slowdown.

- **Bank of America.** Bank of America has generally maintained a more cautious stance on inflation but likewise expects the medium-term path for policy rates to be downward. It emphasizes that the pace of easing may be gradual rather than aggressive, reflecting continued labour-market resilience and the Fed's desire to preserve credibility.

Key insight: The common theme is notable. The debate rather centers on when easing begins—not whether rates ultimately move lower.

6. DIRECTION > TIMING

Markets are forward looking. They discount future policy.

Historically the pattern is:

- Treasury yields often fall before the first Fed cut.
- Equities frequently perform well once investors gain confidence that the tightening cycle has ended.
- Credit conditions begin easing ahead of official policy changes.
- Waiting for the first rate cut has often meant missing a significant portion of the market repricing.

Key insight: For long-term investors, the trajectory matters more than the calendar.

If we know loser policy is broadly expected but is not yet priced by markets, significant opportunities exist. At the same time the opportunity cost of sitting on the sidelines can be eye watering.

7. INVESTMENT IMPLICATIONS

1. EQUITIES

A gradual easing cycle supports:

- Quality compounders.
- AI beneficiaries.
- Industrial automation.
- Infrastructure.
- Software.
- Productivity-enhancing technologies.

Lower discount rates also support long-duration growth assets.

2. FIXED INCOME

Should policy ease gradually:

- Intermediate-duration Treasuries become increasingly attractive.
- Investment-grade credit remains well supported.
- Yield curves may continue normalizing.

3. REAL ASSETS

Lower financing costs supports:

- Infrastructure.
- Utilities.
- Selected real estate.

- Energy transition assets.

Commodity exposure remains appropriate as geopolitical risks continue to create supply-side volatility.

4. PRIVATE SIDE ASSETS

In theory private equity and private credit should benefit from lower financing costs.

The problem is whether there is enough to:

- Justify investment given illiquidity.
- Justify very high management costs.
- Recoup brutal losses over the last two years.

8. CONCLUSION

The Federal Reserve's next major move is likely lower—not because inflation has disappeared, but because the broader macro landscape has changed.

The United States is managing multiple strategic priorities simultaneously including: debt sustainability; industrial renewal; AI leadership; supply-chain resilience; and geopolitical competition. Monetary policy increasingly operates within this wider framework.

Chair Warsh has set a high bar for additional tightening. This aligns with the broader consensus from Morgan Stanley; Goldman Sachs; JPMorgan; and Bank of America: inflation is expected to continue moderating, allowing policy to gradually become less restrictive over time.

For UHNW investors, the key takeaway is that the policy regime is evolving.

Rather than focusing exclusively on whether inflation reaches 2% in any given quarter, investors should recognize that the direction of monetary policy is increasingly shaped by structural economic objectives as well as cyclical data.

In line with this, the direction for asset prices is clear – higher not lower

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