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Jackson Hole preview: Can Warsh convince the bond market?

This week's Jackson Hole gathering puts the focus on whether Kevin Warsh can reinforce the Fed's anti-inflation credentials. Any hesitation could push yields higher and weaken the dollar.

As central bankers gather at Jackson Hole this week, they do so against the backdrop of a US economy that continues to show resilience. GDP growth remains solid, supported by AI-related investment, broader capital expenditure and resilient consumer spending. The labour market has slowed but remains far from weak. This resilience has persisted despite tariffs and high oil prices, which have weighed on activity and helped keep inflation above target inflation for a sixth consecutive year (see Exhibit 1).

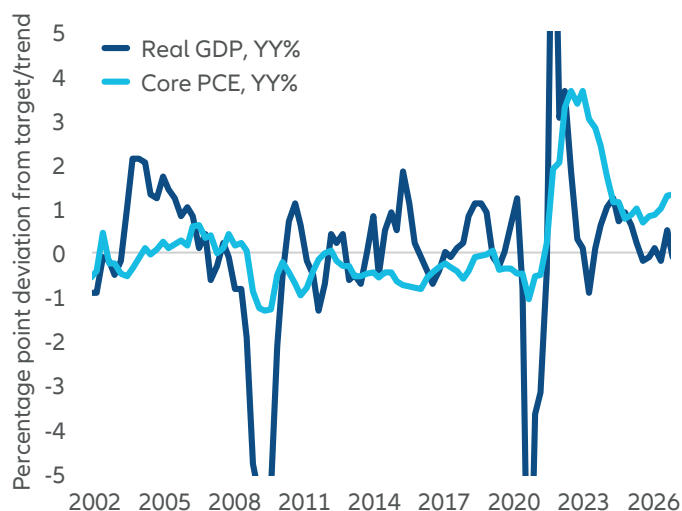


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Exhibit 1: US economic growth has stayed solid even as core inflation remains elevated



Source: Bureau of Economic Analysis and AllianzGI Economics & Strategy team, 30 June 2026.

Note: GDP = gross domestic product. PCE = personal consumption expenditures.

Jackson Hole puts US Federal Reserve credibility in focus

US risk assets have performed well for years, but bondholders are increasingly demanding compensation through higher yields. They are being asked to fund AI investment, large fiscal deficits and debt refinancing just as households save less, the Fed shrinks its balance sheet and international investors diversify reserves. Rising rates elsewhere – even in Japan – intensify the competition for capital.

While the economy has so far absorbed higher yields, some interest rate-sensitive areas are under strain. Housing activity has softened, while higher borrowing costs are also feeding through to the government's debt-servicing bill. Last week's announcement by Treasury Secretary Scott Bessent that the US Treasury will increase buybacks of longer-dated bonds was widely read as a sign that higher yields are becoming politically sensitive, especially with mid-term elections approaching.

Keeping rates artificially low in a high-growth, high-inflation environment would be difficult. It could fuel overheating, push real rates lower, make US debt less attractive to investors and weaken the dollar. Prolonged inflation would also test the Fed's credibility and, by extension, the dollar's reserve-currency status. Recent strength in gold and crypto assets, alongside dollar weakness, may suggest investors are hedging these risks.

In this context, the Fed needs to stay vigilant. New chairman Kevin Warsh has repeatedly said he will not tolerate yet another stretch of above-target inflation. His hawkish record supports that message, making rate hikes a question of when, not if, in our view. Softer inflation and signs of a gradual cooling in hiring over the summer may justify patience, but the economy's overall shape leaves little doubt, in our view, and an unusually large number of hawkish Federal Open Market Committee (FOMC) dissenters appear to agree. The Jackson Hole meeting could offer Mr Warsh a natural podium to prepare markets for what comes next.

Fed delay strengthens the case for diversifiers

However, Mr Warsh's preference for avoiding specific guidance, to keep market signals free from Fed influence, makes it unlikely that he will give a clear signal at Jackson Hole. Market doubts about Fed independence could fester as the administration that appointed Mr Warsh pushes for lower rates. Markets may already be pricing

a credibility premium into yields – a premium that grows the longer the Fed delays tightening. That makes Mr Warsh's keynote address on Friday risky: he may keep expectations for September's FOMC meeting balanced but struggle to convince markets that he will follow through on his hawkish rhetoric. With bond vigilantes alert, that could trigger higher long-term yields and renewed dollar weakness. Ultimately, every speech or Treasury intervention that delays or complicates decisions will intensify pressure on the Fed to act.

The sooner the Fed acts, despite criticism, the less it may need to do later – and the sooner conditions could improve for bond investors. Meanwhile, we remain positive on gold and view China's renminbi as a leading diversifier, supported by the country's increasingly favourable growth and policy mix. The renminbi is trading at a more than three-year high against the dollar, driven by a weak US currency and a strong Chinese trade surplus.

Fixed income view: Diversification matters as bond markets adjust

Amid concerns over war, inflation, tariffs and fiscal sustainability, developed-economy bond yields are hitting multi-year highs. The move comes as little surprise. Over the past year, we have consistently argued that investors should position for a higher-for-longer interest rate regime, where inflation risks remain structurally elevated and term premia are gradually rebuilding.

The recent announcement by the US Treasury to increase buybacks for long-dated bonds indicates that it is worried about the breakout in long-dated yields and does not intend to be passive. This is arguably a soft form of financial repression. This intervention, following the Treasury's recent support for the Japanese yen, is a signal that the US does not want the dollar or bond yields to rise much further. Whether such intervention can be effective remains uncertain. What is clear is that the combination of higher energy prices, rising sovereign yields and widening spreads on AI-linked debt warrants attention.

Initial market reaction was encouraging, with long-end yields retreating from their highs, although some of that move has since faded. Importantly, despite the increase in yields, overall rate levels remain within a broadly tolerable range, and market volatility has remained remarkably contained. What's notable is that emerging markets have remained largely resilient during this recent move, and their bond markets are notably outperforming.

In our view, this partly reflects the more orthodox policy frameworks pursued by many emerging market central banks, several of which tightened aggressively, and earlier, than their developed market counterparts, leaving them better positioned to manage inflation risks.

Against this backdrop, we continue to favour tactical and country-relative value opportunities in core rates over large directional duration positions. In a reflationary world characterised by structurally higher interest rates and greater policy uncertainty, we believe success increasingly depends on identifying differentiated opportunities across markets rather than relying on broad market beta.

More broadly, we continue to see merit in a global multi-strategy fixed income approach that seeks resilience and alpha across sectors, regions and risk premia. Diversification remains a valuable shock absorber, particularly during periods of elevated uncertainty. For strategic allocations, we favour high-quality spread assets offering attractive all-in yields, where carry continues

to provide both a compelling source of income and an important cushion against market volatility.

While the Fed chair's opening remarks at Jackson Hole traditionally attract attention, they have often proven less market-moving than investors anticipate. Historically, Jackson Hole speeches have focused on longer-term monetary policy frameworks and structural issues rather than near-term policy guidance, with only a handful of notable exceptions, such as during the pandemic.

With Mr Warsh signalling a preference to avoid explicit forward guidance, this year's symposium may resemble the more measured tone of the Greenspan era. He has indicated that his remarks will focus on longer-term structural challenges facing the economy and monetary policy, while emphasising that the Fed will remain independent of prevailing market expectations. As a result, unless there is a meaningful shift in the Fed's broader policy framework, the market response may ultimately prove more muted than many investors currently expect.

Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested. Past performance does not predict future returns. If the currency in which the past performance is displayed differs from the currency of the country in which the investor resides, then the investor should be aware that due to exchange-rate fluctuations the performance shown may be higher or lower if converted into the investor's local currency.

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