



Dog days of policymaking

Atul Bhatia, CFA – Minneapolis

It wasn't a great end of summer for U.S. policymakers, in our view. Both the U.S. Treasury Secretary and the Chair of the Federal Reserve made what we see as meaningful and avoidable missteps that highlighted institutional weaknesses instead of playing to their strengths. We think a course correction will require an emphasis on sound actions and fundamental policy reform.

Finding his footing

Fed Chair Kevin Warsh's Jackson Hole speech last Friday corrected some of what we consider to be missteps from his remarks following the central bank's July meeting, when his enigmatic commentary opened the door to ideas of potential changes to inflation targets or de-emphasizing interest rate policy.

The core concern we have with his approach, however, remains unresolved: his focus on avoiding forward guidance is depriving markets of necessary nuance and context.

To be clear, Warsh has a very good point on the pitfalls of the Fed committing to giving investors a three- or six-month "heads up" before it will consider a rate move. That type of guidance can help in a crisis, although it carries risks for the future.

But simply discussing how policymakers are thinking should not be an issue. Take Warsh's Jackson Hole speech where he said that the Fed "must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Otherwise, we have work to do."

It's a great sound bite, but it leaves important questions unanswered. What is sufficient speed? What data will show that it's going there clearly? More importantly, what

about the tradeoffs? Would policymakers continue to hike rates if unemployment hits six percent? What if stocks were down 20 percent or GDP contracted?

Obviously, Warsh cannot address every possible set of contingencies, but he can discuss how he thinks about those types of tradeoffs and how he sees the current balance of risk. The less he discusses these matters, we believe, the more cushion investors need to build into their pricing models, leading to inefficiencies and underperformance.

Policymaking is an art, not a science, and investors need to know if they've got Jackson Pollock or Diego Velázquez holding the brush.

Treasury constrained by economics

While Warsh's problem, we believe, is the lack of clear speech and actions that align with that speech, U.S. Treasury Secretary Scott Bessent has certainly not been shy about acting. Most recently, he has announced bond repurchases—and boasts of a broad toolkit—to bring down long-term U.S. government bond yields. This move, we believe, is unlikely to achieve that goal and will serve largely to highlight the relative impotence of the U.S. Treasury acting alone.

For perspectives on the week from our regional analysts, please see [pages 3–4](#).

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Priced (in USD) as of 9/2/26 market close (unless otherwise stated). Produced: 9/3/26, 15:58 ET; Disseminated: 9/3/26 16:00 ET

Bond buying binge?

The attempt to shift yields lower took the form of a promise to “at least” double the size of U.S. Treasury bond buybacks to \$4 billion per operation with a focus on longer-term maturities. The announcement led to a sharp rally in U.S. government bonds, but the gains faded just as quickly with yields essentially reverting to their pre-intervention levels.

For a bond market intervention to be effective, in our opinion, it needs specificity: an impressive dollar amount, matched with a precise yield target.

Bessent’s Treasury announcement failed both tests.

First, there may have been a time when \$4 billion dollars was a lot, but not today. The U.S. recently passed \$40 trillion in debt outstanding, so the buyback is lacking a zero or two to be impressive. Unnamed officials later floated the idea of using the Treasury’s General Account as a source of funds, but that is more of an accounting gimmick than a change in intervention size.

Second, there’s no clarity on price. If Bessent wants to put a line in the sand on yields, he needs to draw it, not just hint that it exists. A market participant today could buy a 30-year bond at a 5.3 percent yield relying on Treasury’s willingness to buy debt, only to find that the government’s appetite kicks in at much lower prices. That’s not attractive.

We’re well aware of Bessent’s background and his role in helping George Soros “break the Bank of England,” so he obviously knows a thing or two about failed market interventions. In our view, Bessent’s real policy goal is to slow the pace of any bond selloff rather than putting an end to it. By introducing the potential for sharp price rallies, Bessent’s tough talk could effectively limit the amount of leverage market participants can use to position for higher rates.

Fundamentals matter

While Bessent may be able to impact the speed of a rate rise, we believe the fundamentals will eventually reassert themselves. In our view, and as we’ve [recently discussed](#), it’s no mystery why longer-maturity yields are high:

- Strong economic growth,
- AI infrastructure borrowing,
- Massive and growing federal debt,
- Inflation concerns, and
- Political uncertainty.

Long-maturity bond investors look for slow, steady growth, sound fiscal policy, central bankers who prioritize low inflation, and a predictable political system. The

way to achieve that sustainably is to reduce the supply of debt—most importantly by reducing the federal budget deficit—and increase demand for bonds by giving investors policy stability. Those are moves that are beyond Bessent’s power.

Fed not Feds

This is not to say that rates cannot be manipulated by government officials. The Fed does it literally every day to fix overnight yields.

Could the Fed do the same thing with long-term rates? Absolutely. If that institution wanted long-term yields at 4.5 percent, it could credibly come out and say it would buy any and all bonds at that level.

The consequence of such a move, however, would not just be lower rates but, we believe, a much lower U.S. dollar. The Fed would be showing a willingness to pump out large amounts of dollars to purchase longer-term bonds—simple supply and demand would indicate a potential drop in each dollar’s value relative to other currencies.

The signaling component of such a move would also, we believe, be highly negative for U.S. assets. Intervening to control long-term rates is arguably appropriate in a crisis, but this is not a crisis, rather just an inconvenience. If yields are high because of fiscal policy or inflation fears, credible officials should address the underlying cause, not try to shoot the market messenger.

The yield curve wants what it wants

Bonds—particularly those that go out 30 years—thrive on credibility, commitment, and predictability. If market participants have a high degree of confidence that policymakers mean what they say and will stay in it for the long haul, they are more willing to lend money for decades at a time. Without that credibility—or if the credible commitment is to fiscal profligacy and artificially low rates—investors have no choice but to demand higher rates.

Nothing in the toolkit, we believe, will change that underlying reality.

UNITED STATES

Kelly Bogdanova – San Francisco

■ **After reaching an all-time high in mid-August, the S&P 500 has been consolidating** as the jump in Treasury yields and the resurgence in oil prices have captured institutional investors' attention. From our vantage point, there are no specific lines in the sand where yields would start to negatively impact U.S. equity prices. But if the 10-year Treasury yield approaches 5% and the 30-year yield heads toward 5.5%, we think that would certainly catch equity investors' attention and could pressure the stock market (these yields ended Wednesday's session at 4.78% and 5.26%, respectively).

■ **With West Texas Intermediate (WTI) crude oil back above \$90 per barrel and diesel prices high due to the ongoing Iran war, inflation concerns and Fed policy uncertainty are front and center again.** Diesel prices relative to oil prices—known as the crack spread—spiked again and reached a new high this week, as the chart illustrates. The average U.S. diesel price at the pump is \$5.60 per gallon, near this year's peak levels and up from \$3.80 per gallon in late February when the Iran war kicked into higher gear. Heavy-duty diesel trucks transport roughly 70% of goods within the U.S. by weight and value. The general rule of thumb is that a diesel price increase of \$1 per gallon is passed through to 60%–80% of shippers within a mere 30–60 days, according to RBC Capital Markets. Therefore, if diesel (and crude oil) prices don't back off soon—or increase further—inflation pressures could mount.

Diesel has become very pricey relative to oil since the Iran conflict intensified in February

Bloomberg U.S. Gulf Coast Ultra-Low-Sulfur Diesel to WTI crude oil crack spread, USD/barrel*



* This Bloomberg crack spread differs somewhat from S&P Platts data, which has resulted in higher prices (eclipsing \$100), but the trajectories of both are similar. In general, crack spreads measure the price difference between diesel futures and oil futures; the larger the spread, the more expensive diesel is relative to oil and the greater the profit margin for diesel refiners. At high levels, diesel demand is well outpacing oil supplies.

Source - RBC Wealth Management, Bloomberg; daily data through 9/2/26

■ **Could greater access to Venezuelan crude oil help fill the U.S. Strategic Petroleum Reserve and rebalance the global oil market?** Perhaps over the long term, but it's neither a short- nor even medium-term fix, according to the RBC Capital Markets global commodity strategy team. Industry officials and experts assert that tens of billions of dollars in new investments are needed over the next decade for Venezuela to return toward production highs seen at the turn of the century. Thus far, Chevron has committed to invest more than \$7 billion over five years, and Italian energy company Eni has committed \$1.5 billion. RBC Capital Markets wrote, "...we think many of the once-significant operators in the country will remain hesitant to return to the country in the near term given continued concerns over debt recovery and political stability."

CANADA

Nguyen Dang, CFA & Claudia Humbert, CFA – Toronto

■ **The Bank of Canada (BoC) left its benchmark interest rate unchanged at 2.25% this week, extending a holding pattern since its last rate cut in October 2025.** While markets widely anticipated the decision, the BoC was more cautious on its inflation outlook. Canadian economic growth rebounded in Q2, and labour market conditions have improved, providing further evidence of a broadening recovery. Meanwhile, persistently elevated energy prices have kept headline inflation near the top of the BoC's 1%–3% target range. So far, these pressures have shown limited signs of spreading beyond energy, but the longer oil prices remain high, the greater the spillover risk, in our view. New U.S. tariffs have added another layer of uncertainty to the growth and inflation outlooks. BoC Governor Tiff Macklem indicated that while the latest tariffs are expected to weigh heavily on industries directly affected if they remain in place, their direct impact on the broader economy should be relatively contained. RBC Economics expects the BoC to remain on hold through 2026, with gradual rate hikes potentially beginning in 2027 if the economy continues to improve.

■ **Canada's economy rebounded sharply in Q2, growing at a 3.3% annualized pace—the fastest since 2023 and above the BoC's 2.5% forecast.** The data comes alongside an upwardly revised 0.3% gain in Q1, helping Canada avoid the technical recession that had been a subject of debate last quarter. The stronger result was broad-based, with exports rising 3.6%, the largest increase in more than three years, while final domestic demand grew 1.0% after previously contracting. Household spending also increased 0.8%, supported by higher salaries and government benefits, and business investment rose 2.3%, marking its first expansion in roughly 18 months. The data suggests to us that households and businesses have begun adapting to prolonged trade uncertainty, leaving the economy on a firmer footing, particularly

when measured on a per-capita basis with Canada's population having edged lower recently. However, a fresh round of U.S. tariffs on Canadian goods and expected countermeasures from Ottawa have introduced renewed risks to the outlook, tempering an otherwise encouraging signal. Looking ahead, Bloomberg consensus expectations have growth momentum moderating from Q2's pace but remaining positive, with a 1.6% annualized growth rate for both Q3 and Q4.

UK & EUROPE

Rufaro Chiriseri, CFA – London

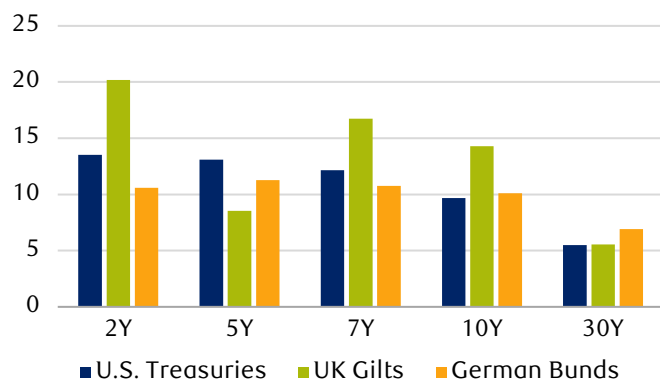
■ Global bond markets opened sharply higher this week, with UK and European yields reaching multiyear highs. The moves reflected a confluence of geopolitical tension between the U.S. and Iran, elevated commodity prices, shifting central bank rate expectations, and concerns about large government deficits. Energy price moves have been particularly notable. **European natural gas prices rose around 11% this month to year-to-date highs of €73.63/MWh while Brent crude oil climbed nearly 7% to \$96.56/barrel, a level last seen in mid-July of this year.**

■ **UK Gilts entered September on the back foot amid a global selloff.** In just one week, 2-year Gilt yields jumped 17 basis points (bps), while 10- and 30-year yields rose 11 bps and 3 bps, respectively. German Bunds moved in line, with 2- and 10-year yields rising 8 bps, while the 30-year underperformed the UK, climbing nearly 6 bps.

■ **The European Central Bank (ECB) is likely to deliver a 25 bps rate hike on Sept. 10,** in our view, a move fully priced by markets. Earlier this week, markets had been pricing in nearly 90 bps of hikes through July 2027, but these expectations have cooled to around 73 bps. The key question for policymakers, in our opinion, is whether inflationary pressures are broadening beyond energy markets. Currently, the ECB points to three reasons to

Sovereign bond yields surge

Change in bond yields, 8/27/26–9/3/26 (basis points)



Source - RBC Wealth Management, Bloomberg; data as of 9/3/26, 12:30 GMT

believe they are not: consumer inflation expectations remain anchored near 2%, firms expect wage growth to slow to around 2.6% next year, and services inflation has stayed range-bound between 3.0% and 3.5% since the Iran war began.

■ While natural gas prices are elevated due to winter storage concerns, oil prices are closely tracking the ECB's baseline scenario. **Importantly, if energy prices stabilise, inflation should naturally return to the central bank's 2% target through base effects alone.** The real debate, we believe, centres on whether near-term energy spikes will feed into lasting wage and price pressures.

ASIA-PACIFIC

Belmen Woo – Singapore

■ **Japan's 10-year government bond (JGB) yield reached 3% for the first time since 1996** as record ministry budget requests put Prime Minister Sanae Takaichi's fiscal ambitions in sharper focus. Markets now are pricing in a 100% probability of a September hike by the Bank of Japan (BoJ) after Governor Kazuo Ueda hinted that the board would decide policy with upside price risks in mind and one of the BoJ's most hawkish members, Hajime Takata, flagged an outsize move as a possibility. We expect the BoJ to continue hiking towards a 1.75% terminal rate, and with the government yet to clarify how it will finance the planned cut in consumption tax on food (about JPY4.4 trillion a year in lost revenue), upward pressure on JGB yields could persist in the near term. However, the Government Pension Investment Fund's first publicly convened meeting in seven years this week has fueled reports that the nearly US\$2 trillion fund may lift its allocation target for domestic bonds. Even a modest reallocation from overseas assets could create a durable source of demand, helping to cap long-end JGB yields.

■ **In fixed income markets, Australian Kangaroo bond issuance topped A\$66.9 billion this week**, surpassing 2025's full-year record in just eight months and marking a fourth straight record year—yet another sign to us of a maturing market amid growing global investor interest. This comes on the heels of Google parent Alphabet's inaugural A\$5.5 billion debt issuance two weeks ago, the first Kangaroo issuance by a major U.S. tech company in nearly a decade. We continue to prefer AUD bonds as one of the main plays on the de-dollarization theme, especially after this week's better-than-expected GDP report, with our local research correspondent forecasting the Australian dollar strengthening to US\$0.75 by the end of 2026. On the credit front, we believe all-in yields remain attractive as we think investors can expect at least 6% yield to maturity (YTM) on most high-quality Tier 2 subordinated bonds, while Australian household name Coles Group just issued an 8-year senior unsecured bond at 6.2% YTM.

MARKET Scorecard

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.72 means 1 Canadian dollar will buy 0.72 U.S. dollar. CAD/USD -0.9% return means the Canadian dollar has fallen 0.9% vs. the U.S. dollar year to date. USD/JPY 158.70 means 1 U.S. dollar will buy 158.70 yen. USD/JPY 1.3% return means the U.S. dollar has risen 1.3% vs. the yen year to date.

Source - Bloomberg; data as of 9/2/26

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	7,666.60	-0.3%	12.0%	19.5%	35.7%
Dow Industrials (DJIA)	53,061.95	-0.2%	10.4%	17.1%	27.7%
Nasdaq	26,217.83	-0.6%	12.8%	23.2%	48.0%
Russell 2000	2,953.17	-0.1%	19.0%	25.5%	33.2%
S&P/TSX Comp	36,091.61	-0.5%	13.8%	26.1%	54.6%
FTSE All-Share	5,793.71	-0.8%	8.3%	17.6%	26.8%
STOXX Europe 600	645.91	-0.8%	9.1%	18.9%	23.0%
EURO STOXX 50	6,362.15	-0.9%	9.9%	20.2%	27.9%
Hang Seng	25,311.21	-1.0%	-1.2%	-0.7%	43.1%
Shanghai Comp	3,941.39	-1.1%	-0.7%	2.2%	40.2%
Nikkei 225	64,325.64	-3.0%	27.8%	52.0%	66.2%
India Sensex	76,570.35	-0.5%	-10.2%	-4.5%	-7.3%
Singapore Straits Times	5,744.11	-0.2%	23.6%	33.6%	65.9%
Brazil Ibovespa	185,205.09	4.4%	14.9%	32.0%	37.3%
Mexican Bolsa IPC	64,874.69	-0.8%	0.9%	8.6%	23.6%
Gov't bonds (bps change)	Yield	MTD	YTD	1 yr	2 yr
U.S. 10-Yr Treasury	4.780%	3.0	61.3	51.9	87.7
Canada 10-Yr	3.797%	5.9	36.4	35.3	63.7
UK 10-Yr	5.230%	16.7	75.1	43.0	117.5
Germany 10-Yr	3.376%	5.2	52.1	59.0	103.8
Fixed income (returns)	Yield	MTD	YTD	1 yr	2 yr
U.S. Aggregate	5.07%	-0.3%	-0.6%	1.9%	4.8%
U.S. Investment-Grade Corp	5.56%	-0.3%	-0.7%	1.9%	5.6%
U.S. High-Yield Corp	7.37%	-0.2%	2.5%	4.9%	13.3%
Commodities (USD)	Price	MTD	YTD	1 yr	2 yr
Gold (spot \$/oz)	4,387.33	-1.1%	1.6%	24.2%	75.5%
Silver (spot \$/oz)	65.31	-1.9%	-8.9%	59.8%	128.8%
Copper (\$/metric ton)	14,405.60	-0.3%	15.7%	45.4%	59.0%
Oil (WTI spot \$/bbl)	90.68	5.7%	57.9%	38.3%	23.3%
Oil (Brent spot \$/bbl)	95.31	5.3%	56.6%	37.9%	22.9%
Natural Gas (\$/mmBtu)	2.99	1.9%	-18.9%	-0.6%	40.6%
Currencies	Rate	MTD	YTD	1 yr	2 yr
U.S. Dollar Index	99.5550	0.1%	1.3%	1.2%	-2.1%
CAD/USD	0.7223	0.1%	-0.9%	-0.5%	-2.5%
USD/CAD	1.3844	-0.1%	0.9%	0.4%	2.6%
EUR/USD	1.1589	-0.2%	-1.3%	-0.4%	4.7%
GBP/USD	1.3489	-0.4%	0.1%	0.7%	2.6%
AUD/USD	0.7170	0.0%	7.4%	10.0%	5.6%
USD/JPY	158.7000	-0.7%	1.3%	7.0%	8.0%
EUR/JPY	183.9100	-0.9%	-0.1%	6.5%	13.1%
EUR/GBP	0.8591	0.2%	-1.4%	-1.2%	2.0%
EUR/CHF	0.9420	0.3%	1.2%	0.6%	-0.1%
USD/SGD	1.2710	0.0%	-1.1%	-1.3%	-2.7%
USD/CNY	6.7192	0.0%	-3.8%	-5.9%	-5.6%
USD/MXN	16.9746	-0.1%	-5.7%	-9.3%	-14.4%
USD/BRL	5.0898	-1.8%	-7.0%	-6.9%	-9.4%

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			Count	Percent
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Sell [Underperform]	47	2.94	3	6.38

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