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Fixed income perspective: A world without forward guidance

Key points

- **A less-guided Fed means more rate volatility, not less diversification value.** Warsh's shift may increase surprises; lower bond volatility supports ballast and diversification.
- **Income, not spread compression, is now the primary return driver.** With real yields elevated and investment-grade spreads historically tight, returns will increasingly come from carry and active sector and security selection — not further tightening — supporting an actively managed, benchmark-agnostic strategy.
- **The AI financing boom is reshaping the opportunity set beyond U.S. credit.** Record AI issuance is squeezing U.S. investment-grade bonds and lifting global yields and dispersion — favoring emerging-market debt and cross-sector diversification for added carry and less AI exposure.

How should investors recalibrate for Kevin Warsh's tenure as head of the Federal Reserve? The answer may have more to do with how the Fed communicates and less about where rates settle.

The first half of 2026 demonstrated that the fixed income market remains highly sensitive to shifting policy expectations. After anticipating rate cuts at the start of the year, the fed funds futures market is now indicating a more hawkish path for monetary policy, with 3 additional rate hikes projected by next June priced in. While many investors initially assumed that Chair Warsh would be a dove, higher yields, propelled by stronger nominal growth, immense AI capital expenditure spending, and inflation remaining above the Fed's 2% target prompted the Federal Reserve to raise interest rates by 0.25% in September and the first increase in more than 3 years.

While Chair Warsh offered important signals and a broader discussion of how the Fed weighs economic data during his September FOMC press conference, he rejected the use of forward guidance, emphasizing that the Fed will look at trends, not individual data points, when weighing the balance of risks. Warsh also suggested that financial markets should not confuse a cogent assessment of market conditions with forward guidance, and that there will no longer be unconditional precommitment to future policy moves. Against this backdrop, investors should pay attention to the transmission of monetary policy and its implications for economic growth, bond market volatility and the path forward for monetary policy.

A new era of data dependence

For much of the past decade, investors operated in an environment where forward guidance from Federal Reserve officials became a valuable policy tool. Markets grew accustomed to parsing every press conference, dot plot update and carefully calibrated phrase for clues about the likely path of interest rates. That framework is changing under the new Fed leadership. Fed Chair Kevin Warsh has signaled a preference for providing less explicit guidance about the Federal Reserve's reaction function, placing greater emphasis on incoming economic data and allowing financial markets to reach their own conclusions regarding the economic outlook. This signal was amplified

at the latest Jackson Hole gathering, with Chair Warsh arguing that "oversharing policy deliberations and overcommitting to future decisions can lead markets, businesses and households astray."

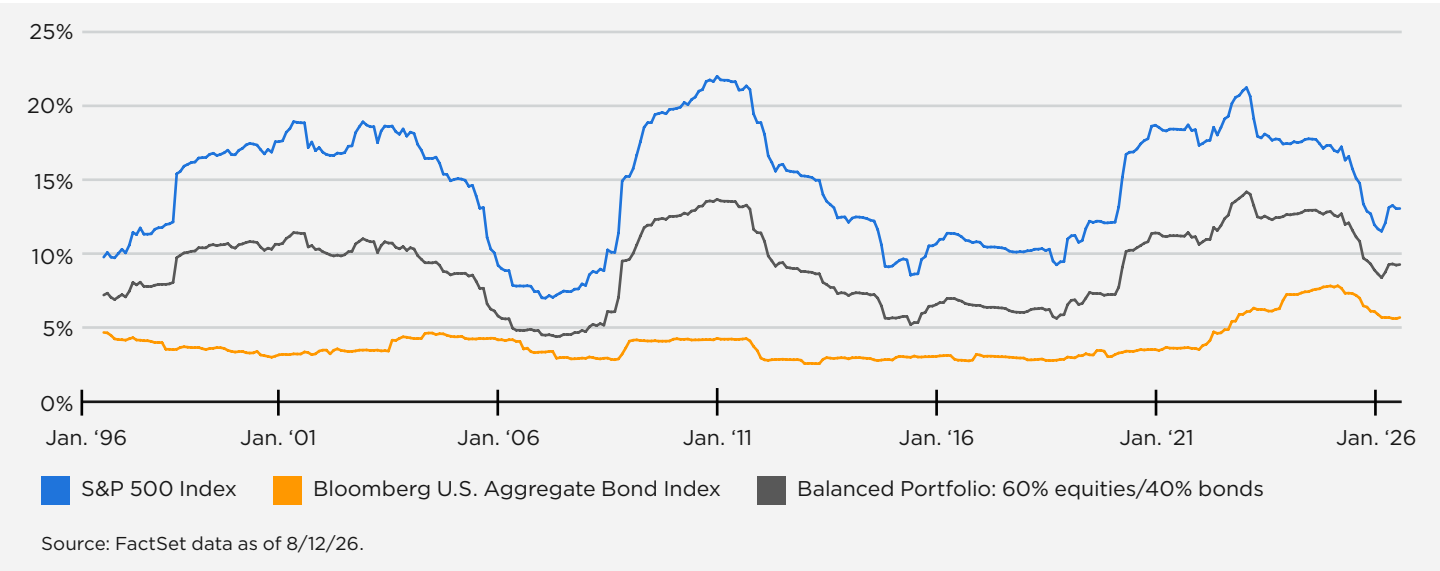
Fixed income investors should not underestimate the implications of this shift. Markets are likely to be entering a new regime characterized by less forward guidance and potentially fewer scheduled FOMC press conferences, both of which could contribute to greater interest rate volatility. At the heart of that volatility, perhaps, is brevity of communication: Providing investors with less insight into the Fed's collective thinking forces market participants to form expectations with less information. As a result, policy expectations may become more dispersed, market pricing may become less efficient, and economic data releases may carry a larger influence on long-term rates as investors search for clues about the future path of monetary policy.

With that said, and following the Federal Reserve's decision to raise interest rates to a 3.75% to 4.00% range at its September FOMC meeting, what important takeaways should investors focus on? First, the decision to raise rates was unanimous, with all 12 voting members voting in favor of a rate increase, potentially signaling a hiking bias. Indeed, Chair Warsh presented a bullish assessment of the economic outlook, stating that the economy has been strengthening and that the labor market is in solid shape with limited downside risk. That said, the key issue for the committee was inflation, which has been above the Fed's 2% inflation target for over 5 years. Chair Warsh also repeated that he would be "hard pressed" to accept that financial conditions are restrictive. Arguably, investors can glean several signals from the aforementioned developments. First, Chair Warsh noted the rate hike removes "a dose of accommodation," a statement repeated many times by him during his press conference. While this statement might imply that more rate hikes are on the horizon, the Fed's dot plot doesn't necessarily suggest that the FOMC sees the need for a prolonged or speedy rate-hiking cycle, as the median dot projects one more rate hike by year-end, with an extended pause next year. Moreover, Warsh underscored his commitment to delivering price stability and stated that "today's action starts to show we are serious about this," projecting a more hawkish tone.

The Fed's press conference, while tilted hawkish, might leave investors with the impression that Warsh was communicating some form of forward guidance, despite his long-standing opposition to the practice. Said another way, investors should not confuse the language used at the press conference as a variation of forward guidance. Recall that forward guidance creates unconditional precommitments to future policy actions, which then bleed into market expectations. What Chair Warsh delivered at the September FOMC meeting was simply his assessment of the economic backdrop while also communicating that future policy moves will be contingent on new data and economic information. In other words, the Chair was not giving forward guidance.

In this environment, understanding the underlying trajectory of growth, inflation and labor market conditions may prove more important than anticipating the message delivered at the next FOMC press conference. While concerns surrounding a more hawkish Fed and a lack of forward guidance are understandable, we think investors should expect additional tightening; however, we view these moves as a mid-cycle adjustment rather than the commencement of an aggressive rate-hiking cycle. All told, investors should not mistake higher rate volatility for the loss of fixed income's diversification benefits. While a more data-dependent Fed may contribute to larger swings in policy expectations, bonds have historically exhibited far lower volatility than equities and can continue to provide valuable ballast within a diversified portfolio.

Figure 1: 3-year rolling standard deviation



Source: FactSet data as of 8/12/26.

Investment tactics for the changing fixed income climate

Capture rising real yields — Despite the uncertainty around future Fed communications, the economic backdrop remains attractive for fixed income. Specifically, a confluence of factors is driving the rise in real yields, including resilient economic data, robust demand for AI investment, and a bond market that is pricing a higher neutral rate.

In addition, financial conditions remain accommodative, economic activity remains resilient and credit creation is healthy. While some investors may point to pockets of exuberance — in particular around the AI theme — it's also possible that the neutral rate may be higher than what many models suggest and markets are increasingly pricing that reality. Viewed through that lens, the recent rise in yields may reflect less a reassessment of the Fed's commitment to price stability and more an adjustment to resilient fundamentals that have thus far proven consistent with higher borrowing costs, as nominal GDP growth continues to exceed both the effective federal funds rate and 10-year Treasury yield.

Higher yields are less a sign of policy restraint and more a reflection of an economy capable of absorbing higher borrowing costs.

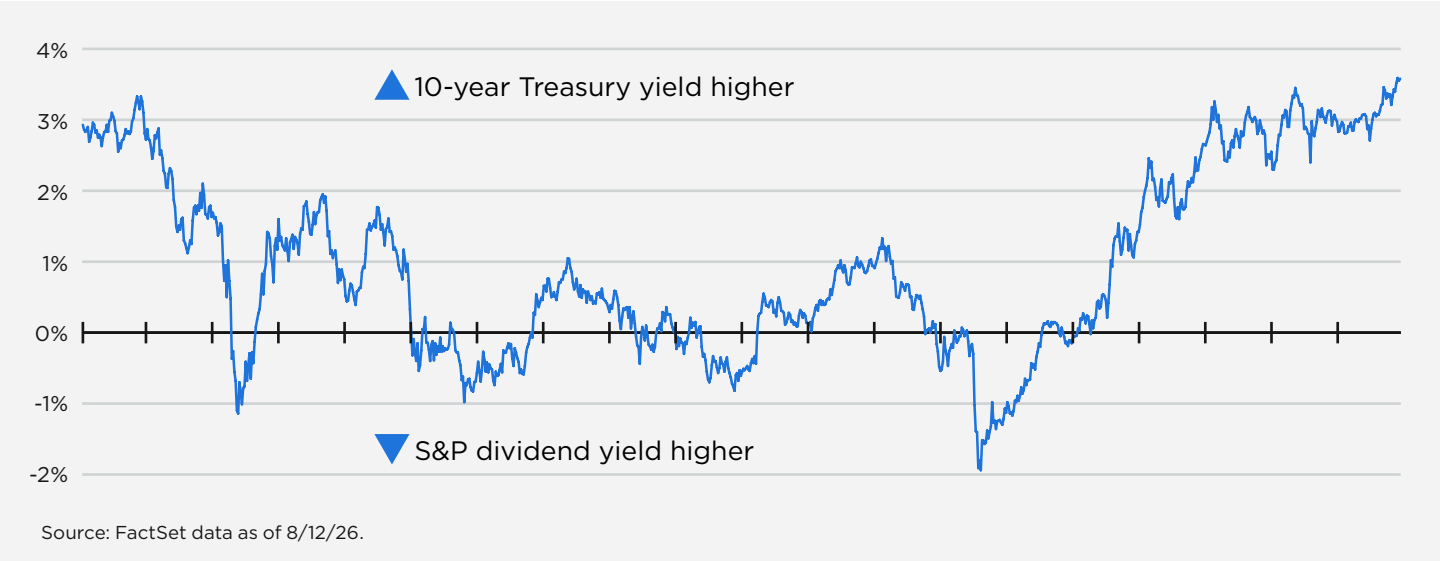
Importantly, the rise in yields has been driven primarily by higher real rates rather than a meaningful deterioration in inflation expectations. This distinction matters because it suggests that investors are demanding greater compensation for growth, investment demand and the uncertainty surrounding the policy outlook. Put differently, the bond market appears less concerned about runaway inflation.

The AI investment cycle may also play a larger role than many investors appreciate. While markets often focus on the cycle's implications for equity valuations, the scale of private-sector borrowing needed to finance data centers, power infrastructure, semiconductors and related capital expenditures may be contributing to upward pressure on real borrowing costs. At the same time, expectations that AI could enhance productivity and support long-term economic growth further reinforce the case for higher real yields.

Elevated real yields could make bonds more attractive for investors looking to add ballast to their portfolio. With real yields materially higher than they were for most of the past decade, investors are once again being paid to own high-quality fixed income, improving the opportunity set across a diversified portfolio.

Perhaps more importantly, a higher-rate environment restores competition between asset classes. When bonds can provide meaningful income and positive real returns, asset allocation decisions become less about chasing returns and more about balancing risk, income and long-term objectives. Consider that the U.S. 10-year Treasury real yield is hovering around 2.34%, while the S&P 500® Index dividend yield sits near just 1.35%. In that context, high-quality fixed income is once again offering compelling relative value, particularly for investors seeking income, capital preservation and inflation-adjusted returns.

Figure 2: U.S. 10-year real yield minus S&P 500 Index dividend yield



Source: FactSet data as of 8/12/26.

Look for value beyond tight spreads — Investment-grade credit is at an interesting crossroads, as higher rates have returned to the forefront for credit investors. On one hand, spreads remain near historically tight levels, limiting the margin for error and fueling concerns about the current record pace of issuance. For example, much of the new issuance (close to $1.5 trillion so far this year through August) has been driven by borrowing to fund AI-related capital expenditures, balance sheet financing and merger-and-acquisition activity. Market participants may question whether new issuance could eventually outpace demand, yet focusing exclusively on spread levels risks missing the broader backdrop.

Corporate fundamentals remain remarkably healthy, economic growth continues to expand and recession risks remain subdued. At the same time, higher Treasury yields have materially improved all-in yields across investment-grade credit, allowing investors to capture attractive levels of income even as spreads are compressed. In other words, investors are no longer relying solely on spread tightening to generate returns. Elevated base rates and relatively stable credit fundamentals are driving today's fixed-income return profile. That said, investors should expect spreads to widen to some degree given the enormous cost of borrowing to support the AI build-out.

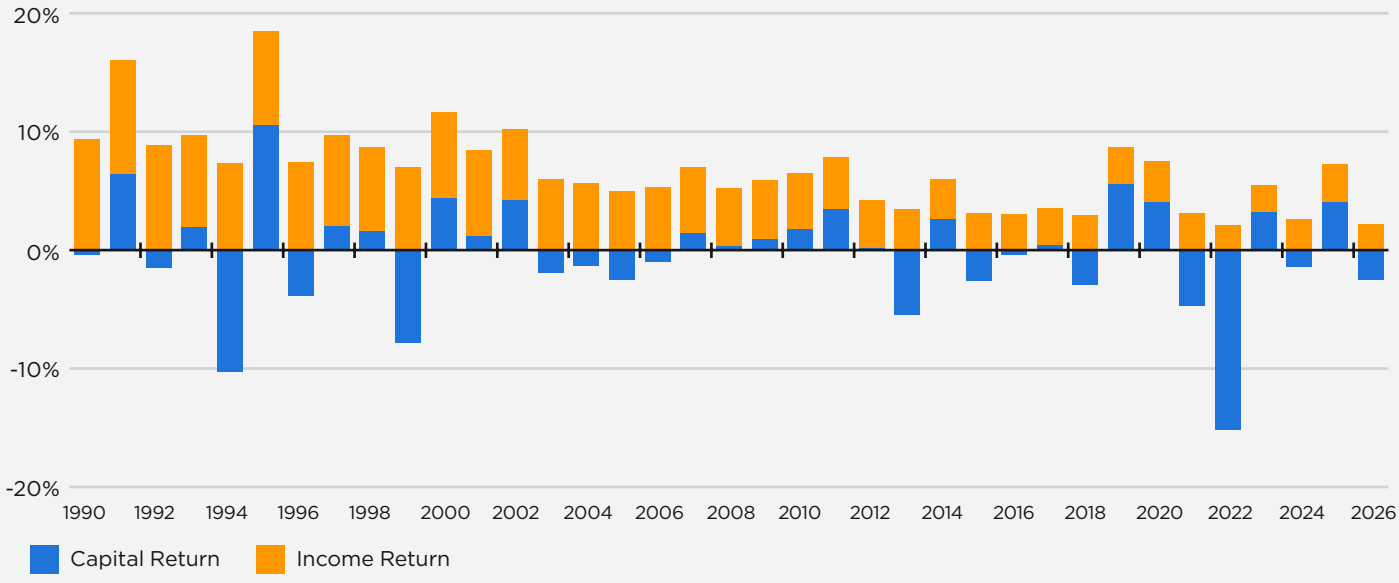
To be sure, tight spreads warrant selectivity. Refinancing risks, elevated issuance from AI hyperscalers and isolated pockets of leverage remain important considerations, particularly as markets adjust to a higher-for-longer rate environment. However, barring a meaningful deterioration in economic conditions, we believe investment-grade credit remains supported by strong demand for income, healthy corporate balance sheets and the absence of broad-based default concerns.

For investors, the opportunity lies in harvesting attractive absolute yields from high-quality issuers. While spreads may have limited room to tighten further, investment-grade corporate bonds should continue to offer a compelling combination of income, quality and relative value within a diversified portfolio. This combination may prove increasingly valuable in a market where uncertainty surrounding policy, inflation and growth remains elevated.

Prioritize attractive yields — While making a directional view for spreads is fraught with uncertainty, today's credit market seems to suggest that return expectations are increasingly tethered to carry rather than changes in valuation. As mentioned earlier, credit spreads remain near the tighter end of their historical ranges, while the recent increase in real yields suggests that duration may be less effective as a shock absorber than it was throughout much of the post-Global Financial Crisis (GFC) period. This is understandable given the zero-interest-rate policy at that time. This is why, perhaps, investors should place less emphasis on trying to achieve a total return boost from lower rates and more emphasis on the income embedded in current market yields.

Importantly, investors should not interpret the focus on yield capture as a less constructive outlook for fixed income. Quite the opposite, in fact: Elevated all-in yields can reduce the dependence on favorable market outcomes by allowing investors to harvest a meaningful share of expected returns through income alone. In that respect, the opportunity set appears less reliant on predicting the future path of rates or trying to formulate a distribution of outcomes around economic data and more reliant on owning assets capable of generating durable cash flows during a potentially more volatile interest-rate regime.

Figure 3: Bloomberg U.S. Aggregate Bond Index components of total return



Source: FactSet data as of 8/12/26.

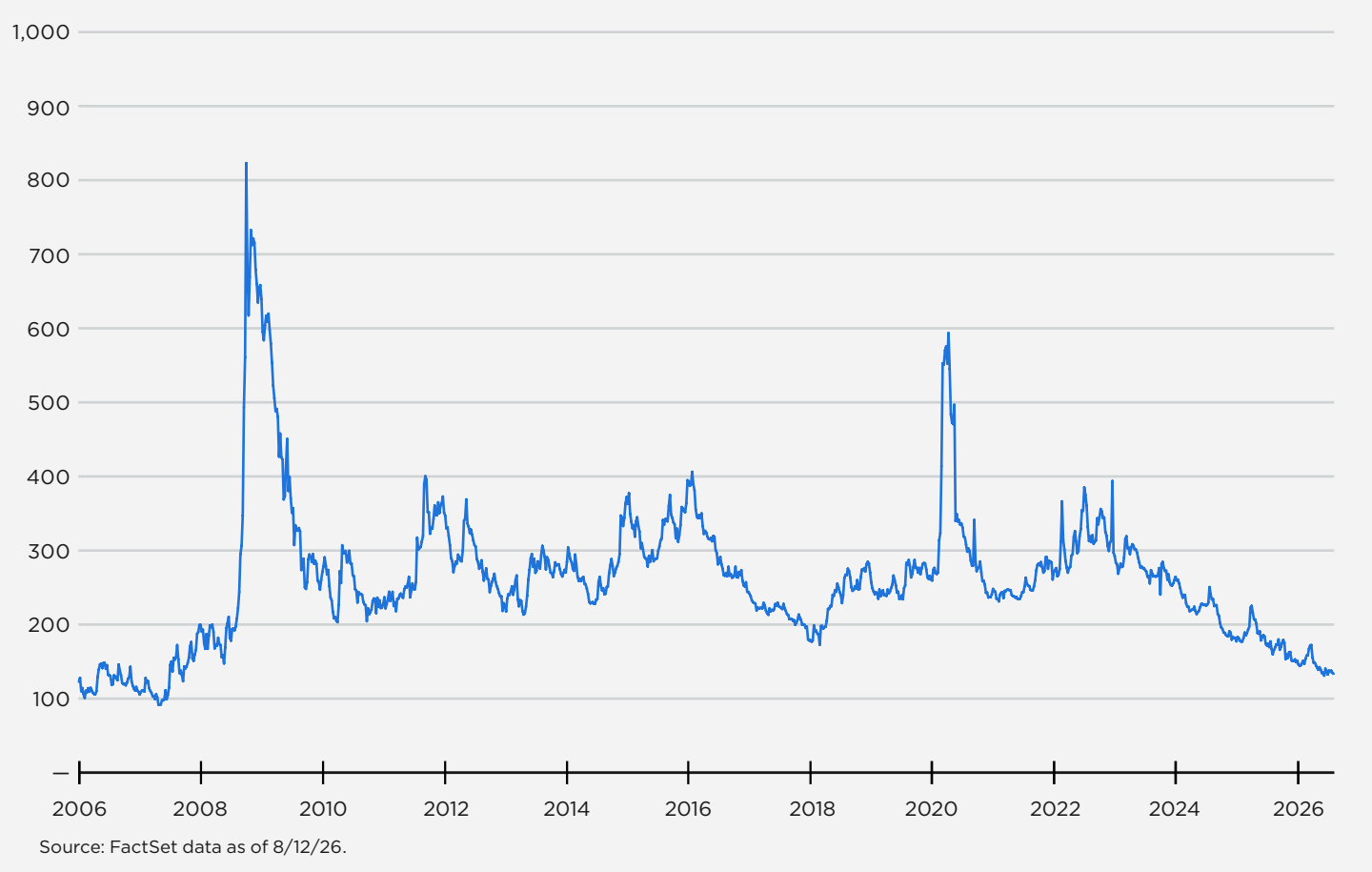
Consider a broader opportunity set beyond AI — The size, scale and scope of AI-related investment remain dominant for financial markets. Yet, amid the excitement surrounding unprecedented capital expenditures, investors should keep in mind that the financing demands associated with the AI build-out are contributing to increased issuance across segments of the credit market, while at the same time creating greater differentiation across sectors, regions and issuers.

Not all markets are experiencing these dynamics equally. Diverging growth trajectories, inflation trends and policy responses among global central banks have created a more fragmented investment environment than investors have faced in recent years. While the Federal Reserve remains focused on balancing inflation risks against signs of solid economic momentum, policymakers in other regions are navigating markedly different economic backdrops. The result is a wider dispersion of yields, spreads and relative value opportunities across fixed income markets.

From an investment perspective, this backdrop reinforces the importance of carry as a return driver. In the current environment, investors are being compensated to take selective risk rather than relying exclusively on duration or spread compression to generate returns. Put differently, the return profile of fixed income today is increasingly driven by income generation rather than capital appreciation alone. Moreover, rising yields are not simply a U.S. phenomenon; on a currency-adjusted basis, many countries have yields that are well above U.S. Treasurys. At the margin, this is likely to reduce demand for Treasurys but more importantly higher nominal yields raise the cost of borrowing, particularly for AI-related sectors and companies.

This dynamic may be particularly relevant within emerging market debt. Relative to developed market investment-grade corporates, many emerging market issuers continue to offer attractive yield premiums despite improving fundamentals and generally lower direct exposure to the AI capital spending cycle. As a result, emerging market debt may serve not only as a source of incremental carry, but also as a potential diversifier within portfolios that are increasingly concentrated around the beneficiaries and financing requirements of the AI trade.

Figure 4: Yield spread between the Bloomberg Emerging Markets Aggregate Bond Index (USD) and the Bloomberg U.S. Aggregate Bond Index



Source: FactSet data as of 8/12/26.

The current environment also may create a more favorable climate for active fixed income management. In our view, the opportunity set lies in identifying pockets of attractive carry and relative value across sectors, regions and issuers, rather than making investment decisions based on expectations for the future path of interest rates.

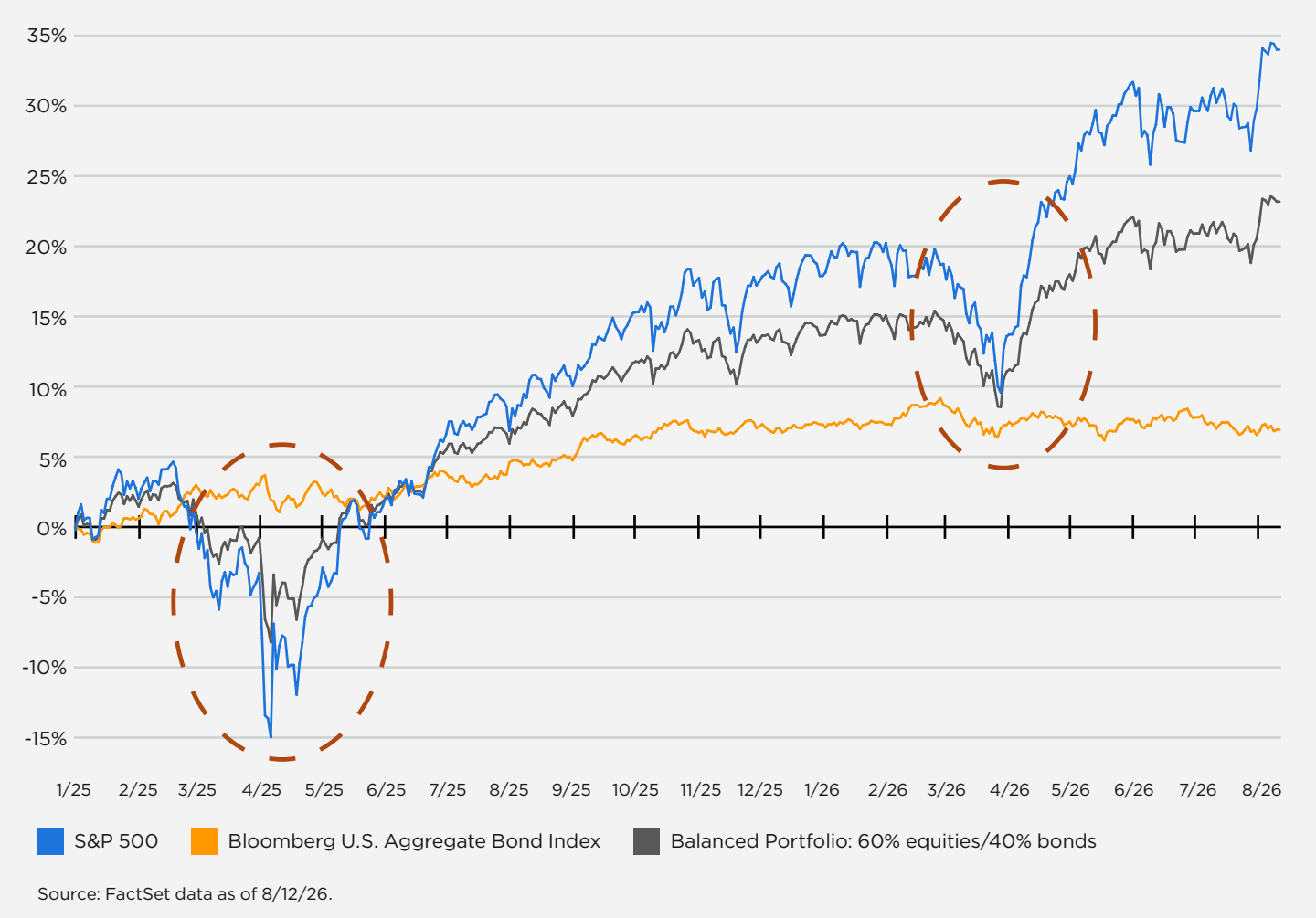
Maintain portfolio diversification — Despite ongoing uncertainty surrounding inflation, labor markets and monetary policy, today's yields offer a markedly different starting point than investors faced for much of the post-Global Financial Crisis era. In our view, resilient economic growth, fiscal deficits and sticky inflation pressures are likely to keep Treasury yields elevated.

While rising rates have weighed on bond prices, recent bouts of market volatility, such as the equity market drawdown of 2025 and the more recent pullback from February 27 to March 30, show that bonds still cushion portfolio drawdowns relative to equities. For instance, the Bloomberg U.S. Aggregate Bond Index returned just 0.4% for the first 5 months of the year and trailed short-term Treasury bills, but the maximum drawdown for the Index over this period was only 2.8% — well within its historical average. Moreover, equities, as measured by the S&P 500® Index, suffered a nearly 10% drawdown in the first five months of 2026.

The elevated level of yields relative to the past decade has helped create a stabilizing effect during bouts of market stress, potentially reducing overall drawdowns and smoothing portfolio performance. This marks a notable departure from the low-yield environment that prevailed for much of the past decade, when modest increases in interest rates often translated into disproportionately large price declines and left bond investors with little room for error.

Lastly, recent bouts of market volatility have also raised broader portfolio construction questions. As the relationship between stocks and bonds continues to evolve, investors may need to reassess traditional asset allocation frameworks, evaluate how shifting correlation regimes affect diversification, and determine whether their portfolios remain appropriately aligned with their long-term risk and return objectives.

Figure 5: Bonds offered stability during acute periods of market stress

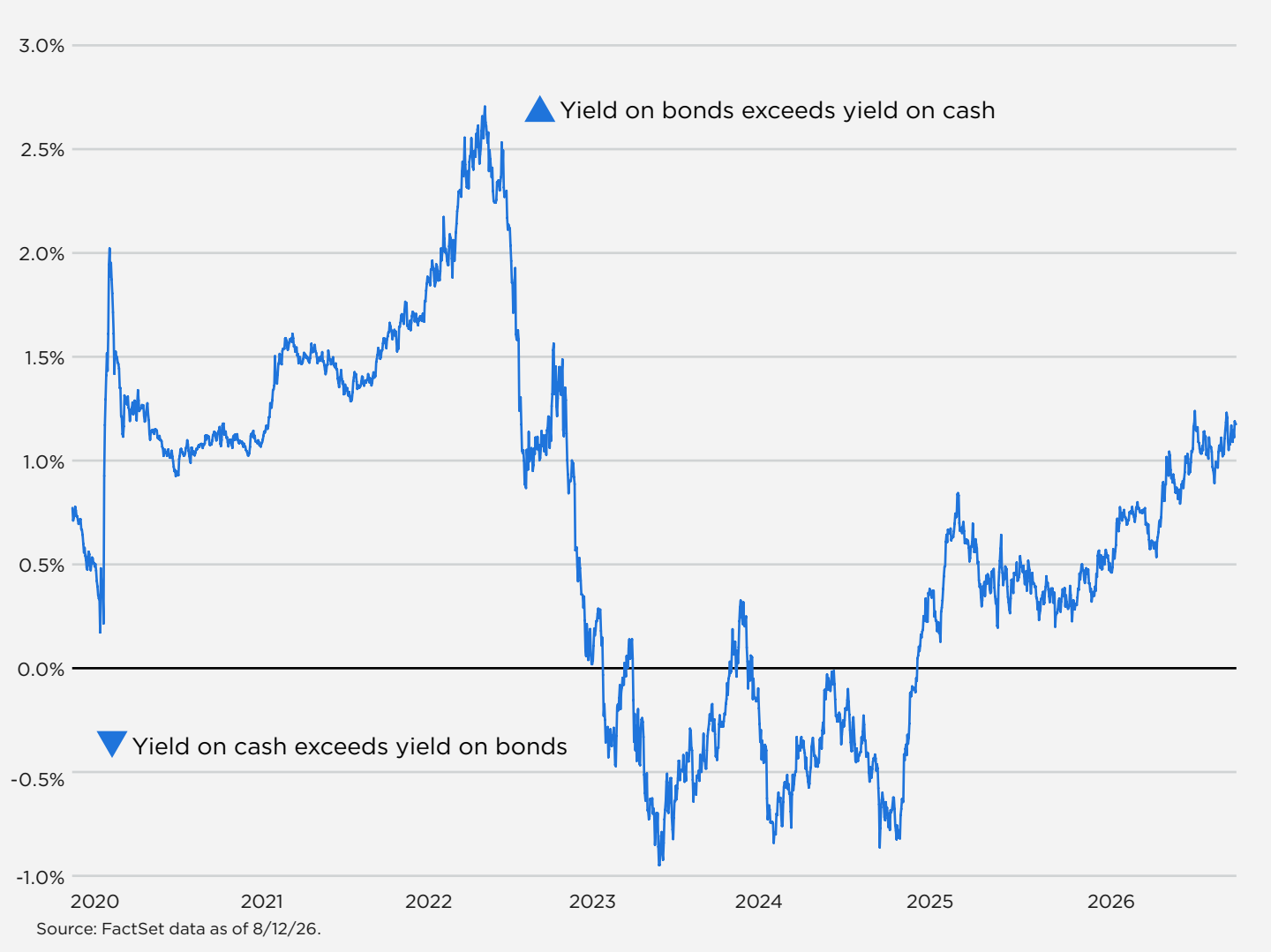


Source: FactSet data as of 8/12/26.

From a portfolio construction standpoint, the current environment argues for maintaining strategic fixed income exposure rather than an overweighting of cash-like investments. Similarly, for investors concerned that outsize gains in certain pockets of the technology sector have left portfolios increasingly concentrated, today's higher yields provide an opportunity to rebalance toward long-term risk and return objectives. Rather than chasing momentum, investors can now reallocate capital toward high-quality fixed income and earn meaningful income while potentially reducing overall portfolio volatility.

Short-term bonds continue to offer attractive yields with relatively limited duration risk, while longer maturities provide opportunities to lock in income levels that were largely unavailable throughout much of the previous decade. A diversified maturity profile, including laddered bond allocations, may allow investors to balance reinvestment risk, income generation and interest-rate sensitivity as the economic outlook evolves.

Figure 6: Bloomberg U.S. Aggregate Bond Index yield vs. 3-month U.S. Treasury bill yield



Source: FactSet data as of 8/12/26.

Importantly, while policy uncertainty remains elevated, higher starting yields have improved the risk-reward profile for fixed income investors. Even if long-term Treasury yields drift somewhat higher amid stronger growth or renewed inflation pressures, today's income levels provide a larger buffer against potential price declines than was the case when yields were near historic lows. For investors, the focus should be less on timing the next move in rates perfectly and more on taking advantage of an environment which bonds once again offer meaningful income, diversification benefits and attractive long-term return potential.

About the author

Mark Hackett, CFA®, CMT®, CFP®, is the Chief Market Strategist for Nationwide's Investment Management Group, bringing more than 20 years of experience in the asset management industry to the role.

In this role, Mark is a leader for Nationwide's capital markets analysis and thought leadership initiative. He is responsible for developing content to educate financial professionals and their clients on financial markets and implications for investors. Additionally, he develops asset class research, market commentary, white papers and topical market collateral. His strong skills and work have been featured in numerous financial publications and webinars, including CNBC, The New York Times, The Washington Post, ABC News, CNN Money, the Associated Press, BuzzFeed, Investor's Business Daily, Cheddar and others.

Mark refined his skills in the industry from his prior research roles and holds a FINRA Series 7 license. Before coming to Nationwide, he completed research for both Nuveen and the Vanguard Group and also served as a Portfolio Manager for Nuveen.

Mark is a graduate of the University of Richmond with a BBA in finance and economics. He also holds the Chartered Financial Analyst (CFA), Chartered Market Technician (CMT) and Certified Financial Planner (CFP) designations.



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