Macro Markets Podcast Episode 92: Growth and Markets While the Fed Is in Play: Macro Themes and Market Drivers

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Jay Diamond: In a move that was well telegraphed and widely expected, the Federal Reserve raised the fed funds rate this month, but markets are still jumpy. Uncertainty is high as the Fed remains in play, bond yields are higher, stocks are fluctuating, and concern is mounting that elevated energy costs will become embedded in inflation expectations. How should an investor think about this environment?

Well here with some ideas on this subject are **Evan Serdensky**, a portfolio manager on our Total Return team, and **Matt Bush**, our US economist. In addition to walking us through our outlook, they will also discuss a few key forces driving the economy as laid out in our latest Quarterly Macro Themes publication. If you want to follow along on that, you can find the Quarterly Macro Themes on our website and in our show notes.

I'm Jay Diamond, head of Thought Leadership and I'm your host, today. We are recording this episode on September 25th, 2026. With that, welcome back, Evan and Matt, and thanks for taking the time to chat with us today.

Matt Bush: Great to be back on, Jay.

Evan Serdensky: Thank you, Jay.

Jay Diamond: Alright, Matt, let's start with you. Before we dive into the Quarterly Macro Themes, what was your read on last week's Fed hike, and Chairman Warsh's post meeting remarks?

Matt Bush: Yeah, the hike itself wasn't really a surprise based on what Wars signaled at Jackson Hole and the disappointing August inflation data. What was more notable to us was the Fed's optimism on the strength of the economy. The communications, in particular from the Fed statement, painted an upbeat picture of economic growth that is resilient and strengthening. The statement described domestic spending as resilient productivity, strong, capital investment, robust.

We saw the economic projections mark up growth for both 2026 and 2027, and marked down unemployment rate forecasts, and these strong economic projections came even with the path of interest rates being revised up. The dot plot median showed 4.1% fed funds rate both this year and next. And so better economic growth, even with higher interest rates, suggests the Fed sees a higher neutral rate for the economy.

Warsh's statement that they removed a dose of accommodation also matches up with this view that rates really aren't in restrictive territory, which is different messaging than what we've heard over the past year or so from most of the FOMC, who had been describing rates as modestly restrictive. And so I think what these projections communications imply is not that the Fed is aiming to slam on the brakes on the economy to get inflation down, but they're recalibrating policy in light of what they see as a stronger economy, so that they can ensure a timely return to deflation, as they put it.

When Warsh spoke in the post-meeting press conference, there was a hawkish element to it as well. He came out and reiterated that he didn't see much improvement in the inflation data over the summer. And he also highlighted rising commodity prices, an upside risk to inflation. And then one other hawkish element was him noting that he didn't see financial conditions as restrictive.

So given this hawkish tilt from Warsh, given these economic projections pointing to a higher neutral rate, we've seen market pricing for rate hikes really move up post-meeting, now seeing a peak right around 4.8% by the end of next year.

Jay Diamond: Now Evan, as Matt said, the decision had been fairly well telegraphed, so it wasn't a surprise. But what has been fixed income markets' response to the Fed's rate increase and what are the investment implications, at a very high level.

Evan Serdensky: Yeah, I think the lack of surprise was the point because the alternative would have been a lot worse. I think we would have had a very negative reaction if they had not hiked in this meeting. So ultimately they delivered the hike that the market wanted. As Matt talked through, the reaction was slightly hawkish. The front end rose a little bit. The long end, importantly, stayed very stable.

In terms of implications, I think that line that he delivered that they're removing a dose of accommodation was really important for the forward-looking path here, that it implies there's more to go at a time when the economy continues to expand. And that's really what's driving rates right now. There's been a lot of reasons given for why rates are at the high end of the range and moving higher: Oil, fiscal concerns, inflation, capex issuance crowding out Treasurys, they're all valid to a slight degree, but by far the largest driver has been growth or in other words, real rates rising. You mentioned Jay we're recording this podcast on Friday the 25th. We had a really strong PMI print on Wednesday that led to 10 to 15 basis point surge in interest rates across the curve. That was further evidence that this move in interest rates is all about growth right now.

Jay Diamond: Interesting. We're going to get back to the market during our conversation. But let's turn to the Quarterly Macro Themes publication, in which we provide a view into some of the factors that drive our outlook. Now, Matt, one of the themes in the Quarterly Macro Themes is the singular contribution that labor productivity or output per hour has in growing the economy. Why is that so consequential, and what impact do you think it will have?

Matt Bush: Well, the productivity outlook is so consequential for a few reasons. Economically, it's essentially our only source of supply-side or potential growth right now, given that labor force and population growth is so low. So to grow our capacity to produce more goods and services, we need it to come from productivity growth. And given that demand growth is so solid, as Evan mentioned, if we want sustainable non inflationary growth, we need to see solid productivity growth continue.

And then from a market perspective, productivity growth driven by AI is going to need to materialize to justify all this AI capex that's being poured into the AI build out, which is what so much of equity return optimism is built off.

Increasingly., this is a credit market story too. So we need to see that handoff from strong investment to strong productivity to justify this AI build out.

So in the report, we note that while the headline labor productivity numbers has been solid, if you look under the hood, it's not yet a story about AI adoption driving efficiency gains for businesses. Instead, it appears to be more about giving workers more capital to work with and pressing both those workers and that capital harder or utilizing them more.

So if you adjust for those factors underlying total factor productivity growth has been weaker. And if we're going to get a sustained high productivity period like we had in the 1990s, we do need to see the underlying technology-driven productivity pick up. Now we are optimistic that this will happen. We continue to see AI adoption by businesses continue to steadily rise.

The capabilities of AI models obviously continues to grow at a really impressive pace, and it takes time for businesses to figure out how to integrate AI tools into their processes. So we think that this productivity growth will materialize, but it's worth noting that we haven't seen it actually pick up yet if you dig into the data. And so this is somewhat of a downside risk for markets and the broader economy if we don't see those AI efficiency gains materialize over the next year or so.

Jay Diamond: Thank you. Now the other theme in the Quarterly Macro Themes examines the difficulty in measuring inflation amid many noisy indicators. So given that, where do you think inflation is running right now?

Matt Bush: So the genesis of this question is because it's pretty difficult right now to actually measure where trend or underlying inflation is. And it's difficult for a couple of reasons. First is that the economy has been hit by a succession of supply shocks, most recently tariffs and energy prices. And those supply shocks can obscure the underlying trend for inflation.

It's also difficult because there are a lot of measurement challenges for certain inflation categories. This year, we've seen how software prices and portfolio management prices—fairly small shares of the inflation basket, but they've been big contributors to overall inflation. And the BEA is actually next week going to revise the methodology for these because it's not accurately picking up really what's going on in the inflation dynamic right now.

And then lastly, we've also seen over a longer time horizon, the quality of the official inflation data deteriorate due to budget cuts at statistical agencies due to falling response rates to government surveys, which means any one inflation print is going to have more noise and volatility in it. So it's increasingly hard to just look at one number and have a good sense of what underlying inflation is.

You can't just look at core PCE and say that's the whole story. So we use an array of measures and techniques to look at where underlying inflation is. And looking across those measures, the message is reasonably consistent. Underlying inflation looks to be below core PC, but we think it's still running in the high 2% area. So still above target.

So it's good news that trend measures aren't as high as core PC. That's encouraging that we should see some inflation relief over the next year, but the fact that it's still well above target, really without much progress recently does tell you the Fed has some more work to do to get it down.

Jay Diamond: In the Quarterly Macro Themes, we also update our overall macro outlook. Before we get back to Evan, who's going to talk about the markets a little bit, Matt, I want you to set the table for him by going through

some of the drivers of the economy as you see them, and we'll do this in a lightning round. So to kick it off, let's talk about AI. It's a big driver of economic growth. How important is it and does it create downside risk.

Matt Bush: It's very important for economic growth through multiple channels. You have obviously the direct investment in computer equipment, software, data centers. Increasingly we're seeing that investment generate positive spillover effects in areas like power, construction, manufacturing. And there's also a large indirect effect through the wealth effect on consumer balance sheets. Recently we got updated data on household balance sheets, and we saw household net worth up $21 trillion over the past year.

That's compared to GDP of $32 trillion. And so a lot of that really extraordinary gain in household wealth is due to AI driven equity gains. And that's helping keep consumption afloat. So AI is a major source of growth right now, but it does create vulnerabilities because it really is one of the main drivers of growth. Investment outside of AI is soft, consumer incomes are essentially flat in real terms. So if we did get any interruption to the AI impulse on growth, it would have a big macro impact.

Jay Diamond: Now consumer sentiment continues to slide amid rising inflation. Will this meaningfully impact spending and in turn on the economy?

Matt Bush: Yeah, consumer sentiment did correlate decently with consumer spending. But the last several years that relationship has really broken down. We've had depressed sentiment now for years and consumption has continued at a fairly steady pace. And so I don't think that alone will have a big impact. We've just seen consumer resilience really for several years now. Even with the latest shock of higher energy prices, we haven't seen much of a slowdown like many predicted.

We do think that tax cuts and tax refunds earlier this year help cushion the energy shock, and that support should fade going forward. But again, these extraordinary wealth gains should provide some buffer. And we're seeing the labor market stabilize, which should also help consumer spending.

Jay Diamond: Now the unemployment rate is hovering around 4.1%. What's your outlook for the US labor market?

Matt Bush: We see unemployment holding around current levels, maybe slightly increasing over time because we have immigration going into reverse. As I said, labor force growth is really low right now, so it just doesn't take much job growth to keep the unemployment rates steady. So overall, a pretty stable labor market. From an inflation perspective, it's encouraging we're seeing wage growth continue to soften. And so that is one element of our inflation outlook that we do see wage pressures subsiding.

Jay Diamond: Now, fiscal policy is always a variable that we need to look at. What impact will fiscal policy have on the economy going forward?

Matt Bush: It's divergent depending on where you look in the economy. On the consumer side, we see some headwinds from fiscal policy. The tax cut boost earlier this year is largely behind us now. Moving forward, some of the cuts to programs like Medicaid and snap will pressure consumers, especially lower income consumers. On the business side, we still see more of a positive fiscal impulse. Some of the One Big Beautiful Bill provisions are helping to broaden growth in capex beyond just AI. So that's one reason we think business investment spending can continue to grow at a solid pace. And another fiscal factor to watch is higher defense spending. That could be an additional catalyst for more investment, more manufacturing output.

Jay Diamond: Now you've talked about inflation a couple of times already, but what's your forecast for inflation.

Matt Bush: Yeah. So the way we're thinking about inflation is right now a lot of the overshoot is due to three big impulses: tariffs, AI spillovers and then energy in the Iran conflict. And so walking through each of those you know in the latest monthly data, the tariff effect looks to be mostly fading out. So we think by early next year that impulse should largely be behind us. AI driven inflation was very strong at the start of the year due to the impact of the surge in memory prices. We think we will see continued positive spillovers from AI into consumer inflation, but the pace of those gains should slow going forward after the large run up that we've seen.

The trickiest one to forecast is the outlook for energy prices, because it's so tied to the geopolitical outlook. The renewed rise in energy prices over the last two months is upside risk to our outlook, especially because diesel prices have led the gains and diesel is a very important industrial input. You're hearing more supply chain problems building up as well due to higher energy prices and the broader disruptions that the war is causing.

So putting it all together, we do see some stickiness and inflation in the near term. We think core PCE will stay above 3% through year end. But as these three big impulses fade over the next year, we see core PCE falling to the mid 2% area by around the middle of 2027.

Jay Diamond: And what's the outlook for the Fed's rate path given all of this?

Matt Bush: Yeah. As I said the market's pricing nearly five more hikes right now. Whereas the Fed median in the dot plot was that just one more. And that median fed funds projection was with fairly high growth and inflation expectations. And so our baseline is for one more hike this year in line with the Fed dot plot. Maybe some upside risk of one additional hike in the near term, but especially as we look into 2027 and beyond when inflation shock should be behind us, our probability weighted view is well below market at this point. We even see some chance that toward the end of 2027, as inflation fades, they could be starting to cut rates again.

Jay Diamond: That's been great. Thanks for all this background and for laying out the macro roadmap. Which brings me to Evan—given this macro backdrop, at a holistic level, how are you and the team approaching portfolio allocations and strategy?

Evan Serdensky: Well, as yields have risen, it's interesting that the asymmetry of future returns for bonds grows. And so the question for us right now is where's the best place to source those returns. And I think there's a few things that are really important for these decisions right now. Number one is something we don't talk about a lot, but it's convexity and convexity profiles matter a lot right now. Convexity in very simple terms just means the change of change or the speed of change of prices of bonds relative to changes in yields. And obviously we're getting large moves in yields right now. So the speed of price changes matters a lot. And so there's plenty of interesting things to do right now across the curve. In the front end there's interesting short duration takeout type of trades. In the long end you can find very discounted long duration bonds. And simultaneously there's lots of carry or yield opportunities as well where you don't have to take a lot of duration risk or credit risk. So right now, I think sizing decisions are as important as where you're allocating. And so diversification across our portfolios is very high right now. And that gives us a lot of room to be dynamic.

Jay Diamond: Given all this, let's discuss your views on some of the market outcomes you expect and strategy execution. And I'll go through them quickly. So first of all Treasury yields, shape of the yield curve, and duration positioning.

Evan Serdensky: The trend in yields most of the year has been flattening where the front end of the curve has been rising faster than the long end. And at this point the curve is very flat. Most Treasury points on the on the curve are around 5%. It steepend out a bit after the ten year point. And so within that context I think there's two really interesting areas.

First is, call it the 2 to 5 year points where, as Matt just walked through, this is probably most diverged from our expected policy path in terms of market pricing relative to our expectations. And it's obviously a part of the curve that has fairly low duration risk and a lot of upside price return potential if we do get a growth shock or something that brings interest rates back down.

The other interesting area of the curve is a very under-talked about part of the curve. It's just past the ten year point but short of 30 years. So call it 12-year to 20 year-point. This is interesting because it's the steepest part of the interest rate curve right now, which gives you, as a bond manager, the best roll down potential. And all roll down means is you buy a bond at a yield today, if nothing happens and time passes and you roll down the yield curve to a lower yield point at a sooner tenor, you earn that upside return without anything happening, simply because you're now pricing the same bond at a lower yield than you were a year ago.

So you don't have to go out to the 30-year point to source these very high yields. And you get this additional boost from roll down total return by buying in this more kind of 12 to 20 year point of the curve. So all that to say, our positioning is pretty barbelled right now across the curve.

Jay Diamond: Well we're going to get back to rates a little bit later. But next I want to ask you about credit performance and credit spreads.

Evan Serdensky: So we've talked about credit conditions quite a bit on some prior podcasts. And in general, in short fundamentals are fairly healthy for the most part. It sort of tracks the broader economy, which as we've been talking about, is doing very well. Valuations leave something to be desired. They're pretty rich on a spread basis, at least if you're measuring relative to Treasurys.

Part of the reason for this richness and spreads is because Treasurys themselves are rather cheap. And an example of that is if you measure the spread of corporate bonds relative to what swaps markets are pricing in, in terms of the policy path, valuations look much more reasonable there. You see wider spreads on that basis. And I think that the most widely known indices that everyone tracks also mask a lot of pockets of value across fixed income right now. The areas that we like to focus on—structured credit in particular—still screens as cheap relative to long term historic valuations. And then there's other pockets that we'll talk about like some of the AI capex financing opportunities overseas and in global markets are relatively attractive right now. All that being said, we're still relatively cautious overall, especially right now. We're entering a period where the seasonal are fairly poor. And as we mentioned, valuations don't leave a lot of room for upside. And at the same time, pockets of macro risks are growing. So we're still positioning relatively conservatively.

Jay Diamond: So let's talk about technicals, supply and demand. Where are you seeing that and how is it affecting market opportunities?

Evan Serdensky

I think this is such an important aspect right now across evaluating different sectors. And it's because the technicals are diverging and changing really rapidly. Right now. There's certain markets that have very heavy oversupply. Treasurys are sort of well understood at this point. AI capex is another area, but you contrast that with other sectors that have net negative supply. Mortgage backed securities are a good example. There's not a lot of origination happening at these very elevated mortgage rates. Other parts of the corporate market, loans and various subcategories of structured credit are seeing much lower supply relative to prior years. So this is creating a lot of opportunity.

And the supply dynamic is only one part of the technicals. The other aspect that I would throw in there is just the move that we've seen in rates over the last several years. We've basically been through massively different interest rate regimes in a very short period of time. And so this has created the ability to take advantage of various call and put provisions within bonds, which sounds very technical, but this is what creates a lot of active opportunities.

Jay Diamond: Matt mentioned AI as IT of economic growth. So how are you thinking about opportunities in AI or AI adjacent spaces?

Evan Serdensky: Very selectively. And this is another area where it's an example of where the technicals matter a lot. And you have to consider the technicals from your investment strategy standpoint. So this market has evolved a lot. We actually did our first data center ABS deal back all the way in 2018, which was a very different market at the time it was mostly co-location style financing. Hyperscalers weren't really a thing at the time. And then obviously AI came along and this was initially financed in the ABS market that was familiar with data centers, but quickly the size of the capital needs overwhelmed what was possible to finance in that market, and the type of financing was for yet-to-be-built data centers, which isn't a great fit for ABS structures. So a lot of that financing moved to the corporate markets.

Now, the way we're looking at it is ultimately the majority of these mega deals that that you're hearing about almost on a daily basis that are getting financed in the corporate market, they look to a hyperscaler for some form of backstop on the credit risk. And this is the off balance sheet financing that's occurring. We're seeing really creative structures and all this is great. There's plenty to do because a lot of times you are happy to lend to these hyperscaler risk profiles. But there's ultimately only so many hyperscalers at the end of the day. And so you need to be really thoughtful about your sizing and about the relative value and a recognition that there's still a lot of issuance to come.

So the way we have been approaching it was very cautious to start. And it wasn't until the technicals shifted—call it around mid-summer—there was a huge repricing that coincided with basically the time of the SpaceX IPO and they did a large IG corporate deal as well. A lot of these data center capex deals repriced to the call it mid-sevens yield, and had to do more conservative structures with shorter duration profiles. And that's when it really became interesting. And that's when we started initiating some positions in the space.

Jay Diamond: Given all this—picks to click if you were to put some money to work right now, where are you finding value and what would you be avoiding?

Evan Serdensky: Well, we've spoken to many of the spots already, I think, mainly it's about finding ways to monetize convexity. It's trading the technicals thoughtfully, and then it's sourcing high quality carry and yield in order to wait out for the bigger fish of a spread widening event for whatever reason we may get. But lastly, I think it's important to acknowledge that our strategy also revolves around responding to changing conditions quickly, because that's the environment that we're in right now.

So we don't want to get attached to a position or a stance. And I'll give you an example. Agency mortgage- backed securities was a sector that we had favored for the last several years now. It had really strong excess returns last year and early this year we were in an overweight position. But the conditions changed. Interest rates started testing the upper boundaries of the range.

Volatility was picking up off of a low point. And so we made a fairly dramatic cut to the Agency MBS positioning and took it to an underweight earlier in the year. And that ultimately ended up being a good decision because now

we're seeing spreads start to widen out materially right now in the sectors is starting to see mild signs of stress. And so there'll be a time to reenter. But it's just evidence of the fact that you need to be very responsive to changing market conditions.

Jay Diamond: Great. Now before I let you guys go, and by the way, thank you very much for your time. I want to circle back to the rate story, which is, you know, really the dominant theme in the market. And all anyone wants to hear about the ten year has, you know, been teasing above the 5% level for a little bit now, what factors do you think will cause this level to go higher or lower from here? Matt, why don't we start with you.

Matt Bush: On the upside outlook, as we've said several times now, the market is pricing in a lot of hikes at this point, well above even what the most hawkish FOMC participants wrote down in the dot plot. So I think to get even more priced, we need to see stronger evidence that the economy is not just seeing solid growth but is really accelerating.

Evan mentioned, you know, the S&P PMI release that catalyzed a pretty dramatic move higher in yields earlier this week. And that's kind of surprising given that's usually not seen as a tier one data release. And it really isn't backed up by other business surveys at this point. So I think it's going to take stronger evidence that, you know, we really are seeing some economic reacceleration. Or on the flip side, that inflation is getting worse. And both of those seem like a fairly hard bar at this point given where we see the economy and inflation heading, though I'm sure Evan would point out technical factors, positioning could cause rates to diverge from fundamentals for a short periods of time.

On the downside, there could be a few catalyst for seeing lower yields, in particular a lower path for Fed policy. We could see some signs that the economy is not overheating. Better inflation prints or signs that there's some steam coming out of the AI capex story that could cause the market to reassess the need for so many hikes. Another catalyst could be better news on their end war front and lower energy prices, which will also help the inflation outlook and take away some uncertainty premium.

And then another factor would be signs that the rise in yields is starting to weigh on financial conditions or the economy. We haven't really seen that yet. We do have a measure internally of daily financial conditions, and those have tightened up quite a bit with the move higher in yields. So over time that should put some downward pressure on growth and that could help to at least stabilize yields if not help them move a little bit lower from here.

Jay Diamond: Evan, do you have any thoughts on this question.

Evan Serdensky: I think that was well said. And again, to reiterate, rates are really just following growth right now so that that will determine the trajectory. And so it does seem like for now the path of least resistance is higher, although probably on a more measured basis than we've been seeing. And you know, the solution to higher rates is often higher rates themselves. There's a natural, self-regulating governor embedded where the economy slows under the weight of higher interest rates. But again, there's a lot of strength in the economy for now.

Jay Diamond: Just follow up. Treasury Department has come out with new buyback plan, which is a little bit out of the ordinary for its regular operating procedures. What are your views on the Treasury's buyback plan?

Matt Bush: Yeah, from my perspective, you know, the buyback announcement had some initial impacts, but I think we've seen in the week since how fundamental factors are much more important for the direction of Treasury yields. And on top of that, as Secretary Bessent himself noted, it's going to take more signs of meaningful fiscal

consolidation to have a longer term lasting impact on yields. So I think, you know, the buybacks are really not a major determinant of how we're thinking about the direction of interest rates.

Jay Diamond: Evan, what do you think?

Evan Serdensky: Yeah, I agree. I think that the tool is valuable as a liquidity tool; to the extent that it's being used or viewed as a yield tool, it's really not that impactful. It's just not large enough. More attention has really been paid to the latter, which I think is wrong, but it's also in some ways emblematic of a more activist Treasury. And so we do have to factor in a wider range of maybe unconventional tools or policies as we think about investment strategy.

Jay Diamond: Well, thank you. I want to thank you both for a very rich and lively discussion. Evan, I'm going to give you the last word. Any last thoughts that you'd like to leave with our listeners?

Evan Serdensky: Sure. I'll just leave everyone with sort of an observation about interest rate valuations. And it's that rates are sort of unique relative to equities, in that the forward returns for fixed income are often directly a result of the starting yield, which, to contrast with equities, most valuation metrics for equities are based off of some form of earnings that's in the denominator of whatever ratio you prefer to use for valuations.

Earnings are non-stationary in nature, so it makes the valuation more challenging and more multivariate. Whereas in interest rates and fixed income, higher rates lead to generally higher forward looking returns. You can run simple regressions to sort of identify that. So higher rates are not necessarily a bad thing. And you get higher reinvestment yields along the way. And we think it's an interesting time to be invested within fixed income.

Jay Diamond: Well thank you again, Evan and Matt for your time and your insight. Please come back and visit with us soon. And thanks to all of you who have joined us for our podcast. Again, if you would like to read our latest Quarterly Macro Themes, please visit our website or see us in the show notes. And if you like what you are hearing, please rate us five stars and follow us so you won't miss an episode.

And as always, if you have any questions for Evan, Matt, or any of our other guests, please send them to MacroMarkets@GuggenheimInvestments.Com and we will do our best to answer them on a future episode or offline. I'm Jay Diamond, thanks for joining us, and we look forward to gathering again for the next episode of Macro Markets with Guggenheim Investments. And in the meantime, for more of our thought leadership, visit GuggenheimInvestments.com/perspectives. So long.

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