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August 2026

Markets and Economies

# Jackson Hole 2026: Four Takeaways for Investors

**What emerged from the symposium and what it could mean for interest rates, Federal Reserve policy, and bond markets.**

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## KEY TAKEAWAYS

- U.S. Federal Reserve (Fed) Chairman Kevin Warsh signaled that persistent inflation means the Fed still has "work to do," increasing the possibility for higher rates.
- The economy remains resilient, with strong growth and stable labor markets leaving inflation as the Fed's primary concern.
- Fed communication is evolving, and Warsh is avoiding forward guidance even as other policymakers continue to signal their rate views.
- Markets quickly priced in a more hawkish Fed. Rate-hike expectations increased, and the yield curve flattened on Warsh's remarks. However, fundamentals should ultimately drive yields, with resilient growth contributing to higher 10-year U.S. Treasury yields while also supporting credit spreads. Against this backdrop, we continue to favor risk and diversified multi-sector portfolios to pursue attractive excess return potential.

## What Is Jackson Hole—and Why Is It Important?

Each summer, the Jackson Hole Economic Policy Symposium, hosted by the Federal Reserve Bank of Kansas City since 1978, brings together central bankers, economists, and market participants to discuss the monetary policy outlook.

The 2026 symposium, formally titled "Financial Innovation: Implications for Payments and Policy," was held August 27–29 at an important point for monetary policy. With investors weighing inflation, labor-market conditions, and the rate outlook, Chair Kevin Warsh's first Jackson Hole symposium as Fed Chair offered insight into the Fed's evolving policy approach. Here, we discuss the themes that stood out and potential implications for monetary policy and markets in the months ahead.

## Signals from the 2026 Symposium

### 1. What Did We Learn About the Path for Rates?

Chair Warsh's message suggested that the path for rates may be higher. He clarified that short-term interest rates are the Fed's predominant tool for achieving its dual mandate of maximum employment and price stability. The employment side of the mandate is doing well, with labor markets consistent with full employment, but price stability remains a concern. The Fed's 2% personal consumption expenditures (PCE) inflation target is fixed and firm, and Warsh indicated the Fed needs to be confident that underlying inflation is moving toward that target at a "sufficient speed." In his view, underlying inflation trends have not meaningfully improved, which means the Fed still has "work to do."

### 2. How Is the Fed Balancing Inflation, Growth, and Employment?

The economy's performance has strengthened, with the Fed focused on rising capital expenditures—more than half of the growth in Capex has been attributed to the artificial intelligence (AI) buildout—as well as growing profits and corporate earnings. Real consumer spending—spending on goods and services adjusted for inflation—also remains resilient. At the same time, labor markets are stable. Low monthly payroll gains are consistent with full employment given that labor supply is barely growing. The main risk remains inflation. A key metric for Warsh is the share of goods and services in the PCE basket with annualized inflation above 3%, which remains near 50%.

### 3. Fed Communication May Be Changing

While Chair Warsh remains committed to not providing forward guidance, other members of the Federal Open Market Committee (FOMC) continue to signal their policy preferences. Some of the more hawkish Fed presidents, including Beth Hammack and Jeff Schmid, have recently remained supportive of rate hikes. Warsh, however, was careful to frame his remarks around "key principles" rather than a specific "reaction function"—a framework for how the Fed adjusts monetary policy in response to changes in the economy. He does not believe there is a single rule, such as the Taylor Rule, that the Fed can follow in practice. Warsh also provided no new information on the Fed's task forces and made clear that policymakers will not wait for their recommendations before acting, saying they have "no bearing on decisions we make in the current policy conjuncture."

### 4. What Does It Mean for Fixed-Income Investors?

Markets quickly increased the probability of a rate hike at the September 16 FOMC meeting following Chair Warsh's hawkish message. The amount of tightening priced into September fed funds futures rose from 9 basis points before the speech to 14 basis points afterward, while expected hikes through year-end increased by 10 basis points to 36 basis points. The yield curve flattened by about 10 basis points, with the 2-year Treasury yield rising as much as 9 basis points and the 30-year yield declining 1 basis point.

Those moves were consistent with Warsh's signal and the absence of dissenting voices. The long end of the curve also received support from the Treasury's August 19 announcement that it would double buybacks of longer-maturity bonds. In the near term, the combination of higher short-term rates and Treasury support for longer-term bonds could contribute to further yield curve flattening. Over the medium term, however, fundamentals should ultimately determine the level of yields. Resilient nominal and real economic growth have contributed to higher 10-year yields, while continued economic strength should remain supportive of credit spreads. In this environment, we continue to favor being long risk via diversified multi-sector portfolios as a way to capture the potential for positive excess returns.

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### Glossary & Index Definitions

**Annualized inflation** is the rate of inflation over a shorter period expressed as the equivalent rate for a full year.

**Artificial Intelligence (AI)** is the technology that enables computer systems to perform tasks that typically require human intelligence, such as learning, reasoning, problem-solving, and generating content.

**A basis point (bp)** is one one-hundredth of a percentage point (0.01%).

**Capital expenditures (Capex)** are funds a company uses to acquire, build, upgrade, or maintain long-term assets such as property, equipment, technology, or infrastructure.

**Credit spread** is the difference in yield between a credit security, such as a corporate bond, and a comparable government security or other benchmark. Credit spreads generally reflect the additional compensation investors require for assuming credit risk.

**Excess return** is the return of an investment or portfolio above that of a specified benchmark or reference index.

**Federal Reserve (Fed)** is the central bank of the United States. The Federal Open Market Committee (FOMC) is the branch of the Fed that determines the direction of monetary policy in the United States.

**The federal funds rate** is the interest rate at which depository institutions lend reserve balances to other depository institutions overnight on an uncollateralized basis.

**Fed funds futures** are financial futures contracts based on the federal funds rate and traded on the Chicago Mercantile Exchange. These futures are considered a direct reflection of collective marketplace insight regarding the future course of the Federal Reserve's monetary policy.

**Federal Open Market Committee (FOMC)** is the monetary policymaking body of the Federal Reserve System responsible for setting the target range for the federal funds rate and directing certain other aspects of U.S. monetary policy.

**A flattening yield curve** is a narrowing of the difference between short- and long-term interest rates, typically occurring when short-term yields rise relative to long-term yields or long-term yields fall relative to short-term yields.

**Full employment** is a condition in which available labor resources are being utilized at a high level without generating unsustainable labor-market pressures. It does not necessarily mean zero unemployment.

**Hawkish** generally refers to a greater emphasis on controlling inflation, often associated with maintaining higher interest rates or raising rates. Dovish generally refers to a greater emphasis on supporting economic growth and employment, often associated with maintaining lower interest rates or reducing rates.

**Nominal growth** refers to economic growth measured in current prices and therefore including the effects of inflation.

**Personal Consumption Expenditures (PCE) Price Index** is a measure of changes in the prices U.S. consumers pay for goods and services. The Federal Reserve uses the PCE price index in assessing progress toward its 2% longer-run inflation goal.

**Reaction function** is a framework describing how a central bank may adjust monetary policy in response to changes in economic conditions such as inflation, employment, and growth.

**Real economic growth** is growth in economic output adjusted for inflation.

**Spread** is the percentage difference in current yields of various classes of fixed-income securities versus Treasury bonds or another benchmark bond measure. A bond spread is often expressed as a difference in percentage points or basis points (which equal one one-hundredth of a percentage point). The option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Typically, an analyst uses the Treasury securities yield for the risk-free rate.

**Taylor Rule** is a monetary policy guideline that relates a central bank's policy interest rate to inflation and economic conditions relative to specified targets or benchmarks.

**Treasury buyback** is a transaction in which the U.S. Treasury repurchases outstanding Treasury securities before maturity as part of its debt-management activities.

**Yield** is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value. Yield-to-maturity (YTM) represents the expected return (expressed as an annualized rate) from the bond's future cash flows, including coupon payments over the life of the bond and the bond's principal value received at maturity. Yield-to-worst refers to the lesser of a bond's (a) yield-to-maturity or (b) the lowest yield-to-call calculated on each scheduled call date.

**Yield curve** is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. One such comparison involves the two-year and 10-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth.

### Important Information



Data on U.S. personal consumption expenditures (PCE) inflation are sourced from the U.S. Bureau of Economic Analysis (BEA).

Data on federal funds futures are sourced from Bloomberg, as of August 28, 2026.

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Data on higher interest rates raising the cost of capital for businesses sourced from the U.S. Federal Reserve.

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