The Return of Policy Uncertainty

Notes from the Trading Desk - Q2 2026

RPIA Capital Management

Executive Summary

- **The Federal Reserve's evolving communication approach may mark the return of policy uncertainty.** Reduced forward guidance and a greater reliance on incoming economic data could lead to increased volatility, even if the overall path of interest rates changes little.
- **In a less predictable policy environment, resilience becomes a defining characteristic of successful credit portfolios.** Companies with durable cash flows, conservative balance sheets, and manageable refinancing needs are likely to be better positioned as markets increasingly differentiate between strong and weak issuers.
- **Periods of heightened uncertainty reinforce the value of active credit management.** Greater credit dispersion can create attractive opportunities for disciplined security selection, allowing active managers to capitalize on mispriced risk while maintaining portfolio flexibility and resilience.

For much of the past decade, one of the defining characteristics of markets has been the Federal Reserve's increasing transparency. Detailed forward guidance, quarterly dot plots, and regular communication helped reduce uncertainty around monetary policy. Investors didn't always agree with the Fed's decisions, but they generally had a good sense of where policy was heading.

Chair Kevin Warsh's first months in office suggest that this may be changing.

The June FOMC meeting delivered a hawkish surprise, but the more interesting development wasn't the possibility of another rate hike. It was the way the Fed communicated. The statement was noticeably shorter, previous forward guidance was removed, and Warsh announced a broad review of the Fed's communications framework. Several market participants now believe this could ultimately lead to less reliance on dot plots and other forms of explicit forward guidance.

What this tells us is that the bigger story may not be the level of interest rates. It may be the return of policy uncertainty.

That distinction matters because markets don't simply react to where rates end up. They react to how confidently they can anticipate the journey. If the Federal Reserve deliberately provides less guidance and allows incoming data to play a greater role in shaping policy expectations, investors will need to price a wider range of potential outcomes. Even if the ultimate path for interest rates changes very little, the path to get there may become considerably more volatile.

For government bonds, the implications are relatively straightforward. Greater policy uncertainty should translate into greater volatility at the front end of the yield curve, where expectations around Fed policy have the greatest influence. If investors also conclude that the Fed has become less tolerant of above-target inflation, short-term yields could remain higher for longer than markets have become accustomed to.

For credit markets, however, we think the implications are more interesting. Specifically, if policy becomes less predictable, what characteristics become more valuable in a credit portfolio?

The answer is not simply “higher quality.” Rather, it is resilience.

Credit spreads compensate investors for more than default risk. They also compensate investors for uncertainty. If uncertainty around monetary policy increases, we would expect greater differentiation between companies with durable cash flows, conservative balance sheets, and manageable refinancing needs, and those whose business models depend on consistently favorable financing conditions. Macro uncertainty has a way of exposing differences in credit quality that can remain hidden during more stable periods.

This is where we believe active management becomes increasingly valuable.

Passive credit exposure assumes the market is broadly pricing risk correctly. Active management starts from a different premise: periods of uncertainty often create mispricing. As volatility increases, credit dispersion tends to widen, creating opportunities to selectively add risk where spreads more than compensate for the underlying fundamentals, while avoiding issuers whose risks are not yet fully reflected in valuations.
Rather than attempting to predict each Fed meeting, we are focused on several broader signals. Will the Fed continue to reduce forward guidance? Does the market begin demanding a higher premium for policy uncertainty? Are refinancing conditions becoming more challenging for weaker borrowers? Most importantly, are we beginning to see greater dispersion between fundamentally strong and weak issuers?

Those are the developments that we believe will matter most for active credit investors over the coming quarters.

Our portfolio construction reflects that thinking. We continue to believe today’s all-in yields offer an attractive starting point for long-term investors, but we are increasingly focused on preserving flexibility, maintaining liquidity, and owning businesses that can generate resilient cash flows across a range of economic environments. If periods of policy uncertainty create temporary dislocations, we want portfolios that have the flexibility to take advantage of them rather than simply absorb them.

For much of the last decade, the market’s central question was, “When will the Fed cut?” Looking ahead, we think the more important question may be different: “How much uncertainty is the Fed willing to tolerate?” That distinction matters because it changes what investors are rewarded for. In our view, it shifts the advantage toward disciplined credit selection, resilient portfolio construction, and active management – precisely the environment in which we believe experienced active credit managers can add the most value.

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