The Day Ahead: "Pause" Ends in Iran, But Probably Not For The Fed

The big news over the weekend was that the U.S. and Iran paused hostilities--something that led to 2 solid days of gains in the bond market. But in the overnight session, the pause ended as multiple attacks were reported on both sides. Oil rose predictably and bond yields did the same. One "pause" that's less likely to change is the Fed's abstention from hiking or cutting in 2026--at least not today. That may seem like a strong claim given futures pricing showing a 36% chance of a hike today. While a hike is in the realm of possibility, it's not in the 1 in 3 realm. That number represents an uncertainty premium compounded by the new forward guidance regime and the highly fluid nature of fuel price implications for additional inflation. Nonetheless, the fact that a third of the futures market is positioned for a hike means there's higher odds of volatility at this meeting compared to a normal July Fed meeting (usually pretty sleepy, so it's not necessarily a high bar).

As a reminder, there is no dot plot with any July Fed meeting. We don't yet know if the Warsh Fed will phase out the dot plot or modify it.

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