August 28: Jackson Hole and the question behind the jump in short-term Treasury yields

Federal Reserve Chair Kevin Warsh's speech at Jackson Hole quickly became one of the most important market stories of the day.

The headline was simple: Warsh sounded more concerned about inflation, and markets increased their expectations for another interest-rate hike.

But the bond market reaction was more interesting.

The **2-year Treasury yield jumped to around 4.34%**, while the **30-year Treasury barely moved**. At the same time, the market-implied probability of a September rate hike increased from about **35% before the speech to around 57%–60% afterward**.

That raises an interesting question:

> If the Fed influences interest rates across the economy, why did the 2-year Treasury move so much more than the 30-year?

What is actually happening?

Warsh said the Fed's **2% PCE inflation target** remains a firm target.

PCE is the Fed's preferred measure of inflation.

The problem is that inflation is still well above 2%.

Warsh said 12-month PCE inflation was **3.7%**, and he argued that recent better inflation readings were not enough to show that the underlying trend had meaningfully improved.

He also described the labor market as consistent with full employment.

That combination matters.

If the economy is still relatively strong while inflation remains high, the Fed has less reason to rush toward easier monetary policy.

Markets reacted quickly.

The **2-year Treasury yield rose about 11 basis points to 4.34%**.

A basis point is simply **0.01 percentage point**.

Why this matters

At first glance, it might seem reasonable to expect all Treasury yields to rise by roughly the same amount when investors expect higher rates.

But different maturities respond to different expectations.

The **2-year Treasury** is very sensitive to what investors think the Fed will do over the next few meetings and years.

If investors suddenly think the Fed may raise rates again or keep rates higher for longer, the 2-year yield can react quickly.

The **30-year Treasury** is different.

Its yield depends on much longer-term expectations about inflation, growth, interest rates, and risk.

A simple analogy is weather.

If there is an 80% chance of rain tomorrow, that information strongly affects whether someone brings an umbrella tomorrow.

But it says almost nothing about the weather one year from now.

The Fed works in a similar way.

A hawkish speech can strongly change expectations for the near future without completely changing expectations for the next 30 years.

The question investors are really asking

The market is not only asking:

"Will the Fed raise rates in September?"

The bigger question is:

> What does today's speech tell investors about the future path of interest rates?

Before the speech, markets were pricing around a **35% chance of a September hike**.

Afterward, that probability moved closer to **57%–60%**.

The exact number depends on the data source and timing, but the message was clear:

Investors became more convinced that another hike was possible.

That helps explain why the 2-year yield moved so sharply.

Meanwhile, long-term yields moved much less.

One reason could be that investors believe tighter policy today may help control inflation later.

CFA Level I connection

This connects directly to one CFA Level I concept: **the yield curve and interest-rate expectations**.

The yield curve shows Treasury yields across different maturities, such as:

- 2-year
- 5-year
- 10-year
- 30-year

The short end of the curve is heavily influenced by expected central-bank policy.

The long end also reflects monetary policy, but it depends more on long-term expectations about inflation, economic growth, and risk.

So when Warsh sounded more hawkish, the market was not simply saying:

"Interest rates are going higher."

It was saying:

"Short-term rates may be higher than previously expected."

If short-term yields rise more than long-term yields, the yield curve becomes **flatter**.

That is what makes the yield curve useful.

It is not just a chart of interest rates.

It is also a picture of what investors currently believe about the economy and future Fed policy.

Simple model

Warsh sounds more concerned about inflation
→ investors see a higher chance of another Fed hike
→ expected short-term rates rise
→ 2-year Treasury yield rises sharply
→ long-term yields move much less
→ yield curve flattens
→ **different maturities reflect different expectations**

Today's takeaway

Saying "interest rates went up" is often too simple.

There are many interest rates, and different maturities respond to different parts of the economic outlook.

Warsh did not actually announce a rate hike.

But his comments changed what investors believed was **more likely to happen next**.

That was enough to move the bond market.

This explanation may simplify some parts. Long-term Treasury yields are affected by many other things too, including inflation expectations, economic growth, government borrowing, and risk.

But the broader lesson is important:

Markets do not wait for policy to change. They move when expectations change.

Sources

Federal Reserve: Kevin Warsh's August 28, 2026 Jackson Hole speech — used for the **2% PCE inflation target**, 3.7% inflation, and his view that recent improvement was not enough to show a meaningful change in the underlying trend.

Reuters: Rate-hike expectations rise on Warsh speech at Jackson Hole — used for the **2-year Treasury yield around 4.34%** and the increase in September rate-hike expectations from roughly **35% to around 60%**.

Answers: 1 B, 2 B, 3 B, 4 D