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A Commentary by Harley Bassman

July 28, 2026

"The FED should hike by 50bps"

I have been on record as "higher for longer" against the naysaying Team Transitory for a few years. Thus, I pushed back hard on the late-2025 expectation of three FED rate cuts.

To my chagrin, I was more right than anticipated, and I now offer that the FED should hike their rate by 50bps after tomorrow's meeting.

I will say I can offer no economic support for a 50bp hike, rather I am looking solely at market psychology and politics.

As I detailed in my Commentary - "Moral Hazard" (May 23, 2023), **I believe Forward Guidance contributed greatly to the GFC, and the DOTs have only made it worse.** Investors have used such to increase both risk and leverage. The FED's March 2021 Forward Guidance that rates would remain near zero until 2023 is why SVB did not hedge.

Thus, Warsh's elimination of Guidance last month and placing DOTs on the chopping block is terrific public policy; and a 50bp hike in July would lock in this success.

A 25bp hike is too chicken $hit to match Warsh's rhetoric, and 75bp implies he knows we have an economic problem, which he does not.

The December 2026 Fed Funds futures contract is priced at 4.04%, so the notion of a "market Armageddon" is silly. The market already has the rate right, just not the timing.

A 50bps hike shows there is a new sheriff in town, and he is not beholden to the President. An independent Fed is the cornerstone of the Global financial system, smartly confirmed by the recent Supreme Court decision that exempted the FED from Executive Branch (Presidential) control.

As noted, the market has already priced in 50bp by year end, so why drag its feet; rip the band aid so its "one and done" and move on. Likely a back-end rally follows which leads to lowers MBS rates, a public policy win.

Will the FED take my advice…why start now ?

But I do want to be on record that there is a path to quickly undoing the bad public policy started in 2013 when a panicked reaction to the "taper tantrum" disrupted cogent Monetary Policy.

Remember: For most investments, sizing is more important than entry level.

Harley S. Bassman
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Your comments are always welcome at: harley@bassman.net

If you would like to be added to my distribution, just ping me.

To become better educated on macro-economic fundamentals and policy, I urge you to connect with my good friend, Michael Green, aka, @profplum99.

For reference literature on the financial markets - particularly about options and derivatives - I will immodestly direct you to my educational archive at:

https://www.convexitymaven.com/classroom/

If you still have kids in the house, please take a vacation that is more interesting than the Four Seasons, Costa Rica – life is not a dress rehearsal. Turn off the Crackberry (did I just date myself ?) and explore with the family. You don't need to break the bank, rent an RV and see the U.S. We traveled with our four kids on five incredible RV trips.

http://bassman.net

Special credit to Gerard Minack, the best macro analyst on the planet.