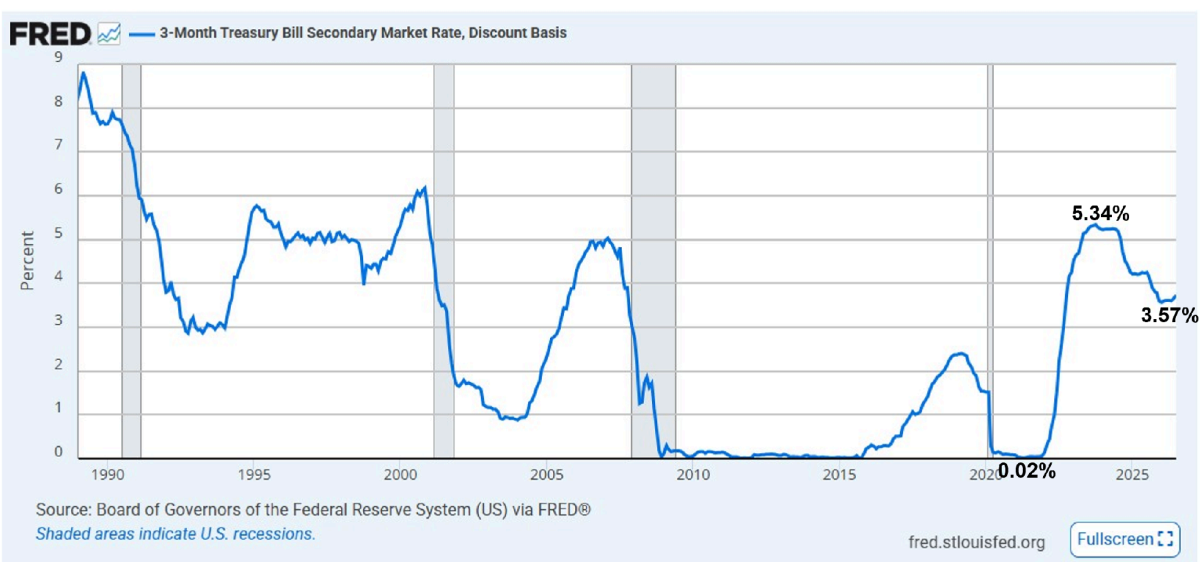
Harry's Take

August 18, 2026

Rate Hikes Yet to Hit

Most economic booms and stock surges end when interest rates rise either due to Fed tightening or rising inflation from sustained expansion, or both. This chart shows that short-term T-bill rates have peaked up to a year before every recession since 1989.

Recessions Have Followed Spikes in T-Bill Rates… This Time Not Yet!



Source: Board of Governors of the Federal Reserve System (US), 3-Month Treasury Bill Secondary Market Rate, Discount Basis [TB3MS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/TB3MS, August 12, 2026.

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Sometimes it's just a few months, others can take more like a year as in the late 1989 rate peak into the late 1990 brief recession. This time it's been 2.8 years from the rate peak at 5.34% in October 2023 until now. So, what's different? The answer as usual: the unprecedented stimulus since the 2008 Great Financial Crisis! The lag between the mid-2019 peak and the brief early 2020 COVID recession was close to a year, and that was the longest lag after the late 1989 peak and the late 1990 recession. Markets have come to trust and assume that the Fed and the government will not let the economy slow, or not for long if it does, as in COVID. And this falloff in rates has also not been as steep as in the past precisely because we have not slowed into a recession. Although monetary stimulus backed off $2.3T, the fiscal stimulus is still continuing at around $2T per year, or 6.5% of GDP currently. Hard to slow with that much stimulus!!!

So, this is the $Trillion question now. Does the Fed tighten ahead, and does that start to slow the economy? Just recently, it was assumed the next move by the Fed would be to reduce rates a bit lower back to the normal Fed funds rate around 3%. But now, continued healthy growth is suggesting the next move will be a tightening again as inflation continues to lean more towards 3% than the Fed's 2% target. What isn't likely is that the economy continues to improve in growth, and inflation continues to fall. Inflation is likely to remain stubborn or continue to move higher with the 10-year Treasury yield at as high as 4.72% yesterday, looking like it's heading towards 5.0% soon. Over 4.5% tends to create headwinds for stocks.

That means the Fall season ahead is the most likely time to see an initial stock decline that ultimately turns into a larger one as it's coming off the longest, greatest and only 100% artificial bubble in history… and first crashes have always been hard and fast… up to 50% in 2 – 4 months. Inflation continuing to edge up is the most likely trigger.

Harry

Got a question or comment? You can reach us at info@hsdent.com.