Investment Roundup

23 June 2026

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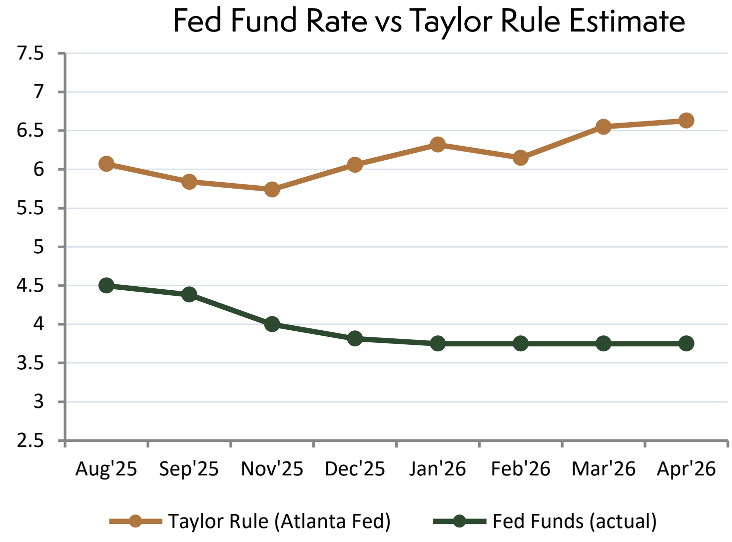
The Taylor Rule is not a forecast, but it is a useful reality check on where interest rates should be given inflation and economic conditions. Today, the model implies a Fed Funds rate of around 6.6%, while the Federal Reserve sits at 3.75%. That leaves a gap of almost 3 percentage points, the widest of this cycle.

Actual rates diverges from Taylor Rule Estimates



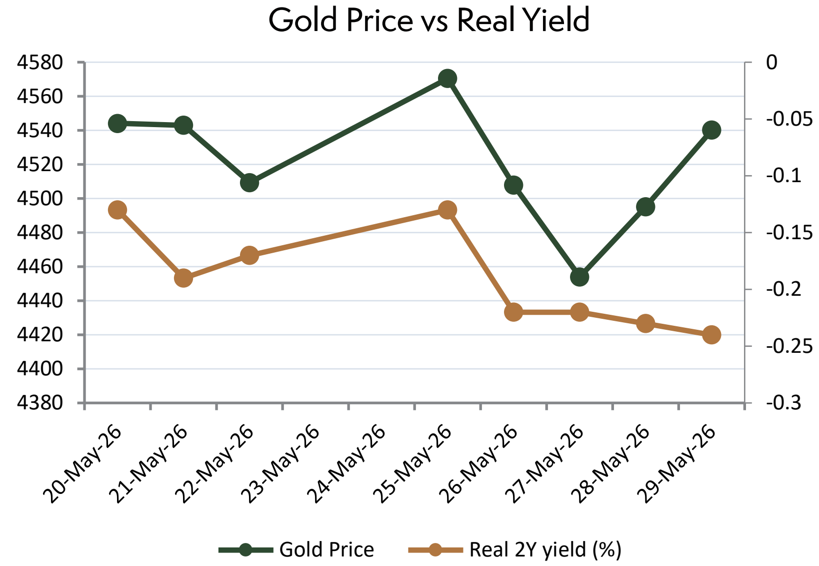
Source: Bloomberg L.P., as of 16 Jun 2026

The Fed has never followed the Taylor Rule exactly, and it is not expected to. What matters is whether the gap is widening or narrowing. Through the second half of 2025, the Fed delivered three consecutive rate cuts. Yet over the same period, the Taylor Rule stopped falling and began moving higher again. The reason was straightforward. The closure of the Strait of Hormuz in February pushed energy prices sharply higher, which filtered through into inflation. Core PCE has since risen to 3.2%, and the Taylor Rule responded accordingly.

This is why the Fed finds itself in a difficult position. It is not dealing with demand driven inflation that can be eased away through lower interest rates. Instead, it is facing a supply shock that temporarily lifted commodity prices and inflation. Until that pressure fades, there is little justification for the Fed to accelerate its easing cycle.

That naturally brings us to gold.

Gold decoupled from real yields



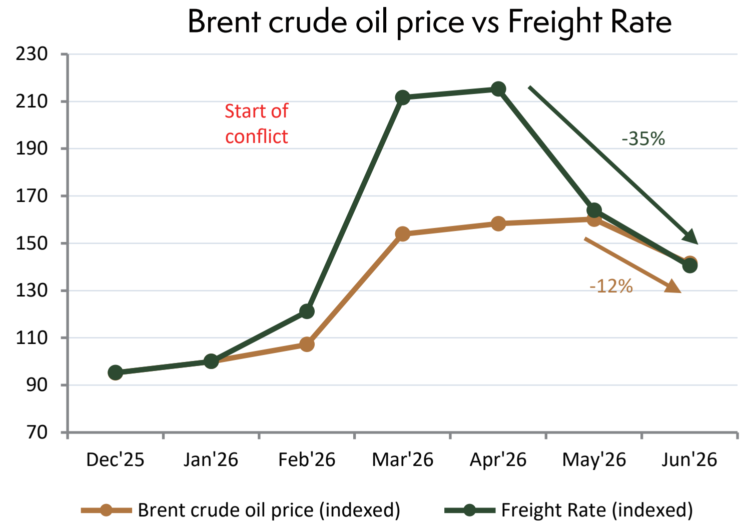
Source: Bloomberg L.P., as of 16 Jun 2026

Gold has historically moved in the opposite direction to the US two year real yield. When real yields fall, the opportunity cost of holding gold declines, making the asset more attractive. Over recent months, two year real yields have remained negative, meaning investors continue to lose purchasing power after inflation by holding short dated government bonds. That has provided a steady structural tailwind for gold.

That distinction was on full display in late May. As news of an Iran peace agreement gained traction around 26 May, gold sold off despite real yields continuing to move lower. The market was removing the geopolitical risk premium that had built up during the conflict. Within a few days, that adjustment had largely run its course. By 29 May, gold resumed trading in line with real yields. The geopolitical premium faded, but the structural support from negative real yields never disappeared.

The same distinction can be seen in the energy market.

Shipping priced in the peace deal faster than oil



Source: Bloomberg L.P., as of 16 Jun 2026

To compare freight rates and Brent crude on the same basis, both are indexed to 100 in January 2026, the last month before the Strait of Hormuz closure. Once the Strait closed, both moved sharply higher, but the shipping market reacted first and reacted harder. Freight rates more than doubled within weeks as shipowners, insurers and charterers immediately repriced the risks of operating through a conflict zone. Brent crude also rose, but its move was more measured and lagged behind freight.

Today, the message from shipping is changing. Freight rates have already begun normalising as transit resumes and routes reopen following the peace agreement. Brent crude has been slower to adjust. Looking across previous geopolitical disruptions, freight has consistently led oil prices during both the escalation and the normalisation phase. If history is any guide, Brent still has room to move lower as the remaining geopolitical premium fades.

Taken together, the message is consistent. The market is moving through different stages of the same story. Shipping is leading the adjustment. Oil is still catching up. Inflation should gradually moderate. The Fed remains patient for now, but the direction of travel is becoming clearer. That is ultimately the backdrop that continues to support our constructive view on gold while reinforcing the expectation of lower oil prices over the medium term.