Global Markets Daily: Surprise Effect — Lessons from Past Fed Meeting Day Surprises

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- The repricing of Fed hike risk has set the stage for today's FOMC decision to deliver the largest non-cut meeting day surprise in almost 30 years. Our baseline for the FOMC to leave the policy rate unchanged would be consistent with a roughly 9bp dovish surprise versus market pricing. A 25bp hike would represent a 16bp hawkish surprise, which we estimate would be the largest meeting day surprise outside of cuts since the Fed started releasing statements to announce policy rate changes.
- Over the full sample, market reactions to non-cut meeting day surprises do not have a reliably consistent relationship with the direction and/or magnitude of the surprise. While volatility has been on average higher in the immediate window following surprises in excess of 5bp, that relative bump in volatility tends to decay quickly.
- The evolution of the 1994 hike cycle (which saw a series of significant surprises) and evidence from the first material (>5bp) surprise in a cluster offer somewhat clearer takeaways, however. Specifically, initial surprises have typically resulted in directionally consistent yield responses—selloffs on hawkish outcomes, rallies on dovish ones—with a modest bias for front-end rates to lead on average.
- Our expectation is that today's (July 29) decision should primarily influence the pace and peak of hike risk, with points further out likely somewhat stickier. The context of the recent shift in Fed leadership is a potential complicating factor, but the week-to-date decline in energy prices dampens the risk that an on-hold decision leads to more curve volatility and boosts risk premia further out the curve.

Surprise Effect — Lessons from Past Fed Meeting Day Surprises

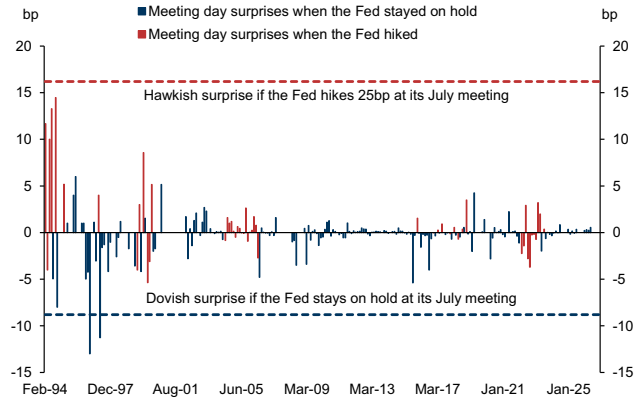
The repricing of Fed hike risk during the blackout period has positioned today's FOMC decision as the first major test of Chairman Warsh's shift in approach to communication. We expect the FOMC to leave the fed funds rate unchanged at its July meeting, but the roughly 9bp of hike risk priced as of Tuesday's (July 28) close implies the largest non-cut surprise since 1997 regardless of the outcome (Exhibit 1). Outside of cuts—which have corresponded more consistently to meaningful meeting day surprises—we estimate that the Fed has surprised on the meeting day by more than 5bp fourteen times and by more than 10bp just five times since the start of 1994 (when the Fed first started releasing statements to announce policy rate

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changes). This pattern has been visible across most regimes, though the 1994-to-2000 window saw the clearest tendency to deliver outcomes that deviated from market pricing (Exhibit 2).

Exhibit 1: Pre-meeting pricing puts the Fed in position to deliver its largest meeting day "surprise" in nearly 30 years

Estimated non-cut meeting day "surprise" versus market pricing as of July 28 close

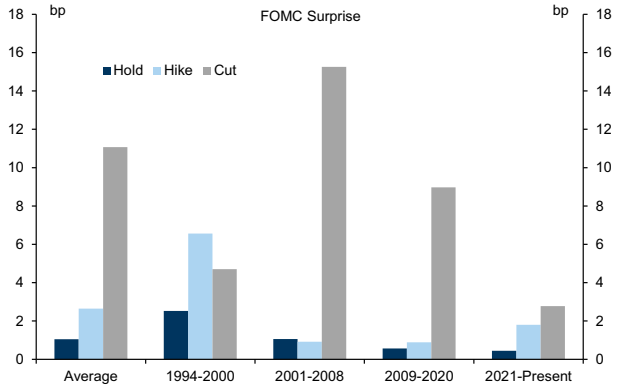


Surprise estimated as meeting day change in weighted 1st or 2nd fed funds futures prior to 2002, 1m OIS from 2002 to present

Source: Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities, Bloomberg

Exhibit 2: Outside of cuts, FOMC surprises have been relatively small in recent years

Average absolute "surprise" 1994-present and by sample window

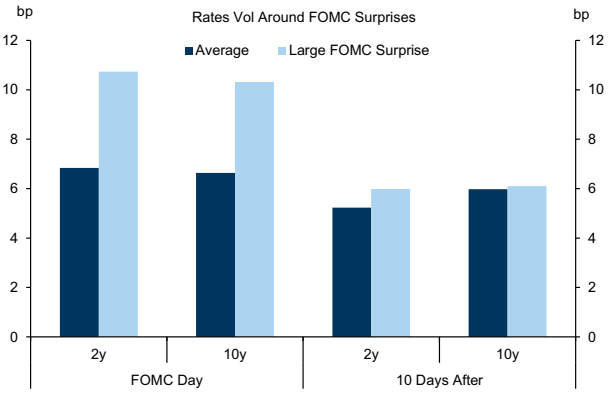


Source: Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities, Bloomberg

The reduced prevalence of surprises partly reflects a shift in the Fed's communication approach towards providing greater visibility into its assessment of the economy and its reaction function. While we previously found that the shift towards greater transparency around meeting decisions has improved the market's accuracy in pricing eventual policy outcomes, more recent changes, such as the dot plot, have been less significant in improving market pricing accuracy. We would also note that limited meeting day surprises are partly a function of apparent efforts to steer the market to the ultimate outcome in the days prior to the decision rather than surprise on announcement.

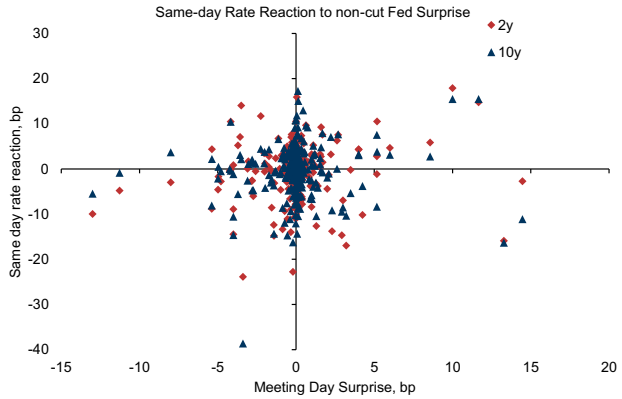
For the rates market, larger meeting day surprises have on average corresponded to higher volatility and larger absolute moves on the meeting day and window immediately following. However, we find that the spike in volatility in reaction to a large surprise tends to decay relatively quickly (Exhibit 3), with little evidence that regimes of more frequent meeting day surprises necessarily correspond to structurally higher volatility.

Exhibit 3: Rates vol spikes around large FOMC surprises, but excess volatility typically does not last long
Standard deviation of daily changes, on FOMC days and with with large surprises >5bp



Source: Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities

Exhibit 4: Meeting surprises tend not to provide a consistent guide for same day reaction across the curve



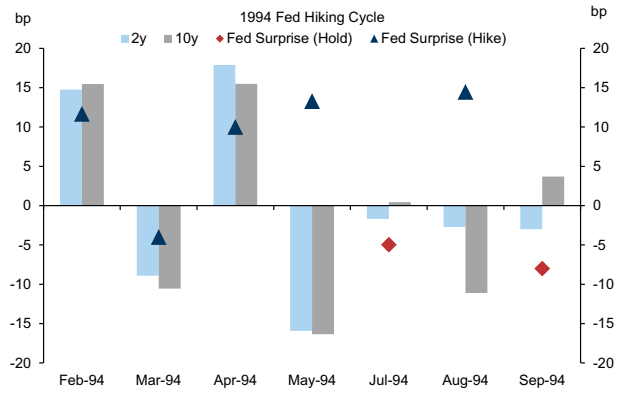
Source: Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities

Despite the tendency for larger surprises to result in larger meeting day moves, there is less consistent evidence that the direction or extent of the surprise provide a reliable guide to the direction of the rate reaction across the curve, with instances of large hawkish surprises corresponding to meaningful rallies, and large dovish surprises seeing fairly muted moves (Exhibit 4). We therefore think it is helpful to look at specific instances of surprises, rather than the full sample.

The 1994 cycle featured meaningful surprises throughout, making it a useful case study if uncertainty into meetings is a more consistent feature going forward. We estimate the Fed surprised by about 12bp with a 25bp hike at its February meeting—the first meeting at which the Fed published a statement announcing the policy shift immediately following the decision. The minutes from the meeting showed concerns about above-potential growth supported by buoyant equity markets and rate-sensitive sectors that were seen as warranting a less accommodative monetary stance. This surprise led to a relatively parallel selloff across the curve, with nominal yields moving by more than the surprise itself suggesting markets repriced a sustained, hawkish pivot. While directional behavior to surprises continued across the next couple of hikes (both hawkish and dovish), over time hikes coincided with rallies, especially at longer maturities, as the statements signalled optimism that the tightening delivered so far would likely be sufficient to contain inflationary pressures (Exhibit 5).

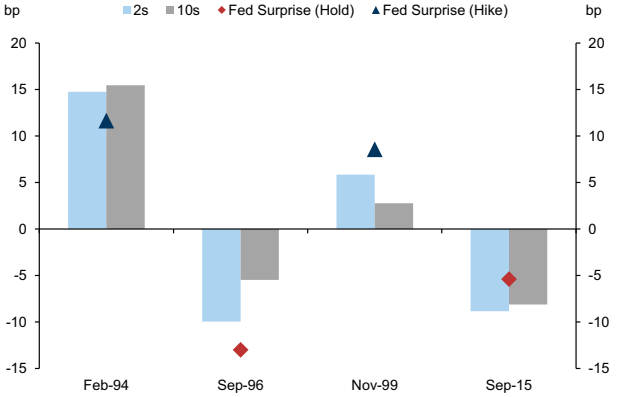
Also, we note that surprises tend to cluster (in magnitude, not necessarily direction)—likely reflecting either greater uncertainty around macro conditions, the Fed's stance, or both. And while the full sample suggests less clear directionality of nominal yields with the policy rate news, the first material (>5bp) hawkish hike or dovish hold in a series of surprises tends to see a more consistent directional response, with larger moves on average at the front-end of the curve (Exhibit 6).

Exhibit 5: The initial hawkish pivot led to a parallel shift higher, with hikes later on flattening the curve
FOMC surprises vs same day yield change



Source: Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities

Exhibit 6: The first major (>5bp) surprise in a cluster tends to have a more directional bearing on rates, especially at the front-end
FOMC surprises vs same day yield change

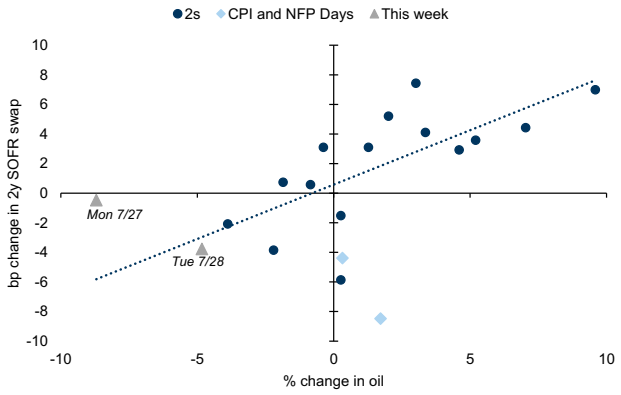


Source: Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities

While the sample is limited, past responses to meaningful surprises suggest that the direction of today's surprise ought to set the tone for the level of rates, and that while there might be follow-on volatility, it ought to decay somewhat quickly. We expect the decision to primarily influence the pace and peak of hike risk, with points further out likely somewhat stickier, implying counter-directional curve behavior: the curve is likely to steepen on a hold and flatten on a hike.

The context of the recent shift in Fed leadership is a complicating factor, bringing some risk that markets reevaluate the hawkish post-June FOMC repricing and rebuild risk premium out the curve in the event of a wait-and-see decision. However, we think the moderation in energy prices since late last week attenuates that risk somewhat, and the comparative stickiness in front-end rates amid Monday's (July 27) oil selloff suggests hawkish risk premia could relax in the event of a hold (Exhibit 7).

Exhibit 7: Front-end rates lagged their recent beta to oil during Monday's energy selloff
Daily change in 2y yields versus brent since July 1 oil low



Source: Bloomberg, Goldman Sachs Global Investment Research

TRADE IDEAS

Best Trade Ideas Across Assets

For pricing, charts, and a list of previous recommendations, please visit our Trade Ideas page.

1. Stay short SGD/MYR, opened January 24, 2026, at 3.13, with a target at 2.90 and a stop at 3.30, currently trading at 3.16.
2. Stay long TRY, NGN and KZT against the USD, as an equally weighted basket, opened February 18, 2026, at 0%, with a total return target of 7.5%, and a revised stop of 1.5%, currently trading at 4.6%.
3. Stay long 3y SOFR swap spread, opened 17 April 2026, at -22.6bp, with a revised target at -15bp inclusive of carry; and a revised stop at -20bp, currently trading at -18.8bp.
4. Stay short USD/EGP, opened 24 April 2026, at 0%, with a revised total return target at 12% and a revised stop at 5%, currently trading at 7.8%.
5. Stay long 5y Receivers on 3m 2s5s10s Receiver Fly (bp running), opened 09 May 2026, at 1bp, with a target at 10bp and a stop at -5bp, currently trading at 0bp.
6. 1y forward 2s10s GBP OIS steepeners, opened 29 May 2026, at 0.38, with a target at 0.55 and a stop at 0.25, currently trading at 0.33.
7. Stay short THB/INR, opened 12 June 2026, at 2.91, with a target at 2.70 and a stop at 3.05, currently trading at 2.85.
8. Stay long INR 30y bonds, opened 27 June 2026, at 7.34%, with a target at 6.90% and a stop at 7.65%, currently trading at 7.43%.
9. 2s10s NZD steepeners, opened 03 July 2026, at 72bp, with a target at 90bp and a stop at 50bp, currently trading at 74bp.
10. 2s10s CAD steepeners, opened 10 July 2026, at 53bp, with a target at 80bp and a revised stop at 50bp, currently trading at 52bp.
11. Stay short AUD/NZD, via 6m (14 Jan 2027) 1.1650 puts, opened 14 July 2026, at 1.2000, currently trading at 1.2055.
12. Stay long NIFTY Banks vs. short NIFTY Pharma, opened 15 July 2026, at 100 in local currency (INR), with a target at 115 and a stop at 90, currently trading at 98.
13. Stay short GBP/USD, opened 17 July 2026, at 1.3452, with a target at 1.3250 and a stop at 1.3400, currently trading at 1.3289.

Global Interest Rates Strategy

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