

MARKET COMMENTARY

The Fed delivers a clear hawkish message and bets on sustained growth

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- The Fed has turned decisively more hawkish, raising rates and signalling one further hike this year as persistent inflation and broader commodity-price spillovers outweigh concerns about the growth outlook, which is proving extremely resilient.
- In a much more informative press conference Warsh framed the move as the result of a months-long data-dependent process, rather than a reaction to market pressures. Financial conditions are clearly not restrictive.
- We expect no further moves in 2027: risks remain tilted towards tighter policy, but the four hikes priced by markets through next year appear excessive given the likely drag of sticky inflation on real incomes and consumption.

The Fed delivered a forceful hawkish shift, raising rates to 3.75%–4%, as expected, and signalling another hike by year-end after taking time to assess the economic outlook. The heavily revised statement presented a more bullish view of the economy and, implicitly, its capacity to withstand tighter monetary policy. Crucially, the Fed now seeks a “timelier return” of inflation to target, providing the rationale for the two hikes.

The Federal Open Market Committee approved the following statement for release by a ~~9-~~
~~312-0~~ vote:

The Committee decided to ~~maintain~~raise the target range for the federal funds rate ~~at 3-by~~
~~1/2-4 percentage point~~ to 3-3/4 to 4 percent, in support of the Federal Reserve's dual mandate. The Committee is continuing its policy of maintaining ample reserves in the banking system.

Economic activity is expanding at a solid pace ~~despite elevated~~. ~~While~~ uncertainty ~~that~~
~~owes~~~~remains elevated owing~~, in part, to ~~the conflict in the Middle East; geopolitical~~
~~developments, domestic spending has been resilient~~. Productivity growth ~~is strong~~, and
capital investment ~~are strong~~is robust. Job gains have kept pace with the workforce, and
the unemployment rate has changed little.

Inflation remains elevated ~~relative~~. ~~Today's policy action will support a timelier return~~ to the
Committee's 2 percent goal, ~~in part reflecting supply shocks that have driven price~~
~~increases in certain sectors, including energy~~. The Committee will deliver price stability.

The decision was unanimous among the 12 voting members, while 12 of the 16 participants who submitted projections favoured two hikes this year (Warsh did not submit its projections). This degree of agreement is notable after the dissenting comments heard in recent weeks. Adding to hawkishness, eight FOMC participants would favour another hike in 2027.

Estimate of year-end appropriate rate by each FOMC member, by meeting.									
2026		2027		2028		2029		Long term	
Jun-26	Sep-26	Jun-26	Sep-26	Jun-26	Sep-26	Jun-26	Sep-26	Jun-26	Sep-26
4.38	4.38	4.38	4.38	3.88	4.13		3.88	3.88	3.88
4.13	4.38	4.13	4.38	3.88	4.13		3.88	3.75	3.88
4.13	4.38	4.13	4.38	3.88	4.13		3.63	3.63	3.75
4.13	4.38	3.88	4.38	3.63	4.13		3.63	3.50	3.63
4.13	4.13	3.88	4.38	3.63	3.88		3.63	3.38	3.63
4.13	4.13	3.88	4.38	3.63	3.88		3.63	3.38	3.50
3.88	4.13	3.88	4.38	3.63	3.88		3.63	3.25	3.50
3.88	4.13	3.88	4.38	3.63	3.88		3.63	3.13	3.38
3.88	4.13	3.63	4.13	3.38	3.88		3.63	3.13	3.25
3.63	4.13	3.63	4.13	3.38	3.63		3.38	3.00	3.25
3.63	4.13	3.38	4.13	3.13	3.63		3.38	3.00	3.13
3.63	4.13	3.38	4.13	3.13	3.63		3.13	3.00	3.00
3.63	4.13	3.38	4.13	3.13	3.38		3.13	3.00	3.00
3.63	4.13	3.13	4.13	3.13	3.13		3.13	3.00	3.00
3.63	4.13	3.13	3.63	3.13	3.13		3.13	3.00	3.00
3.63	4.13	3.13	3.63	3.13	3.13		3.13	3.00	3.00
3.63	3.88	3.13	3.63	2.88	3.13			2.88	3.00
3.38	3.88	2.88	3.13					2.88	2.88

The new projections reinforce the Fed’s bullish assessment of the economy: growth was revised up this year and next, while unemployment remains at a low 4.1% throughout the forecast horizon. This year’s inflation projections were marked to market, but they still suggest that inflation will not return to target particularly quickly. The two rate hikes delivered this year are projected to be unwound gradually in 2028 and 2029, while the longer-run policy rate was nudged up by 0.1 percentage points to 3.2%, consistent with the more optimistic productivity outlook.

Median Projection									
	2026		2027		2028		2029		Longer run
Change in real GDP	2.3	●	2.4	●	2.2		2.1		2.0
Jun. projection	2.2		2.3		2.2				2.0
Unemployment rate	4.1	●	4.1	●	4.1	●	4.1		4.2
Jun. projection	4.3		4.3		4.2				4.2
PCE inflation	3.7	●	2.3		2.1	●	2.0		2.0
Jun. projection	3.6		2.3		2.0				2.0
Core PCE inflation	3.4	●	2.5		2.2	●	2.0		
Jun. projection	3.3		2.5		2.1				
Memo: Projected appropriate policy path									
Federal funds rate	4.1	⬆	4.1	⬆	3.9	⬆	3.6		3.2
Jun. projection	3.8		3.6		3.4				3.1

Warsh used the press conference to reinforce the FOMC’s confidence in the economy, providing many more details than in the past two meetings. He argued that demand continues to grow at a healthy pace despite elevated global uncertainty and that stronger productivity has raised the economy’s trend growth rate. With unemployment claims consistent with full employment and labour-market risks balanced, he sees limited economic damage from higher policy rates.

Persistently high inflation—and evidence of broader spillovers from commodity prices—was the central reason for the hike. The latest data have disappointed: headline PCE inflation is estimated to have reached 3.6% in August, with the core rate at 3.2%. Warsh noted that commodities account for much of the headline increase. Although the Fed cannot influence individual prices, it can prevent relative-price increases from spreading through the economy via second-round effects. He highlighted signs that higher commodity prices are already spilling over into some goods categories, with the rapid rise in diesel prices as a case in point.

Warsh presented the hike as the result of a deliberate, data-dependent process rather than a response to market pressure. In June, the committee reaffirmed its focus on core PCE inflation and the 2% target. In July, it reviewed the new information and judged that waiting another seven weeks for additional evidence was worthwhile, and in September it eventually acted. The FOMC ultimately concluded that financial conditions were barely restrictive and decided to withdraw some accommodation. Warsh argued

that financial and credit conditions are now more consistent with a timely return to the 2% target. Throughout, he carefully avoided providing forward guidance.

We now expect one further hike this year, followed by no additional moves in 2027. Risks remain tilted towards tighter policy, particularly if strong domestic demand starts to generate pressure on core inflation. Even so, the four hikes priced by markets through next year appear excessive, as persistently high inflation is likely to erode real incomes and cap consumption growth.

Markets interpreted the decision and the unanimity behind it as an unambiguously hawkish signal. The two-year Treasury yield rose by 0.1 percentage points to 4.7%, while the ten-year yield climbed to just above 5%. The effective US dollar exchange rate reached its highest since late July, while the S&P 500 fell by 0.8% to its lowest level in nearly two months.