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Market Commentary **30 July 2026**

Fed Holds Rates, but Dissents Strengthen the Case for a Later Hike

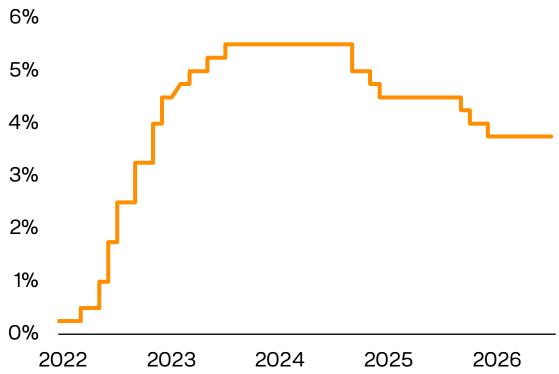
Summary:

- The Fed held rates unchanged at 3.50-3.75% during its July Meeting.
- Three out of twelve members dissented, preferring a 25-basis point rate hike.
- We maintain our view that the Fed will hike rates once later this year by 25 bps.

The Federal Reserve (Fed) opted to keep the federal funds rate steady at a target range of 3.50%–3.75%, extending its hold for the fifth consecutive gathering. However, in contrast to the unanimity observed during Chair Kevin Warsh's debut meeting, internal divisions came to the forefront. The decision to pause was passed by a 9–3 majority vote, with three members, Beth Hammack, Neel Kashkari, and Lorie Logan, dissenting in favour of an immediate 25 basis point (bp) rate increase. These same three also dissented the inclusion of an easing bias in the statement during April's meeting. Given a renewed surge in energy prices driven by the recent Middle East conflict, coupled with growing support for rate hikes within the FOMC, pressure on the Fed to increase interest rates has intensified significantly.

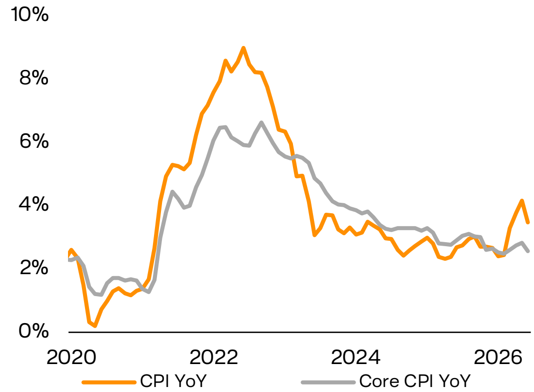
The post-meeting statement maintained the concise, stripped-down framework introduced by Chair Warsh, retaining its focus on immediate macroeconomic conditions while steering clear of traditional forward guidance. The statement was largely unchanged, reaffirming that economic activity is expanding at a solid pace, buoyed by robust productivity gains and healthy capital investment. Labour market dynamics remain balanced, with employment growth matching labour force expansion and the unemployment rate holding stable. Regarding downside risks, the committee acknowledged elevated macroeconomic uncertainty arising from ongoing geopolitical tensions in the Middle East. Reaffirming Warsh's core mandate, the statement ended with a continued commitment to "deliver price stability".

US Fed Funds Rate (Upper)



Source: Bloomberg

US CPI Inflation



Source: Bloomberg

Press conference sheds light on the Fed's internal dialogue. During his post-meeting press conference, Chair Warsh openly embraced the 9–3 split, framing the three hawkish dissents as a productive "family fight" that is essential to unscripted policy debate. He reaffirmed that the Fed has no tolerance for sticky, above-target inflation, emphasising that persistent supply-side shocks and energy pressures demand a data-dependent response. While defending the decision to pause, Warsh made clear that policy remains strictly reactionary, warning that holding rates steady does not rule out future tightening.

Looking ahead, we continue to expect the Fed to implement one 25 bp rate hike later this year. With near-term inflation dynamics remaining highly volatile, the exact timing of the rate hike will depend on the evolution of the Middle East conflict and its impact on the future inflation trajectory. Indeed, we consider monetary conditions to be restrictive and thus expect the rate hike decision to be a largely symbolic move aimed at alleviating concerns over short-term upside risks to headline inflation. As long as core inflation remains broadly stable and inflation expectations stay anchored, we do not expect a renewed tightening cycle.

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