

The Fed Raised Rates and Maintained a Hawkish Tone



Summary:

- The Fed voted unanimously to raise the federal funds rate by 25 basis points to a target range of 3.75-4.00%.
- September's Summary of Economic Projections revealed the majority of members expect at least one more rate hike in 2026, while revising up growth and inflation projections.
- If inflation trends fail to moderate, there is a possibility that the Fed will deliver one additional rate hike in the rest of 2026.

The Fed voted unanimously to raise the federal funds rate by 25 basis points (bps). During its September meeting, the Federal Open Market Committee (FOMC) voted to raise the target range for the federal funds rate to 3.75–4.00%, marking its first rate hike since 2023. In contrast to previous meeting dissents, the decision was unanimous. The post-meeting statement remained terse, with only one sentence explaining the rate-hike decision: "Today's policy action will support a timelier return to the Committee's 2 percent goal." This reflects the Fed's primary focus on bringing inflation down towards target. At the same time, the FOMC strengthened its growth assessment, noting domestic spending as "resilient", productivity growth as "strong", and capital investment as "robust". The language on the labour market and inflation was largely unchanged, highlighting stable job gains and elevated inflation.

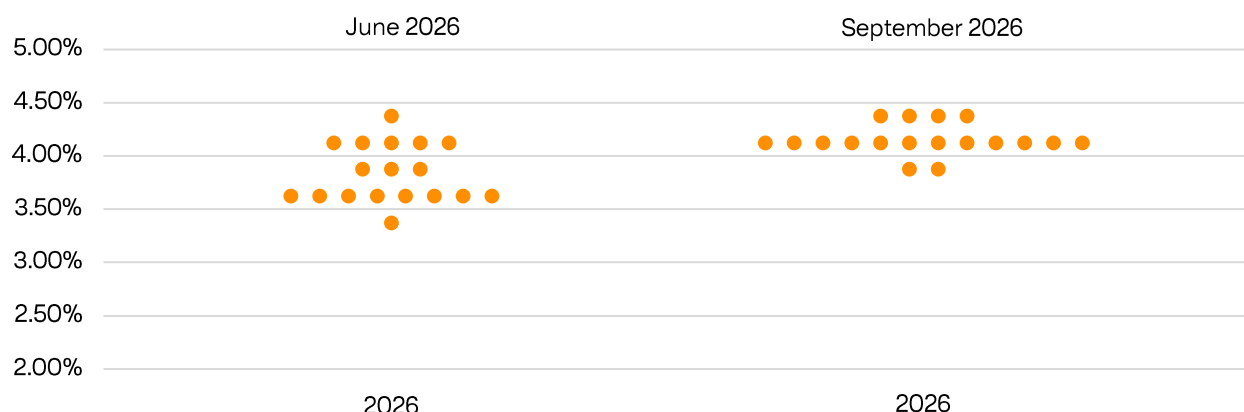
The Fed's updated Summary of Economic Projections (SEP) and dot plot signalled a hawkish tilt. The median projection for the federal funds rate at the end of 2026 was revised up to 4.1%, implying one additional 25 bp rate hike before year-end. The dot plot showed 16 out of 18 members projecting at least one more rate hike in 2026. Looking further ahead, the SEP projected the federal funds rate unchanged at 4.1% throughout 2027 before easing to 3.9% in 2028 and 3.6% in 2029. Additionally,

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the estimated long-run neutral rate was revised upward to 3.2% (from 3.1% in June). This upward shift would suggest a higher-for-longer policy stance by the Fed.

FOMC Dot Plot Comparison for Federal Funds Rate Projection

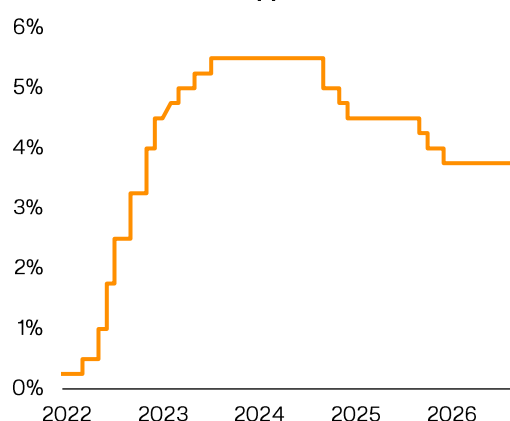


The September SEP also contained notable revisions across key economic indicators. Median real GDP growth projections were revised slightly upward to 2.3% for 2026 (from 2.2% in June) and 2.4% for 2027 (from 2.3%), while longer-run growth expectations were maintained at 2.0%. Meanwhile, the labour market outlook improved, with the projected unemployment rate revised down to 4.1% for both 2026 and 2027 (from 4.3% in June), keeping it near current steady levels. On the inflation front, headline PCE inflation for 2026 was revised up to 3.7% (from 3.6% in June). Core PCE inflation projections were also nudged higher to 3.4% for 2026 (from 3.3% in June), but held steady at 2.5% for 2027, before reaching 2.2% in 2028 and 2.0% in 2029. Together, these figures portray an economy experiencing resilient growth alongside a protracted path for inflation to return to target.

FOMC Projections September 2026)	2026	2027	2028	2029	Longer run
Real GDP growth (%)	2.3	2.4	2.2	2.1	2.0
[June 2026]	[2.2]	[2.3]	[2.2]	-	[2.0]
Unemployment rate (%)	4.1	4.1	4.1	4.1	4.2
[June 2026]	[4.3]	[4.3]	[4.2]	-	[4.2]
Core PCE inflation (%)	3.4	2.5	2.2	2.0	-
[June 2026]	[3.3]	[2.5]	[2.1]	-	-
Fed Funds rate (%)	4.1	4.1	3.9	3.6	3.2
[June 2026]	[3.8]	[3.6]	[3.4]	-	[3.1]

Source: The Fed

US Fed Funds Rate (Upper)



Source: Bloomberg

During his post-meeting press conference, Chair Kevin Warsh maintained a hawkish tone. While avoiding any explicit forward guidance, Warsh emphasised that the FOMC's standard for holding rates steady had not been satisfied. He highlighted that summer inflation readings failed to demonstrate a meaningful improvement in underlying trends, pointing to 12-month headline PCE

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likely running around 3.6% and core PCE near 3.2% with broad-based price increases. He reaffirmed his views that current financial conditions were not restrictive and that current economic strength enables the Fed to focus on price stability, while also maintaining the Fed's independence from the White House.

Looking ahead, the Fed's policy stance points to a higher-for-longer monetary regime through 2027. As always, future rate decisions will heavily depend on incoming CPI and PCE inflation data and developments in global geopolitical tensions. If trends fail to moderate, there is a possibility that the Fed will deliver one additional rate hike during the remainder of 2026. However, if geopolitical tensions subside and inflation begins to decelerate, the Fed could keep rates on hold for an extended period.

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