BEA東亞銀行

Market Commentary

29 October 2026

The Fed Holds Rates Steady While Retaining the Option to Hike



Summary:

- The Fed voted 10:2 to hold the federal funds rate unchanged at a target range of 3.75-4.00%, with the two dissenters favouring an immediate 25 bps hike.
- The FOMC upgraded its growth assessment and remained cautious on inflation, reinforcing a data-dependent policy approach.
- Warsh highlighted that inflation remains too high despite resilient economic performance, suggesting that further policy tightening could be warranted if inflationary pressures persist.

The Fed voted to hold the federal funds rate unchanged. After raising rates during its September meeting, the Federal Open Market Committee (FOMC) voted to hold the target range for the federal funds rate at 3.75–4.00%. The decision passed with a 10:2 vote, featuring dissents from Governors Lisa Cook and Cleveland Fed President Beth Hammack, who favoured an immediate 25-basis-point (bp) rate hike.

Compared with September's post-meeting statement, the FOMC incorporated several subtle but noteworthy revisions in October. The Committee upgraded its assessment of economic growth from "solid" to "strong", reflecting resilient consumer spending and robust investment. At the same time, the Fed continued to view inflation as elevated and reaffirmed its commitment to bringing inflation back to its 2% target in a timely manner.

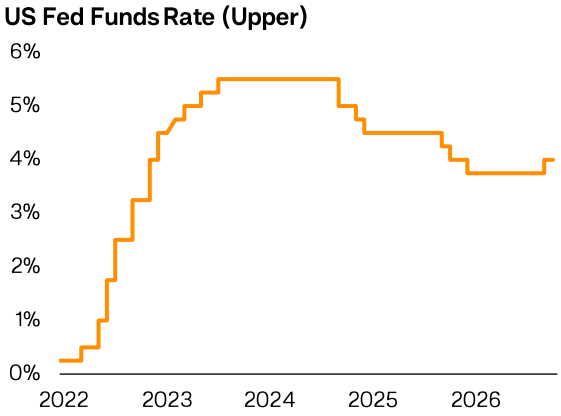
In addition, the statement shifted its emphasis toward "the accumulation of more information" in determining the Fed's policy stance. This helps explain the decision to pause, as policymakers take time to assess the effects of the previous rate hike and evolving economic developments, underscoring a more cautious, data-dependent policy stance.

During the post-meeting press conference, Federal Reserve Chairman Kevin Warsh delivered his assessment of the macroeconomic backdrop and elaborated on several institutional adjustments. While Warsh reiterated his reservations about forward guidance, he framed October's decision to pause as a data-dependent step rather than the end of the tightening cycle. When asked about elevated long-term Treasury yields, he noted that he would not characterise overall financial conditions as either "tight" or "restrictive", reflecting that the current policy stance still leaves room for further rate increases should inflationary pressures persist.

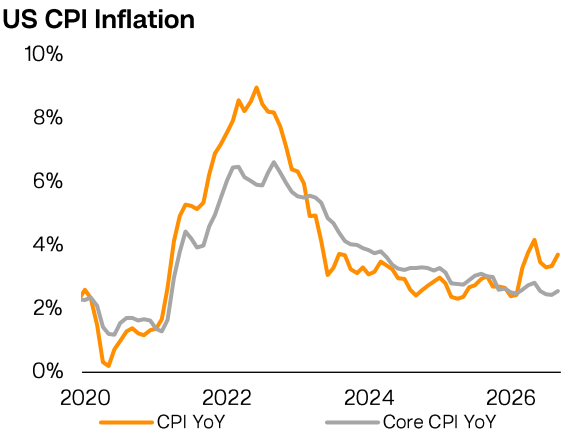
At the same time, Warsh offered a constructive view on the economy, citing upward revisions to 1H 2026 real GDP growth to 2.4%, historically low jobless claims, and robust capital expenditures driven by artificial intelligence (AI). However, he stressed that recent increases in energy and commodity prices must be contained to prevent a rise in long-term inflation expectations.

Warsh also said he was "sceptical" of the view that higher interest rates would not have any impact on the ongoing AI boom. As he noted, interest rates "get in the cracks" and affect almost everything. Given the significant contribution of AI-related capital expenditure to economic growth, any moderation in such investment caused by higher rates could influence how the Fed assesses the economic outlook and calibrates future policy.

Additionally, Warsh announced a structural change to the FOMC meeting schedule starting in 2027. While the FOMC will continue to meet eight times per year, one meeting will be dedicated exclusively to discussions of broad monetary policy strategy and will not include a vote on the federal funds rate or the release of a policy statement. The remaining seven meetings will continue to focus on regular monetary policy decisions. In 2028, he expects two meetings reserved for discussions of strategy and six for setting policy.



Source: Bloomberg



Source: Bloomberg

Additional rate hikes remain a possibility if inflation stays elevated. Overall, the combination of two dissents advocating for tighter policy and Warsh's comments suggests that further tightening is still likely in the future. Upcoming GDP, inflation, and labour market data will offer a clearer picture of underlying economic conditions, allowing the Fed to assess whether growth remains resilient and whether inflationary pressures are becoming more entrenched before determining its next policy decision. Financial markets have interpreted the outcome as a "hawkish hold", keeping the door open for another 25 bp rate adjustment at the December meeting or in early 2027.

Disclaimer

This material is prepared by The Bank of East Asia, Limited ("BEA") for customers' reference only. The content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are expressed solely as general market commentary, and do not constitute an offer of securities or investment, nor a solicitation, suggestion, investment advice, or guaranteed return in respect of such an offer. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This material has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this material, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down, and may become valueless. Past performance is not indicative of future performance. The investments mentioned in this material may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this material. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

This material is the property of BEA and is protected by relevant intellectual property laws. Without the prior written consent of BEA, the information herein is not allowed to be copied, transferred, sold, distributed, published, broadcast, circulated, modified, or developed commercially, in either electronic or printed forms, nor through any media platforms that exist now or are developed later.

For more information, please visit our webpage at https://www.hkbea.com/html/en/bea-about-bea-economic-research.html. For any enquiries, please contact the Economic Research Department of BEA (email: lerd@hkbea.com/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).

© 2026 The Bank of East Asia, Limited