



Fed hikes key rate as Warsh keeps a close eye on inflation



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- ▶ **Fed decision:** the FOMC unanimously raised the federal funds target range by 25 basis points to 3.75%–4.00%. The statement retained a solid growth assessment and signalled that tighter policy should help return inflation to 2%.
- ▶ **Press conference:** Chair Warsh delivered a hawkish message, stressing that inflation remains “too high, and has been there for too long.” Strong growth, employment and investment give the Fed room to manoeuvre, but Warsh avoided providing any forward guidance.
- ▶ **Dot plot:** the projections of the FOMC members indicate one additional 25-basis-point hike in 2026, taking the median year-end rate to 4.00%–4.25%. In 2027, rates are projected to remain unchanged, while stronger growth and higher core inflation reinforce the overall message.
- ▶ **Market reaction:** Warsh’s hawkish rhetoric partly surprised markets. From before the Fed decision and press conference to afterwards, the 2-year Treasury yield rose by around 7 basis points, while the 10-year yield moved back above the 5.00% threshold. The US Dollar Index gained around 0.5%, while US equities initially fell before recovering somewhat.
- ▶ **Our take:** we expect one further rate hike this year, supported by resilient domestic demand, business investment and a solid labour market. However, we see this as a limited removal of accommodation, rather than the start of an aggressive hiking cycle.

The FOMC raised the federal funds target range by 25bp to 3.75%–4.00%, with the decision receiving unanimous support after three members had already favoured a hike in July. The statement maintained a solid growth assessment and highlighted resilient domestic spending and robust capital investment. At the same time, the Fed removed July’s references to energy-related supply shocks and explicitly stated that tighter policy would support a timelier return of inflation to 2%.

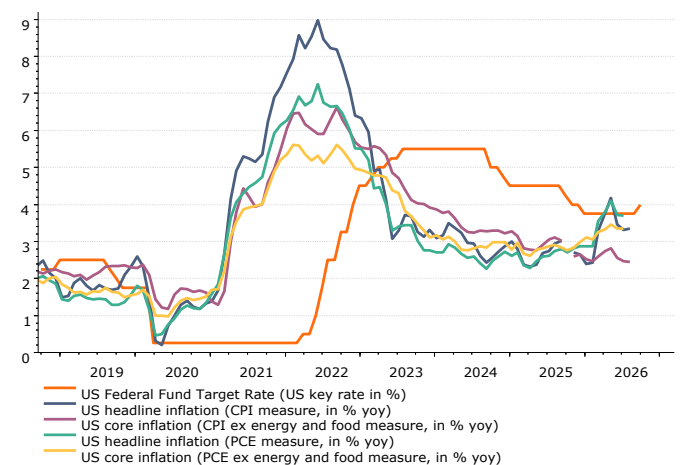
What Chair Warsh said at the press conference

During the press conference, Federal Reserve Chair Warsh delivered a clear message: inflation remains “too high, and has been for too long.” Recent data have provided little reassurance. Warsh noted that “this summer’s inflation readings do not tell me that underlying trends have meaningfully improved”. He added that price increases remain broad across numerous CPI and PPI categories. According to Warsh, three factors explain the shift from July’s decision to keep rates unchanged to September’s unanimous increase. Economic activity and the labour market have remained strong, inflation has stayed persistently elevated, and geopolitical developments have altered the outlook. Together, these considerations produced what Warsh called a “firm unanimous decision.”

The Chair also stressed that the US economy appears to be strengthening. New hiring, private-sector earnings and business capital investment have improved, while credit flows to companies remain robust. Moreover, Warsh reiterated his sentence from the Fed conference at Jackson Hole that he would be “hard-pressed to describe broad financial conditions as restrictive.” Later he added that this resilience gives the Fed room to remove some monetary accommodation without necessarily undermining the expansion. Warsh described

price stability as “foundational to economic growth” and presented the rate increase as an important step towards restoring it. However, he deliberately avoided committing to another move, stating that he is “not in the forward guidance business.” The message is therefore clearly focused on inflation but not pre-committed: further tightening remains possible but any drop in inflation could stop it. The timing and extent of additional action will depend on incoming economic data.

The federal reserve conducted a key rate hike amid elevated inflationary pressures



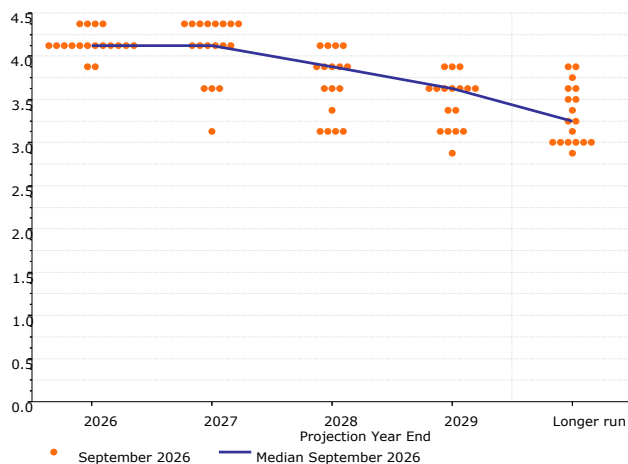
Source: LSEG Datastream, Syz Group

No forward guidance by Warsh but the FOMC's dot plot is providing some insights

The Federal Reserve's new dot plot signals that most FOMC participants expect some additional monetary tightening, but not the start of an aggressive hiking cycle. Following September's 25-basis-point increase, two participants expect September's move to be the only hike this year, 12 anticipate one additional increase, and four foresee two more hikes. This places the median policy-rate projection at 4.00–4.25% at year-end, implying one further 25-basis-point step. However, the projected path then flattens: the median rate remains unchanged in 2027 before declining to 3.75–4.00% in 2028 and 3.50–3.75% in 2029. The longer-run rate estimate also rose from 3.06% to 3.25%, suggesting that officials may see the neutral rate as structurally higher. Chair Warsh again did not submit projections.

The updated economic forecasts combine stronger growth with slightly more persistent inflation. Compared with June, median GDP growth was raised by 0.1 percentage point to 2.3% in 2026 and 2.4% in 2027. Meanwhile, the core PCE inflation projection increased by 0.1 percentage point to 3.4% for 2026 and to 2.2% for 2028, while remaining at 2.5% in 2027. Overall, the projections convey a moderately hawkish near-term message but still envisage stable rates next year and gradual easing thereafter.

The latest dot plot shows one additional rate hike for this year but no further rate hike beyond 2026



Source: LSEG Datastream, Syz Group

The market was a bit surprised by Warsh's rhetoric

Although today's rate hike was widely anticipated, the relatively tough rhetoric on inflation and the positive assessment of the US labour market and the economy's underlying strength appear to have partially surprised markets. From before the Fed decision and press conference to afterwards, the US Dollar Index rose by around 0.5%, while the two-year US government bond yield increased by around 7 basis points and the ten-year yield moved back above 5.00%. The US stock market initially declined by around 100 points to just above 7,500 points, before recovering somewhat later in the day.

And what comes next?

After today's unanimous decision to raise its key interest rate by 25 basis points, Fed Chair Warsh made clear at the press conference that he is fully focused on the inflation mandate. He considers the Fed's other mandate of full employment to be currently met, given the low unemployment rate and low level of jobless claims. Warsh's statements that the underlying growth trend has strengthened indicated that he sees the US economy as robust enough to absorb higher policy rates while inflation is being tackled.

Although he again refused to provide any forward guidance, we now expect another rate hike this year, given the solid underlying momentum in domestic demand, as reflected in August's retail sales figures, and the continued strength of investment spending by US companies. Both factors were also highlighted in today's FOMC statement, which noted that "domestic spending has been resilient" and that "capital investment is robust." However, we do not view this rate-hike cycle as a normal or aggressive tightening cycle. Rather, we see it as an effort to remove some degree of monetary accommodation, given the current strength of the US economy and its labour market.

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