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Fed delivers hike one, signals one more to come

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“The plain fact is that inflation is too high, and has been for too long” said Warsh, explaining unanimous hike

The FOMC unanimously raised the fed funds rate by 25 bps to 3.75-4.00%, underscoring the Committee’s commitment to preserving policy credibility. The statement justified today’s hike as supporting a “timelier return” to the 2% goal. It continued to describe economic activity as expanding at a “solid pace,” and added that “domestic spending has been resilient” despite continued geopolitical uncertainty. Capital investment was upgraded from “strong” to “robust,” possibly reflecting the Fed’s view that economic momentum has gathered strength. More importantly, the nature of inflation risks subtly shifted. By quietly dropping the supply shock attribution, the Fed effectively acknowledged that elevated inflation is no longer only a temporary supply-driven issue, but one sustained by “resilient” domestic spending. This suggests growing concern within the Committee that resilient demand could further slow inflation’s return to target, even as supply-related pressures eventually fade. Beyond reiterating its commitment to “deliver price stability,” the Committee provided no forward guidance on whether additional tightening will follow. Still, the subtle shifts in the statement suggest the Fed retains a hawkish bias.

The updated SEP delivered only modest changes to the economic outlook, but the dot plot depicted a considerably more hawkish policy-rate path. Median GDP growth was revised up by one-tenth in both 2026 and 2027 (to 2.3 and 2.4%, respectively), with participants continuing to expect above-potential growth throughout the forecast horizon, including the newly added 2029 projection. The unemployment rate is now projected to remain at 4.1%, a level the Fed views as full employment. Meanwhile, 2026 headline and core inflation forecasts were revised up by one-tenth for (to 3.7 and 3.4%, respectively), with the expected return to 2.0% pushed back to 2029 (Table 1). The bigger story, however, was in the dot plot. First, it confirmed that the hawkish consensus extended beyond voting members: every participant foresaw rates ending the year above 3.50-3.75%, with two favoring only today’s hike, 12 expecting two hikes, and four calling for three, i.e., 16 out 18 FOMC participants project at least one more hike this year. Looking out to 2027, views split with eight participants favoring a third hike. However, the median projection keeps rates unchanged through 2027, followed by single 25bp rate cuts in both 2028 and 2029. This would leave the policy rate above the longer-run 3.2% median estimate throughout the forecast horizon. The latter was revised up by 0.1 pp from 3.1%, although the unchanged 2.9-3.9% range suggests little evidence of a broader reassessment of neutral (Figure 1).

During a shortened press conference, Warsh's Q&A focused on the rationale for today's hike without establishing a clear path for rates ahead. He described the economy as "strengthening" and emphasized that the labor market remains a limited concern, leaving the Committee's "predominant focus" on price stability: "the plain fact is that inflation is too high and has been for too long." Warsh stressed that today's decision did not hinge on any single release, instead pointing to three intermeeting developments: stronger activity data, inflation trends that still fail to show sufficient progress, and geopolitical developments. A reporter challenged that characterization, noting that the August CPI appeared to have played a decisive role in shifting market and analyst expectations, particularly after Williams and Waller had explicitly conditioned their willingness to pause on continued evidence of disinflation. Today's unanimous vote shows that the argument for waiting gained no traction within the Committee. Some ambiguity remained around Warsh's characterization of the hike as having "removed a dose of accommodation." That description sits somewhat uneasily with the Fed's previous characterization of policy as modestly restrictive, although Warsh clarified that he was referring more broadly to financial conditions, which he again said he would be "hard pressed" to describe as restrictive.

Today's hike is unlikely to be a one-off, but market pricing for an extended tightening cycle looks overly aggressive. While he avoided explicit forward guidance, Warsh's remarks that today's action "starts to show we're serious about this" and his reiterated message that the Fed "will deliver on the price stability objective" suggest a low threshold to tighten further if inflation remains sticky. Still, we expect a shallower hiking path than markets currently price in. While futures currently price in roughly three total hikes—down from nearly four before today's decision—we expect only one additional 25bp increase, most likely in December. We then expect the Fed to remain on hold through 2027. Beyond that, our outlook diverges more clearly from the SEP: a faster decline in inflation than participants currently project should allow policy normalization to begin in 2028, bringing rates back toward neutral sooner, well ahead of the dots timeline.

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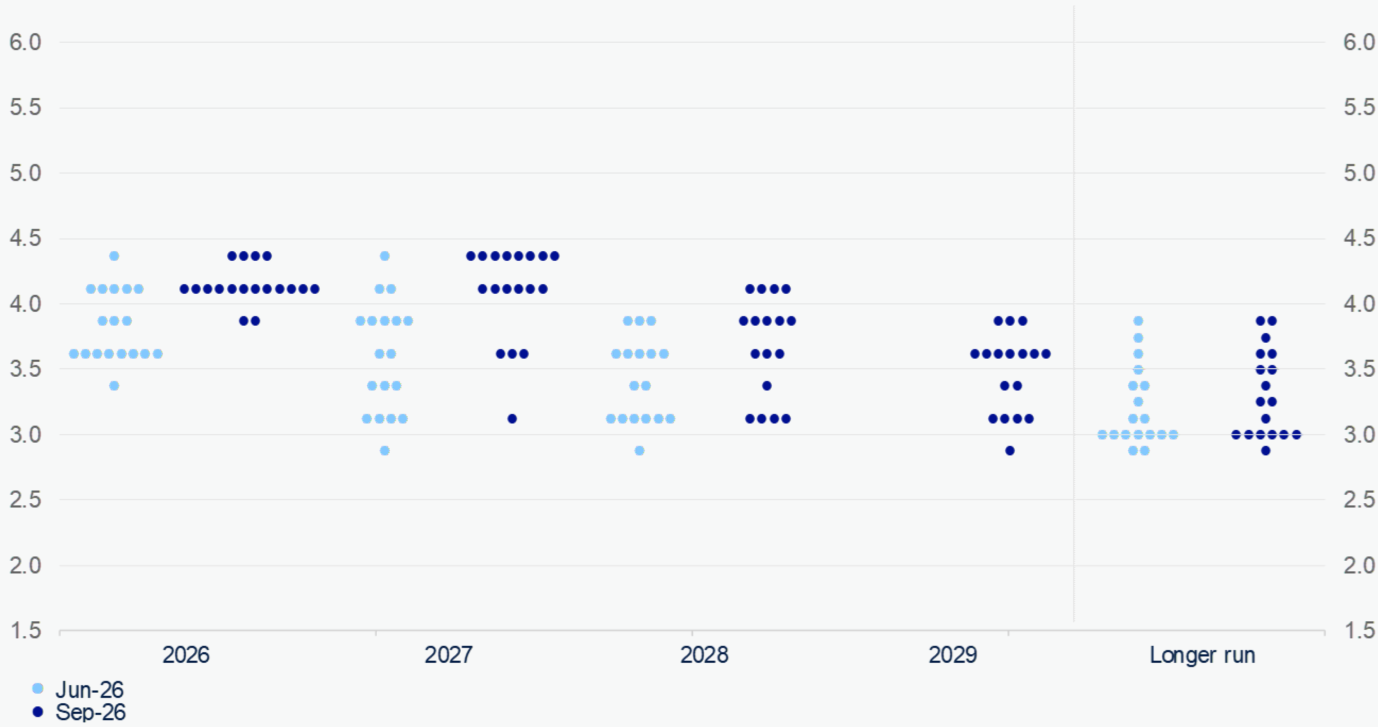
16 out 18 FOMC participants project at least one more hike this year; looking out to 2027, views split with eight participants favoring a third hike

TABLE 1. FOMC PARTICIPANTS' SUMMARY OF ECONOMIC PROJECTIONS (SEPTEMBER 2026, %)

Variable	Median					Central tendency					Range				
	2026	2027	2028	2029	LR	2026	2027	2028	2029	LR	2026	2027	2028	2029	LR
Change in real GDP	2.3	2.4	2.2	2.1	2.0	2.2-2.4	2.2-2.6	2.1-2.3	2.0-2.2	2.0-2.2	2.1-2.6	2.0-2.9	1.8-2.6	1.8-2.4	1.7-2.5
Jun-26	2.2	2.3	2.2		2.0	2.0-2.3	2.0-2.4	2.0-2.3		1.8-2.0	1.8-2.6	1.9-2.9	1.8-2.6		1.7-2.5
Unemployment rate	4.1	4.1	4.1	4.1	4.2	4.1-4.2	4.0-4.2	4.0-4.2	4.0-4.3	4.0-4.3	4.0-4.3	4.0-4.5	3.9-4.4	3.8-4.4	3.8-4.4
Jun-26	4.3	4.3	4.2		4.2	4.3-4.4	4.2-4.5	4.1-4.3		4.0-4.3	4.3-4.6	4.0-4.6	4.0-4.4		3.8-4.5
PCE inflation	3.7	2.3	2.1	2.0	2.0	3.5-3.7	2.2-2.5	2.0-2.2	2.0	2.0	2.9-3.8	2.0-2.6	2.0-2.2	2.0-2.0	2.0
Jun-26	3.6	2.3	2.0		2.0	3.5-3.7	2.2-2.5	2.0-2.1		2.0	2.7-4.1	1.9-2.8	2.0-2.3		2.0
Core PCE inflation	3.4	2.5	2.2	2.0		3.3-3.4	2.3-2.6	2.0-2.2	2.0		2.8-3.5	2.1-2.7	2.0-2.3	2.0-2.1	
Jun-26	3.3	2.5	2.1			3.2-3.5	2.3-2.6	2.0-2.2			2.6-3.5	2.0-3.0	2.0-2.4		
Federal funds rate	4.1	4.1	3.9	3.6	3.2	4.1-4.4	3.6-4.4	3.1-4.1	3.1-3.6	3.0-3.6	3.9-4.4	3.1-4.4	3.1-4.1	2.9-3.9	2.9-3.9
Jun-26	3.8	3.6	3.4		3.1	3.6-4.1	3.1-3.9	3.1-3.6		3.0-3.5	3.4-4.4	2.9-4.4	2.9-3.9		2.9-3.9

FIGURE 1. FOMC PARTICIPANTS' PROJECTED APPROPRIATE FEDERAL FUNDS RATE (%)



Source: BBVA Research, Fed

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