

U.S. FOMC Review

- FOMC decision: the Committee maintained the target range for the federal funds rate at 3-1/2 to 3-3/4 percent for the fifth consecutive meeting; 9-3 decision with three policymakers favoring a hike
- The statement: the latest iteration was substantially unchanged from that in June (aside from paragraph indicating dissents), balance sheet policy to continue operating in ample reserves framework
- Press conference: Chairman Warsh reiterated the Committee's unwavering commitment to 2 percent inflation, noted approvingly of the market response to recent data (e.g., the recent increase in real rates), and doubled-down on the transition away from forward guidance

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The July FOMC Meeting

Against a backdrop of intensifying conflict in the Middle East and brisk inflation, the FOMC voted 9-3 today to maintain the target range for the federal funds rate at 3-1/2 to 3-3/4 percent. The move aligned with consensus expectations (86 of 88 economists submitting forecasts to the Bloomberg survey expected no change in rates), although futures markets reflected a higher degree of uncertainty versus that in other recent meetings (the CME Group FedWatch Tool indicated an approximate 34 percent probability of a hike in the hour preceding the announcement). Ultimately, the majority of the Committee opted to maintain its previous wait-and-see approach as policymakers sought to distill signal from noise with respect to inflation. In that regard, several key pieces of data – including two additional monthly inflation reads (both the CPI and PCE price index for July and August) -- ahead of the September 15-16 meeting could provide critical insights on price trends. Thus, as the Chairman noted in his press conference, market participants are left to “follow the ball, not the referee” (i.e., monitor the data rather than rely on forward guidance and projections from the FOMC).

Turning to the statement, verbiage was essentially unchanged from that in June (text, right), although fewer policymakers were aligned with the decision. After officials voted unanimously in June – likely in deference to the Chairman presiding over his first meeting – vocal hawks (Lorie Logan, Beth Hammack, and Neel Kashkari) made known their preference for a hike of ¼ percentage point in the federal funds rate. With that said, Chairman Warsh seemingly downplayed the development in his press conference, describing the two-day meeting as “collegial and constructive,” emphasizing the shared mission of the Committee. Moreover, he suggested during Q&A that the latest decision was simply a “point estimate” that will almost certainly evolve as policymakers refine their views on underlying inflation and its drivers.

July 29, 2026 FOMC Statement*

The Federal Open Market Committee approved the following statement for release by a **9 – 3** vote:

The Committee decided to maintain the target range for the federal funds rate at 3-1/2 to 3-3/4 percent, in support of the Federal Reserve's dual mandate. The Committee **is continuing** its policy of maintaining ample reserves in the banking system.

Economic activity is expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East. Productivity growth and capital investment are strong. Job gains have kept pace with the workforce, and the unemployment rate has changed little.

Inflation remains elevated relative to the Committee's 2 percent goal, in part reflecting supply shocks that have driven price increases in certain sectors, including energy. The Committee will deliver price stability.

Voting against the monetary policy action were Beth M. Hammack, Neel Kashkari, and Lorie K. Logan, who preferred to raise the target range for the federal funds rate by 1/4 percentage point at this meeting.

** Changes from the prior statement shown in bold
 Source: Federal Open Market Committee*

The Chairman's press conference offered several interesting bits of information beyond the aforementioned (limited) insights on policymakers' deliberations. We note first the forceful defense of the price stability component of the Fed's legislative remit. On the point, Mr. Warsh argued that the Fed has a clear mandate to achieve 2 percent inflation; he pushed back against insinuations that there could be a "soft inflation target" or "implicit target" that undermined the Fed's credibility. Additionally, he suggested that there was nothing "inertial" about discussions; that is, colleagues were actively seeking to address root causes of inflation, and the proper deployment of tools to address the problem. Additionally, he emphasized two key economic developments: nominal and real yields moved "materially higher" in the intermeeting period, and that business investment (fueled by capital investment in AI) remained "the most striking feature" of a resilient U.S. economy. The former observation struck us as particularly salient, as it informed many of his responses to reporters' questions. And, what was important was that the move in rates reflected market assessments of incoming data – and that they would ultimately disseminate to the real economy. The Chairman later argued that a "pullback of forward guidance requires transition," but he appeared pleased by signals received from the market in light of the tactic (along with the perceived information value of market moves now received). Finally, he spent some time drilling down into the inflation conundrum – implications of five years of above-target price growth, effects of cascading economic shocks, considerations regarding AI capex, among others, and the tools available to the central bank to address the problem. In essence, Warsh offered little color beyond the FOMC's commitment to re-achieving price stability, but he did provide a view of the scope of exploration now deployed in the reimagining of the Fed's approach to policy setting.