Daiwa Capital Markets

U.S. FOMC Review

- FOMC decision: the Committee voted unanimously to raise the target range for the federal funds rate by 25 basis points to 3-3/4 to 4 percent
- Committee statement & press conference: hawkish language indicates a willingness to hike further in response to upside inflation risks
- Summary of Economic Projections: higher interest rates; slower return to 2 percent; no forecasts from Chairman Warsh

Lawrence Werther
lawrence.werther@us.daiwacm.com
+1-212-612-6393
Brendan Stuart
brendan.stuart@us.daiwacm.com
+1-212-612-6172

The September FOMC Meeting

With labor market conditions firming in August (unemployment remained low at 4.1 percent, while job growth accelerated to 162,000 versus a trailing three-month average of approximately 38,000), last week's inflation data provided additional information at the margin suggesting price pressure remains the dominant risk to the FOMC's dual mandate objectives. On the point, Chairman Warsh indicated in his press conference that internal estimates for the PCE price index based on August results for the CPI and PPI suggested that the headline metric eased only modestly to +3.6 percent year-over-year from +3.7 percent in July, while the change in core was expected to decelerate to +3.2 percent from +3.3 percent (official results published on September 30 in the August report on Personal Income and Outlays). Further, he reiterated that the observed trend in inflation, as judged by the Committee, was inconsistent with his standard previously articulated at Jackson Hole – that policymakers "must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed." Thus, absent evidence of progress toward that goal, the FOMC voted to raise the target range for the federal funds rate by 25 basis points to 3-3/4 to 4 percent, a move aligned with broad market expectations (approximately 90 percent probability of a hike according to the CME Group FedWatch monitor in the hours preceding the announcement).

While today's move was consistent with widely held views in the market, the unanimous decision -- and suggestion by the Chairman that the Committee acted to only "remove a dose of accommodation" --indicated that the hike may not simply be a one-off occurrence designed to quell persistent discussion of a potential dovish policy error by the central bank. Rather, it could be the start of a more sustained effort that will be dictated by evolving economic conditions and the trajectory of inflation (further context was provided in the new Summery of Economic Projections, although Chairman Warsh again declined to submit forecasts -- see below).

The shift in assessments was perceptible in somewhat subtle changes to the Committee statement. The latest iteration noted that "domestic spending has been resilient," while recharacterizing capital investment as "robust" versus "strong" previously (a change we view as suggesting strengthening; see statement comparison, p. 3). Furthermore, in discussing inflation, the new statement simply noted that it "remains elevated," striking references to it "in part reflecting supply shocks" – a change suggesting persistence in trend rather being caused by transient factors. Providing context for the changes, Chairman Warsh offered three observations colleagues arrived at during the intermeeting period: 1. The economy "strengthened;" 2. inflation trends were not meeting his previously articulated standard; and 3. geopolitics was generating significant uncertainty.

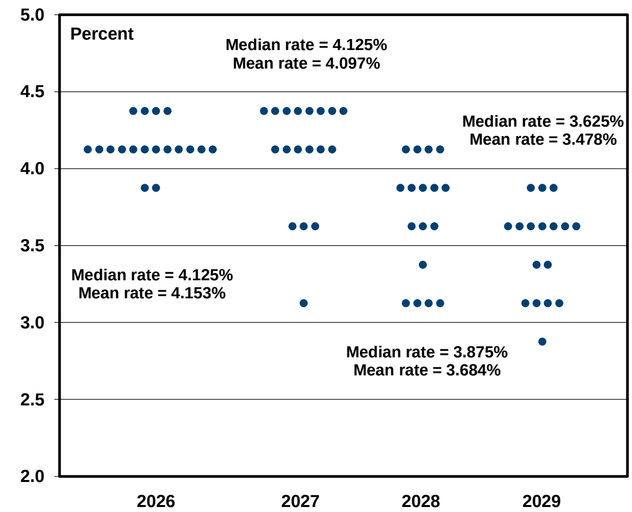
Despite the updated characterization of developments, the Fed Chairman once again refrained from speculating on how they could influence decisions at upcoming meetings (i.e., he refrained from offering so much as a hint of forward guidance). Moreover, he reminded reporters that "trends matter" and that particular data points are "noisy." Thus, he reaffirmed a commitment to a set of "principles" or "discipline" in policymaking rather than a specific reaction function swayed by one (or even several) pieces of information. The approach, in our view, is prudent given elevated uncertainty and variation in monthly data, but the learning curve of market participants in discerning how to interpret the Chairman's assessment of trends certainly implies that an uptick volatility in financial markets may also persist. With that said, Chairman Warsh again asserted that "inflation is a choice," and he appears to have pivoted toward addressing price pressure with a more restrictive stance of monetary policy.

This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo ("Daiwa Securities") and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. brokerdealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.

The Summary of Economic Projections

Although seemingly of diminished importance given the Fed Chairman's transition away from forward guidance, lack of participation, and only modest attention paid during the press conference, we still view the Summary of Economic Projections as useful in shaping our views of the stances of other Fed officials. In that regard, the September 2026 SEP incorporated notable changes to the expected path of policy, along with those for key economic variables. Turning first to the dot plot, which suggests the further removal of policy accommodation in coming months, the median projection for the federal funds rate in 2026 was adjusted higher to a midpoint of 4.125 percent, indicating one additional 25 basis point hike by the end of the year (versus 3.750 percent previously). Moreover, the outlooks for 2027 and 2028 were revised up by 50 basis points each to 4.125 and 3.875 percent, respectively (versus 3.625 and 3.375 percent previously). The median projection for 2029 – newly included in the September SEP – came in at 3.625 percent. The longer-term median, meanwhile, was adjusted slightly higher to 3.250 percent (versus 3.063 percent prior). However, Chairman Warsh was quick to acknowledge that this change was more-so an academic exercise rather than useful information in assessing the near-term path of interest rates.

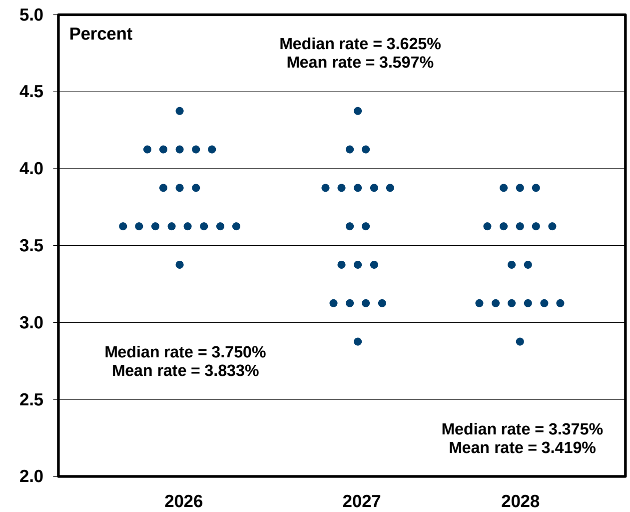
FOMC Rate View, September 2026*



** Each dot represents the expected federal funds rate of a Fed official at the end of the year.*

Source: Federal Open Market Committee, Summary of Economic Projections, September 2026

FOMC Rate View, June 2026*



** Each dot represents the expected federal funds rate of a Fed official at the end of the year.*

Source: Federal Open Market Committee, Summary of Economic Projections, June 2026

With respect to the economic data, estimates for inflation were adjusted somewhat higher across the forecast horizon. Namely, the median projections for the headline and core price indexes were revised up by 0.1 percentage point each in 2026 (3.7 and 3.4 percent) and 2028 (2.1 and 2.2 percent). Projections for headline and core inflation in 2027 and the longer run (only headline) were left unchanged from those in June (table). Inflation was seen as returning to target by 2029. At the same time, expectations for GDP were revised higher in both 2026 and 2027 (+0.1 percentage point each to 2.3 and 2.4 percent, respectively). Regarding the job market, views on the unemployment rate were revised lower across the board, expected to come in at 4.1 percent between

Economic Projections of the FOMC, September 2026*

	2026	2027	2028	2029	Longer Run
Change in Real GDP	2.3	2.4	2.2	2.1	2.0
June projection	2.2	2.3	2.2	--	2.0
Unemployment Rate	4.1	4.1	4.1	4.1	4.2
June projection	4.3	4.3	4.2	--	4.2
PCE Inflation	3.7	2.3	2.1	2.0	2.0
June projection	3.6	2.3	2.0	--	2.0
Core PCE Inflation	3.4	2.5	2.2	2.0	--
June projection	3.3	2.5	2.1	--	--
Federal Funds Rate	4.1	4.1	3.9	3.6	3.2
June projection	3.8	3.6	3.4	--	3.1

** Median projections*

Source: Federal Open Market Committee, Summary of Economic Projections, September 2026

2026 and 2029 before converging to the unrevised longer-run rate of 4.2 percent. All told, policymakers (excluding the Fed Chairman) saw economic activity firming, the labor market remaining on solid footing (consistent with full employment), and inflation only retreating slowly toward the 2 percent objective – which could necessitate further increases in the target range for the federal funds rate.

FOMC Statement Comparison*

September 16, 2026 FOMC Statement

The Federal Open Market Committee approved the following statement for release by a **12 – 0 vote**:

The Committee decided to **raise** the target range for the federal funds rate **by 1/4 percentage point to 3-3/4 to 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. **While uncertainty remains elevated owing, in part, to geopolitical developments, domestic spending has been resilient**. Productivity growth **is strong**, and capital investment **is robust**. Job gains have kept pace with the workforce, and the unemployment rate has changed little.

Inflation remains elevated. **Today's policy action will support a timelier return to the Committee's 2 percent goal**. The Committee will deliver price stability.

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 statement to statement shown in bold.*
Sources: Federal Open Market Committee; Daiwa Capital Markets America