

U.S. FOMC Review

- FOMC decision: ratifying market expectations, the Committee voted 10-2 to maintain the target range for the federal funds rate at 3-3/4 to 4 percent
- Committee statement: the verbiage in the 2pm EST release upgraded the previous favorable characterization of the economy, while noting that inflation remained elevated. However, the majority favored gathering additional information versus hiking at sequential meetings.
- The press conference: Chairman Warsh noted some tightening in financial conditions, suggested “information-rich interval” in coming period would be useful in calibrating policy, insisted that midterms played no role in the pause, and announced a change to the Fed’s schedule

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The October FOMC Meeting

Despite what is likely to be a brisk monthly increase in the price index for personal consumption expenditures for September (released tomorrow; our calculations suggest year-over-year advances of 3.7 and 3.1 percent for the headline and core measures, respectively, up from 3.4 percent and 3.0 percent in the prior month), the FOMC voted 10-2 in favor of maintaining the target range for the federal funds rate at 3-3/4 to 4 percent. Despite dissents by two officials – Governor Lisa D. Cook and Beth M. Hammack of the Cleveland Fed -- who “preferred to raise the target range for the federal funds rate by ¼ percentage point,” presumably in response to persistently elevated inflation, the majority elected to stand pat – awaiting further information on the state of the economy and financial markets. Indeed, while “Many participants emphasized that a higher path for the target range would be prudent on risk-management grounds” as noted in the September FOMC minutes, a similar risk-management approach appeared warranted at this juncture – but perhaps for different reasons. In the approximately six weeks since the last policy meeting, higher interest rates have contributed to tighter financial conditions in the real economy while hints of stress have emerged in corporate credit markets. Thus, even as the probability of a further hike in 2026 following today’s decision remains a possibility (approximately 85 percent according to the CME’s FedWatch tool as of writing), and the majority of Fed officials supported at least one additional increase as indicated in responses included in the September Summary of Economic Projections (16 of 18 favored at least one more tightening of 25 basis points), they elected to defer that decision for a time (or eliminate it entirely).

Turning to the latest statement, we observed two notable changes. First, the third paragraph included language upgrading the Committee’s assessment of the economy (expanding at a “strong pace” rather than “solid pace”) – an important, but unsurprising, shift given that tomorrow’s Q3 GDP report is likely to show annualized growth in the vicinity of three percent. Perhaps more important was not the ongoing characterization of inflation as “elevated,” but the differing conclusion based on that assessment. Rather than ratifying a rate hike that would “support a timelier return to the Committee’s 2 percent goal,” the new statement argued: “The accumulation of more information will help the Committee determine the policy stance appropriate to ensure a timely return of inflation to the Committee’s 2 percent goal” (statement comparison, next page). In essence, patience rather than action was the preferred approach despite persistently above-target inflation.

Augmenting information received in the statement, Chairman Warsh provided a good bit of useful information in his press conference across a variety of topics. First, with respect to logistics, he noted a change of course in regard to meeting structure. While the Committee would continue to meet eight times per year, one meeting in 2027 and two in the subsequent year would be dedicated to broad monetary policy strategy with no policy move or statement issued. He did not explicitly comment on policy adjustments occurring between meetings, but conceivably that remains within the Committee’s purview. Further, he noted during Q&A that the productivity and jobs taskforce would hold a public hearing on November 16th, although he still expected most task forces to report early next year.

Turning to recent policy adjustments and economic conditions, Chairman Warsh suggested that the economy had strengthened, later contending in response to a question that capex has broadened beyond the A.I. ecosystem while consumer spending also remained resilient. Further, he gave a useful assessment of financial conditions, arguing: "While overall financial conditions are tighter, I'm unwilling and unable to call them tight. But broadly, these developments go in the direction of achieving a longer, more durable period of economic growth and price stability." Providing additional context, he later noted that the previous policy tightening in September had acted on the economy in a manner aligned with his underlying assumptions, with tighter conditions affecting pockets of the household sector and businesses. Moreover, he argued that the upcoming period was "information rich" and would presumably provide further clarity to policymakers regarding the appropriate path of interest rates. And, he noted that the Committee had the ability to be patient because, among other reasons, inflation expectations remained anchored. That said, Warsh reaffirmed that policymakers remained ready to act "as circumstances require" and have shown their "willingness" to do so. Those considerations aside, he denied influencing (or being aware of) guidance -- signaling -- by various policymakers hinting at a pause to markets, and he refuted the idea that the upcoming midterm elections played a role in the decision to hold the federal funds rate steady. Importantly, towards the end of his remarks, he reminded those present that he still does not "believe in pre-judging meetings" and again rejected the utility of forward guidance outside of emergencies. Thus, even as we have new information to help us assess the potential outcome in December, the meeting is still very much "live."

FOMC Statement Comparison*

October 28, 2026 FOMC Statement

The Federal Open Market Committee approved the following statement for release by a **10 – 2 vote**:

The Committee decided to **maintain** the target range for the federal funds rate **at** 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 **strong** 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. **The accumulation of more information will help the Committee determine the policy stance appropriate to ensure a timely return of inflation** to the Committee's 2 percent goal. The Committee will deliver price stability.

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

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.

* Changes from statement to statement shown in bold.

Sources: Federal Open Market Committee; Daiwa Capital Markets America