30th JULY 2026

FOMC UPDATE - JULY 2026

The Federal Open Market Committee (FOMC) kept the federal funds target range unchanged at 3.50%-3.75%, marking the fifth consecutive meeting without a change in policy rates. The decision, passed by a 9-3 vote, maintains a restrictive policy stance as the Committee continues to balance its dual mandate of maximum employment and price stability. While inflation remains above the Federal Reserve's 2% objective, economic activity and labour market conditions continue to exhibit resilience. Three voting members dissented in favour of a 25-bps rate hike, highlighting increasing concern over persistent inflationary pressures within the Committee.

KEY HIGHLIGHTS

The Committee noted that economic activity continues to expand at a solid pace despite elevated geopolitical uncertainty. Labour market conditions remain healthy, with employment growth broadly matching labour force expansion, while the unemployment rate has remained broadly stable at around 4.2%. Inflation continues to run above the Federal Reserve's long-term objective and has remained above its 2% target for over 5 years. Policymakers reiterated that the risks to achieving both maximum employment and price stability remain balanced, while emphasising that future policy decisions will continue to be guided by incoming economic data. The Federal Reserve also maintained its policy of keeping ample reserves within the banking system and made no changes to its balance sheet implementation framework. U.S. Bureau of Economic Analysis (BEA) has announced methodological revisions to the calculation of the Personal Consumption Expenditures (PCE) Price Index, effective from the September 2026 release. While the changes are expected to reduce reported core PCE inflation by around 0.2 percentage points.

FORWARD GUIDANCE

The Committee refrained from providing any explicit guidance on the timing or direction of future policy actions. Instead, it reiterated that monetary policy decisions will remain data dependent, with incoming inflation, labour market and broader economic data continuing to guide the policy path. This reinforces the Federal Reserve's preference to remain not on a preset course, retaining the flexibility to adjust policy in either direction as warranted by evolving economic conditions and incoming data.

SHIFT IN CONSENSUS

Although the policy rate was left unchanged, the July meeting marked the largest level of dissent since Chair Kevin Warsh assumed office. 3 voting members preferred an immediate 25-bps increase, arguing that inflation has remained above the Federal Reserve's 2% target for over 5 years and that the current policy stance may no longer be sufficiently restrictive. The split vote nevertheless indicates that the Committee remains firmly focused on restoring price stability and that the threshold for further policy tightening has declined should inflation remain elevated. Market expectations have also shifted, with the CME FedWatch Tool assigning a 65.2% probability of a 25-bps rate hike at the September 15–16, 2026 FOMC meeting.

The July FOMC outcome is broadly neutral for Indian investors, as the decision was largely in line with market expectations. While elevated U.S. interest rates may continue to influence Treasury yields, foreign institutional flows and near-term market sentiment, India's long term investment outlook remains reinforced by robust domestic earnings growth, structural reforms, government capital expenditure and sustained domestic liquidity. Accordingly, we do not believe the outcome warrants any change to long term portfolio positioning and continue to advocate maintaining a well-diversified portfolio aligned with long term financial objectives.

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