

17th SEPT 2026

FOMC UPDATE - SEPT 2026

The Federal Open Market Committee (FOMC) raised the federal funds target range by 25-bps to 3.75%-4.00%, marking its first rate hike since July 2023 after five consecutive meetings without a change. The decision was unanimous at 12-0, a clear shift from the 9-3 split in July, when three members dissented in favour of a hike. The move comes as the Committee contends with persistent inflation, compounded by a renewed rise in oil prices amid the conflict in the Middle East. The Committee stated that the hike is intended to support a timelier return to its 2% objective.

KEY HIGHLIGHTS

The Committee noted that economic activity remains solid, supported by domestic spending, productivity growth and capital investment. The labour market remains healthy, with unemployment stable at around 4.1%. Inflation, however, remains above the Federal Reserve's 2% target, with core PCE inflation at 3.3% year on year in July and headline and core PCE inflation estimated at around 3.6% and 3.2%, respectively, in August. Chair Kevin Warsh noted that financial conditions were not restrictive. The updated Summary of Economic Projections points to firmer growth and higher inflation than in June, with median real GDP growth for 2026 revised up to 2.3% from 2.2% and the unemployment rate projection lowered to 4.1% from 4.3%. Core PCE inflation is projected at 3.4% by end 2026, up from 3.3%, before easing to 2.5% in 2027. The median federal funds rate projection rose to 4.1% from 3.8% for end 2026 and to 4.1% from 3.6% for end 2027, eliminating the rate cut previously pencilled in for next year. The longer run rate moved up to 3.2% from 3.1%, while 17 of 18 participants view inflation risks as weighted to the upside.

FORWARD GUIDANCE & SHIFT IN CONSENSUS

The Committee refrained from committing to a preset policy path. The dot plot points to further tightening: 12 of 18 participants project one more 25-bps hike this year, 4 project two, while 2 see no further hikes. Chair Warsh did not submit a rate projection, as was also the case in June. He attributed the hike to stronger data, elevated inflation and evolving geopolitical developments. Markets expect further tightening, including a December hike and additional increases in 2027.

Ahead of the decision, the 10-year U.S. Treasury yield touched 5.04%, its highest level since 2007, before easing to around 4.95% following the announcement. The hawkish tone of the projections could keep U.S. Treasury yields and the U.S. dollar firm in the near term, with potential implications for foreign institutional flows and the rupee. The domestic policy environment is also turning firmer. CPI inflation rose to 4.82% in August from 4.45% in July, driven largely by food prices, while the RBI projects inflation at 5.9% for Q3 FY27. The RBI kept the repo rate unchanged at 5.25% with a neutral stance in August, although the Governor indicated that the policy rate may require recalibration as inflation normalises towards 5%. Several economists now expect a shallow tightening cycle to begin at either the October or December review. India's long term investment outlook remains supported by robust domestic earnings growth, structural reforms, government capital expenditure and sustained domestic liquidity. Accordingly, we see no need to alter long term portfolio positioning and continue to advocate a well-diversified portfolio aligned with investors' long term financial objectives.

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