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FOMC Update

As summarized by Smith Shellnut Wilson

September 16, 2026

September 16, 2026 - Fed Hikes 25bps, Dot Plot Turns More Hawkish

The Federal Reserve delivered its first rate hike since July 2023, raising the federal funds target range by 25 basis points to 3.75% to 4.00%. The decision was unanimous and largely expected, with fed funds futures pricing better than a 90% probability of a hike before the meeting. The Fed justified the move by citing persistent inflation pressures, while continuing to characterize economic growth, labor markets, productivity, and business investment as resilient.

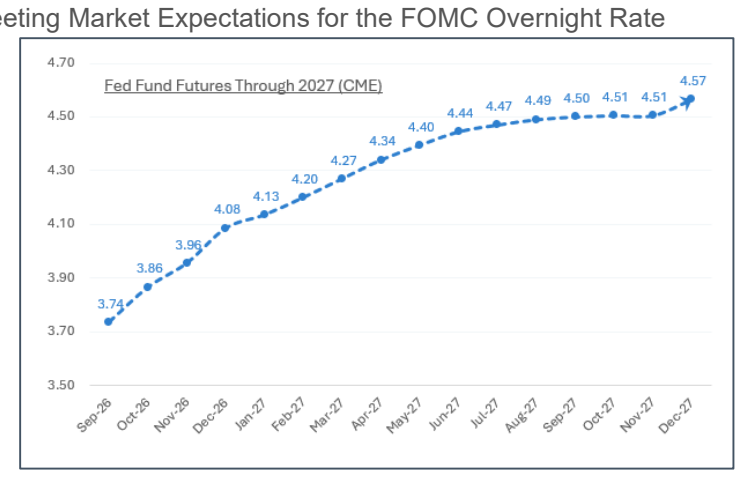
The bigger story was the Fed's updated outlook. The dot plot shifted noticeably higher, with the median policymaker now expecting rates to end 2026 at 4.1%, up from roughly 3.8% in June. Sixteen of 18 participants project at least one additional hike, while four officials see two more increases. The message was clear: policymakers do not view today's move as the end of the tightening cycle and remain concerned that inflation will prove more persistent than previously expected.

The principal surprise was not the rate increase itself, but the hawkish tone of the projections. The Fed modestly raised its inflation forecasts and pushed back the expected return to its 2% inflation target until 2029. Officials appear increasingly concerned that higher energy prices, tariffs, and elevated inflation expectations could keep price pressures entrenched, prompting a more restrictive policy stance for longer.

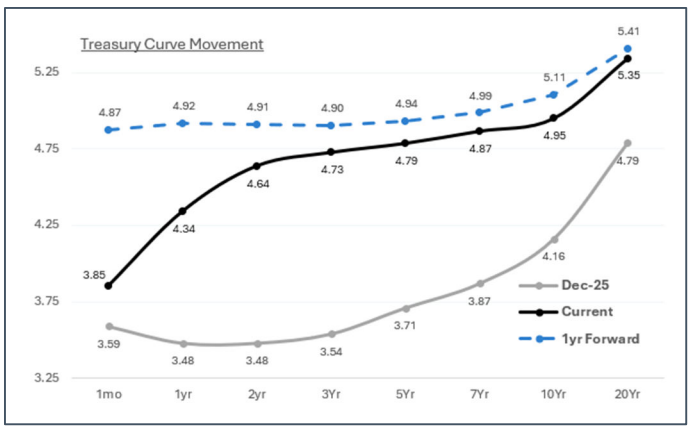
Market reaction was relatively muted because much of the move had already been priced in. Treasury yields had moved higher in recent weeks, particularly following Chairman Kevin Warsh's Jackson Hole remarks, with the front end of the curve incorporating a growing probability of renewed tightening. While today's 25 basis point hike was fully anticipated, the more hawkish dot plot reinforced expectations that short-term rates could remain elevated and possibly move higher before the cycle is complete.

For fixed income investors, the key takeaway is that the Fed has transitioned from an extended pause to a renewed tightening bias. With inflation proving sticky and economic activity remaining firm, policymakers are signaling a higher-for-longer rate environment than was expected just a few months ago. Unless inflation moderates meaningfully or growth deteriorates, the path forward points to restrictive policy remaining in place and the Treasury curve continuing to reflect the possibility of additional rate hikes.

Post-Meeting Market Expectations for the FOMC Overnight Rate



Post-Meeting Market Expectations for the Treasury Curve



Source Data: Bloomberg

Side-by-side comparison of the U.S. Federal Open Market Committee statements from September 16, 2026 and July 29, 2026.

September 16, 2026	July 29, 2026
The Federal Open Market Committee approved the following statement for release by a 12 – 0 vote:	The Federal Open Market Committee approved the following statement for release by a 9 – 3 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.	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. 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.	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. Today's policy action will support a timelier return to the Committee's 2 percent goal. The Committee will deliver price stability.	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.
SOURCE: Federal Reserve Board	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.
	SOURCE: Federal Reserve Board

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