

Investment Team Insights



More Talk Than Action? The Fed's Message Sounds Hauntingly Familiar.

Were there any policy changes?

The Fed held rates steady yesterday, pausing after September's hike. The current range for the fed funds target remains at 3.75% to 4.00%. The decision to stand pat was not unanimous, as two FOMC members preferred a 0.25% increase. Although the Fed left rates unchanged, Chair Warsh did announce a modification to the Fed's meeting schedule. Beginning next year, one of their eight meetings will be devoted exclusively to strategy discussions (in 2028 it will be two), with no voting on policy. Given the Fed Chair's previous comments, this development was not surprising.

Was their message hawkish or dovish?

This meeting did not fit squarely into either of these boxes and instead fell somewhere in between. Fed Governor Cook's dissent could be viewed as slightly hawkish, given the expectation that she would vote with the majority. Also, the Committee's assessment of stronger economic growth, coupled with a commitment to lower inflation, suggests that more hikes might be necessary. However, given Kevin Warsh's deliberately ambiguous communication style, his reluctance to emphasize the potential for further rate hikes could be interpreted as a dovish signal.

What was the market reaction?

Similar to the script following the July FOMC meeting, the financial markets' reaction seemed to reflect slight disappointment. The Chair stopped short of clearly signaling the Fed's willingness to raise rates further against a backdrop of economic strength. The Treasury curve steepened, as short-term yields fell by a few basis points and longer maturity Treasuries decreased in price. Inflation breakeven rates also edged higher, potentially reflecting concern about the Fed's willingness to make policy more restrictive.

What's next?

The Fed will be keenly focused on the economic data between now and their December meeting – a period that Chair Warsh described as “information rich.” Inflation reports will be closely scrutinized for any signs that energy price increases are spreading into other categories. While not likely an impact on next month's decision, the upcoming elections could help shape the path of rates next year and beyond. With the Fed Chair unlikely to offer forward guidance between meetings, investors will turn to other committee members for clues about the next policy move.

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