

Fed review The hike was expected The message was more hawkish

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Key points:

- The Fed raised rates by 25 basis points to 3.75–4.00%, but the bigger message came from its stronger economic forecasts, higher rate path and Warsh's press conference.
- This was not presented as a one-off response to oil. The Fed increasingly sees inflation as broad enough, and the economy as strong enough, to justify tighter policy.
- Federal Reserve Chair Kevin Warsh was arguably more hawkish than the projections, arguing that financial conditions are not particularly restrictive and suggesting there could be more tightening ahead.
- The 10-year Treasury yield around 5% is now the most important market signal. Its next move will help determine the outlook for bonds, equities, technology and the US dollar.

The Federal Reserve's first rate increase since 2023 was almost fully priced. What mattered was everything around it: a unanimous vote, higher interest-rate projections, stronger growth forecasts, a lower unemployment forecast and Warsh's assessment that financial conditions are not particularly restrictive.

What changed in the statement?

The September 16, 2026 FOMC statement was unusually short, but several changes were significant.

The Fed said that economic activity was expanding at a "solid pace". It highlighted resilient domestic spending, strong productivity and robust capital investment, while noting that job growth had kept pace with labour-force growth.

In other words, the Fed is not describing an economy that needs protection from higher interest rates.

Its inflation language was also firmer. The Fed said inflation remained elevated and that the rate increase would support a more timely return to its 2% target. The statement ended with an unusually emphatic commitment: "The Committee will deliver price stability."

Perhaps more important was what disappeared. The Fed removed language from its July 29, 2026 FOMC statement attributing elevated inflation to supply shocks.

If inflation is primarily the result of an oil shock, higher rates have limited ability to resolve it. But if resilient demand is helping companies pass higher energy, tariff and wage costs through to consumers, tighter monetary policy becomes considerably more relevant.

The projections were more hawkish than the hike

The September 2026 Summary of Economic Projections was arguably the most important part of the meeting.

As the September 2026 Summary of Economic Projections show, 16 of the 18 policymakers expect at least one additional hike in 2026. The median projection for PCE inflation does not return to 2% until 2029.

Higher growth + lower unemployment + higher inflation + higher rates.

The Fed believes the economy is stronger than previously expected—and that strength is one reason inflation is proving difficult to bring down.

Warsh was arguably more hawkish than the projections

In his September 16, 2026 press-conference opening statement, Warsh said inflation had remained too high for too long and that recent readings had not shown a meaningful improvement in underlying trends.

That suggests the Fed is no longer prepared simply to look through higher energy prices and wait for disinflation to resume.

He also said he would be “hard-pressed” to describe broad financial conditions as restrictive, characterising the hike as removing a “dose of accommodation”.

That is significant. A policy rate approaching 4%, a 10-year Treasury yield around 5% and mortgage rates nearing 7% may look restrictive. But equities remain elevated, credit is still available, employment is strong and capital expenditure is booming.

From the Fed's perspective, monetary policy is not yet suppressing demand meaningfully. That leaves room for further tightening if inflation remains persistent.

Trump immediately pushed back

In a September 16, 2026 Truth Social post, President Trump argued that US interest rates should be “1%, or less” and called for rates to be lowered “AND FAST!”

- Trump: Rates should be around 1%.
- Warsh and the FOMC: Rates will probably need to exceed 4%.

Political pressure for lower Fed rates does not automatically mean lower borrowing costs across the economy.

If markets begin expecting easier Fed policy while inflation, tariffs, fiscal deficits and AI-related capital demand remain elevated, shorter-term yields could decline—but investors may demand a larger inflation and fiscal-risk premium for holding 10- and 30-year Treasuries.

Lower expected Fed rates !' higher long-term yields.

Political pressure could therefore steepen the yield curve rather than solve the government's borrowing-cost problem.

Has the Fed restored its credibility?

Despite that political pressure, the market's initial verdict was that the Fed had reinforced rather than weakened its inflation-fighting credibility.

After the decision, nominal yields, real yields and inflation expectations initially fell, with 10-year breakeven inflation dropping by more than 3 basis points to around 2.35%. Warsh's hawkish press conference subsequently pushed shorter-term yields higher, but it did not trigger a disorderly rise in 10- and 30-year yields.

The yield curve therefore flattened: markets priced a greater chance of further Fed tightening without demanding a sharply higher premium for holding longer-term debt.

The US dollar also strengthened. That matters because markets were not celebrating a dovish pivot or the return of cheap money. They were responding to a central bank that appeared more serious about controlling inflation.

This looks more like a credibility-relief trade than a pure Goldilocks reaction.

Where could the 10-year Treasury yield go?

The 10-year yield around 5% is now the most important market signal.

- Yields stabilise around current levels: This would suggest the Fed's credibility dividend is holding. Markets may be able to absorb another potential hike without a further surge in long-term borrowing costs.
- Yields move lower: This would probably require clearer evidence that inflation is cooling, oil prices are retreating or economic activity is weakening. That could help bonds and rate-sensitive assets, although weaker growth would introduce a different risk.
- Yields rise materially further: This would suggest the challenge extends beyond monetary policy. Persistent inflation, large fiscal deficits, heavy Treasury issuance and AI-related competition for capital could keep pushing up the return investors demand for holding longer-dated debt.

Our base case is not necessarily a straight move higher, but a period of elevated and volatile long-term yields.

If Warsh maintains a firm inflation stance and the 10-year yield remains orderly, the credibility dividend can persist. But if the Fed continues tightening and 10- and 30-year yields still rise sharply, markets would be signalling that the problem extends beyond the Fed to fiscal supply, inflation risk and competition for capital.

Why did technology and AI stocks hold up?

First, the Fed's projections offered a relatively favourable economic combination: stronger growth, lower unemployment and no dramatic increase in the projected number of rate hikes. That supported the outlook for economic activity and corporate earnings.

Second, inflation expectations declined and the long end of the Treasury curve remained orderly. That reduced the immediate risk of another valuation shock for growth stocks.

Technology also has its own fundamental support. Large technology companies generally have strong cash flows and can fund investment internally, while spending on semiconductors, memory, networking,

cooling, power and data centres remains substantial.

- Cash-generative technology companies may remain more resilient than businesses dependent on repeated external financing.
- AI infrastructure demand remains supportive, but valuations face a higher hurdle when the 10-year yield is around 5%.
- Returns on investment will receive greater scrutiny. Markets may increasingly distinguish between companies spending heavily on AI and those demonstrating revenue growth, productivity gains or a credible path to returns.
- The AI trade could broaden. As the focus shifts from building infrastructure towards using AI, potential beneficiaries may expand into software, financials, healthcare and industrial companies.

The key distinction is why yields are high.

If yields remain elevated because growth and investment are strong while inflation expectations stay anchored, profitable technology companies may continue to absorb the pressure. If yields rise because inflation, fiscal risk or Fed credibility deteriorates, valuation pressure will become much harder to ignore.

What does this mean across markets?

- US Treasuries: Shorter maturities remain sensitive to another possible hike. The long end is the credibility test: stability would be reassuring, while a renewed surge would point to deeper inflation or fiscal concerns.
- US dollar: The dollar may remain supported by higher US rates and renewed confidence in the Fed's inflation commitment.
- Gold: A stronger dollar and higher real yields are near-term headwinds, while geopolitical uncertainty, fiscal concerns and central-bank demand provide longer-term support.
- Broad equities: Stronger growth helps earnings, but higher rates raise the importance of pricing power, free cash flow and balance-sheet strength.
- Technology and AI: Structural demand remains supportive, but higher yields favour profitable, self-funded businesses over more speculative or capital-dependent companies.
- Banks: Higher rates can support lending margins, although prolonged tightening increases funding and credit risks.
- Small companies: Resilient growth is helpful, but refinancing costs and floating-rate debt remain important vulnerabilities.
- REITs and property: These remain sensitive to long-term yields, making debt maturity profiles, balance-sheet strength and lease structures increasingly important.

Portfolio observations in a higher-rate environment

A higher-rate environment changes several portfolio trade-offs:

- Interest-rate sensitivity: Longer-duration bonds and highly valued growth equities are more sensitive to changes in yields, increasing the importance of the potential return available relative to that risk.

- Self-funded growth: Companies with strong free cash flow and manageable debt may be better placed than businesses dependent on repeated external financing.
- AI concentration: Portfolios that depend heavily on continued AI capex acceleration may be more exposed than those that also include businesses capable of turning AI into productivity gains and revenue growth.
- Pricing power: Businesses able to protect margins when labour, tariff and energy costs rise may be more resilient.
- Debt exposure: Highly indebted companies, weaker property vehicles and capital-intensive projects may face greater pressure if refinancing costs stay elevated.
- Sources of return: Quality, value, income and selective inflation-sensitive assets may behave differently from growth equities when valuation multiples are under pressure.
- Bonds and cash: Higher yields increase the potential contribution of bonds and cash to portfolio income, although inflation and duration risks still matter.
- Currency exposure: A stronger US dollar can affect the home-currency return from global assets, particularly for investors with liabilities outside the US.

Source: <https://www.home.saxo/content/articles/macro/fed-review-the-hike-was-expected-the-message-was-more-hawkish-17092026>