

Macro Rapid Response

FOMC: Hawkish Shift

The September FOMC meeting concluded, as expected, with a 25-basis-point hike in the federal funds rate target to 3.75–4.00%, decided unanimously and accompanied by a more hawkish-than-expected message. The statement removes the reference to supply shocks as an explanation for inflation and justifies the tightening with the need for a “timelier” return to 2%, without providing forward guidance on upcoming moves. The new Summary of Economic Projections show inflation that is slightly higher and, above all, more persistent, with a return to the target not expected until 2029, and a rate path consistent with another hike by year-end and rate cuts postponed until 2028 and beyond. Warsh did not present his own projections, but he also did not attempt to temper expectations of further action. We now expect at least one more rate hike this year, with December a more likely timing than October. For 2027, we now expect rates to remain unchanged in line with the SEP, although the risks are all on the upside, especially for the first part of the year. The gradual easing of inflationary pressures could allow for moderate monetary easing in the medium term, which we now see beginning only in 2028 (or, at the earliest, in the final stretch of 2027).

- **The September FOMC meeting concluded, as expected, with a 25-basis-point hike in the federal funds rate target, to 3.75–4.00%.** The decision was unanimous, as it was in June, signaling broad consensus within the Committee on the need to strengthen the response to inflation.
- **The statement contains few changes compared to July.** The assessment of growth remains “solid,” and it is noted that “domestic spending has been resilient” The reference to supply shocks and energy as explanations for high inflation has been removed, and **an explicit rationale for the rate hike has been introduced:** today’s action “will support a timelier return” of inflation to the 2% target. **The message thus shifts the emphasis from the nature of the shocks to the need to counter their persistence and possible spillover into core inflation.** However, no explicit bias toward further rate hikes is introduced.
- **The new Summary of Economic Projections reinforces the hawkish outlook,** showing slightly higher inflation against the backdrop of a stronger real economy. The median forecast for headline PCE in 2026 rises to 3.7% from 3.6% in June, and that for core PCE to 3.4% from 3.3%; contrary to our expectations, the 2027 core PCE forecast remains unchanged at 2.5%, while in 2028 headline and core PCE rise to 2.1% and 2.2%, respectively. **Convergence to 2% is therefore postponed to 2029 for both measures,** signaling that the Fed views the inflationary shock as more persistent and with effects that extend beyond energy. On the real side, **growth is revised upward** by one-tenth of a percentage point in 2026, to 2.3%, and in 2027, to 2.4%, while the unemployment rate falls to 4.1% throughout the 2026–28 period. **Overall, the SEPs paint a picture of a more resilient economy and more persistent inflation, consistent with a more restrictive monetary policy.**
- **The median of the rate projections has risen sharply across the entire forecast horizon:** to 4.1% in 2026, up from 3.8% in June, implying a further 25-basis-point hike by year-end following the one in September. The median remains at 4.1% in 2027 (up from 3.6% previously), meaning that rate cuts are no longer expected in 2027 but are postponed to subsequent years: rates are projected at 3.9% in 2028 (up from 3.4% in June) and 3.6% in 2029. The long-term rate has also been revised upward, to 3.2% from 3.1%.
- A closer look at **the dot plot shows that 16 out of 18 FOMC members expect at least one more rate hike by the end of the year:** only 2 participants consider the September rate hike sufficient, and none indicate a cut, while 12 foresee another 25-basis-point hike and 4 foresee two more hikes (in June, only 9 participants anticipated at least one hike, 8 expected rates to remain unchanged, and 1 expected a cut). **For 2027, the dot plot shows greater dispersion**

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and differing views on the direction of rates: the median remains at 4.1% (consistent with rates staying steady next year after this year's two hikes), but while 8 participants project 4.375%—that is, two additional hikes from the current level—4 anticipate cuts, to 3.625% or lower (with one outlier at 3.125%). **According to the median distribution, the first cut is not expected until 2028, followed by a second in 2029 and further adjustments in the long term.** As in June, Warsh did not present his own projections.

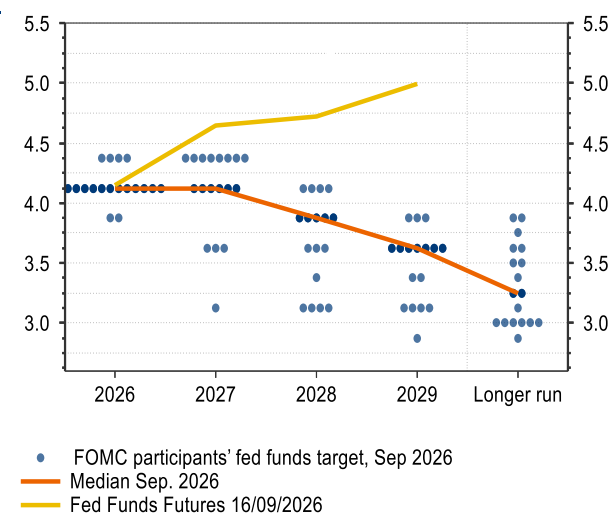
- During the press conference and Q&A session, **Warsh explicitly explained what had changed since July**, when the Committee had preferred to “buy a little bit of time” before acting. He cited three factors: a strengthening of the economy and the labor market, summer inflation data that did not show a sufficiently clear and rapid improvement, and a worsening of the geopolitical landscape. The **rate hike is therefore not attributable to a single data point**, but rather to a combined assessment of the trends that emerged over the seven weeks between the two meetings.
- **On inflation**, Warsh clarified why the Fed considers it appropriate to respond even to a shock that is predominantly supply-driven. The central bank cannot directly influence oil or food prices, but it can prevent relative price increases from spreading to the rest of the basket and producing second- and third-order effects. Compared to July, when the central issue was still whether pressures would spread, **the Committee now believes that the improvement in core inflation has not been rapid enough**. Warsh reiterated that trends matter, not individual monthly data, emphasizing that **disinflation in the PCE is not yet sufficiently widespread: “too many categories” are still recording increases above 3% on both a half-yearly and annual basis**.
- **Regarding the degree of monetary policy tightening**, Warsh sent a clearer signal than in previous meetings: he stated that **he and most of the Committee still struggle to describe financial conditions as restrictive**, characterizing the rate hike as the removal of “a dose of accommodation.” At the same time, he ruled out that the neutral rate plays an operational role in decision-making, viewing it primarily as an analytical benchmark.
- Regarding the next steps, **Warsh maintained his strong aversion to “forward guidance”** refusing to clarify whether the rate hike is a one-off or the start of a series of further increases. When asked about the tension between the “timelier” return to 2% promised in the statement and the SEP projections, which show the target being reached only in 2029, he noted that those are the projections of the 18 participants who submitted them, not official Fed guidance. The Chair also assessed the labor market as essentially at full employment, ruling out the need to weaken it to bring inflation back to target.
- Looking ahead, **we believe that a second-rate hike by the end of the year, to 4.00–4.25%, is the most likely scenario, consistent with the Taylor rule and market expectations**, as we anticipate little improvement in inflation data over the coming months. The most plausible timing for a rate hike is the December meeting, when the SEP will be updated and after the midterm elections have concluded (although an action as early as October cannot be entirely ruled out should inflationary risks intensify). **A path of gradual easing is still possible in the medium term**, once the energy shock subsides, **but we now expect this to begin only—in line with the SEP—starting in 2028 (or as early as December 2027 if there is stronger evidence that inflation is coming under control)**. We see a slightly higher long-term fed funds rate than that indicated by the SEP (3.4% vs. 3.2%). Our outlook remains less hawkish, especially over a 12-month horizon—than that is implied by market prices.

Table 1 - SEP: Upward revisions to growth and inflation, along with lower unemployment, reinforce the hawkish outlook

Variable	Median				
	2026*	2027*	2028*	2029*	Long-term
Real GDP					
September FOMC Projection	2.3	2.4	2.2	2.1	2.0
June FOMC Projection	2.2	2.3	2.2		2.0
Intesa Sanpaolo Estimate	2.2	1.9	2.1	2.0	2.1
Unemployment Rate					
September FOMC Projection	4.1	4.1	4.1	4.1	4.2
June FOMC Projection	4.3	4.3	4.2		4.2
Intesa Sanpaolo Estimate	4.2	4.3	4.2	4.2	4.2
PCE Deflator					
September FOMC Projection	3.7	2.3	2.1	2.0	2.0
June FOMC Projection	3.6	2.3	2.0		2.0
Intesa Sanpaolo Estimate	3.4	2.1	2.0	2.0	2.0
Core PCE Deflator					
September FOMC Projection	3.4	2.5	2.2	2.0	
June FOMC Projection	3.3	2.5	2.1		
Intesa Sanpaolo Estimate	3.3	2.2	1.9	2.0	2.0
Fed Funds Rate					
September FOMC Projection	4.1	4.1	3.9	3.6	3.2
June FOMC Projection	3.8	3.6	3.4		3.1
Intesa Sanpaolo Estimate	4.1	4.1	3.6	3.4	3.4

Note: (*) 4th quarter, Source: projections by Fed Board members and presidents of regional Fed banks, September and June 2026; Intesa Sanpaolo forecasts

Fig. 1 - The median of the dot plot points to a further rate hike in 2026, rates remaining steady in 2027, and cuts only starting in 2028; market expectations are decidedly more hawkish



Source: Federal Reserve Board, LSEG Datastream

Appendix

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