Fed Holds Rates Steady, but Hawkish Dots Push Bond Yields Higher

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This afternoon, Fed officials voted unanimously to hold the overnight funds target steady at 5.25% to 5.50%. The September pause was fully expected, but a significantly more hawkish outlook was not.

The updated dot plot still indicates one more rate hike for 2023, bringing the midpoint of the overnight funds target to 5.625%. Twelve of 19 committee members believe another quarter point increase will be appropriate before year end. However, the ending overnight funds target for each of the next two years were 50 basis points higher, with the ending 2024 dot rising from 4.625% to 5.125%, and 2025 from 3.375% to 3.875%. This is consistent with the higher-for-longer narrative that Fed officials have been vocalizing for months. The long-run neutral rate remains at 2.50%. At this point (subject to change), it'll just take longer to get there.

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