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One and Done? Markets Question the Fed's Next Move

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As widely expected, Fed officials voted to increase the overnight target rate by 25 basis points to a new range of 3.75% to 4.00% in response to persistent inflationary pressure and a bond market demanding accountability. The vote count was *unanimous*, somewhat of a surprise as a number of committee members had signaled a willingness to hold rates steady in recent weeks. In line with Chair Warsh's determination to limit forward guidance, the official statement was once again *very brief* with few changes from July. The most noteworthy addition was the bold statement that "…policy action will support a timelier return to the committee's 2 percent goal."

The first update of the Fed's "dot plot" since April showed policymakers now anticipate *one additional increase later this year*. Among the 18 members contributing forecasts, only two expect no further tightening for 2026, while four predict 50 bps of increase and 12 expect a quarter point move before year end. One dot is missing, presumably Warsh. The committee's longer range average forecast ticked up from 3.1% to 3.2%, *implying the highest neutral rate in over 10 years*.

The committee's updated summary of economic projections showed a slight increase in both expected GDP growth and future inflation, supporting the higher neutral rate.

The initial market reaction was generally positive with bonds staging a modest rally. The unanswered question going into the post-meeting press conference was whether today's hike will prove a one-off event, or the first in a series of tightening moves. Although the next FOMC meeting is six weeks away, Warsh continued to insist inflation is still too high, confirming market expectations for at least one more hike. Obviously, this will be validated or dismissed by future events and incoming data, but *a one-and-done doesn't seem to be the base case*.

Warsh's press conference (like the official statement) was limited, leaving the markets to fill in the missing pieces.

When asked by a reporter how President Trump might see today's policy shift, Warsh responded by saying "I have nothing for you." Another reporter asked what had changed since the last meeting that had prompted the committee to act. Warsh pointed to recent economic improvement rather than the surge in oil prices.

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Market Indications as of 2:21 P.M. Central Time

DOW	Down -812 to 51,281(HIGH: 54,349)
NASDAQ	Down -148 to 25,833 (HIGH: 27,094)
S&P 500	Down -29 to 7,557 (HIGH: 7,799)
1-Yr T-bill	current yield 4.43%; opening yield 4.35%
2-Yr T-note	current yield 4.73%; opening yield 4.65%
3-Yr T-note	current yield 4.81%; opening yield 4.75%
5-Yr T-note	current yield 4.86%; opening yield 4.82%
10-Yr T-note	current yield 5.01%; opening yield 4.99%
30-Yr T-bond	current yield 5.35%; opening yield 5.36%