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GLOBAL ECONOMICS

SCOTIA FLASH
September 16, 2026

FOMC Hikes, Guides At Least One More To Come

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- **The FOMC raised its policy rate by 25bps…**
- **…and guided at least one more by year-end and perhaps another next year**
- **Bonds and stocks sold off, the dollar strengthened…**
- **…with emboldened markets pricing a total of 100bps of hikes**
- **Time will tell if this is policy error**
- **The work of the task forces is now largely moot**
- **The BoC has further cover to hike soon**

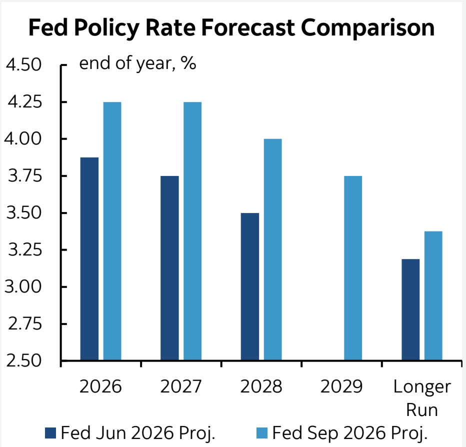
The FOMC unanimously raised its target rate range by 25bps to 3.75%–4% and guided that one more rate hike is coming this year with high conviction displayed across the Committee. There is a large contingent of participants who believe a further hike may be necessary in 2027 but it is not a majority.

Markets responded by pushing up short-term two-year Treasury yields by 14bps as the communications landed. The 10-year yield climbed 8bps in a 2s10s bear flattener. The dollar firmed against all majors including about a half penny depreciation of the C$. The S&P500 fell by about -¾%.

Markets are either pushing the FOMC further and feeling rather emboldened that they're in the driver's seat or paying more heed to Warsh's rather hawkish guidance relative to the dots. OIS is pricing about 75bps of further hikes after today's for a total of 100bps of tightening.

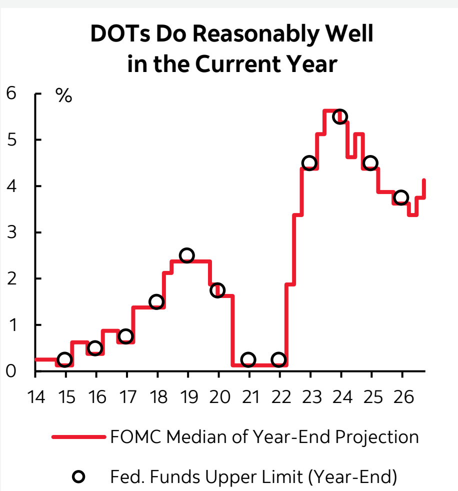
Whether this was the correct move and set of forward-guidance will be tested over time along with whether independence was helped or hindered. If it's policy error, then the risk of reversal is understated in the dots. I continue to believe that growth risks are pointed lower going forward and that feedback effects will have a greater impact on the dual mandate variables than the Committee expects. That the Chair boycotts forecasts, doesn't believe policy is restrictive and dwells upon inflation well into the past while ignoring recent progress may represent ingredients for net overtightening of policy. Warsh believes the economy is strengthening but does not comment on whether policy can do anything about that now versus the lagging effects of adjustments on future growth that he refuses to forecast. At a minimum, the work of those task forces we were told to patiently await may now be moot which is a blow to their credibility. Still, it's a

Chart 1



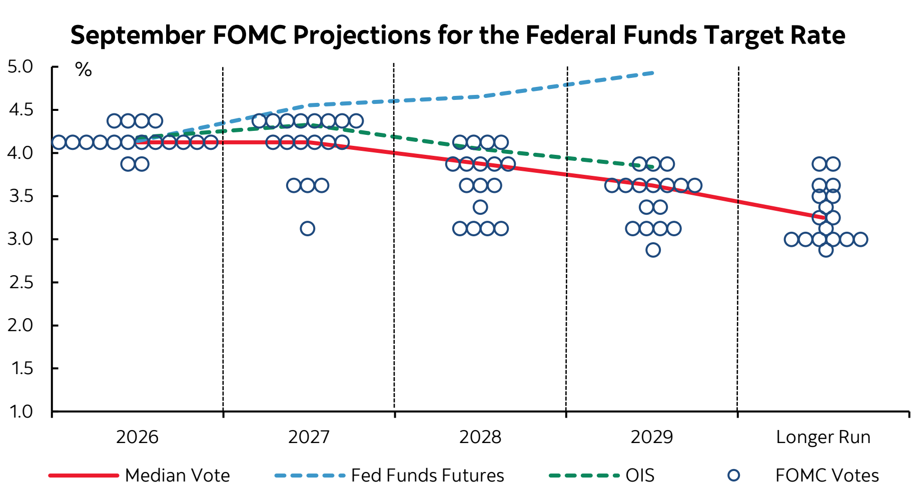
Sources: Scotiabank Economics, Federal Reserve Summary of Economic Proj. (Sep. 16, 2026).

Chart 2



Sources: Scotiabank Economics, Bloomberg.

Chart 3



Note: OIS & Fed Fund Futures as of Sep, 16, 2026.
Sources: Scotiabank Economics, US Federal Reserve.

gutsy move before the midterms that could give way to another gutsy move days before the November 3rd vote. We'll wait to see if Congress and Trump display any buyers' remorse and whether it's just venting.

In essence, significant tightening is a bet that the commodity shock permeates the inflation numbers on a more sustained basis and that it will do so in generalized fashion, not as a relative price shock that squeezes purchasing power in disinflationary ways.

DOTS—AT LEAST ONE MORE HIKE LIES AHEAD

There appears to be strong conviction on the Committee toward a total of 50bps of hikes including today's as the Committee raised its rate forecasts (chart 1). Today's decision was unanimous. The median vote anticipates another 25bps hike before year-end and it's not even close; sixteen of eighteen Committee members anticipate another hike with four of them expecting 3 hikes total this year. Only two anticipate that today would be the only hike.

Recall that the in-year dots tend to perform very well at predicting where the policy rate will wind up by year's end when issue at about this time of year (chart 2).

The mode into 2027 calls for a total of 75bps of hikes by next year including today's but the median calls for adjustments to be over by the end of this year with a total of 50bps including today's.

The longer-run estimate of the policy rate was also raised a tick to 3.2%.

Chart 3 shows the individual dots across all horizons. Including market pricing in fed funds futures and OIS.

STATEMENT CHANGES

The statement was even shorter this time despite having more to talk about with fresh forecasts.

One notable change is that reference to elevated inflation "in part reflecting supply shocks that have driven price increases in certain sectors, including energy" was struck out. There was no elaboration provided in the press conference as to why.

There was also an upgraded reference to the demand side through "domestic spending has been resilient." Reference to capital spending is now "robust" which feels upgraded from "strong."

When combined, eliminating the supply shock reference and strengthening the demand references sounds like they wish to emphasize they are tightening because of the latter and not trying to fight supply shocks.

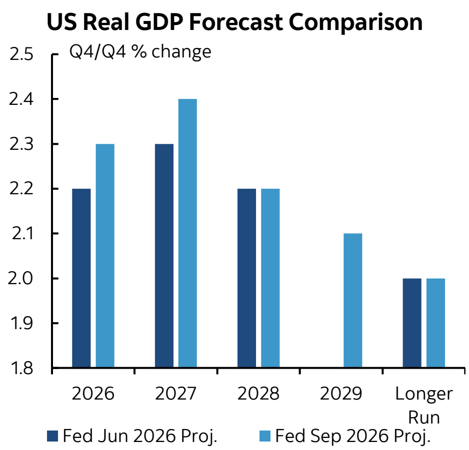
Please see the accompanying statement comparison at the back of this note.

FORECASTS

Charts 4–7 show how the Committee's forecasts changed. Chair Warsh opted out again and I remain of the opinion that it feels inappropriate to hide behind the others with no direct accountability for his own forward-looking views.

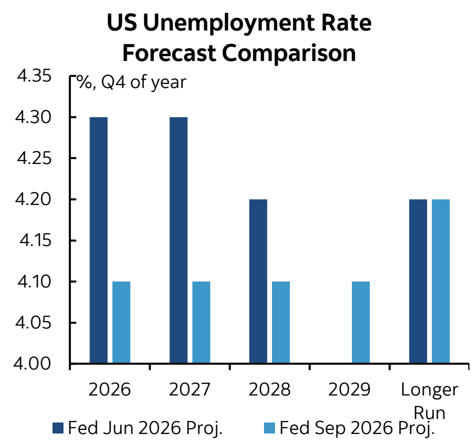
Growth was revised up a tick in each of 2026 (2.3%) and 2027 (2.4%) while left unchanged at 2.2% in

Chart 4



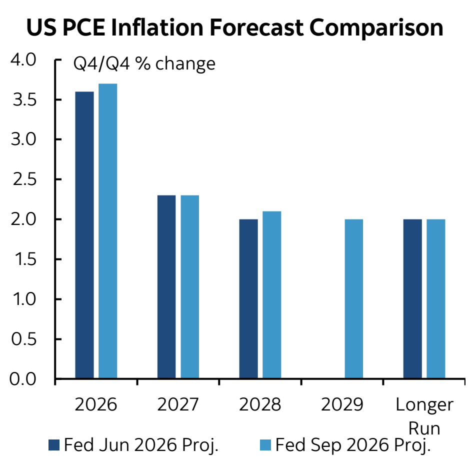
Sources: Scotiabank Economics, Federal Reserve Summary of Economic Proj. (Sep. 16, 2026).

Chart 5



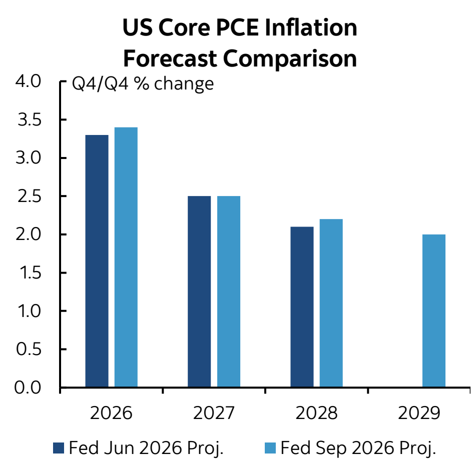
Sources: Scotiabank Economics, Federal Reserve Summary of Economic Proj. (Sep. 16, 2026).

Chart 6



Sources: Scotiabank Economics, Federal Reserve Summary of Economic Proj. (Sep. 16, 2026).

Chart 7



Sources: Scotiabank Economics, Federal Reserve Summary of Economic Proj. (Sep. 16, 2026).

2028. The introduction of 2029 indicates growth edging very slightly lower to 2.1% and toward an unchanged 2% long-run potential growth rate.

Inflation projections were revised up mostly in the near-term. Total PCE inflation is forecast to land at 3.7% this year (3.6% previously), unchanged at 2.3% in 2027 and up a tick to 2.1% in 2028. The Committee see inflation at 2% in 2029 and the longer-run.

Core PCE inflation was only slightly revised higher to 3.4% this year (3.3% prior) and then unchanged next year (2.5%) and up a tick to 2.2% in 2028 before returning to 2% in 2029.

The unemployment rate forecast was revised down in each of 2026, 2027 and 2028 to 4.1% in each case and then 4.1% in 2029 with an unchanged 4.2% longer-run proxy for the natural rate.

PRESS CONFERENCE

Warsh came out swinging with a very hawkish set of opening remarks. For instance, he completely faded progress for the past three months toward lower m/m core PCE readings in favour of quoting higher y/y readings and the past five years of inflation. The latter continues to trouble me as this sounds like a Fed Chair fighting the last fight and almost in a price level targeting sense that does not let bygones be bygones. Warsh has a long memory and holds a grudge, it would seem. The overall tone sounds extraordinarily hesitant to weigh in on the future with extreme deference to a filtered past.

Please see the following attempt at providing a transcript of the Q&A portion of the press conference. As always, any errors or omissions are my own doing.

Q1. How will these smaller rate hikes be effective in offsetting the energy side of inflationary pressures?

A1. We cannot affect individual prices. What we can and will do is to ensure that the effects will not broaden out.

Q2. Why wouldn't the typical pattern of a sequence of hikes holds?

A2. I'm not the forward guidance person.

Q3. Was this a market-led rate hike?

A3. These are decisions we make. We made this decision today based on our assessment of the situation. I'll observe market prices and see what they have to say but today was our decision.

Q4. What will this move do for American consumers and what is your message to President Trump who has called for rate cuts?

A4. I have nothing for you on President Trump. The least well off have the most to gain from stable prices.

Q5. What changed from the July meeting to today? Did today's retail sales report suggest demand is heating up and threatening higher prices?

A5. A good majority of my colleagues felt 7 weeks since July was a good period to judge. A wide-ranging set of data suggests that the economy has strengthened. Trends matter and inflation trends were not passing the test. The other thing that has changed is geopolitics. Our judgement of what is most versus least likely on geopolitics has changed.

Q6. Are interest rates now at a level that is restrictive?

A6. I've found it difficult to describe financial conditions as restrictive.

Q7. Most Fed officials have described the rate as modestly restrictive. Can you share with us where the rate is relative to neutral? Is there a short -term neutral versus long-term neutral rate?

A7. The short answer is no. I've always thought of neutral rates as academic. I don't think it has any effect on the decisions we make today.

Q8. Was it appropriate on behalf of markets to focus on recent CPI? How do you see it?

A8. Markets have grown accustomed to waiting breathlessly on a data point. That is not my view. Trends matter. Data points are noisy.

Q9. The President threatened to cut off trade with countries if the Fed raised rates. Comment.

A9. I don't have anything for you on discussions with the President. Independence means we stay in our lane.

Q10. Who is the least well off and how would these people be affected by higher rates, higher oil etc.

A10. We focus on macroeconomics. I was referring to people who don't own financial assets and don't have equity in their home. Stable prices offers good news relative to wages of lower income people.

Q11. Are you considering other central banks? ECB etc.

A11. I won't pre-judge decisions they will make. I have spent some time in the last several weeks with foreign central bank counterparts. What I heard around the table from most of the advanced economies is they are suffering from price pressures as well. When the Fed makes decisions it spills over. When foreign central banks make decisions it spills over as well.

Q12. What changed your own assessment of the US economy between now and late last year?

A12. My suspicion 120 days ago was that the economy was strengthening. Underlying growth was higher. Inflation was the problem. The Committee decided today to take a stronger step to deliver on price stability.

Q13. Longer term bond yields are up quite a bit, what is that telling you about growth and the neutral rate and monetary policy?

Q13. Yields rose since the last FOMC meeting for 3 reasons. First is economic strength. Second is competition for capital, the surge in capex is real and the hyperscalers are raising funding. Third is geopolitics, the hot spots around the world, it's not just select spot prices but the difference between spot prices and crack spreads.

Q14. The SEP pushes out the achievement of the inflation target even with 50bps of hiking. How do you square that?

A14. Those are not my forecasts. I do not give forecasts. My commitment to you is we will deliver price stability.

Q15. How concerned are you about warnings from AI leaders about potential damage?

A15. We care so much about the supply side and set a task force to address this. The policy decisions about the risks and rewards are left to government. The implications have some bearing on our job.

Q16. Do you need to push growth down below potential and open slack to push inflation down?

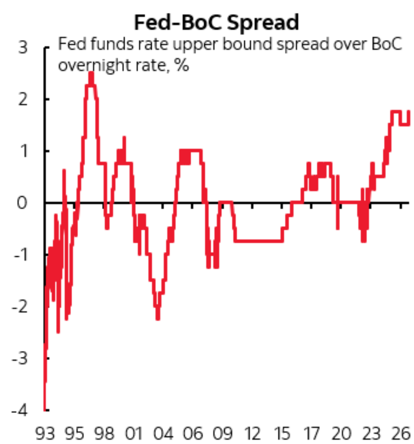
A16. I don't believe we need to do harm to the labour market to achieve our mandate. I don't believe the parts of the dual mandate are at conflict to one another over the medium term.

BANK OF CANADA IMPLICATIONS

Governor Macklem speaks on Monday about the economy along with Q&A and a press conference. I would be surprised if today's move by the FOMC doesn't add one more ingredient to pave the way for Macklem to begin hiking soon and with October being a live meeting. They've all come away from the same meetings including the BIS, Jackson Hole etc and there isn't much company for the BoC in the BoE as the only other notable central bank to whiff so far. Canada is getting a major back door pay hike c/o Trump's war, I think they already have evidence of pass through at a much lower policy rate with a widening rate spread (chart 8 shows up to and including today's Fed hike) and fiscal policy is ramping into higher gear.

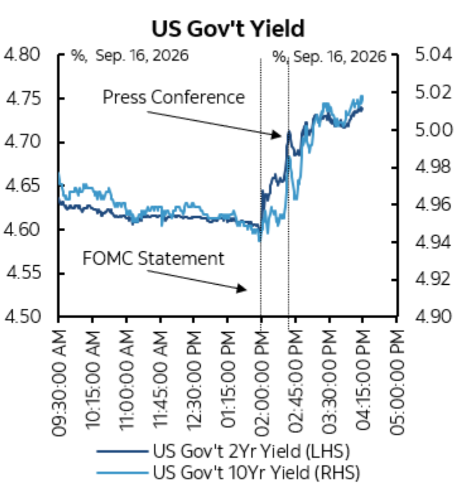
Market reactions are shown in charts 9-11.

Chart 8



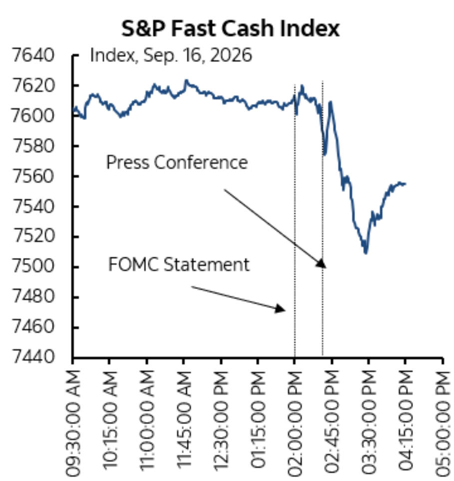
Sources: Scotiabank Economics, Bloomberg.

Chart 9



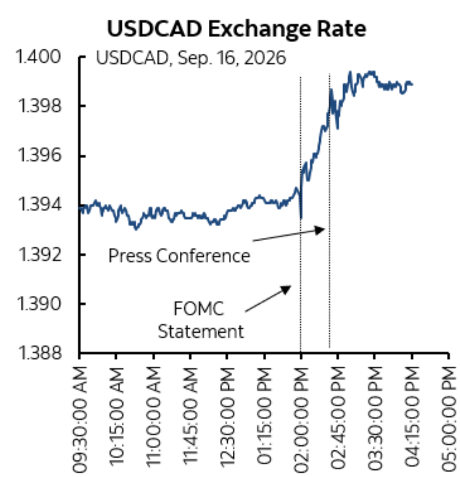
Sources: Scotiabank Economics, Bloomberg.

Chart 10



Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

RELEASE DATE: September 16, 2026

The Federal Open Market Committee approved the following statement for release by a ***12 – 0*** vote:

The Committee decided to ***raise*** the target range for the federal funds rate by 1/4 percentage point to ***3-3/4 to 4 percent***, in support of the Federal Reserve's dual mandate. The Committee is continuing its policy of maintaining ample reserves in the banking system.

Economic activity is expanding at a solid pace. ***While uncertainty remains*** elevated ***owing***, in part, ***to geopolitical developments, domestic spending has been resilient***. Productivity growth is ***strong***, and capital investment is ***robust***. Job gains have kept pace with the workforce, and the unemployment rate has changed little.

Inflation remains elevated. ***Today's policy action will support a timelier return*** to the Committee's 2 percent goal. The Committee will deliver price stability.

RELEASE DATE: July 29, 2026

The Federal Open Market Committee approved the following statement for release by a ***9 – 3*** vote:

The Committee decided to ***maintain*** the target range for the federal funds rate at ***3-1/2 to 3-3/4 percent***, in support of the Federal Reserve's dual mandate. The Committee ***is continuing*** its policy of maintaining ample reserves in the banking system.

Economic activity is expanding at a solid pace ***despite*** elevated ***uncertainty that owes***, in part, ***to the conflict in the Middle East***. Productivity growth and capital investment ***are strong***. Job gains have kept pace with the workforce, and the unemployment rate has changed little.

Inflation remains elevated ***relative*** to the Committee's 2 percent goal, ***in part reflecting supply shocks that have driven price increases in certain sectors, including energy.*** The Committee will deliver price stability.

Voting against the monetary policy action were Beth M. Hammack, Neel Kashkari, and Lorie K. Logan, who preferred to raise the target range for the federal funds rate by 1/4 percentage point at this meeting

September 16, 2026