Scotiabank

GLOBAL ECONOMICS

SCOTIA FLASH

October 28, 2026

Contributors

Derek Holt
VP & Head of Capital Markets Economics
Scotiabank Economics
416.863.7707
derek.holt@scotiabank.com

The FOMC Was Predictably Boring

- **The policy rate was left unchanged at 4%**
- **Markets took the communications as slightly dovish…**
- **…perhaps by stretching the meaning of taking more time**
- **Balance sheet plans will start to be unveiled from Q1-onward**
- **Most task forces are on track for year-end reporting deadline**
- **The FOMC is moving toward fewer meetings starting in 2027–28**
- **The likely reason for why they did nothing today**
- **Warsh deferred to Committee members on further hike support**
- **Conflicting styles: Warsh looks backward, Macklem looks forward**

This was a nice, short, predictably boring outcome. The Committee left the fed funds target range unchanged at 3.75% – 4% as widely expected and priced. The statement was a yawner.

Markets barely reacted across Treasury yields, the USD and equities. OIS pricing for the December 9th meeting was very slightly trimmed by 1–2bps but still leans heavily toward a hike at that meeting which we expect.

In my opinion, the main argument for skipping today was that a surprise hike would violate the dots. It would do so by creating a sense of urgency in markets that would have them go on to pricing another move in December since, if the FOMC is in such a rush, then they must wish to keep the door open for more. That would likely drive more internal tension on the FOMC and set up a potentially awkward set of communications at the next meeting—just before the most hawkish voting members lose their votes into the new year.

There were very few changes to a short statement.

- They signalled that they wish to gather more information before deciding on next steps by saying "The accumulation of more information will help the Committee determine the policy stance appropriate to ensure a timely return of inflation to the Committee's 2 percent goal."
- They upgraded reference to the economy's performance to a "strong" pace from "solid pace."
- There were only two dissenters—Governor Lisa Cook and Cleveland's Beth Hammack—and two of the previously most hawkish members did not dissent this time (Minneapolis President Kashkari and Dallas President Logan).

Please see the attached, comparison of the short current and prior statements.

PRESS CONFERENCE TRANSCRIPT

Chair Warsh came out sermonizing on the strength of the US economy. He plugged strong growth and solid labour markets and said the full focus remains upon inflation. He noted that financial conditions have tightened and that may have been a partial reason for the fairly uneventful communications.

The striking difference in styles between Chair Warsh and BoC Governor Macklem shone today, as Warsh remains very backward looking with his assessments, whereas Macklem is all about forecasts. That's usually the case, not just on MPR days in my view.

Warsh announced that the number of meetings at which policy decisions would be delivered would be reduced. The present eight meetings per year schedule would be maintained in 2027, but one would focus upon broad policy strategy with neither a statement nor vote on a policy decision. In 2028, there would be six decision-meetings and two strategy meetings.

Here is an attempt at summarizing most of the Q&A.

Q1. There has been no progress toward the 2% inflation target. Why not just raise rates today instead of waiting until December?

A1. It's not about some fixed individual data on a calendar or an isolated data point. This job would be easier if so. It's about having clear objectives and a monetary policy strategy. We've put in place new monetary medicine. First thing is we doubled down on the 2% inflation target. Second part was we took responsibility. Third thing is we laid out our framework. Then we interrogate reality. We also act, such as in September. The signposts on how this strategy is going include inflation expectations going in the right way. The period right in front of us is information rich. [ed. I didn't hear an answer....]

Q2. Is the current level of the fed funds right the right one?

A2. Our medicine is starting to work but with no conclusion.

Q3. Several FOMC members said they wanted to take more time. Were you involved in discussing this with them? When will be the public disclosure of the meeting schedule?

A3. To suggest I'm an all-knowing person sending messages out, that's not the way it is. We've made a decision that at the strategy meetings we don't anticipate policy decisions. The format is relatively new. As we get details we'll be prepared to share them with you.

Q4. When can we expect the working groups' reports? Any previews on their work?

A4. These five task forces are hard at work. I have checked in with them but they are not close to reports. I'm impressed by what they're doing. I gave them a year-end deadline. Some but not all of the groups will hit the deadline. On November 16th the productivity and jobs task force will do a field hearing inviting a broad range of people. Is this a productivity miracle or happen slowly? That task force decided they wanted to hear from more people. I plan on attending and have opening remarks and it will go 3–4 hours.

[ed. Recall that the five task forces will focus upon communications, the balance sheet, the use and reliance upon existing data sources, productivity and jobs, and the Fed's inflation frameworks.

Q6. Political question on the composition of the FOMC.

A6. Not responding to quotes from public officials (ie: Trump).

Q7. Do you worry that households won't believe your pledge to bring inflation down and will view this decision as being soft on the inflation target?

A7. There is no soft inflation target. There is a 2% target measured by PCE. It took six years for inflation to have the effect your reference.

Q8. Do you see a direct line correlation between oil prices and inflation and if so how fast could inflation fall if oil does?

A8. There has been a stable correlation between oil prices as they've gone up and interest rates. That correlation has been quite strong until recently. Energy prices have gone up but interest rates have rolled over to the downside. We're going to have to interrogate what lower oil prices may do if that happens, but futures prices have moved up over the last several weeks.

Q9. Much of the growth and inflation is coming from the AI boom. Is this sensitive to interest rates and do you feel rates would have to go up more.

A9. Interest rates get in the cracks and affect almost everything. Since September, inside of the technology complex and outside of the technology complex, what we have seen is interest rates have had an effect. Market participants are discriminating between investments, spreads have widened out. Interest rates matter. Second, it's convenient to say that the strength of the economy is all about the technology wave. But the cap-ex story is not just strong, it is broadening.

Q10. Did the midterms factor into the decision to stay on hold?

A10. Politics play no role in the decision. I didn't hear any references.

Q11. Do you still see widespread support on the Committee for another hike this year?

A11. The blackout period ends soon and they'll speak. I don't believe in forward guidance in normal, ordinary times. I don't believe in prejudging meetings.

Q12. Comment on potential plans to shrink the balance sheet?

A12. At this point the balance sheet is within the four walls of the balance sheet task force. Their conclusions will be fed into the FOMC probably early in the first quarter but don't hold me to that timing. If we decided to make changes then it will be discussed at that time.

Q13. As the AI investment boom becomes more dependent on external financing does it become more sensitive to interest rates? Are you seeing evidence your rate increase is being impactful?

A13. The effects were broadly consistent with expectations.

Q14. Re-asking the AI question.

A14. Is the economy running too hot or too strong? That isn't the judgement of most of my colleagues. We don't know what potential growth is. We have seen an improvement in productivity most of which precedes most of what we've been talking about like super-intelligence. It doesn't tell me that economic growth causes inflation. [ed. I didn't hear much on AI...].

Q15. Regarding next week's Lisa Cook hearing, are you going to be involved in those proceedings?

A15. Not to my knowledge.

RELEASE DATE: October 28, 2026

The Federal Open Market Committee approved the following statement for release by a ***10 – 2*** vote:

The Committee decided to ***maintain*** the target range for the federal funds rate ***at*** 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 ***strong*** 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. ***The accumulation of more information*** will ***help the Committee determine the policy stance appropriate to ensure*** a ***timely*** return ***of inflation*** to the Committee's 2 percent goal. The Committee will deliver price stability.

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

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.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a "call to action" or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed in this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V, Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.