



U.S. Fed raises interest rates for the first time in three years

Macro Insights
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Key Highlights:

- The Federal Reserve **hiked interest rates by 25 bps, its first increase since 2023**. The central bank's rate setting committee has further indicated that a second hike is likely to come later this year. The committee voted unanimously to increase the benchmark federal funds rate to a range of 3.75% to 4%.
- **Headline inflation remains elevated** relative to the Committee's 2% goal, in part reflecting supply shocks that have driven price increases in certain sectors, including energy.
- The central bank's tougher stance on monetary policy comes as **the Fed grapples with stubborn inflation, worsened by a recent rebound in oil prices**.



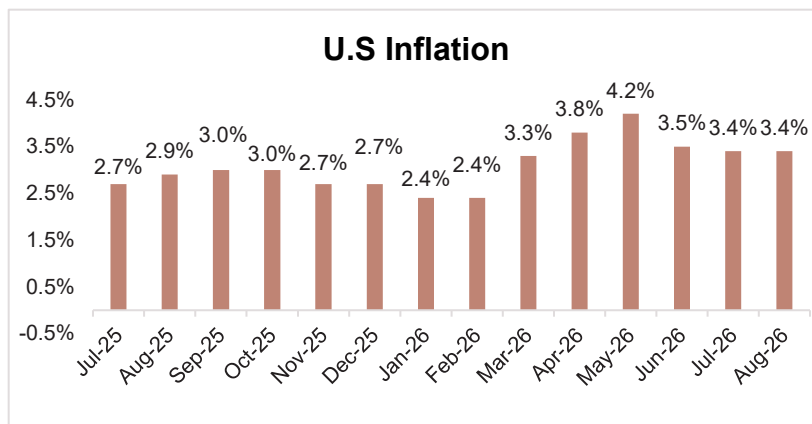
Current Update:

- ❖ The **yield on the benchmark 10- Year US Treasury has climbed above 5% reaching its highest level since 2007**, reflecting a global rise in borrowing costs.
- ❖ **Economic activity is expanding at a solid pace**. While uncertainty remains elevated owing, in part, to geopolitical developments, domestic spending has been resilient. Job gains have kept pace with workforce, and unemployment rate has changed little.



U.S. Inflation:

- ❖ The CPI rose at an annual pace of 3.4% in August, remaining unchanged from the previous month, staying above the Fed's 2% target.
- ❖ The median projection for inflation, measured by the personal consumption expenditure (PCE) is now 3.7% for 2026, compared to 3.6% forecast issued in June.



Source: Trading Economics



The Fed's Policy Shift

After cutting rates by a cumulative 100 basis points between September and December 2024, the Fed paused through most of 2025 before resuming easing with three 25 bps cuts between September and December 2025, bringing rates down to 3.50%–3.75%. The Fed then **held rates steady through the first five meetings of 2026, before shifting policy direction in September 2026 with a 25 bps hike to 3.75%–4.00%.**

FOMC Meeting Date	Rate Change (bps)	Interest Rate
17-Sep-26	+25	3.75% to 4.00%
29-Jul-26	No change	3.50% to 3.75%
17-Jun-26		
29-Apr-26		
19-Mar-26		
29-Jan-26		
11-Dec-25	-25	3.50% to 3.75%
30-Oct-25	-25	3.75% to 4.00%
17-Sep-25	-25	4.00% to 4.25%
31-Jul-25	No change	4.25% to 4.50%
19-Jun-25		
07-May-25		
07-Mar-25		
20-Mar-25		
29-Jan-25		
19-Dec-24	-25	4.25% to 4.50%
07-Nov-24	-25	4.50% to 4.75%
19-Sept-24	-50	4.75% to 5.00%

Source: US Federal Reserve Website

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To Conclude:

The **September 2026 Fed meeting reflected a more hawkish turn in policy**. While economic activity remains resilient and the labour market continues to hold steady, inflation is still running above the Fed's comfort zone. Against this backdrop, the Fed raised rates by 25 bps to 3.75%–4.00%, signalling that price stability remains its key priority.

Importantly, **the Fed's updated projections also indicate the possibility of one more rate hike in 2026**, suggesting that policy may remain restrictive until inflation shows more convincing signs of moving towards the 2% target. For markets, this means **rate expectations are likely to remain sensitive to incoming inflation, employment and growth data, with volatility possible if the Fed's policy path turns more restrictive than currently anticipated**.

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