US Daily: FOMC Recap: No Hike and No Guidance

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- The run-up to today's July FOMC meeting was unusually dramatic, with markets pricing the most uncertainty about whether or not the FOMC would hike in three decades. But the meeting ended with no change to the funds rate, no substantive changes to the statement, and no policy guidance or explanation of the FOMC's interpretation of the inflation situation during the press conference. Presidents Hammack, Kashkari, and Logan dissented in favor of a rate hike.
- Chairman Warsh made several dovish comments during his press conference. First, he appeared to downplay AI-related price pressures. Second, asked if the recent rise in interest rates was a signal that the market thought the Fed should hike, he connected it instead to the recent strength of the economy. Third, he hinted that the rise in market interest rates could substitute for a rate hike, though without saying so explicitly. Fourth, asked if the Fed needed to raise interest rates to lower inflation by reducing demand, he suggested that more credibly committing to the inflation target could help to lower inflation by lowering inflation expectations.
- The bond market also took today's meeting as dovish. Near-term interest rates were lower on the day despite an increase in energy prices, while long-term interest rates rose during the meeting, led by a rise in breakeven inflation compensation. The bond market is now pricing a 60% chance of a rate hike at the next FOMC meeting in September. We continue to expect that softer core inflation in coming months will keep the Fed on hold for the remainder of 2026.

FOMC Recap: No Hike and No Guidance

The run-up to today's July FOMC meeting was unusually dramatic, with markets pricing a roughly 35% chance of a hike ahead of the meeting, signaling the most uncertainty about whether or not the FOMC would hike in three decades.

But the meeting was somewhat anticlimactic, ending with no change to the funds rate, no substantive changes to the post-meeting statement, and no policy guidance or even explanation of the FOMC's interpretation of the inflation situation during Chairman Warsh's press conference. Presidents Hammack, Kashkari, and Logan dissented in favor of a 25bp rate hike.

We had expected that most FOMC voters would not want to hike today because the June inflation data showed substantial improvement relative to prior months. Many voters have said that they want to see sustained improvement in the inflation data and are open to raising rates eventually if necessary. While Warsh downplayed the role of the June CPI report in today's decision, we suspect that was the thought process for most of the other eight voters who preferred to leave the funds rate unchanged today.

Warsh reiterated his view that it is better for him to say little about his monetary policy expectations or assessment of the economic data so that markets can reach their own verdict without being influenced by the opinions of Fed officials. Nevertheless, he made several comments during his press conference that we interpreted as dovish, consistent with his vote to leave the funds rate unchanged.

First, he appeared to downplay AI-related price pressures, though somewhat subtly. Referring to increases in memory and logic chip prices, he asked, "Do these changes indicate a broader inflationary dynamic or do we just focus on them because they are under the bright streetlight?" This seemed to suggest that Warsh sees AI price pressures as isolated from broader pricing trends.

Second, when asked if the rise in real interest rates was a signal that the market thought the Fed should hike, he connected it instead to the recent strength of the economy, saying, "economic output is solid. Capex and productivity are strong. Labor markets [are] solid, steady. ... The Treasury market seems to be saying that as well. ... And that's why we're seeing a tightening both in nominals and in reals."

Third, Warsh hinted a couple of times that the rise in market interest rates could substitute for a rate hike, though without ever saying it explicitly. Asked if rates shouldn't be higher today, Warsh responded that "rates *are* higher today" than they were at the June meeting. Asked why the Fed paused, he responded that market interest rates "didn't pause." And most clearly, he said that "while at some level we haven't done much in 42 days, the markets have done quite a bit."

Fourth, asked if the Fed needed to raise interest rates to lower inflation by reducing demand, he acknowledged that "interest rates could be part of that solution," but then suggested that more credibly committing to the inflation target could help to lower inflation by lowering inflation expectations. This contrasts with our reading of the evidence from economic research, which suggests that it is difficult for the Fed to influence inflation through the expectations channel because most businesses and consumers do not pay attention to central banks.

Warsh also clarified at today's meeting that he will do a press conference after each of the three remaining FOMC meetings in 2026.

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The bond market is now pricing a 60% chance of a rate hike at the next FOMC meeting in September. In contrast, we continue to expect that softer core inflation in coming months will keep the Fed on hold for the remainder of 2026.

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