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September Fed Meeting: From Signals to Action

The latest FOMC policy decision provides important clues about whether the rate hike represents a one-time adjustment or the beginning of a higher path for interest rates.

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KEY TAKEAWAYS

- The Federal Open Market Committee (FOMC), the policy-setting arm of the U.S. Federal Reserve (Fed), raised the federal funds rate by 25 basis points at the September 16, 2026, meeting. That changes the target range to 3.75%–4.00%. Uncertainty about the future rate path remains.
- The statement and post-meeting press conference by Chairman Kevin Warsh were hawkish, focused solely on inflation. This hike reinforces Fed credibility and its commitment to price stability.
- The economy continues to expand at a solid pace, with resilient consumer spending, strong productivity, and a low unemployment rate.
- While Chairman Warsh refuses to participate in the Summary of Economic Projections, the rest of the Committee contributed. They forecast higher growth and inflation at the end of 2026 compared with the June projections. The median dot indicated one more hike in 2026, followed by no changes in 2027.
- For investors, a more credible and orthodox Fed should be supportive for longer-end yields and risk assets overall. A higher-for-longer rate path could increase dispersion across fixed income, reinforcing the potential advantage of active, multi-sector portfolios.

The Federal Reserve raised the target range for the federal funds rate by 25 basis points at its September meeting, marking the first increase since July 2023. But with markets increasingly anticipating the hike heading into the meeting, the decision itself may be less important than what policymakers signal about what comes next.

Is September the start of a hiking cycle or a one-time adjustment?

We do not view this as the start of an extended hiking cycle. The Fed characterized the move as supporting a "timelier" return to its 2% inflation goal, suggesting that the path from here will depend largely on the evolution of underlying inflation.

While Chair Warsh provided little explicit forward guidance, the updated projections offer some insight into how other FOMC participants see the path ahead. The median projection points to one additional 25-basis-point hike by year-end, followed by no further increase in 2027, although there remains meaningful dispersion among individual participants.

Markets are pricing a more aggressive path. Fed funds futures currently imply roughly three additional 25-basis-point hikes over the next year, according to Bloomberg—considerably more tightening than suggested by the median FOMC projection. That gap between market pricing and policymakers' projections will be important to watch as incoming inflation data shape expectations for the path of rates.

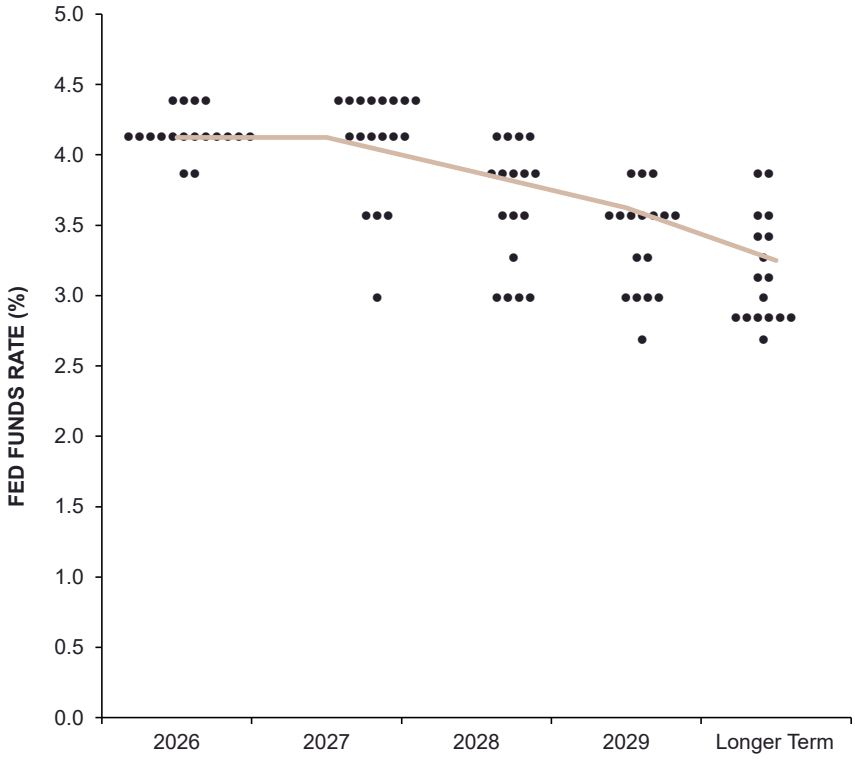
What does the new dot plot tell us about the dispersion of views within the FOMC?

The September dot plot includes projections from 18 participants, as Chair Warsh continues to refrain from submitting his own forecast. While the median projection points to one additional 25-basis-point hike this year, four participants see two additional hikes as appropriate.

The range of views widens considerably beginning in 2027, with participants divided between rate cuts, holding policy steady, and further tightening. That dispersion highlights the uncertainty around the path of policy beyond the next several meetings. Also notable, the median longer-run federal funds rate edged higher to 3.25%, from 3.1% in June.

We believe, however, that the dot plot may carry less signaling power under a Warsh-led Fed. Given Chair Warsh's skepticism about the usefulness of individual rate projections—and his decision not to submit one—the dots may be better viewed as a measure of the range of views within the FOMC than as explicit guidance about the future path of rates.

Figure 1. Fed Dot Plot Suggests a Range of Views and Potential Outcomes



Source: U.S. Federal Reserve. Data as of September 16, 2026. The Fed's dot plot shows where each Fed official expects interest rates to be in the future. Each dot represents one official's projection. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment.

How is the Fed assessing the economic outlook?

The September projections point to stronger growth, lower unemployment, and slightly higher inflation than the Fed projected in June. That is broadly consistent with the resilience we have seen in the labor market and consumer spending in recent months.

The projections suggest an economy that remains strong enough to absorb some additional policy tightening, while inflation continues to warrant the Fed's attention. At the same time, the outlook does not appear to point to the need for a prolonged hiking cycle, particularly if underlying inflation begins to moderate.

Figure 2. A View of the Fed's Summary of Economic Projections

MEDIAN PROJECTION	2026	2027	2028	2029	LONGER RUN
Change in Real GDP	**2.3**	**2.4**	**2.2**	**2.1**	**2.0**
June Projection	**2.2**	**2.3**	**2.2**	**-**	**2.0**
Unemployment Rate	**4.1**	**4.1**	**4.1**	**4.1**	**4.2**
June Projection	**4.3**	**4.3**	**4.2**	**-**	**4.2**
PCE Inflation	**3.7**	**2.3**	**2.1**	**2.0**	**2.0**
June Projection	**3.6**	**2.3**	**2.0**	**-**	**2.0**
Core PCE Inflation	**3.4**	**2.5**	**2.2**	**2.0**	**-**
June Projection	**3.3**	**2.5**	**2.1**	**-**	**-**
Federal Funds Rate	**4.1**	**4.1**	**3.9**	**3.6**	**3.2**
June Projection	**3.8**	**3.6**	**3.4**	**-**	**3.1**

Source: U.S. Federal Reserve. Data as of September 16, 2026. The Summary of Economic Projections (SEP) is a report published by the Federal Reserve that provides FOMC participants' forecasts for key economic variables over the next several years and the longer run. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment.

What did we learn about inflation?

Warsh's comments in the press conference were very consistent with the message he delivered in his speech in Jackson Hole on August 28. The underlying trend in inflation has not shown sufficient improvement yet. He acknowledged that the geopolitical events that are causing energy prices to increase have not been helpful. However, by removing the reference to supply shocks in the statement, the Committee signaled that they will not use energy prices as an excuse not to raise rates. Inflation remains elevated – period.

Is Fed communication actually changing?

The shift in Fed communication under Chair Warsh is becoming more apparent. The policy statement remained brief and focused on the key information, while the press conference was among the shortest in recent years—roughly 15 minutes shorter than average. The overall approach was direct and succinct, consistent with Warsh's preference for a quieter Fed.

Warsh also continues to step away from some of the tools traditionally used to guide market expectations. He did not contribute a projection to the Fed's Summary of Economic Projections (SEP) and reiterated that he will not provide explicit forward guidance. Instead, he said policy continues to be guided by the key principles he outlined at Jackson Hole, although he did not elaborate on them at the press conference.

What does it mean for fixed income investors?

Treasury yields have already moved higher to reflect the expectation that the Fed was going to hike rates. The market is currently pricing in more hikes than are expected by Fed officials, so it is likely that yields are currently at the top end of the range. Furthermore, by hiking rates now, the Fed is signaling its commitment to price stability and conducting an orthodox monetary policy. This should be supportive for longer-maturity Treasuries and for risk assets overall. Higher rate volatility due to less forward guidance and increased geopolitical uncertainty means more dispersion in returns across fixed income sectors and industries. We continue to believe this environment favors diversified, actively managed multi-sector portfolios.

Glossary & Index Definitions

Basis point (bp) is one one-hundredth of a percentage point (0.01%). Changes in interest rates and bond yields are commonly expressed in basis points.

Credit spread is the additional yield investors receive above a comparable benchmark security, such as a U.S. Treasury, as compensation for assuming credit risk.

Dispersion refers to differences in returns, valuations, yields, or other characteristics across securities, sectors, industries, or markets.

Dot plot is a chart published as part of the Federal Reserve's Summary of Economic Projections that shows individual FOMC participants' projections for the appropriate level of the federal funds rate at the end of specified years and over the longer run.

Federal funds rate is the interest rate at which depository institutions lend reserve balances to other depository institutions overnight. The Federal Reserve sets a target range for the federal funds rate as part of its monetary policy.

Federal funds futures are futures contracts based on the federal funds rate. Market pricing of these contracts can provide an indication of investors' expectations for future Federal Reserve policy.

Federal Open Market Committee (FOMC) is the monetary policymaking body of the Federal Reserve System responsible for decisions regarding interest rates and other aspects of U.S. monetary policy.

Federal Reserve (Fed) is the central bank of the United States. Its monetary policy objectives include maximum employment and price stability.

Forward guidance refers to communication by a central bank about the potential future path of monetary policy, including interest rates, intended to help shape market expectations.

Hawkish describes a monetary policy stance that places greater emphasis on controlling inflation, typically through higher interest rates or maintaining restrictive policy. A dovish stance generally places greater emphasis on supporting economic growth and employment, typically through lower interest rates or more accommodative monetary policy.

Inflation is a sustained increase in the general level of prices for goods and services over time, which reduces the purchasing power of money.

Monetary policy refers to actions taken by a central bank to influence interest rates, financial conditions, inflation, and economic activity.

Personal consumption expenditures (PCE) inflation measures changes in the prices of goods and services purchased by U.S. consumers. The Federal Reserve uses the PCE price index in assessing progress toward its 2% inflation goal.

Risk assets generally refer to investments whose returns are more sensitive to economic, market, and credit conditions and that typically carry greater risk than high-quality government securities.

Summary of Economic Projections (SEP) is a Federal Reserve report that provides FOMC participants' projections for economic growth, unemployment, inflation, and the federal funds rate over the next several years and the longer run.

Supply shock is an unexpected change in the availability or cost of goods or services that can affect economic output and inflation.

Tightening refers to monetary policy actions intended to restrain economic activity or inflation, typically through increases in interest rates or other measures that make financial conditions less accommodative.

U.S. Treasury securities are debt obligations issued by the U.S. Department of the Treasury and generally considered to have minimal credit risk. They are commonly used as benchmark securities in fixed-income markets.

Yield is the income generated by an investment, generally expressed as a percentage of its price or value.

Yield curve is a line that plots the yields of bonds of similar credit quality across different maturities. The U.S. Treasury yield curve is commonly used to assess differences between short- and long-term interest rates.

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