

Fed Hikes Rates for First Time in More than Three Years

In a highly anticipated move, the Federal Reserve opted to raise rates 25bps today to a range of 3.75-4.00%. After holding policy steady for five consecutive meetings, this marks the first rate increase since 2023.

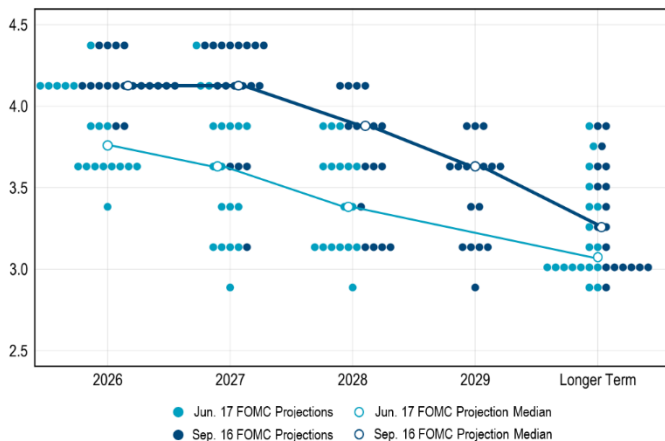
In the statement, the Fed's relatively impressive assessment of the economy was virtually unchanged with the Committee continuing to characterize growth as *"solid,"* and jobs gains as keeping *"pace with the workforce."* At the same time, the Committee acknowledges the still *"elevated"* level of inflation. In fact, assigning new language, the statement goes on to say that today's hike will *"support a timelier return to the Committee's 2 percent goal."*

In the updated Summary of Economic Projections (SEP), GDP was revised higher by a tenth of a percentage point this year and next to 2.3% and 2.4%, respectively. Meanwhile, in 2028, GDP was unrevised at a 2.2% gain. Additionally, the Committee's forecast for the unemployment rate was revised down by two tenths of a percentage point to a lower projection of 4.1% this year and next. In 2028, the Committee continues to expect the unemployment rate to hold steady at 4.1%, versus the 4.2% rate forecasted in June.

The Committee's inflation forecast, meanwhile, was revised up a tenth of a percentage point this year with the headline PCE expected to rise 3.7%. In 2027, the PCE was unrevised at 2.3%, while the headline inflation measure was revised up a tenth of a percentage point to 2.1% in 2028, with members not expecting to reach the 2.0% target until 2029, now a full year later than previously forecasted.

The core PCE forecast was also revised higher; the core is now expected to rise 3.4% this year, revised up by a tenth of a percentage point. Next year, the core PCE is expected to increase 2.5%, unrevised from June's projections, before easing to 2.2% in 2028, albeit marking an upward revision by a tenth of a percentage point. In 2029, the core PCE is expected to moderate to 2.0%, again a full year later than previously forecasted.

Lastly, with inflation notably elevated, the dots in the dot plot also shifted higher in the latest September edition. The majority of officials (16 of the 18 officials that submitted a forecast) now see at least one more rate hike in the remaining three and a half months of



September 16, 2026

Lindsey M. Piegza, Ph.D.

Chief Economist

piegza@stifel.com

(312) 454-3873

Lauren G. Henderson

Sr. Economist

hendersonla@stifel.com

(312) 454-3987



the year (four anticipate two hikes), while two officials anticipate no change at the remaining two meetings in 2026. Looking out to 2027, the divide among policy makers appears to return with eight officials anticipating further policy firming, while four expect at least some easing.

Bottom Line: After more than five years of significantly elevated inflation, a period which included a rate cutting cycle, the new Warsh Fed appears to be taking a step in the right direction to combat dangerously high price pressures. Furthermore, with the latest SEP signaling the majority of Fed officials support some further policy firming by year-end, the Committee appears sincere in its commitment to restore price stability.

September 16 Summary of Economic Projections															
Variable	Median					Central Tendency					Range				
	2026	2027	2028	2029	Longer Run	2026	2027	2028	2029	Longer Run	2026	2027	2028	2029	Longer Run
Change in real GDP	2.3	2.4	2.2	2.1	2.0	2.2-2.4	2.2-2.6	2.1-2.3	2.0-2.2	2.0-2.2	2.1-2.6	2.0-2.9	1.8-2.6	1.8-2.4	1.7-2.5
June Projection	2.2	2.3	2.2		2.0	2.0-2.3	2.0-2.4	2.0-2.3		1.8-2.0	1.8-2.6	1.9-2.9	1.8-2.6		1.7-2.5
Unemployment rate	4.1	4.1	4.1	4.1	4.2	4.1-4.2	4.0-4.2	4.0-4.2	4.0-4.3	4.0-4.3	4.0-4.3	4.0-4.5	3.9-4.4	3.8-4.4	3.8-4.4
June Projection	4.3	4.3	4.2		4.2	4.3-4.4	4.2-4.5	4.1-4.3		4.0-4.3	4.3-4.6	4.0-4.6	4.0-4.4		3.8-4.5
PCE inflation	3.7	2.3	2.1	2.0	2.0	3.5-3.7	2.2-2.5	2.0-2.2	2.0	2.0	2.9-3.8	2.0-2.6	2.0-2.2	2.0	2.0
June Projection	3.6	2.3	2.0		2.0	3.5-3.7	2.2-2.5	2.0-2.1		2.0	2.7-4.1	1.9-2.8	2.0-2.3		2.0
Core PCE inflation	3.4	2.5	2.2	2.0		3.3-3.4	2.3-2.6	2.0-2.2	2.0		2.8-3.5	2.1-2.7	2.0-2.3	2.0-2.1	
June Projection	3.3	2.5	2.1			3.2-3.5	2.3-2.6	2.0-2.2			2.6-3.5	2.0-3.0	2.0-2.4		
Memo: Projected appropriate policy path															
Federal funds rate	4.1	4.1	3.9	3.6	3.2	4.1-4.4	3.6-4.4	3.1-4.1	3.1-3.6	3.0-3.6	3.9-4.4	3.1-4.4	3.1-4.1	2.9-3.9	2.9-3.9
June Projection	3.8	3.6	3.4		3.1	3.6-4.1	3.1-3.9	3.1-3.6		3.0-3.5	3.4-4.4	2.9-4.4	2.9-3.9		2.9-3.9

Source: Federal Reserve

That being said, with double-digit price gains across nearly every key category of expenditure over the past five years coupled with the latest energy price spike, it will take solid conviction and more than two rate hikes to ensure a return to the longstanding 2% target. In fact, despite the statement's claim that today's increase will return the market to a more palatable level of inflation in a more timely manner, the SEP showed the Committee's forecast for reaching 2% has been pushed out by a year with a notable number of Committee members anticipating potential rate *cuts* **before** the inflation target has been achieved. A stronger showing of a 50bp hike and a significant shift higher in the dot plot, coupled with an assurance of "*whatever it takes*" would offer more confidence that the Fed wasn't setting up for a second-round policy error after the Committee failed to raise rates to a sufficiently restrictive level in 2023.

The press conference has concluded.

Link to September 16th FOMC Statement:

<https://www.federalreserve.gov/monetarypolicy/files/monetary20260916a1.pdf>

Link to September 16th Summary of Economic Projections (SEP):

<https://www.federalreserve.gov/monetarypolicy/files/fomcproptabl20260916.pdf>

- Lindsey Piegza, Ph.D., Chief Economist



Glossary

FOMC – Federal Open Market Committee

GDP – Gross Domestic Product

PCE – Personal Consumption Expenditures

SEP – Summary of Economic Projections

Disclaimer

This material is prepared by the Fixed Income Strategy Department of Stifel, Nicolaus & Company, Incorporated (“Stifel”). This material is for informational purposes only and is not an offer or solicitation to purchase or sell any security or instrument or to participate in any trading strategy discussed herein. The information contained is taken from sources believed to be reliable, but is not guaranteed by Stifel as to accuracy or completeness. The opinions expressed are those of the Fixed Income Strategy Department and may differ from those of the Fixed Income Research Department or other departments that produce similar material and are current as of the date of this publication and are subject to change without notice. Past performance is not necessarily a guide to future performance. Stifel does not provide accounting; tax or legal advice and clients are advised to consult with their accounting, tax or legal advisors prior to making any investment decision. Additional Information Available Upon Request.

Stifel, Nicolaus & Company, Incorporated is a broker-dealer registered with the United States Securities and Exchange Commission and is a member FINRA, NYSE & SIPC. © 2026

ADDITIONAL INFORMATION AVAILABLE UPON REQUEST