WS Global CIO Office
17 September 2026

Market Watch

Fed builds credibility with hike; one more likely in Dec

Summary

Event: The US Federal Reserve hiked its key interest rate by 25bps to 3.75-4.0%, in a unanimous decision. This marks the first hike since 2023, reversing the easing cycle that had taken rates down from 4.25% in September 2025 to a trough of 3.75% by December 2025. The revised projections indicate the Fed expects to raise rates by an additional 25bps this year, hold rates in 2027, and cut 25bps in both 2028 and 2029. It upgraded the long-run rate slightly to 3.2%.

Market reaction: The US yield curve mildly flattened, while the S&P500 index fell 0.5%. The policy rate sensitive US 2-year government bond yield jumped 7bps to 4.74% as markets factored in three more 25bps hikes by June 2027. The US 10-year yield rose 2bps to 5.02%, its highest since 2007, while the 30-year yield was little changed. The USD index (DXY) rose 0.6%, breaking past its 50- and 100-DMAs.

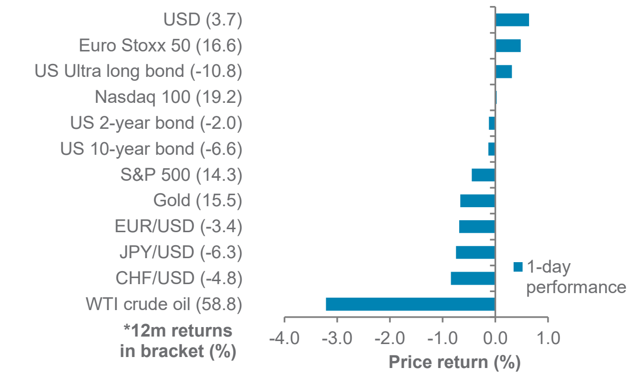
Investment strategy: Today's move realises what we had been flagging in recent weeks i.e. the rising risk of a Fed rate hike following Fed Chair Warsh's Jackson Hole speech and recent economic data prints, namely: a pick-up in job creation and inflation over the summer and a sharp rebound in oil prices due to the re-escalation of the Middle East conflict.

This hike helps the Fed rebuild credibility as an inflation fighter. Given the unanimous decision to hike rates this week, we believe there will likely be one more hike before the end of this year, and one more in H1 2027 as we expect robust growth amid strong AI investments and a tight labour market, keeping inflation elevated. That scenario would still be less than the three more rate hikes money markets are pricing after the latest Fed move. We believe policy rates can return to the 4.0–4.25% range by end-2027, with the possibility of cuts in H2 2027 as the impact of tariffs and high oil prices start to fade towards the second half of 2027.

Today's refreshed Fed policy rate path is mildly bullish for the USD index; so we revise up our 3-month target to 100. We also revise up our 3-month 10-year yield target to 5.0-5.25%.

The USD rose, while stocks fell after the Fed hiked rates and signalled one more rate hike this year; ultra-long bonds rose slightly as the Fed rebuild its inflation-fighting credentials

Asset performance: 15-Sep close to 16-Sep close



Source: Bloomberg, Standard Chartered

The Fed slightly revised up its growth projections for 2026-27 and inflation projection for 2026; however, it still sees inflation cooling over the next two years

Fed's updated economic projections

	GDP		Unemployment		Core PCE		Rates estimates	
Dates	Old	New	Old	New	Old	New	Old	New
2026	2.2	2.3	4.3	4.1	3.3	3.4	3.8	4.1
2027	2.3	2.4	4.3	4.1	2.5	2.5	3.6	4.1
2028	2.2	2.2	4.2	4.1	2.1	2.2	3.4	3.9
LR*	2.0	2.0	4.2	4.2			3.1	3.3

Source: Bloomberg, Standard Chartered

Backdrop to the rate hike

In hiking rates, Fed Chair Warsh reaffirmed the inflation threat to the US economy. US headline inflation accelerated to 0.4% m/m in August and stayed elevated on an annualised basis at 3.4% y/y. Energy prices, driven by the Middle East conflict, were a primary contributor. Oil prices have extended gains since the August inflation report, surging past USD 100/bbl. Meanwhile, core inflation rose 0.3% m/m in August, beating estimates for a 0.2% rise. Also, US producer prices jumped 0.4% m/m in August, the most since May, and 5.4% y/y, further reinforcing the inflationary backdrop.

The inflation report followed a stronger-than-expected jobs report for August. US monthly job creation has surged to an average 80,000 this year, from 10,000, tightening a job market that already faces a supply crunch from the Trump administration's clampdown against immigration. The combination of an acceleration in job creation and inflation over the summer, combined with a rebound in oil prices, supported our expectation for a Fed rate hike this week.

Removing "a dose of accommodation"

Warsh framed the decision to hike as removing "a dose of accommodation", rather than the start of an aggressive rate hiking cycle, and we agree with that characterisation. The aim is to bring financial and credit conditions more in line with the Fed's price stability objectives. To quote Warsh: "Our predominant focus is on the price stability side of our mandate. The plain fact is that inflation is too high, and has been for too long….This summer's inflation readings do not tell me that underlying trends have meaningfully improved." He added that many categories in the last consumer and producer inflation reports are still showing price increases above 3% on a six- and 12-month basis.

The unanimous vote to hike rates, contrasts with a 9-3 split vote in July to hold rates. When combined with the pencilling in of one more hike by December, this suggests a majority of Fed policymakers have turned more hawkish over the summer. In doing so, they have helped rebuild the Fed's inflation-fighting credentials and its independence against President Trump's pressures to cut rates. This explains why long-end bond yields were stable after this week's hike.

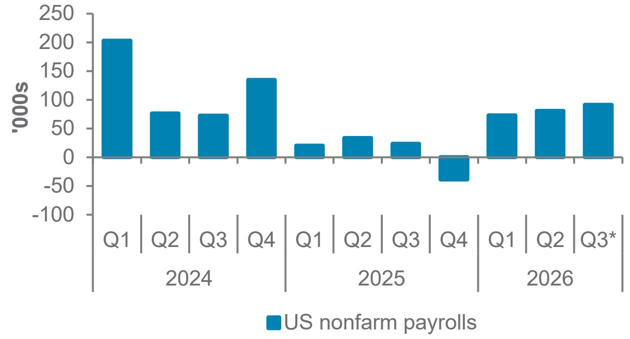
Nevertheless, Warsh provided little guidance on the future rate path, as he held what was reportedly the shortest post-meeting press conference on record for a Fed chair. This is consistent with his stated preference for less central bank communication. We expect more clarity once the Fed task forces submit their reports by year end.

— ***Jonathan Liang,*** *CIO for Fixed Income and FX*

Rajat Bhattacharya, *Senior Investment Strategist*

US job creation has accelerated this year after a slump last year, tightening a job market already facing a potential crunch from an immigration clampdown

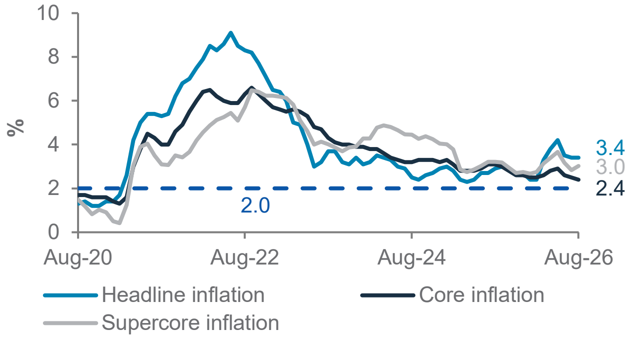
US quarterly non-farm payrolls growth



Source: Bloomberg, Standard Chartered: *Q3 2026 reflects average payrolls for July and August

US inflation remains well above the Fed's 2% target, with supercore inflation showing signs of picking up pace in August

US consumer inflation trend



Source: Bloomberg, Standard Chartered

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