Fed minutes

08 October 2026

Message in line with projections

The minutes from the September 15-16 meeting showed that all members supported the rate hike and that most assessed that another increase would likely be appropriate by year-end. While this is hawkish it is also fully in line with the signals in Fed members own rate projections that were released at the meeting and less hawkish than market pricing at the meeting and thereafter. Financial conditions were seen as supportive, but a few members wanted to prepare for the risks of market dysfunction.

Key points

- All members supported the rate hike, most believed another would be appropriate by year-end
- Divergent views on policy stance and reasons for tightening
- Financial conditions were seen as supportive because of equities and credit spreads
- A few wanted to prepare for risks for treasury market dysfunction
- Increased concerns for inflation but strong growth and improved labour market also had an impact on the decision
- No surprises vs projections and somewhat outdated

Divergent views on policy stance and reasons for tightening

While all members supported the rate hike, members were divided about why a higher policy rate was needed. Many saw it as an insurance against persistently high inflation, while a number thought it was necessary given their outlook. Presumably these are the same members who dissented in favour of a rate increase already at the July meeting. The minutes also reveal that members still have differing opinions about the degree of restrictiveness of current policy. "Several" stated that they did not see the current rate (before the September hike) as restrictive or only mildly restrictive. This suggests that other members are less sure about the degree of restrictiveness, which is in line with the view that a higher policy rate would be an insurance rather than motivated by their outlook.

Supportive financial conditions, a few wanted to prepare for Treasury market dysfunction

The higher bond yields were thought to have been driven by stronger economic data, increased expectations for AI-related borrowing and geopolitics (i.e. energy prices). Interestingly, financial conditions were still seen as supportive by many participants due to rising equity prices and narrow credit spreads. At the same time, a few members expressed concerns about yields at the September meeting.

Thus, "regarding balance sheet policy, a few participants observed that Treasury markets had been functioning smoothly but noted the importance of planning for market stress." These members suggested "strengthening the Federal Reserve's strategy, communications, and tools for addressing market dysfunction, should it occur, while limiting the Federal Reserve's footprint in the Treasury market".

Upside risks to inflation

The discussion showed that members had become more concerned about inflation, which is not surprising given the decision to hike and comments from Fed members both before and after the decision. Inflation had, according to minutes, remained elevated and members had not seen sufficient progress on lowering inflation in recent months. Ongoing geopolitical developments, which had pushed up prices for crude oil and refined fuel products, and surging AI-related investments were seen as contributing to inflation pressures. The minutes also highlight elevated core services prices excluding rents and elevated core goods prices, with the latter now pushed higher by the AI build-out while the impact of tariffs had faded. The possibility of further tariff increases was seen as an upside risk. Some members thought companies had become more successful in passing through higher costs to consumers. Some members thought risks to inflation had become more skewed to the upside in recent months. Many believed that the longer energy prices remained elevated, the larger the risks for spreading to other prices.

Larger than expected effect of new methods on core PCE, warnings about seasonal pattern

Members also discussed the effects of the upcoming new methods for PCE; these were expected by the Fed staff to lower core PCE by 0.2%-points in August (less than the actual decline of nearly 0.4%-points). A few participants "observed that the 3-month change measure of core PCE inflation showed a material decline since the start of the year but cautioned that this measure is more volatile than the 12-month change measure and has shown a strong tendency to understate inflation in the second half of the year compared with the first half". This could imply that members will hesitate to draw strong conclusions from the downside surprise in August and the fact that the 3-month change is now in line with the target.

Strong growth and improved labour market also had an impact on the decision

In the discussion on monetary policy "participants generally emphasized that inflation remained elevated while the labor market appeared to be near full employment, with some signs of strengthening, and that economic activity was expanding at a solid pace. Almost all participants assessed that, while inflation risks were tilted to the upside, risks to the labor market had diminished and were now broadly balanced."

No surprises vs projections and somewhat outdated

All-in-all, we do not see minutes as surprising given the projections and other communication before and after the September decision. The outlook for rates is more cautious than market pricing at the time of the decision and after the meeting, but in line with the projections which indicated one or two more hikes. Strong growth data and an improved labour market appear to have played a role for the decision; it was not only about high inflation, and according to the minutes, future decision would depend on incoming information. It is also interesting to note the emphasis that members put on risky asset prices (equities and credit spreads) when judging financial conditions, which at least at the time of the meeting seemed to have outweighed the effects from rising yields in the view of the Fed.

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