Fed Maintains Policy Stance Despite Sticky Inflation and Hawkish Internal Dissents

Economic Review
Oct-26 FOMC Meeting



Author
MBSB Research
research@mbsb.com

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- The Federal Open Market Committee (FOMC) held interest rates steady at 3.75% to 4.00% at the Oct-26 meeting in a 10-2 vote. The decision was broadly in line with market and our expectations, as the members opted to take a more patient approach in the fight against inflation.
- Recent data points to strong US economic activity, with Fed Chair Kevin Warsh highlighting at the Oct-26 press conference that economic momentum has strengthened further in recent months, bolstered by upward GDP growth revisions and robust capital investment.
- We maintain our view that the Fed maintains a hawkish stance in its near-term policy outlook, with scope for one additional rate hike later this year should inflationary pressures remain elevated. The FOMC dot plot reinforces this view, with the median policy-rate projection indicating another +25bps increase by the end of 2026

Fed keeps rates steady

The Federal Open Market Committee (FOMC) held interest rates steady at 3.75% to 4.00% at the Oct-26 meeting in a 10-2 vote. The decision was broadly in line with market and our expectations, as the members opted to take a more patient approach in the fight against inflation, which remains above the Fed's long-run target of +2.0%. The dissenters include Governor Lisa Cook and Cleveland Fed President Beth Hammack, who voted to raise rates by +25bps to 4.00 – 4.25%, on the back of concerns that inflation remained elevated.

Strong economic activity, driven by capital investments.

Recent data points to strong US economic activity, with Fed Chair Kevin Warsh highlighting at the press conference that economic momentum has strengthened further in recent months, bolstered by upward GDP growth revisions and robust capital investment. He shared that the US economy is expected to grow at above +3.0% in 3QCY26 after +2.4% growth in 1HCY26. This aligns with the FOMC's updated assessment that activity is expanding at a strong pace, supported by resilient consumer spending and corporate productivity gains. Meanwhile, the labor market remains solid, with payroll gains keeping pace with workforce growth and the unemployment rate showing little change. The combination of strengthening economic momentum and a still-resilient job market suggests that the economy remains sufficiently firm to withstand tighter monetary policy.

Inflation remained elevated, driven by higher energy prices

The Fed reiterated that inflation remains elevated above the Fed's +2.0% longer-run target, with recent price pressure partly reflecting supply-side and energy shocks. After holding steady at +3.4% yoy in Aug-26, the US headline CPI inflation accelerated to +3.7%yoy in Sep-26, driven by a surge in energy prices to +20.5%yoy (Aug-26: +16.3% yoy). At the same time, underlying price pressures picked up slightly, with core CPI rebounding to +2.6% yoy (Aug-26: +2.4%yoy). With headline inflation moving further above the Fed's target and volatile energy costs continuing to pose renewed upside risks, the FOMC maintains a vigilant, data-dependent stance on monetary policy.

Broadening of capital expenditures

During the press conference, Kevin Warsh mentioned that capital spending is *"one of the most striking features of the economy,"* driven by tech and AI adoption. However, recent data shows that there has been a broadening of capital spending across traditional industries, supporting overall investment growth. This explains the strengthening of the US economic growth, in addition to the resilience in consumer spending on the back of stable job market.

More information needed before making further policy adjustment

In the FOMC statement, the Fed emphasised that the *"accumulation of more information will help the Committee determine the policy stance appropriate to ensure a timely return of inflation to the Committee's +2.0% goal."* During the press conference, Warsh cautioned that inflation remains high, and the recent upticks in energy and commodity prices need to be monitored to avoid spillovers into broader core prices, and he also reassured the market that the Fed will not hesitate to act if inflationary risks worsen. While the Fed is not fixed at any specific time, more information will be needed to ensure Fed makes an informed decision if further adjustment is required.

Structural changes and overhaul of the FOMC meetings starting 2027

Although there is no update to the FOMC projection, Kevin Warsh announced a major reform to the structure of the FOMC meeting starting in 2027. The current structure of the 8 meetings per year is maintained but will begin separating routine rate setting from broad policy strategy. For 2027, the FOMC will hold one meeting exclusively for broad monetary policy strategy without a rate vote or policy statement, reducing the number of rate-setting decisions from eight to seven per year. From 2028 onwards, rate-setting meetings will be reduced further to six annually, and separately two meetings will be reserved for monetary policy strategy discussions. He also stated that this structure will improve the depth and wisdom of deliberations, preventing central bank policy from being dictated by a non-stop rate-setting news cycle. Warsh also mentioned that the Central Bank remain independent despite political pressure and upcoming elections, and he dismissed political influences, stating that politics plays zero role in FOMC rate choices. In terms of the Balance Sheet Framework, he mentioned that the internal Fed task force is still reviewing and yet to come up with formal recommendations on the excess reserve and the long-run composition of the System Open Market Account (SOMA), which he expected to be presented to the committee possibly in 1Q27.

Possibility of another rate hike for this year

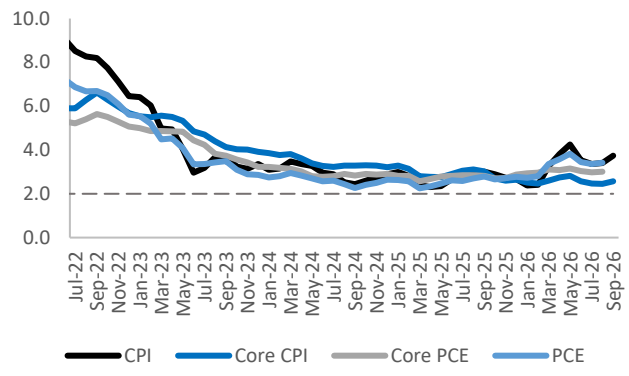
We maintain our view that the Fed maintains a hawkish stance in its near-term policy outlook, with scope for one additional rate hike later this year should inflationary pressures remain elevated. The FOMC dot plot reinforces this view, with the median policy-rate projection indicating another +25bps increase by the end of 2026. According to the CME FedWatch, investors price in 78.4% probability for another rate hike for the upcoming FOMC meeting in Dec-26, and two more rate hikes in 2027. Looking ahead, persistent supply-side bottlenecks, elevated energy costs, and rising raw material prices threaten to prolong sticky inflation, potentially compelling the Fed to resume monetary tightening. Conversely, a de-escalation of Middle East geopolitical risks, particularly if paired with a pullback in crude oil prices, would potentially alleviate energy-driven input costs, easing the pressure on additional rate hikes.

Table 1: Central Bank Policy Rate for Selected Economies (%)

	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26
Malaysia	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Indonesia	4.75	4.75	4.75	5.25	5.75	5.75	5.75	5.75	5.75
Philippines	4.25	4.25	4.50	4.50	4.75	4.75	5.00	5.00	5.50
Thailand	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
South Korea	2.50	2.50	2.50	2.50	2.50	2.75	3.00	3.00	3.00
India	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.50
Japan	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25
UK	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Euro area	2.15	2.15	2.15	2.15	2.40	2.40	2.40	2.65	2.65
USA	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75	3.75-4.00	3.75-4.00

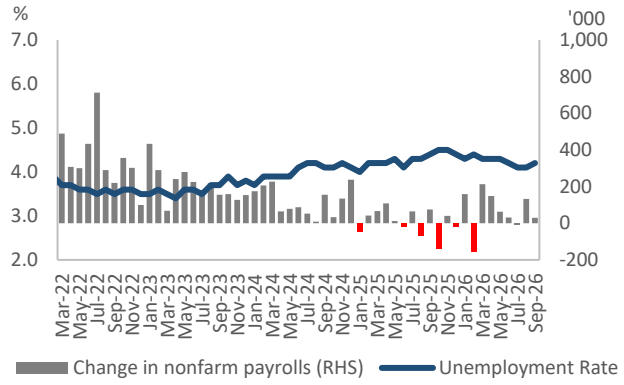
Source: Macrobond, MBSBR

Chart 1: US CPI vs Core PCE Inflation (YoY%)



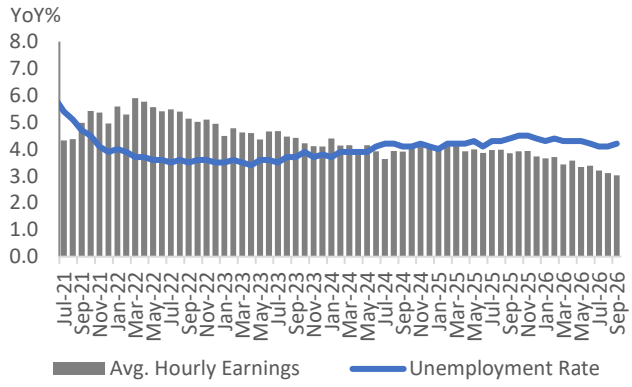
Source: Macrobond, MBSBR

Chart 2: US Unemployment Rate (%) vs Change in Non-Farm Payrolls ('000)



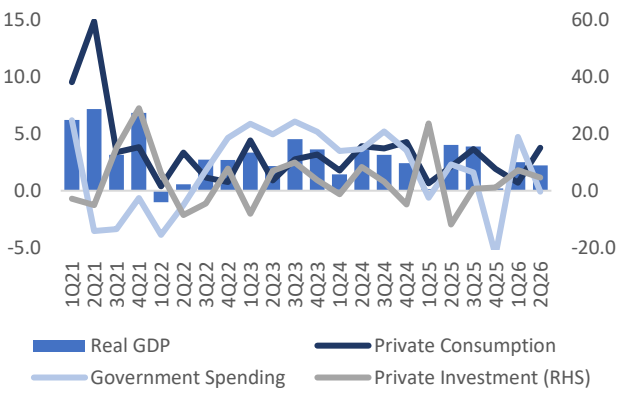
Source: Macrobond, MBSBR

Chart 3: Wage growth (YoY%) vs Unemploym. Rate (%)



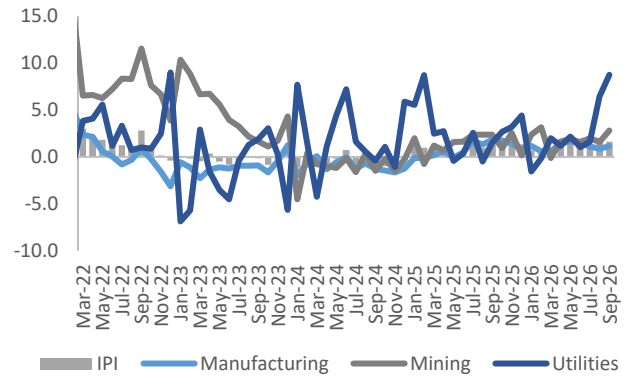
Source: Macrobond, MBSBR

Chart 4: US GDP Growth (Annualised QoQ%)



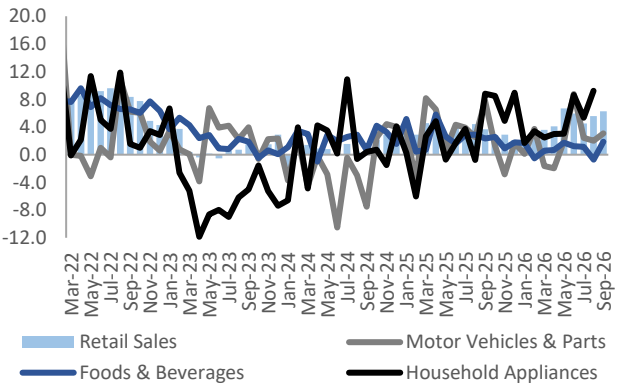
Source: Macrobond, MBSBR

Chart 5: US IPI Performances (YoY%)



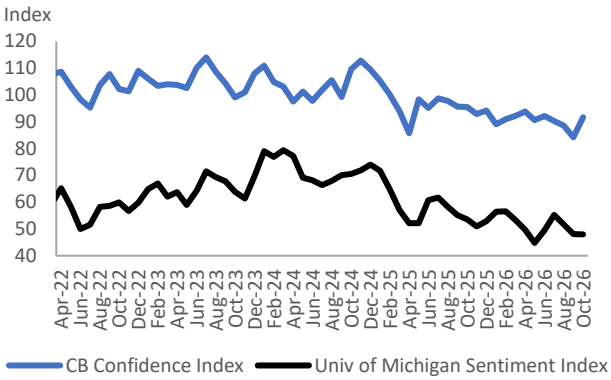
Source: DOSM, MBSBR

Chart 6: US Retail Sales (YoY%)



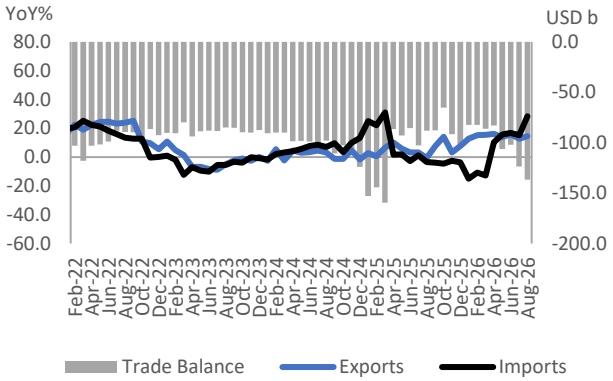
Source: DOSM, MBSBR

Chart 7: US Consumer Sentiment and Confidence (Index)



Source: Macrobond, MBSBR

Chart 8: US External Trade Performance (YoY%)



Source: Macrobond, MBSBR

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