On the Minds of Investors

Is the Fed preparing to raise interest rates?

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In a 9-3 split, the FOMC voted to maintain the Federal Funds target rate range at 3.50-3.75%. Three officials dissented in favor of raising rates by ¼ percent. Consistent with the committee's shift toward less forward guidance, the newly whittled statement was nearly identical to June signaling little change in its read of still solid growth, stable labor markets, and elevated inflation.

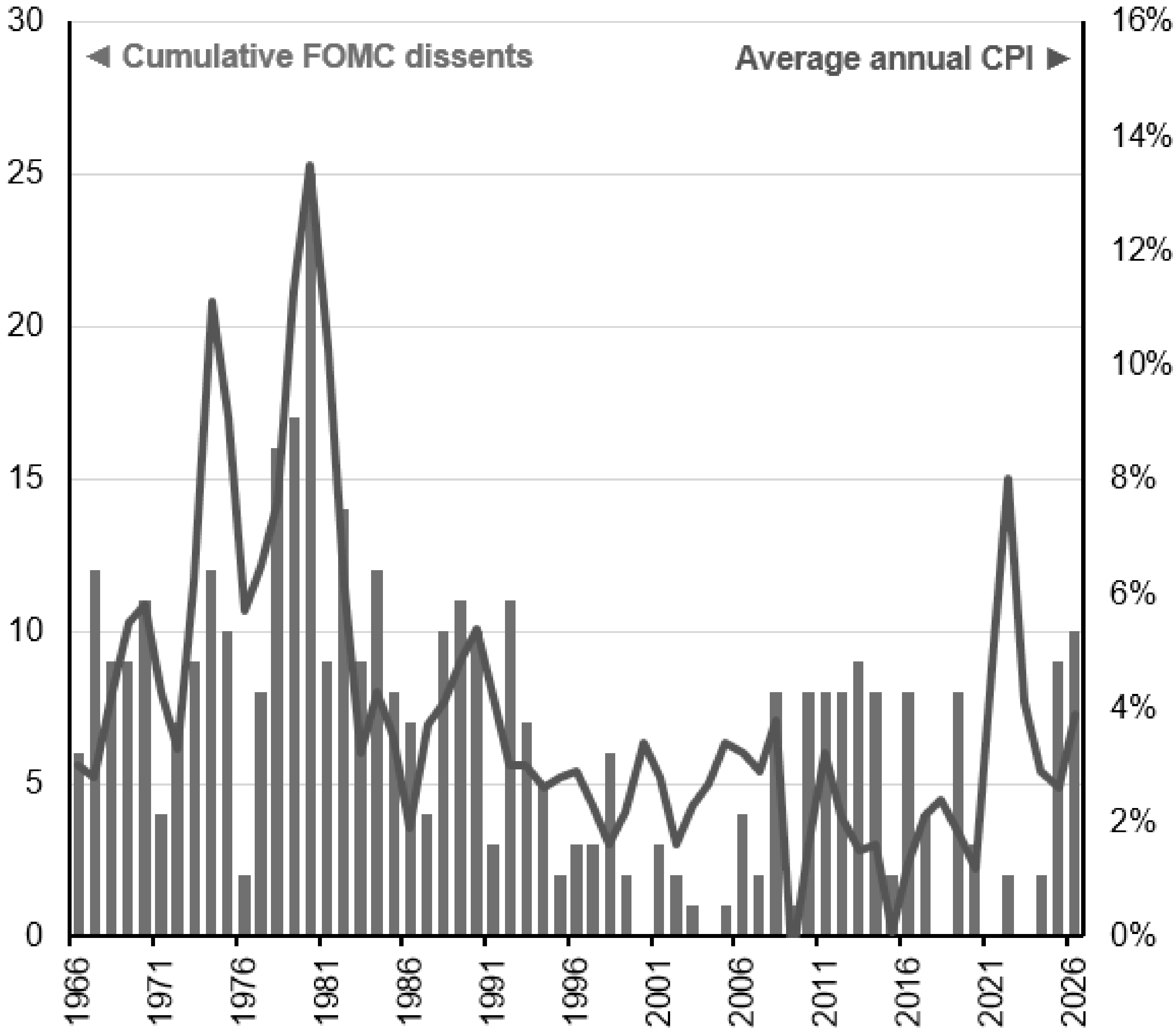
Moreover, not much can be inferred from Chairman Warsh's press conference. He continued to sound tough on inflation, yet optimistic around the current AI capex cycle driving productivity gains and future growth, and stability in labor markets. Unsurprisingly, Warsh evaded opining on the path forward, but it's clear he is incorporating—though not beholden to—a broader remit of economic and market trends in informing his view.

Markets remain fixated on whether the Fed will come off the bench or remain on the sidelines this year, and a non-consensus Fed doesn't help. However, disagreement within the committee is common when inflation is elevated, as has been the case over the past five years. Historically, the number of dissents during the year coincides with the level of inflation i.e. when inflation is high there is greater discord among committee members on the appropriate course of action for policy rates.

All things considered, our base case remains the Fed will not hike rates this year, despite markets continuing to price in 1-2 rate increases by year end. It's worth noting the more hawkish members of the committee cluster among the four rotating bank presidents, rather than the longer serving Governors[1] perhaps indicating, at most, the Fed is one and done. We acknowledge a hike in September as a real possibility depending on how the data evolves; however, given the structure and biases of the Fed Governors and Bank Presidents, this is unlikely to turn into a prolonged hiking cycle.

Inflation tends to drive disagreement at the Fed

1966 - 2026



Source: Federal Reserve Bank of St. Louis, Federal Reserve Bank of Minneapolis, J.P. Morgan Asset Management. FOMC dissents are shown as cumulative annual totals; 2026 is year-to-date. 2026 CPI is estimated based on the change in CPI from Q2 2025 to Q2 2026. Data as of July 29, 2026

[1] The next expiring governor term is Jerome Powell in January 2028.

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