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On the Minds of Investors

Why is the Federal Reserve raising interest rates?

Jordan Jackson
Global Market Strategist

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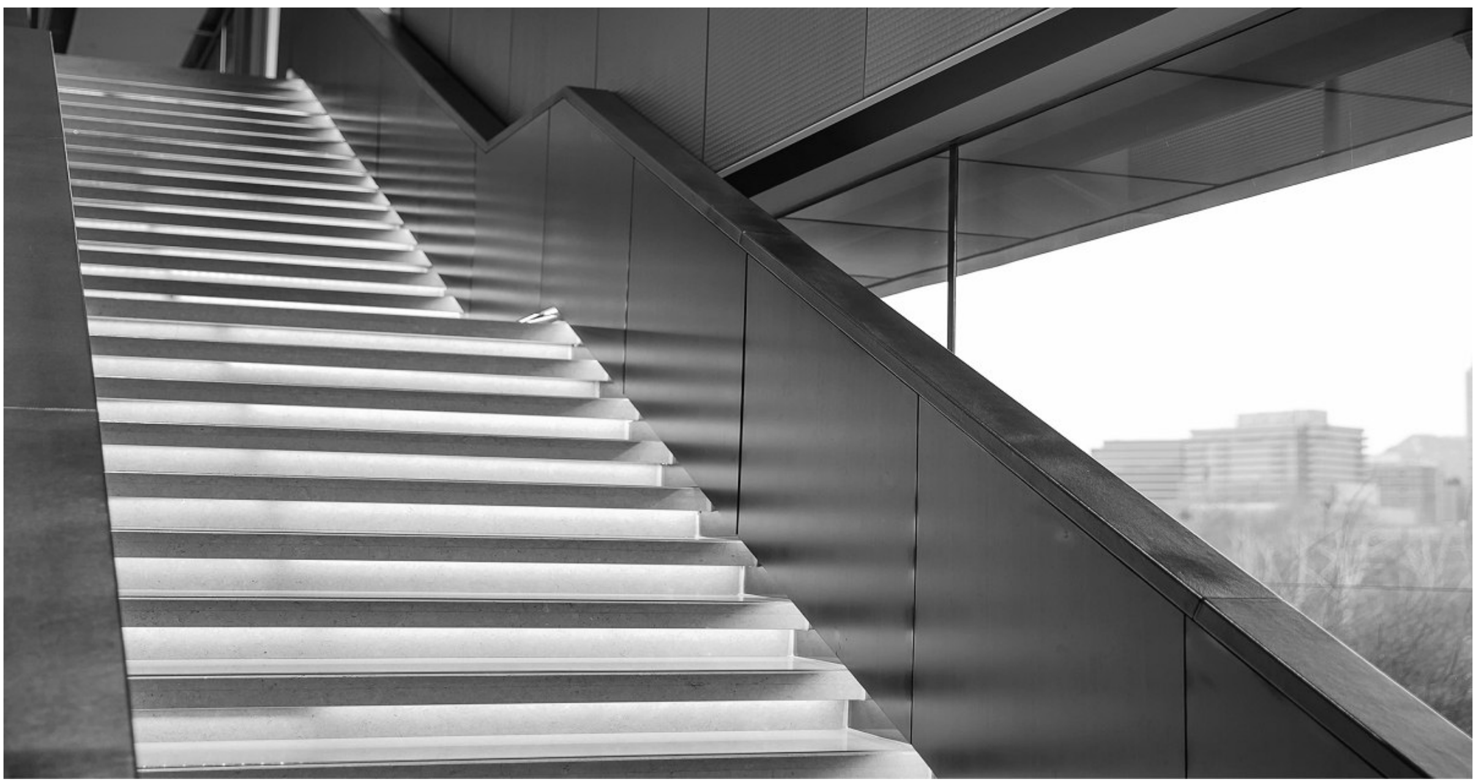

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The FOMC delivered exactly what the markets wanted. At its September meeting, the committee voted unanimously to raise the target Federal Funds rate range by 25bp to 3.75%-4.00%. While not much has changed since the committee last met in July, it appears the Chair needed to follow up his recent inflation bark, with some monetary tightening bite. Indeed, inflation is still running above target, the August jobs report came in stronger than expected and third quarter GDP growth is currently tracking 3-4% q/q saar. The bigger question remains, however, whether this is the first step in a series of hikes or a more gradual cadence.

Turning to the updated Summary of Economic Projections:

- **Growth:** 2026 was revised up to 2.3% from 2.2%; 2027 was nudged higher as well.
- **Unemployment** rate forecast was cut to 4.1% from 4.3% for 2026 and held at 4.1% through 2028. It should be emphasized, however, that this is a tight, not a strong labor market as evidenced by the slowing pace of job growth.
- **Inflation:** Headline and core PCE were revised up 0.1% this year to 3.7% and 3.4% respectively, reflecting the energy supply shock from the Middle East.
- **Dot plot:** While Chairman Warsh again skipped submitting his own dot, the rate forecast shifted hawkish. The median participant now foresees one more hike before the end of the year, and 8 of 18 members pencil in at least one more hike in 2027.

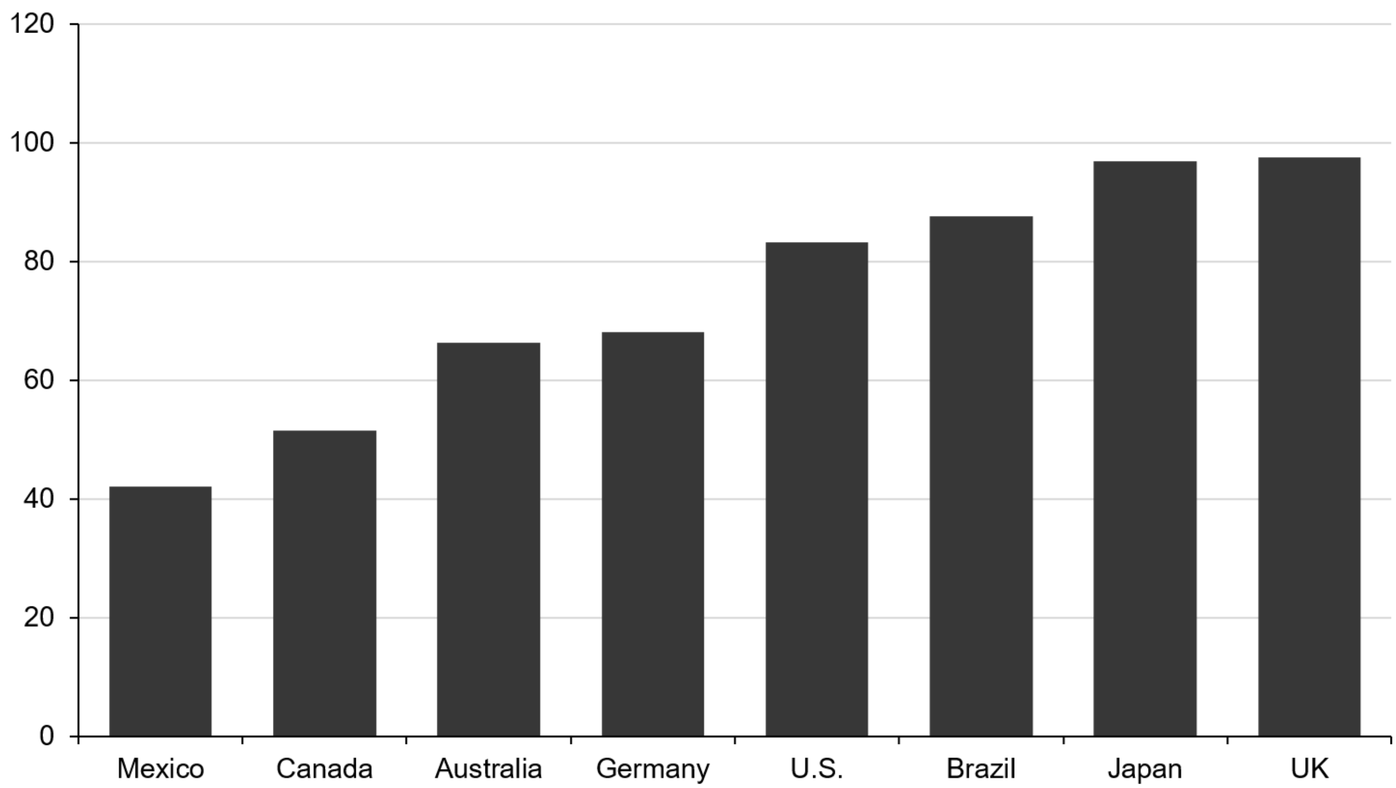
In response, equities sold off, while bonds ticked only slightly higher given the move was fully priced in going into the meeting. Moreover, while the median dot expects the Fed to deliver just one more rate increase through 2027, the markets still expect the Fed to lift rates to ~4.6%, well above the forward guidance provided by the dot plot.

Taking a step back, central bank tightening is now a global phenomenon. The European Central Bank (ECB), Bank of England (BoE) and Bank of Japan (BoJ) are all expected to tighten policy over the next year, causing yields to reprice upward across global markets with little sign of that pressure letting up. While Fed Chair Warsh remains focused on dynamics here in the US, it's hard to ignore the global shift in central bank posture and the rise in global term premium pushing yields higher as governments take on more debt while also battling elevated inflation.

To be clear, we suspect the Fed is raising rates to firm its perception as a credible inflation fighting institution. That said, hiking cycles are typically associated with rising rates; and while it's difficult to say if the recent increase in rates both domestically and abroad portend to higher rates in the near future, investors would be wise to lock in attractive yields without taking on too much duration risk, and diversify across public and private markets, both in the US and overseas.

No bond market has been spared from rising yields

Year to date change in 10-year government bond yields by region, basis points



Source: Haver Analytics, Tullet Prebon, J.P. Morgan Asset Management. Data are as of September 16, 2026.

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Article Tags Central Banks | Federal Open Market Committee (FOMC) | Interest Rates | Monetary Policy

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