

THE FED'S SEPTEMBER RATE HIKE

September 2026

KEY POINTS

- The US Federal Reserve (Fed) unanimously voted to raise its fed-funds target range to 3.75%-4.00%, which was widely anticipated and lacks surprise power for markets.
- Present yields are not abnormally high when compared to history and yields don't dictate where equities are heading.
- Despite potential future hikes, we believe this global bull market likely continues, supported by drivers such as strong corporate earnings.

THE FED'S DECISION AND COMMUNICATON

On 16 September the Federal Open Market Committee (FOMC) voted unanimously on a 0.25 percentage point (ppt) increase to the fed-funds target range, lifting the range to 3.75%-4.00%. This move was widely anticipated after Chairman of the Federal Reserve, Kevin Warsh, delivered "hawkish" commentary from the Fed's recent Jackson Hole Economic Symposium and publicly verbalised other affirmations of his commitment to a 2% y/y inflation target. In doing so, he rebuked his own comments from the run-up to his appointment about the economy being capable of handling lower interest rates while rising, market-set long rates tighten for the Fed.

Despite short market swings after the announcement was made, there is nothing automatically negative about rate hikes. History shows many examples of hike cycles coinciding with rising markets. Our current bull market began in October 2022 and included 6 rate hikes before the first rate cut in September 2024. In that span, US stocks boomed 62%. Moreover, equity returns are usually higher 12-24 months trailing a period of Fed rate hikes (Exhibit 1), so avoiding equities during hike cycles is likely to result in missed returns.

Exhibit 1: S&P 500 Returns Following Periods Of Fed Rate-Hike Cycles

Date of First Rate Hike	S&P 500 Forward 12 Months Change (%)	S&P 500 Forward 24 Months Change (%)
16/07/1971	7.6	4.8
16/08/1977	5.8	10.3
21/10/1980	-9.3	5.0
27/03/1984	13.9	51.5
16/12/1986	-2.2	10.5
29/03/1988	13.0	32.5
04/02/1994	-0.4	32.3
30/06/1999	6.7	-9.4
30/06/2004	5.6	12.0
16/12/2015	8.9	29.1
16/03/2022	-9.1	14.5
Average	3.7	17.9
% Positive	63.6	90.9

Source: FactSet and Federal Reserve. S&P Price Returns from 16/07/1971 – 16/03/2024.

Recent Hikes Lacked Surprise

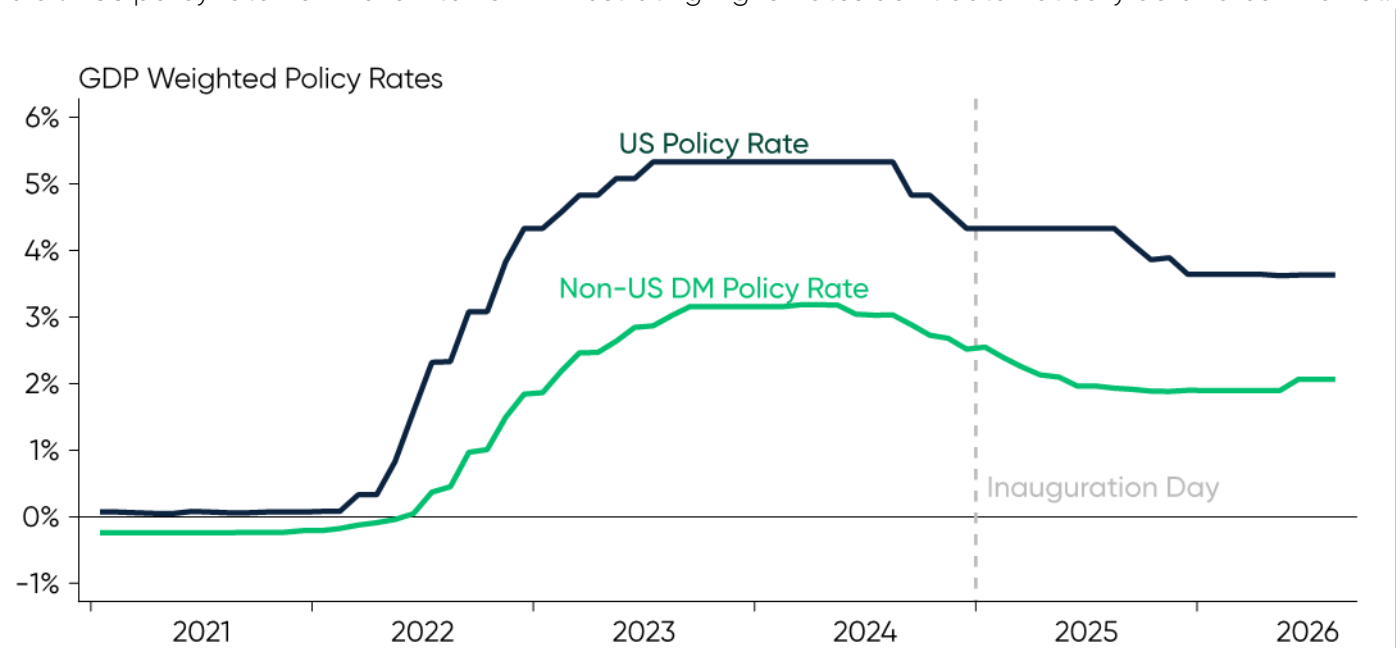
Although rate hikes are cited as a contributing factor to the short, sentiment-driven bear market that ended in October 2022, we believe the surprise power behind those hikes drove market response. Central bankers globally adjusted rates at a quicker interval than originally communicated, including a 0.75 ppt move the Fed stated it would not do.

The recent hike was not a surprise thanks to comments made by Warsh at the earlier Jackson Hole summit. Additionally, markets had pre-priced a 90% likelihood of a hike before it was announced. Outside of the US, we have also seen other central bankers in Europe and Australia hike multiple times, and historical evidence suggests commonality in decisions among central bank boards.

Removing surprise power, this singular 25 ppt hike is unlikely to have the scale to derail this later-stage bull market. Earnings remain positive across the board and equities historically feature favourable returns in the second-half of US Presidential terms. We remain optimistic in our market outlook in spite of recent increase. Furthermore, the potential of additional hikes shouldn't spell trouble. In fact, as shown in Exhibit 2, we are not in unfamiliar territory for this market regarding "higher" interest rates.

Exhibit 2: GDP Weighted Policy Rates

This bull market began while the Fed and other central banks were hiking in 2022 and the bull continued amid a 5%+ US policy rate from 2023 into 2024 – illustrating higher rates don't automatically derail a bull market.



Source: Fisher Investments Research, FactSet, Macrobond, as of 09/16/2026. Policy rates for US, and for developed markets excluding us weighted by GDP, monthly, January 2021 – August 2026.

INFLATION FEARS

The recent decision to raise rates is largely tied to the Fed's concern surrounding inflation trends. The targeted headline personal consumption expenditures (PCE) price index is above the 2% target and accelerated after the closure of the Strait of Hormuz up to 3.7% y/y in July. But this acceleration centres on energy prices, which the Fed is largely powerless over.

Chairman Warsh answered reporters' questions regarding the rate hike and its effect on energy pricing with generalities about oil's price rise impacting the wider economy. We don't see the reflection in the data. When excluding energy from the consumer price index, we see the index falling from 2.9% y/y in May to 2.5% y/y in August. Additionally, core PCE (ex. food and fuel) at 3.3% y/y as of 16 September is only slightly higher than January's 3.1% and down from highs in May. The trend is slightly cooling since initial spikes resulting from the Strait of Hormuz closure.

Rates have been above the Fed's target for several years, and Warsh indicated his intention to potentially lower rates ahead of his appointment to the Fed seat earlier this year. What changed? There is no clear answer from the Fed. However, in our view we see this hike as ineffectual to inflation on the whole. Excluding energy and without large increase to money supply, inflation may even continue its downward trajectory. Even if that's not the case, our outlook still remains positive as we see signs for economic growth and the equities market moving forward.

RATE HIKES AND THE YIELD CURVE

Despite the Fed rate hike and expectations for additional hikes, the US and global yield curves steepened over the last year and remain nicely positive (Exhibit 3). Additional Fed hikes could eventually invert it, a risk worth watching, but that doesn't appear likely in the near term.

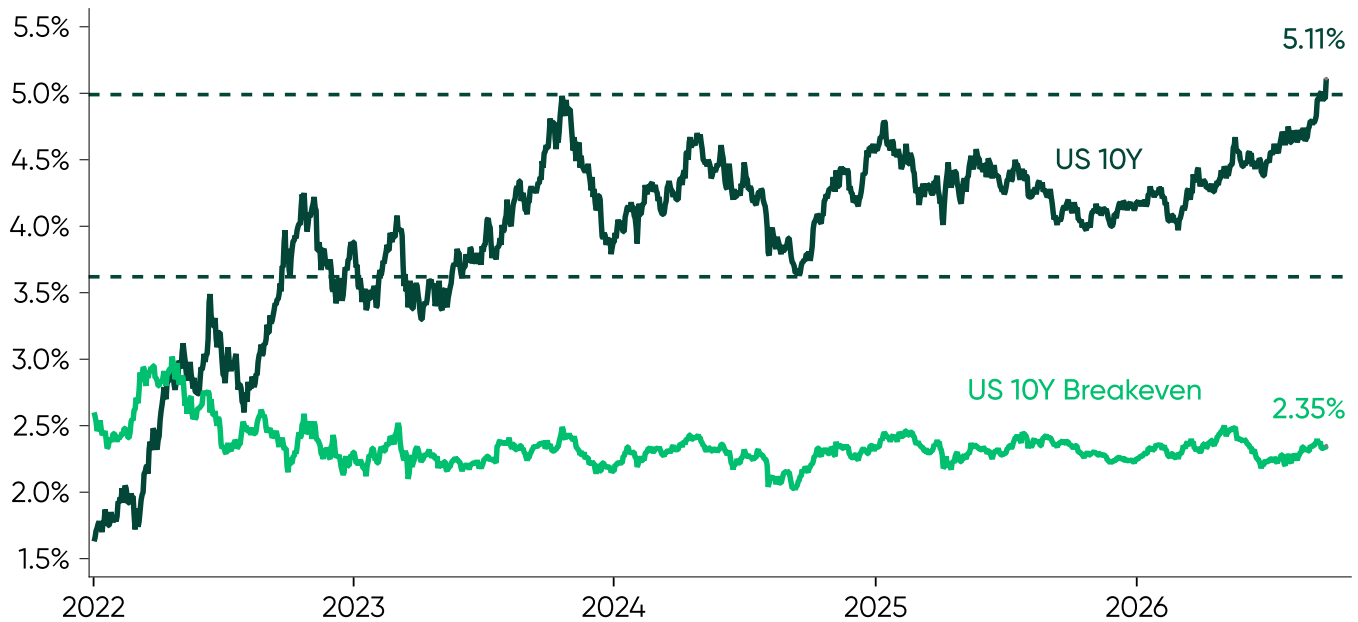
While not a perfect economic indication, the yield curve reflects expectations for economic growth and inflation, as well as influencing bank lending profitability through net interest margins. A steeper yield curve makes lending more profitable for banks and increases their economic incentives to do so. We also see that inflation expectations have remained stable, implying real yields have moved higher (Exhibit 4).

Exhibit 3: US 10Y-Yield



Source: Macrobond, as of 18/09/2026. US 10-year and 3-month yields. Data shown from 01/01/2016-18/09/2026.

Exhibit 4: US 10-Year and 10-Year Breakeven



Source: Macrobond, US Treasury, as of 18/09/2026. US 10-year and US 1-year Breakeven inflation rate. Data shown daily, from 01/01/2022-17/09/2026.

CONCLUSION

We believe the recent global rate hikes and potential future hikes are unlikely to derail the current bull market. Though rate hikes are typically followed by market volatility driven by inflation fears, we see that markets are often positive in the 12-24 months following the beginning of hike cycles. This tells us rate hikes alone are not good indicators of economic results. We also believe that current inflation is not primarily driven by poor fundamentals but rather by spikes in energy costs over the last several months. We've seen inflation figures trending downward when not including energy cost increases in the calculation, so we believe recent rate hikes are unlikely to be effectual on bringing down inflation overall. Finally, yield curves have been steep and are expected to continue to steepen despite recent global hikes, which is a positive future economic indicator. This along with other current positive indicators tell us that we should remain optimistic in our outlook for this current bull market continuing.

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