

FROM THE OFFICE OF THE CIO

Federal Reserve Holds Rates Steady Amid Divided Views

The decision: a hold, but not a unanimous one

In Fed Chair Kevin Warsh's second meeting leading the Federal Open Market Committee (FOMC), policymakers voted to hold the federal funds target range unchanged at 3.50% to 3.75%. This marked the fifth consecutive meeting without a rate adjustment. Unlike June's unanimous decision to remain on hold, July's meeting revealed growing disagreement within the committee. Three members dissented in favor of a 25-basis-point rate increase.

Market expectations were mixed

The decision came against a backdrop of heightened uncertainty and shifting market expectations. Following the June FOMC meeting, investors increasingly viewed policymakers' messaging as a "hawkish hold," causing expectations for a rate hike to rise. Over the following six weeks, softer economic data tempered those expectations. June employment figures showed a slowdown in job growth. Inflation reports indicated that underlying price pressures eased as energy prices retraced. More recently, renewed tensions with Iran pushed oil prices higher, threatening to reverse that progress.

Warsh continues his more direct communication style

July's meeting largely mirrored the approach established during Warsh's first meeting as chair. Since assuming leadership, Warsh has moved away from the communication style that characterized previous Fed chairs, including Jerome Powell. June's policy statement was notably shorter and more direct than the detailed releases markets had become accustomed to. Warsh reinforced

"There is no soft inflation target, there is no soft implicit target, not on this Committee's watch. There is only a target, and it is 2 percent."

Kevin Warsh

that minimalist approach during a brief post-meeting press conference, emphasizing the committee's commitment to returning inflation to the target level of 2.0%.

The same framework was on display Wednesday (July 29). The FOMC's policy statement remained concise at just 167 words, and Warsh again delivered a straightforward press conference. For investors hoping for new guidance on the future path of interest rates, there was little to glean from either the written statement or the chair's remarks. Instead, the committee appears content to allow incoming economic data to guide future decisions rather than signaling a predefined course for policy.

The statement: minimal changes

The lack of substantial changes was perhaps best reflected in the policy statement itself. The June and July press releases were nearly identical. The only notable language change involved the Fed's policy of maintaining ample reserves in the banking system. The June statement not-

ed that the committee “reaffirmed” its approach, while the July statement stated that the committee “is continuing” that policy. Beyond that technical adjustment, there were no meaningful changes to the committee’s assessment of economic conditions, labor markets, inflation or the risks surrounding the outlook.

Market response: equities sell off, curve steepens

Markets reacted negatively following the conclusion of Chair Warsh’s press conference. The three dissents and Warsh’s firmer commitment to the 2% target raised concerns that policy could stay tighter for longer. U.S. equities moved lower, while longer-dated Treasury yields rose on concerns about persistent inflation, producing a steeper yield curve (see Figure 1).

Figure 1: Market Reaction Following the July FOMC Meeting

Market Indicator	July 28 (Close)	July 29 (Close)
2-Year Treasury Yield	4.29%	4.24%
10-Year Treasury Yield	4.61%	4.68%
December Fed Funds Expectation	4.04%	3.95%
S&P 500 Index	7,429	7,316
U.S. Dollar Index (DXY)	101.42	100.96

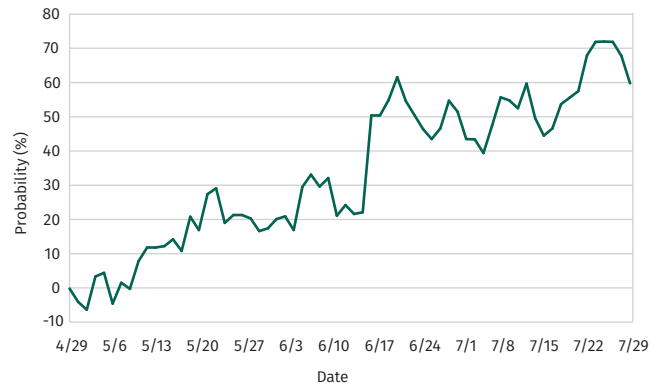
Source: Factset.

Notably, the price action was not driven by a material shift in the expected path of monetary policy. Market expectations for upcoming Fed meetings were little changed following the decision. Fed funds futures continue to imply roughly a 60% probability of a rate hike at the September meeting, reflecting a significant increase in tightening expectations since late April (see Figure 2). The implied year-end federal funds rate of about 3.95% suggests investors still expect roughly 1.25 quarter-point rate hikes before the end of the year.

Looking forward: The Fed remains on hold

While the emergence of three dissents in favor of a rate hike highlights growing concern about inflation risks, we believe the Fed remains more likely to keep rates un-

Figure 2: Market Probability of Fed Rate Hike / Cut, September 2026 Meeting



Source: Factset.

changed than tighten policy in the near term. Since the June meeting, incoming economic data have generally supported patience. Job growth has slowed, and measures of underlying inflation have continued to moderate, suggesting that price pressures are not reaccelerating in a broad-based manner.

The primary challenge to that outlook stems from renewed hostilities in the Middle East. Escalating tensions involving Iran have increased the risk of disruptions to energy supply, creating the potential for higher energy prices and renewed upward pressure on inflation. Because elevated prices tend to have a larger impact on inflation than on economic growth, policymakers would likely focus primarily on the inflationary consequences.

As a result, we expect the Fed to remain on pause for the foreseeable future, maintaining a higher for longer policy stance. The transition to a new chair and the increasingly diverse range of views within the FOMC likely create a higher threshold for significant policy changes in either direction.

What would change our view?

Our expectation for an extended pause would need to be reassessed if energy prices remain elevated or economic and labor market data strengthen materially. Those developments would increase the likelihood of a September rate increase and challenge our view that current market pricing is too aggressive.

Investment implications and portfolio positioning

Within fixed income, we continue to see opportunities for investors to lock in attractive yields in high-quality short- and intermediate-duration bonds. We do not view the current environment as particularly favorable for taking excessive duration risk, as concerns surrounding inflation, rising government deficits and increased Treasury supply may continue to pressure longer-term yields. In our view, income generation rather than capital appreciation is likely to remain the primary driver of fixed income returns. While higher yields have improved long-term return potential, tight credit spreads and elevated volatility argue for a selective and disciplined approach.

For equities, we expect Fed policy to remain broadly supportive as the economy continues to expand. In this environment, we favor a balanced and diversified approach with an emphasis on quality. As uncertainty surrounding inflation, monetary policy and geopolitics per-

sists, we believe maintaining diversification across asset classes and investment styles remains the most prudent approach for long-term investors.

Bottom line

Overall, July's meeting delivered continuity rather than surprise. While the emergence of three dissenting votes highlights a widening range of opinions within the FOMC, the decision to leave rates unchanged signals that a majority of policymakers remain comfortable waiting for additional evidence before making their next move. With economic growth showing signs of moderation, inflation gradually easing and geopolitical developments introducing fresh uncertainty, the Fed appears committed to maintaining flexibility while keeping its focus firmly on achieving price stability.

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