



ROSA & ROUBINI
ASSOCIATES

MONETARY AFFAIRS:

**Review: The FOMC Pauses Its Tightening Cycle,
In Spite of Strong Growth and Elevated Inflation**

by

Brunello Rosa and Nato Balavadze



28 October 2026

Brunello Rosa and Nato Balavadze

Review: The FOMC Pauses Its Tightening Cycle, In Spite of Strong Growth and Elevated Inflation

28 October 2026

Executive Summary

Page | 2

- ✧ **Decision Made:** *The Fed holds rates steady in October.* The FOMC voted 10-2 to hold rates unchanged, with Lisa Cook and Beth Hammack favouring a 25-bps hike at this meeting. Citing elevated inflation, the Fed stressed the need for further data before determining its next move, consistent with recent remarks from Vice Chair Philip Jefferson and New York Fed President John Williams favouring a cautious approach to further tightening.

In terms of *balance sheet policies*, the Fed also reaffirmed its “ample reserves” framework, signalling no immediate plans to accelerate the reduction of its \$6.7 trillion balance sheet despite Warsh’s support for faster quantitative tightening.

- ✧ **Policy Discussion:** *Warsh’s most significant reform to date aims to allow more data to accumulate between rate decisions, although fewer policy-setting meetings could limit the Fed’s responsiveness to changing economic conditions.* The Fed will reduce annual rate-setting meetings to seven in 2027 and six from 2028, dedicating the remaining meetings to broader monetary policy strategy. Warsh also reiterated his opposition to forward guidance under normal conditions, reserving it for crises.

Warsh acknowledged that financial conditions have tightened for some businesses and households following September’s rate hike, but stressed that they are not broadly restrictive. He also highlighted AI investment as a key growth driver while rejecting claims that it is insensitive to interest rates, citing greater investor differentiation between safer and riskier AI companies.

The decision to hold rates, ahead of the November 3 midterm elections, drew two dissents from Governor Lisa Cook and Cleveland Fed President Beth Hammack, who favoured a 25-bps hike. Cook, facing a legal dispute over President Trump’s attempts to remove her, dissented for the first time since joining the Fed in 2022. Meanwhile, Dallas Fed President Lorie Logan and Minneapolis Fed President Neel Kashkari, who opposed July’s decision to hold rates, supported the majority this time. Warsh dismissed suggestions that political considerations influenced the decision.

Key Picture: US Federal Reserve Forecasts – 2026-2029

	2026f			2027f		2028f		2029f	Longer Run	
	Latest Reading	September Report	June Report	September Report	June Report	September Report	June Report	September Report	September Report	March Report
GDP (<i>real growth, y-o-y</i>)	2.2	2.3	2.2	2.4	2.3	2.2	2.2	2.1	2.0	2.0
Unemployment rate (% <i>y-o-y</i>)	4.2	4.1	4.3	4.1	4.3	4.1	4.2	4.1	4.2	4.2
PCE Inflation (% <i>y-o-y</i>)	3.4	3.7	3.6	2.3	2.3	2.1	2.0	2.0	2.0	2.0
Core PCE Inflat. (% <i>y-o-y</i>)	3.0	3.4	3.3	2.5	2.5	2.2	2.1	2.0	-	-
Federal Funds Rate (%)	4.00	5.1	3.8	5.1	3.6	3.9	3.4	3.6	3.1	3.1

Source: Federal Reserve ‘Summary of Economic Projections’ March and June 2026. Note: 1. GDP reading for Q2-2026; 2. Unemployment rate as of September 2026; 3. PCE and core PCE inflation as of August 2026; 4. Projections reflect the median of FOMC projection.

Analysis

- ✦ **DECISION MADE:** *On October 28, the US Federal Reserve hold its Fed funds range at 3.75% - 4.00%.* The Federal Reserve voted 10-2 to maintain the target range for the federal funds rate unchanged. Lisa D. Cook and Beth M. Hammack dissented, favouring a 25-bps increase in the federal funds rate target range.

The Fed said inflation remains elevated and additional data will help the Committee determine the appropriate policy stance to bring inflation back to its 2% target in a timely manner. Recent remarks from Fed officials suggest a preference for awaiting further economic data before tightening policy. Vice Chair Philip Jefferson and New York Fed President John Williams have both indicated that current conditions allow policymakers time to assess their next steps.

Regarding *balance sheet policies*, the statement also reaffirmed the Fed's commitment to maintaining an "ample reserves" framework, suggesting no immediate plans to shrink its \$6.7 trillion balance sheet more aggressively, despite Warsh's support for faster balance-sheet reduction.

- ✦ **POLICY DISCUSSION:** *Warsh's most significant reform to date aims to allow more data to accumulate between rate decisions, although fewer policy-setting meetings could limit the Fed's flexibility to respond to rapidly changing economic conditions.* The Fed's decision to hold rates comes ahead of the November 3 midterm elections, with control of Congress at stake. While some observers have questioned whether the proximity of the elections influenced the decision, Fed Chair Kevin Warsh dismissed these concerns, stressing that political considerations played no role in the FOMC's deliberations.

The decision revealed some divisions within the Committee, with Governor Lisa Cook and Cleveland Fed President Beth Hammack dissenting in favour of a 25-bps rate hike. Cook, who remains involved in a legal dispute over President Trump's attempts to remove her from office, dissented for the first time since joining the Fed in 2022. Meanwhile, Dallas Fed President Lorie Logan and Minneapolis Fed President Neel Kashkari, who opposed the decision to hold rates in July, supported the majority despite previously advocating tighter monetary policy.

During the press conference, Warsh acknowledged that financial and credit conditions have tightened for some businesses and households following September's 25-bps rate hike, with investors becoming more selective in their capital allocation. However, he stressed that financial conditions are not broadly restrictive, suggesting that monetary policy is moving in a direction consistent with restoring price stability. Warsh also recognised AI-related investment as an important driver of economic growth but rejected the argument that it is insensitive to interest rates, pointing to increasing differentiation between safer and riskier AI companies in corporate bond markets as evidence that monetary policy transmission remains effective.

Warsh reiterated his opposition to forward guidance under normal economic conditions, arguing that it should be reserved for exceptional circumstances, such as financial crises. This approach reflects his preference for greater policy flexibility and reduced reliance on signalling future interest rate decisions.

As part of broader institutional reforms, Warsh announced changes to the FOMC's meeting structure aimed at strengthening long-term strategic deliberations. While the Committee will continue to meet eight times annually, one meeting in 2027 and two from 2028 will focus exclusively on broader monetary policy strategy, without rate decisions or policy statements. The changes will reduce the number of annual rate-setting meetings to seven in 2027 and six from 2028, reflecting Warsh's efforts to balance near-term policy decisions with longer-term strategic considerations and reform the Fed's communication practices.

- ✦ **ECONOMIC ASSESSMENT:** *The statement upgraded its assessment of economic activity from “solid” in September to “expanding at a strong pace,”* while remaining largely unchanged apart from the removal of a reference to September’s rate hike. The Fed’s preferred inflation gauge is expected to exceed 3% in September, even excluding food and energy, raising concerns that price pressures have spread beyond the energy sector. Headline inflation accelerated to 3.7% from 3.4%, driven by higher energy prices amid the Iran war, while core inflation rose to 2.6%, reinforcing expectations of further Fed tightening.

Meanwhile, low unemployment, resilient consumer spending and AI-related investment continue to support economic growth, with the Atlanta Fed’s GDPNow tracker projecting 3.4% annualized growth in Q3. The US economy grew by an upwardly revised 2.2% annualised in Q2 2026, supported by robust consumer spending and AI-related investment. This resilience has raised questions about whether current interest rates are sufficiently restrictive and whether further tightening will be necessary. Although markets anticipate additional rate hikes, Fed Chair Kevin Warsh has avoided providing explicit forward guidance, while the June dot plot indicated the likelihood of another increase this year.

During the press conference, Warsh emphasised that the Fed’s discussions focused primarily on price stability, citing relatively strong labour market conditions. He noted that unemployment has declined compared with a year ago, while the four-week average of unemployment insurance claims remains at its lowest level in generations.

- ✦ **OUR TAKE:** *After the pause in October, ahead of the mid-term elections, we expect the Fed to resume its tightening cycle in December* with another 25-bps increase in rates. Whether the cycle will continue into 2027 will depend on a variety of factors – political, geopolitical, macroeconomic – that cannot be fully anticipated today.
- ✦ **MARKET REACTION AND IMPLICATIONS:** *Equity Markets rose modestly following the Fed’s decision. In the fixed-income space,* the 10-year Treasury yield briefly rose to 5.04% before retreating to 5%, amid volatile trading as investors assessed Warsh’s remarks on anchored inflation expectations despite recent price pressures. The 2-year Treasury yield was 4 bps lower and at the time of the writing trades around 4.70%. *In the currency space,* the US Dollar Index fell sharply during Fed Chair Warsh’s press conference, dropping from above 102.40 to a session low near 102.05, before recovering slightly to around 102.10. *In the equity space,* US equities edged higher following the Fed’s rate decision, as investors awaited major technology earnings. The S&P 500 and Dow Jones gained 0.1%, while the Nasdaq remained broadly flat.



Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 75 King William Street, London EC4N 7BE, United Kingdom.

For information about Rosa&Roubini Associates, please send an email to info@rosa-roubini-associates.com or call +44 (0)20 7101 0718.

Analyst Certification: We, Brunello Rosa and Nato Balavadze, hereby certify that all the views expressed in this report reflect my personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates' business, nor by personal or client relationships. We also certify that no part of my compensation was, is or will be, directly or indirectly, related to the views expressed in this report.

Disclaimer: All material presented in this report is provided by Rosa & Roubini Associates Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the US SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates' written permission.