



FEDERAL RESERVE — SEPTEMBER 2026 RATE DECISION

Markets Rebound — Investors Absorb the Fed's First Hike Since 2023

The Federal Reserve raised rates for the first time since 2023 on Tuesday, lifting the federal funds rate to 3.75%–4.00%. After an initial sharp selloff Wednesday, markets rebounded decisively today — the Dow gained 242 points, the S&P 500 rose nearly 1%, and the Nasdaq climbed 1.39%. Here is our updated read as the dust begins to settle.

KEY TAKEAWAYS

- The Fed raised rates 25 basis points to 3.75%–4.00% — its first hike since 2023 — and signaled at least one more hike before year-end
- Chair Warsh was direct: "The plain fact is that inflation is too high and has been for too long"
- After Wednesday's 630-point Dow drop, markets rebounded today: Dow +242, S&P 500 +0.94%, Nasdaq +1.39% — much of the initial selloff has been recovered
- We are not making reactive changes — our portfolios were built for exactly this environment, and we see opportunity in the current dislocation

Market Snapshot — September 17, 2026 Close

Equity markets rebounded broadly today as investors digested the Fed's rate decision. All major indices closed higher, erasing much of Wednesday's losses. The VIX — Wall Street's fear gauge — fell nearly 11%, signaling that the initial shock has been absorbed.

S&P 500

7,623

▲ 71 pts (+0.94%)

DOW JONES

51,704

▲ 242 pts (+0.47%)

NASDAQ

26,339

▲ 361 pts (+1.39%)

10-YR TREASURY

~4.97%

▼ slightly off highs

CRUDE OIL (WTI)

\$100.68

▼ -1.71%

FED FUNDS TARGET

3.75-4%

↑ NEW RATE

What the Fed Did — and What They Said

The FOMC voted unanimously — 12 to 0 — to raise the federal funds rate by 25 basis points to a target range of 3.75%–4.00%. This is the Fed's first rate increase since 2023, ending a period in which it had paused and then begun cutting. The message from Chair Kevin Warsh was unambiguous.

"The plain fact is that inflation is too high and has been for too long."

— Fed Chair Kevin Warsh, FOMC Press Conference, September 16, 2026

Warsh acknowledged the economy's underlying strength — solid productivity, robust capital investment, and a labor market where job gains have largely kept pace with workforce growth — but made clear that none of it changes the Fed's singular focus on price stability. He added that the Committee "must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed," and that yesterday's decision reflected a judgment that this standard has not yet been met.

The updated dot plot was the more significant market mover. Of 18 FOMC members, 16 now project at least one additional 25-basis-point hike before year-end — most likely at the December meeting — bringing the projected year-end rate range to 4.10%–4.40%. The path down from there is expected to be slow and cautious, with the long-run neutral rate clustered around 3.0%. Markets had hoped for a more dovish signal; they did not get one.

What today tells us: The market's swift recovery is not a signal to become complacent — one more hike is still likely in December. But it does suggest that investors view this as a disciplined, finite tightening cycle rather than a runaway one. Falling oil prices today (−1.71%) added to the optimism, as cheaper energy directly eases one of the stickiest inflation inputs. President Trump reiterated his preference for rates near 1%, but expressed confidence in Chair Warsh — a signal that political pressure on the Fed, while present, is not escalating. The Fed has told us exactly what it is watching. So should we.

The Broader Economic Picture

The unusual feature of this moment is that the Fed is re-tightening into an economy that is, by most measures, performing well. The FOMC statement acknowledged that "economic activity is expanding at a solid pace" — and the data backs that up. Productivity growth is strong, business investment has held up, and employment remains healthy. This is not a crisis hike. It is a discipline hike.

The problem is inflation. After falling significantly from its 2022 peak, the downward trajectory has stalled. Core CPI and PCE remain above the Fed's 2% target, and the summer inflation readings — which gave the Fed its clearest recent picture — showed "limited improvement in underlying trends," as one analysis put it. Services inflation in particular, driven by wage growth and shelter costs, has proven resilient. Warsh and the Committee have decided they cannot tolerate the risk of inflation re-entrenching.

The 10-year Treasury yield closing at 5.00% is noteworthy. That level — not seen consistently since before the 2008 financial crisis — reflects the market's revised expectation that rates will stay higher for longer. A 5% risk-free rate raises the bar for every other investment, and its implications ripple across asset classes, from corporate debt to real estate valuations to equity multiples.

What This Means for Your Portfolio

Our investment philosophy at Monarch Capital Advisors rests on a principle that moments like yesterday test but ultimately validate: *portfolios built for a range of outcomes do not need to be rebuilt when one of those outcomes arrives*. We positioned for a higher-for-longer rate environment well before consensus caught up, and that positioning is serving our clients as intended.

Fixed Income — The 5% Treasury Is Your Friend

A 10-year Treasury yield at 5.00% is a generational opportunity for income-oriented investors. Short-duration investment-grade bonds are delivering real returns — after inflation — for the first time in over a decade. We maintain a preference for shorter- to intermediate-duration, high-quality fixed income, which captures this compelling yield without excessive exposure to further rate increases. We are not reaching for yield by taking on credit risk we don't believe is adequately compensated. Quality matters more in this environment, not less.

Equities — Discipline Over Reaction

Yesterday's selloff was concentrated in rate-sensitive sectors: energy fell more than 2.8% and financials dropped over 1.5%. The broader breadth was notably negative — roughly 60% of issues declined. In the near term, markets will continue to grapple with the uncertainty in the dot plot and what a potential December hike means for earnings multiples.

Our equity posture has not changed. We hold companies with durable pricing power, strong free cash flow, and manageable debt loads — businesses that earn their returns in today's environment rather than depending on a low-rate future. In a world where the risk-free rate is 5%, the bar for equity ownership rises. We believe the names we own clear that bar. Speculative and highly leveraged names do not, and we have little exposure to them.

Cash & Short-Term Instruments

With money market yields now comfortably above 4%, cash is no longer a return-free risk. We continue to hold strategic cash allocations that both earn real income and preserve optionality — giving us the flexibility to deploy into longer-duration assets or equities when the risk/reward improves. In the current environment, patience is a strategy.

The Dollar and International Exposure

The dollar's move to 100.28 — its highest level since July — reflects the interest rate differential between the U.S. and much of the rest of the world. A stronger dollar creates headwinds for U.S. multinationals and can weigh on emerging market assets. We are monitoring international exposure carefully and have limited unhedged currency risk in client portfolios.

Our Outlook

Our base case is that the Fed will execute one additional 25-basis-point hike at its December meeting, bringing the terminal rate to approximately 4.00%–4.25%, and then hold through the first half of 2027 as it waits for conclusive evidence that inflation is durably returning to target. The pace of any subsequent easing will be slower and more deliberate than the 2024–2025 cutting cycle — Chair Warsh has signaled as much.

The primary upside risk to our view is that inflation surprises to the downside over the next two months. A meaningful deceleration in September and October CPI data could take the December hike off the table and give markets significant relief. The primary downside risk is that services inflation proves more persistent, forcing the Fed to hike beyond December and keeping long-term rates elevated well into 2027.

NEAR-TERM (0-6 MONTHS)

Volatility is likely to persist as markets price in the December decision. We expect the 10-year Treasury to trade between 4.75% and 5.25%. Short-duration bonds and cash remain our highest-conviction positioning.

MEDIUM-TERM (6-18 MONTHS)

If inflation continues its descent, the second half of 2027 could see the beginning of a measured easing cycle. Quality equities should re-rate as rate anxiety peaks and earnings visibility improves. We will increase equity duration as the picture clarifies.

OUR POSITIONING

No reactive changes. Short-to-intermediate duration high-quality bonds, dividend-oriented equities with pricing power, strategic cash. We are watching for opportunities in longer-duration assets as the terminal rate becomes clearer.

A Word Directly to Our Clients

Wednesday's 630-point Dow drop commanded attention — and was quickly answered. Today's recovery, with the Dow gaining back 242 of those points and the Nasdaq fully reversing its losses, reflects something important: the market's fundamental thesis has not

broken. The selloff was driven by the repricing of rate expectations, not economic deterioration — a market recalibration, not a fundamental breakdown. One day does not make a trend, but the speed of the recovery is a meaningful data point.

The financial plan we have built together was designed to weather exactly these moments. We do not build portfolios for the good days; we build them for the hard ones. Our role is to stay disciplined when markets are not, to avoid the reactive decisions that destroy long-term value, and to ensure that volatility in your statement never becomes a threat to your financial security.

If this commentary raises any questions about your specific allocation, your timeline, or how your portfolio is positioned relative to what we have described here, please reach out. Those conversations are not an imposition — they are the work. We are always here.

Warmly,

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