SITUATION ANALYSIS

July 29, 2026

# Fed holds interest rates steady, reinforces commitment to its 2% inflation target

## Key takeaways

- The U.S. Federal Reserve (Fed) kept its policy interest rate at a range of 3.50%-3.75% citing somewhat tighter financial conditions through higher market-based rates.
- Kevin Warsh made no change to the previous, shortened Fed statement in his second meeting as Fed Chair, and reiterated the Fed's 2% inflation target and the importance of restoring Fed credibility after years above that target.
- Markets now price in high odds of a rate hike later in 2026 amid elevated inflation and energy prices.

The Federal Reserve held its target federal funds interest rate in the 3.50%-3.75% range at its July meeting, a decision investors generally expected. Nine members voted to leave the rate unchanged, while three members dissented, favoring a 0.25% hike. Ahead of the decision, investors expected a 35% chance of a rate increase. Elevated inflation, primarily stemming from higher energy prices, increased investor expectations for higher policy rates later this year. Investors now anticipate between one and two rate hikes by the end of 2026.

Fed Chair Kevin Warsh reinforced past comments relating to the Fed's role and shared insight into the decision to hold rates steady:

1) He reiterated the absolute nature of the Fed's 2% inflation target. In his comments, Warsh emphasized households, businesses and investors should not interpret the past five years of above-target inflation as Fed tolerance. He reiterated, "There is no soft implicit target. Not on this committee's watch. There's only a target and it's 2%."

2) He doubled down on the importance of the Fed's credibility. Warsh stated, "We have begun a new chapter, and we understand that the five-plus years of inflation above target cannot be cured in nine weeks or by a single month of modest price decreases. This Fed will not waiver. Our credibility rests on performing our duties and delivering on our responsibilities. Americans are right to expect that because our nation's prosperity depends on it."

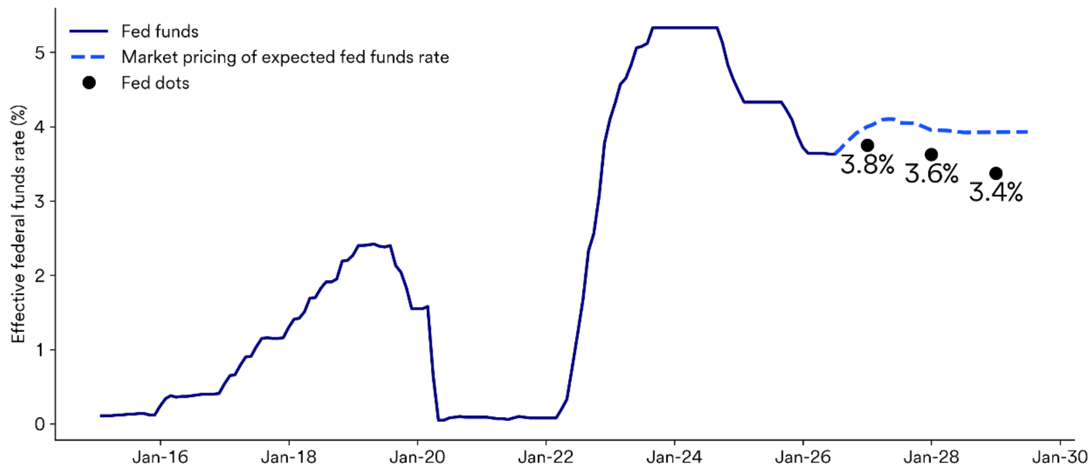
3) He highlighted tighter financial conditions as a reason for refraining from a hike at this meeting. Warsh noted higher nominal and real (net of inflation) interest rates already reflected a tightening of financial conditions by the market. Higher interest rates tend to dampen inflation pressures across the economy.

Fed interest rate increases from 2022-2023 helped mitigate inflation over the past four years, but higher oil costs are again escalating near-term prices. The Core Personal Consumption Expenditures (PCE) Price Index accelerated from 3.0% in December 2025 to 3.4% in May 2026. West Texas Intermediate crude oil front month futures prices rose from near $57 per barrel at the beginning of the year to a peak of $113 in April. Prices fell before rising back above $84 this week. Higher energy prices, from constrained global supplies, have stoked many inflation readings and complicated the Fed's outlook as it balances its mandates of maximum employment and price stability.

### Federal Reserve balance sheet and market liquidity

On the balance sheet, the Fed stopped shrinking its bond holdings in December. Those holdings stand near $6.6 trillion today after peaking near $9 trillion in 2022. The Fed began buying short-term Treasury bills in December 2025 to ensure ample banking system reserves and to keep short-term interest rates near their intended policy rate. The Fed recently announced it would reduce regular purchases. Expanding the balance sheet by purchasing Treasury bills results in improved market liquidity by absorbing a portion of incremental supply. Liquidity, the money readily available to purchase goods, services and financial assets, can also cushion markets against unforeseen financial market shocks, and liquidity measures remain constructive. Warsh has expressed reservations about its long-run efficacy and questioned its appropriateness as policy tool, forming a task force to explore the topic.

### Market pricing of the expected path of the federal funds rate

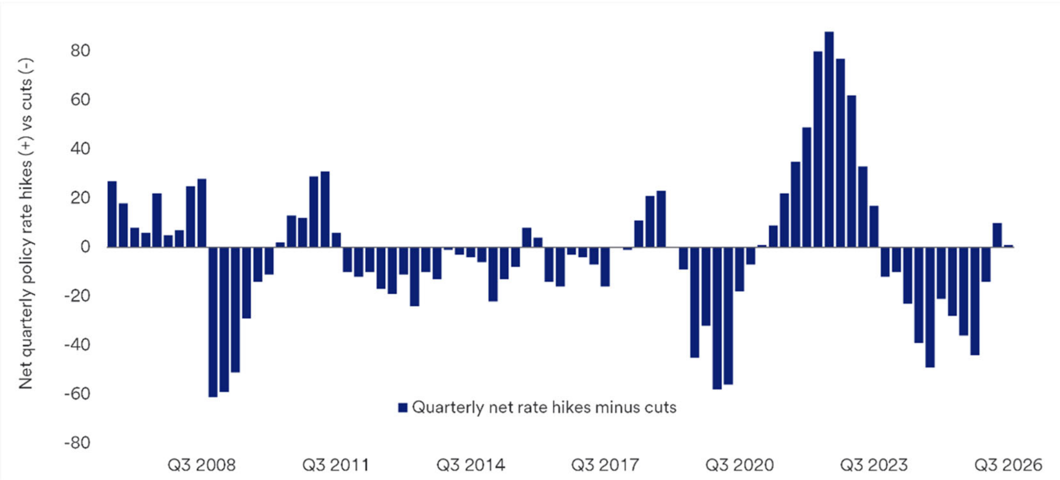



Sources: U.S. Bank Asset Management Group Research, Federal Reserve, Bloomberg, 1/1/2015-7/29/2026.

Two-year Treasury yields fell 0.02% to 4.27% today as investors removed the lingering possibility of a hike this week. However, 10-year Treasury yields rose 0.08% to 4.69% and 30-year yields rose 0.12% to 5.21%, the highest level since 2007; investors appear concerned inflation could remain persistent without tighter policy rates. Large stocks, represented by the S&P 500, fluctuated, eventually falling 1.5%, while small stocks fell 1.6%, represented by the Russell 2000 Index.

Globally, central banks eased policy in 2025, but many increased rates in response to recent energy price increases. The European Central Bank and Bank of Japan each increased rates so far this year, with the Bank of England and Bank of Canada expected to increase rates at some point this year.

### Global net central bank rate hikes (net hikes minus cuts), quarterly




Sources: U.S. Bank Asset Management Group Research, FactSet, 4/1/2006-7/29/2026.

## Maintaining a constructive outlook amid market uncertainty

We maintain a constructive outlook for diversified portfolios and see opportunities in growth-oriented allocations including U.S. stocks, global infrastructure and structured credit. While higher energy costs risk increasing inflation and dampening economic activity, consumer spending and corporate earnings growth remain resilient, with fiscal support in the form of lower corporate and individual taxes and recent tariff rebates. Diversified portfolios spanning a variety of allocations can help limit the impact of price swings on individual assets. We will keep you informed as new data arrives and as we update our assessment of market conditions.

As always, we value your trust and are here to help in any way we can. Please do not hesitate to let us know if we can help address your unique financial situation or be of assistance.