FLORIDA PRIME
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Weekly Commentary

SEPTEMBER 21, 2026

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The Fed rate path rises

During the vetting process for the successor to Federal Reserve Chair Jerome Powell that began nearly a year ago, few economists, investors and traders — not to mention political pundits — would have predicted the winner would preside over a rate hike early in their tenure. Political pressure was not the only reason. Many thought the US economy would slow down, the unemployment rate would rise and inflation would cool. Instead, all three have been steady, with positive GDP growth, solid employment levels and persistent inflation.

And so, in just the third Federal Open Market Committee (FOMC) meeting of his term, the Kevin Warsh Fed raised rates last week. The vote for the 25 basis-point increase was unanimous, meaning Chair Warsh himself felt it necessary.

As is always the case after FOMC rate action, eyes immediately turn to the next meeting. Is last week's policy shift the start of a true tightening cycle or a one-off meant to placate the markets? Chair Warsh has made it abundantly clear he dislikes providing "forward guidance." But his description of the hike as removing accommodation rather than restricting policy suggests at least one more increase is likely.