Institute for Statistical Policy Analysis

Fed Holds Rates Steady

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Topline: The Federal Reserve voted to hold rates steady at its October meeting.

The FOMC Statement

- By a 10-2 margin,[1] the Federal Open Market Committee (FOMC) voted to maintain the federal funds target range of 3.75% to 4.00%.
- This comes despite consumer prices (CPI-U) rising by 0.6% in September (up from 0.4% in August) and producer prices for final demand rising by 1.3% in September (up from 0.5% in August).
- The statement largely mirrored the language in the September statement, when the FOMC voted unanimously to raise rates by 25 basis points.
    - The FOMC stated that economic growth is strong,[2] productivity growth is strong, capital investment is robust, job gains are keeping pace with the workforce, and unemployment has remained mostly unchanged. However, they did emphasize elevated inflation and economic uncertainty stemming from geopolitical developments.
- This outcome tracked with CME's FedWatch prediction tool, which placed 93.36% odds on no rate change as of October 27.[3]
    - Prediction market Kalshi placed 94.1% odds on no rate change as of October 27.[4]
- The FOMC emphasized its focus on maintaining price stability, consistent with statements following the June, July, and September meetings. Such language was notably absent from all 2026 statements issued prior to Kevin Warsh becoming the new Fed Chairman in May.
- Projections concerning future economic conditions and rate changes were not made this cycle, consistent with the schedule of projection releases.

The Potential Fallout

- Following the rate hike in September, President Trump threatened to cut trade with countries with which the United States has a trade deficit if the Fed did not move to lower rates.

[1] The two dissenting votes were Lisa Cook and Beth Hammac, who voted to raise the target range by 25 basis points.
[2] The word "solid" was used in the statement following the September meeting.
[3] The tool placed 6.64% odds on a rate hike of 25 basis points.
[4] 6.5% odds were placed on a rate hike of 25 basis points and 1% odds were placed on rate cut of 25 basis points. Kalshi prices contracts separately, so the fact that these odds do not sum to 100% is not necessarily unexpected.

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    - Vice President Vance had also called for rate cuts prior to the September meeting.
- Given President Trump's moves to pressure the Fed into cutting rates, including his push to investigate Lisa Cook, this week's decision is unlikely to meet with his approval.
- It is possible that the decision to maintain rates was partly driven by the timing of the meeting relative to the midterm elections next week. Given the current heavy political focus on Fed actions, FOMC members may have felt that either raising or lowering rates right before an election could be perceived as political.
- The FedWatch odds of a rate hike of 25 basis points during the upcoming December FOMC meeting stand at 71.6% as of today,[5] while Kalshi places the odds of a rate hike before the end of the year at 100% as of today.

Bottomline: The Fed continues to acknowledge the issue of elevated inflation, despite the fact that rates were not raised this cycle. The two dissenting votes, future odds assessments, and the fact that prices increased more in September than in August make a rate increase in December likely.

[5] The tool places 28.4% odds on maintaining the current rate band.