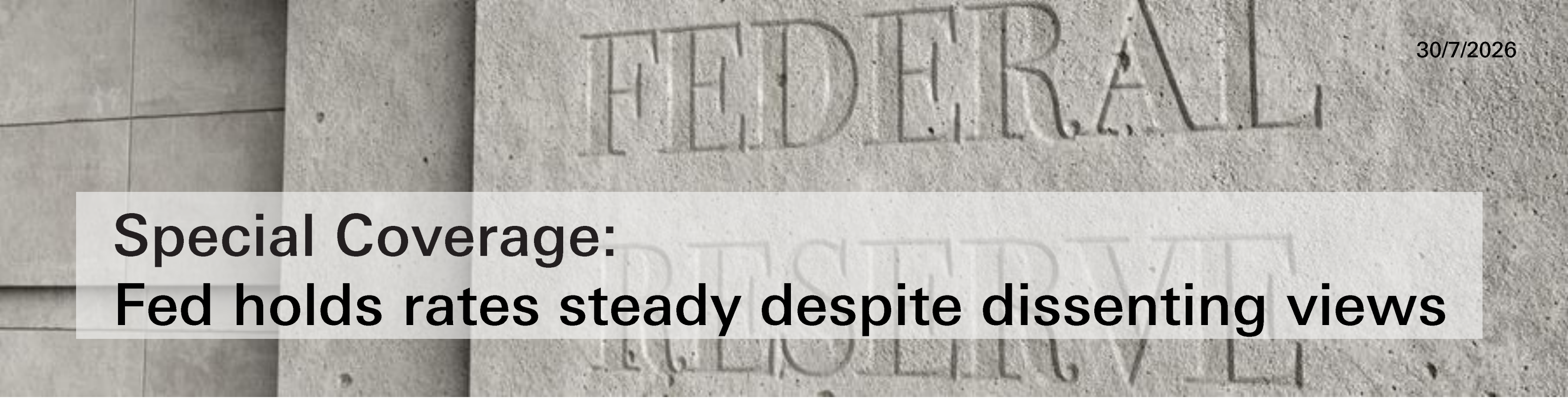


Special Coverage: Fed holds rates steady despite dissenting views

Key takeaways

- The US Fed Reserve left interest rates unchanged for a fifth consecutive meeting, in line with expectations, but the 9-3 vote revealed a lively debate within the FOMC. Despite the dissents, our base case remains for the FOMC to maintain the federal funds target range at 3.50%-3.75% through both 2026 and 2027 as we believe core PCE inflation will remain stable.
- Fed Chair Kevin Warsh delivered a constructive assessment of the US economy, highlighting resilient growth, a balanced labour market and accelerating AI-driven investment, while reiterating the Fed's unwavering commitment to returning inflation to its 2% target.
- We remain overweight on US equities, supported by resilient economic growth, broadening earnings and continued AI leadership, and continue to emphasise diversification across the AI ecosystem. We also expect policy uncertainty and evolving trade developments to create opportunities for active portfolio positioning. In fixed income, we maintain a neutral duration stance and favour high-quality investment grade credit to capture attractive yields and coupon income. We remain positive on the US dollar, supported by resilient US economic fundamentals and relatively attractive interest rate differentials.

Jose Rasco
Chief Investment Officer, Americas, HSBC Private Bank and Premier Wealth

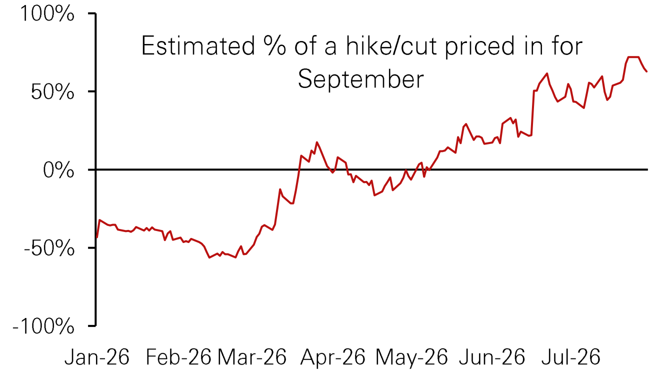
Michael Zervos
Investment Strategist, HSBC Private Bank and Premier Wealth

What happened?

- As widely expected, the FOMC left the federal funds target range unchanged at 3.50%-3.75%, marking the fifth consecutive meeting without a policy rate change.
- The decision was approved by a 9-3 vote, compared with a unanimous 12-0 vote at the June meeting. Cleveland Fed President Beth Hammack, Minneapolis Fed President Neel Kashkari and Dallas Fed President Lorie Logan dissented, preferring a 0.25% increase in the federal funds rate.
- The three dissents highlight growing differences within the Committee over the appropriate policy path amid resilient economic growth and still-elevated inflation. It was the first meeting since 2016 to feature three dissents in favour of tighter monetary policy.
- As expected, no updated Summary of Economic Projections (SEP) or dot plot was released at the July meeting. The June projections therefore remain the Fed's latest economic and interest rate forecasts, with the next update scheduled for the September meeting.
- Fed Chair Kevin Warsh delivered a firm message on inflation, stressing that there's no soft or implicit target above 2%. More than five years of above-target inflation can't be reversed by one favourable report, and the Fed remains committed to delivering price stability.
- He reiterated that the Fed is deliberately reducing forward guidance, so markets respond more directly to economic developments. Since June, nominal and real Treasury yields have risen materially.

- He also highlighted the strength of business investment, particularly AI-related spending on high-tech equipment and software, which has grown at nearly a 20% four-quarter pace. This is supporting manufacturing and "preparing the ground for future growth," although the timing and scale of the supply-side benefits remain uncertain.
- Committee discussions focused on the lasting effects of elevated inflation; the economic impact of supply, geopolitical, tariff and AI-related shocks; whether related price increases are broadening; and the appropriate use of interest rates and the balance sheet.

Markets have priced a 60% chance of a rate hike at September's FOMC meeting



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 29 July 2026. Forecasts are subject to change.

- Chair Warsh gave no explicit guidance for September. He indicated that rising underlying inflation would strengthen the case for tightening, while sustained inflation improvement would provide greater scope to ease. He avoided providing a clear roadmap for future policy, leaving markets uncertain about what combination of inflation and economic data would ultimately lead the Fed to raise rates again.
- Market pricing, including expectations for a September hike, will inform but not dictate the Committee's decision. The Fed is also assessing whether its balance sheet continues to provide accommodation, although the policy rate remains its primary tool.

Investment implications

- Despite the more hawkish debate within the Committee and elevated policy uncertainty, our base case continues to be one of resilient US economic growth, no further Fed rate hikes through 2027, and continued broadening in corporate earnings. We therefore remain positive on US risk assets while emphasising diversification and maintaining a selective approach across asset classes.
- We continue to favour US equities, supported by resilient economic growth, broadening earnings, strong corporate balance sheets and continued leadership in AI, cloud infrastructure and productivity-enhancing investment. Earnings growth remains in the double digits and is accelerating through 2027, while becoming less concentrated among the largest technology companies, providing broader market support.
- In fixed income, persistent inflation uncertainty, evolving US trade policy and geopolitical risks support our neutral duration stance across major developed markets. We continue to favour high-quality investment grade credit, where attractive yields, resilient investor demand and coupon income remain supportive of total returns.
- We also continue to emphasise diversification across the AI ecosystem and beyond. While near-term market leadership may continue to rotate among AI-related industries and other sectors, we believe the long-term structural AI theme remains intact. At the same time, ongoing trade policy developments and geopolitical uncertainty reinforce the value of maintaining diversified exposure across sectors and high-quality assets.
- We also remain positive on the US dollar. While recent Fed communication and rate policy uncertainty have weighed on the currency, we expect resilient US economic fundamentals and the Fed's commitment to returning inflation to its 2% objective to support a recovery over the medium term.

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