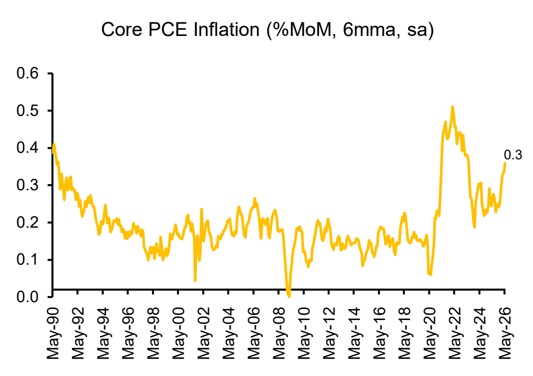
FOMC Meeting Review – Hold, But Barely

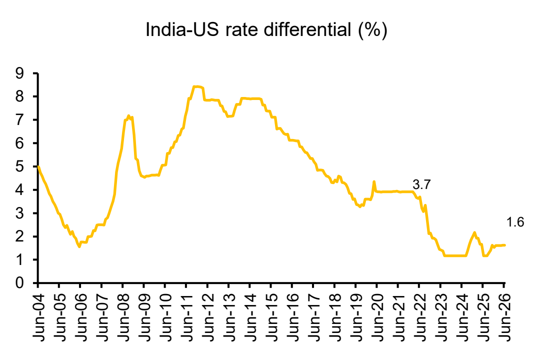
July 30, 2026

Sharp rise in the Core PCE momentum indicating surging inflation



Source: FRED, Choice Institutional Equities

Gap between India policy rates and the US Effective Federal Funds Rates is on the lower end



Source: CMIE, FRED, Choice Institutional Equities

Sharp equity sell-off reflects markets' disappointment after expecting a more dovish response to Trump's easing calls.

Gap between Trump pressure for cuts and Fed's hawkish tilt is set to raise volatility.

Hawkish Fed hold narrows RBI's room to ease.

US–India rate differential risks compressing further, adding pressure on the currency.

Case building for start of RBI tightening cycle; probability of a rate hike toward end-2026 rising.

Purvi Mundhra
Email: purvi.mundhra@choiceindia.com
Ph: +91 22 6707 9241

Key Takeaways

- Fed held rates steady at 3.50%–3.75% on a rare 9-3 vote, signalling the easing cycle has likely ended.
- Headline Personal Consumption Expenditure (PCE) hit 4.1% and core PCE 3.4% in May, highest in years and broadening beyond energy.
- Hawkish Fed hold narrows RBI's room to ease; US–India rate differential risks compressing further, pressuring the rupee.
- Higher-for-longer Fed + firm dollar + Middle East oil risks elevate India's imported inflation.
- Case building for start of RBI tightening cycle; probability of a rate hike toward end-2026 is rising.

FOMC decision: Rates steady with rising dissent

The Fed held its benchmark rate steady at 3.50%–3.75% on a 9-3 vote. This is a notably contentious outcome by recent Fed standards; three dissents in favour of tightening are rare.

The economic assessment was largely unchanged from the June meeting. Activity was described as "expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East," while job growth has kept pace with a labour force that has itself contracted. As at the previous meeting, Fed Chair Warsh deliberately refrained from offering any forward guidance.

Rate-hike conviction is building

Taken as a policy outcome, this was a "hold, but barely." The 9-3 vote signals genuine internal disagreement rather than consensus caution. A three-member hawkish dissent is unusual; it typically occurs only when inflation data are running uncomfortably hot, or the Committee fears falling behind the curve. Combined with the June dot plot's upward revision (a hike now pencilled in for 2026, versus none previously), the overall message is that the Fed's easing cycle from late 2025 has likely ended and the debate has shifted to when the next hike will be delivered.

The market's sharp equity sell-off after a hold decision is telling. It suggests investors had expected a more dovish stance following President Trump's calls for rate easing. The gap between expectations that Trump would pressure the Fed toward easing and Fed officials' signals of a possible rate hike is likely to increase volatility in the coming months.

The Fed's preferred inflation gauge has been moving unambiguously in the wrong direction. Headline PCE inflation accelerated for a third consecutive month in May 2026, reaching 4.1% YoY (+0.4% MoM), up from 3.8% in April, the highest reading since April 2023. Core PCE rose to 3.4% (+0.3% MoM), its highest level since October 2023. That is the critical tell: this is not just an energy story. Even excluding energy, core inflation continued to climb in May, signalling that the broadening of price pressures first seen in April persisted rather than faded.

The yield-curve move (long end higher, short end slightly lower) reinforces the pattern that "the Fed is more worried about inflation than growth right now".

RBI's narrowing room to manoeuvre

The Fed's hawkish hold narrows the RBI's scope to ease further. The RBI has already held its repo rate steady at 5.25%, maintaining a neutral stance amid a weakening rupee. With the Fed signalling that a hike, not a cut, is now the more likely next move, the US–India rate differential risks compressing further if the RBI were to hold rates steady. This adds fresh pressure on an already weakening currency.

Risks from imported inflation are also strengthening. June's headline CPI already edged higher on food and fuel, and the RBI has flagged elevated oil prices and an uneven monsoon as risks to the outlook. A Fed that stays higher-for-longer keeps the dollar firm and crude prices sensitive to Middle East escalation, both channels that push Indian imported inflation higher. This increasingly builds the case for the start of an RBI tightening cycle and raises the probability of a rate hike toward the end of 2026.

For India's yield curve, upward pressure across the curve can be expected, with the move likely more pronounced at the long end, mirroring the US pattern.

Institutional Research Team			
Utsav Verma, CFA	Head of Institutional Research, India Equity Strategy and SMIDs	utsav.verma@choiceindia.com	+91 22 6707 9440
Purvi Mundhra	Economist	purvi.mundhra@choiceindia.com	+91 22 6707 9241
Ambrish Shah	Analyst - Power	ambrish.shah@choiceindia.com	+91 22 6707 9251
Ashutosh Murarka	Analyst – Building Materials	ashutosh.murarka@choiceindia.com	+91 22 6707 9521
Bhavik Shah, CFA	Analyst – Metals & Mining	Bhavik.shah@choiceindia.com	+91 22 6707 9521
Deepika Murarka	Analyst – Healthcare	deepika.murarka@choiceindia.com	+91 22 6707 9513
Dhaval Popat	Analyst – Energy	dhaval.popat@choiceindia.com	+91 22 6707 9949
Fenil Brahmbhatt	Analyst – Realty & Building Materials	fenil.brahmbhatt@choiceindia.com	+91 22 6707 9930
Ishank Gupta	Analyst – NBFCs	ishank.gupta@choiceindia.com	+91 22 6707 9827
Karan Kamdar	Analyst – Consumer Discretionary, SMIDs	karan.kamdar@choiceindia.com	+91 22 6707 9451
Kunal Bajaj	Analyst – Technology	kunal.bajaj@choiceindia.com	+91 22 6707 9901
Maitri Sheth	Analyst – Pharmaceuticals	maitri.sheth@choiceindia.com	+91 22 6707 9511
Putta Ravi Kumar	Analyst – Defence	ravi.putta@choiceindia.com	+91 22 6707 9908
Preeyam Tolia	Analyst – FMCG & Retail	preeyam.tolia@choiceindia.com	+91 22 6707 9987
Vijiya Rao	Analyst – AMC & Insurance	vijiya.rao@choiceindia.com	+91 22 6707 9531
Aayush Saboo	Sr. Associate– Realty	aayush.saboo@choiceindia.com	+91 22 6707 9930
Avi Jhaveri	Sr. Associate – Technology	avi.jhaveri@choiceindia.com	+91 22 6707 9901
Bharat Kumar Kudikyala	Sr. Associate – Building Materials	bharat.kudikyala@choiceindia.com	+91 22 6707 9930
Samarth Goel	Sr. Associate– Small and Midcaps	samarth.goel@choiceindia.com	+91 22 6707 9451
Subhash Gate	Sr. Associate – Autos	subhash.gate@choiceindia.com	+91 22 6707 9233
Heer Gogri	Associate – Small and Midcaps	heer.gogri@choiceindia.com	+91 22 6707 9433
Heet Chheda	Associate – Autos	heet.chheda@choiceindia.com	+91 22 6707 9233
Rushil Katiyar	Associate – Technology	rushil.katiyar@choiceindia.com	+91 22 6707 9901
Shreya Mehra	Associate – Technology	shreya.mehra@choiceindia.com	+91 22 6707 9535
Stuti Bagadia	Associate – Pharmaceuticals	stuti.bagadia@choiceindia.com	+91 22 6707 9511
Vinay Rawal	Associate – Small and Midcaps	vinay.rawal@choiceindia.com	+91 22 6707 9433

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PURVI MUNDHRA

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