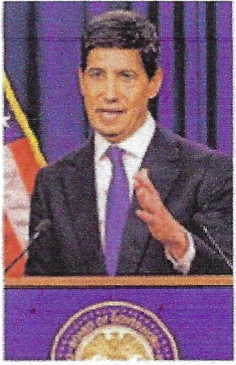


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Fed Chairman Kevin Warsh GENT SHKULLAKU/ ZUMA PRESS

Fed Delivers First Rate Hike in 3 Years

After a unanimous vote, most officials pencil in one more increase in 2026

BY NICK TIMIRAOS

WASHINGTON—The Federal Reserve raised interest rates Wednesday for the first time in three years, a sharp reversal that began taking back cuts it made last year and implicitly undercut the White House's insistence that inflation isn't a concern.

The increase, approved unanimously, will raise the benchmark federal-funds rate range by a quarter point to between 3.75% and 4%. The vast majority of officials penciled in one more increase this year in interest-rate projections released after their meeting.

Chairman Kevin Warsh vowed shortly after taking office in May to end an overshoot of the Fed's 2% target now in its sixth year and followed through with an increase that had been widely anticipated in recent days.

"Today's action starts to show that we're serious about this," Warsh said at a news conference. The Fed's policy statement said its action would support a "timelier" return to the inflation goal.

The rate increase scrambled an account the White House had offered of the man tapped by President Trump for the job in January. Trump and his allies had cast pressure to raise rates as coming from a committee hostile to Warsh, who last year said he would have cut rates sooner than the Fed ultimately did.

It also followed a lost year in the Fed's inflation fight. The central bank has made no progress toward its 2% goal since mid-2025, including after cutting rates three times late last year to guard against a labor market slowdown. Instead, the Iran war has lifted energy prices, and the AI boom has driven an investment surge that has buoyed the economy and markets.

Analysts had said that despite intense focus of late on monthly inflation data, the biggest change to the outlook has come from a run-up in energy and commodity prices.

"It's the fact that the war in Iran has re-intensified and the energy price shock is getting bigger again," said William Dudley, the former New York Fed president.

Diesel prices have climbed toward record highs, worsened by a refining bottleneck that Ukrainian strikes on Russian energy infrastructure have deepened. Crude around \$100 a barrel understates what businesses are actually paying: Diesel is behaving as though oil were at \$200, said Dudley. Costs are working into shipping

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and airfares, and the effects look likely to last longer than officials expected.

As energy prices have climbed, so have long-term Treasury yields, with the 10-year note on Wednesday settling above 5% for the first time since 2007. Investors have attributed the rise to a mix of forces: higher expected growth from the AI build-out, competition for capital from data-center borrowing, and questions over how high the Fed will have to raise rates to get inflation down.

Stock prices fell, with the Dow Jones Industrial Average closing down more than 630 points. The S&P 500 was down 0.4%, and the Nasdaq composite edged barely lower.

Trump, in a social-media post Wednesday after the rate hike, said that rates in the U.S. should be "1%, or less."

The Fed's benchmark rate most directly affects short-term borrowing such as credit cards and new loans for autos, which reprice quickly. The costs that matter most to many households and businesses—including mortgage rates—track longer-term Treasury yields, and those have risen as investors expect future rate increases.

The 30-year mortgage rate climbed to nearly 7% last week, the highest in nearly a year, according to a survey by the Mortgage Bankers Association released Wednesday. It stood at 6% in February, before the U.S. campaign in Iran began.

Wednesday's decision leaves open what exactly will follow. The Fed rarely makes just one adjustment after it concludes a turn toward raising or lowering rates is warranted, because a quarter-point higher or lower doesn't do much on its own to change borrowing conditions.

In new projections, 16 of 18 meeting participants penciled in at least one more increase this year, which would take rates to just above 4%. Only four penciled in rates ending next year below that level.

Warsh offered a narrow description of what the increase was meant to do. "We removed a dose of accommodation so that financial and credit conditions would be more consistent with our ultimate objectives," he said.

The phrasing ordinarily would suggest officials view policy as still easy even after Wednesday's move. Warsh dismissed that interpretation when asked where rates stand relative to an unobservable setting that economists think neither spurs nor slows growth. He said the academic idea didn't translate well into the "decisions that we make today." A Fed raising short-term rates into a bond market already pricing higher inflation reflects how far the fight has moved from where officials expected it to be.

Officials ended a sprint to lift rates to a two-decade high in 2023. They began cutting in 2024 as price growth slowed, paused early last year as tariffs threatened to push inflation back up, then resumed reductions last fall. Last year's cuts were insurance against a labor-market slump that never arrived. The unemployment rate has drifted down to 4.1%, and hiring has exceeded the pace needed to absorb new workers.

Because inflation stayed higher than officials expected, the inflation-adjusted or "real" policy rate is lower now than when they cut. "Having inflation high and real interest rates very low for a sustained period seems like a bad idea," said William English, a former senior Fed official now at Yale.

The textbook response to a supply shock is to look through it on the theory that it passes before higher rates take effect. The Fed has faced at least two such shocks over the past two years, from tariffs and higher energy prices from the Iran war. The AI build-out, meanwhile, is adding demand faster than supply can meet it.

The case for waiting rests on recent data. Economists at Goldman Sachs say the economic case for raising rates is weak. Underlying price growth over the last three months is lower than the three months before that, and much of the overshoot traces to one-off factors rather than an overheating economy.

The counterargument is that the case for waiting depends on assumptions that aren't holding up. Energy prices were expected to have receded by now. A softening job market was supposed to take pressure off wages and prices. Instead, hiring has steadied and some economists think more employers will soon have to compete harder for workers, which could stoke cost pressures. Officials who want to move say the question isn't what the last three months showed, but what would give confidence that price growth will be muted in six months.

Warsh raised rates at his third meeting as chairman after having suggested one year ago that the Fed was too slow to cut. At his first press conference, in June, Warsh cast the Fed's inflation record as a credibility problem that he would fix.

But he said little at his first two meetings about how he read the economy or what would move him. Warsh has argued for years that narrating the Fed's outlook ties its hands. Investors were left to infer his views, and the guesses ranged from a chair who would delay hikes as long as possible to one who was ready to raise rates.

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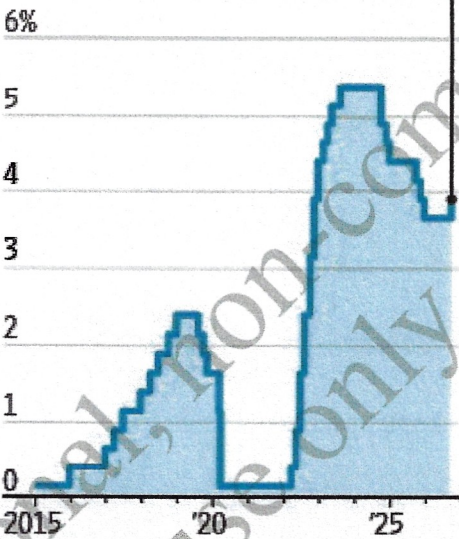
Fed's increase, in percentage points, in the federal-funds rate Wednesday

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Federal-funds rate target
Wednesday:
Quarter-point increase



Note: Chart shows midpoint of target range.
Source: Federal Reserve

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My dear Mr. [Name]
[Faint text]

[Extremely faint, illegible body text consisting of several paragraphs]

Rate hiked for first time since 2023

Central bank also signaled that another rise could occur this year

Translate

By Christopher Rugaber
The Associated Press

WASHINGTON>> The Federal Reserve raised its benchmark interest rate Wednesday for the first time since 2023 to fight stubbornly high inflation, and the central bank also signaled that another rate hike could occur this year

The quarter-point increase lifts the Fed's key rate to about 3.9% and, over time, could result in higher borrowing costs for mortgages, auto loans and credit cards. In a set of quarterly projections, the Fed also signaled that its rate-setting committee expects to hike rates a second time this year to 4.1%

The move comes as Americans are struggling with high costs for groceries, gas and housing. Affordability has taken on a leading role in the upcoming midterm elections, just seven weeks away.

It adds another potentially dicey economic variable for Republicans and President Donald Trump, who blasted the decision Wednesday and accused the Fed's top policymakers of trying to hurt him politically.

Chair Kevin Warsh, who was nominated by Trump, emphasized after the announcement that the economy has shown signs of gathering speed since the central bank decided to keep rates unchanged in late July. Inflation has also remained stubbornly above the Fed's 2% target, and he noted there is little sign it is cooling. "The plain fact is that inflation is too high and has been for too long," Warsh said. "We must be confident that underlying inflation is moving to our objective clearly and at sufficient speed. Today the FOMC decided that this standard has not been satisfied," he added, referring to the policy-setting Federal Open Market Committee, an arm of the Fed.

"Warsh's tough talk around inflation in the post-meeting press conference suggested that he may be pushing for higher rates in meetings to come," said Preston Caldwell, chief U.S. economist at Morningstar.

Warsh also said renewed combat between the U.S. and Iran, which has driven up gas prices, also convinced Fed officials to support rate hikes.

"There's no hiding from hot spots around the world," he said.

Trump, speaking to reporters in North Carolina ahead of a midterm campaign rally, made no mention of his policies that influenced the decision, instead framing the historically independent Fed as another political actor in Washington.

"The board is very hostile. They're very political. They're doing the wrong thing. They're a bunch of politicians," he said, adding, "They're raising rates to make Trump do as bad as they can possibly do."

Warsh noted that other central banks are hiking interest rates, in response to global turmoil and higher gas prices. The European Central Bank raised its key rate last week, and the Bank of Japan is expected to do the same Friday.

The Fed next meets in late October, and most economists expect officials will keep rates unchanged then because it is just a week before the midterm elections. But Wall Street analysts now see a rate hike by December as a near certainty, according to futures prices.

Also late Wednesday, the yield, or interest rate, on the two-year Treasury rose to 4.74% from 4.67%, another sign investors expect the Fed may lift rates further.

Since taking the helm in May, Warsh has said the Fed is firmly committed to taming inflation and that policymakers would take their cues from the data to determine if inflation was going in the right direction.

The rate hike marks a turnaround for Warsh. He often suggested last year when under consideration by Trump that the Fed could reduce its key rate, echoing the president's call for lower borrowing costs.

And in April, when Warsh's nomination was under consideration by the Senate Banking Committee, Trump said in a television interview that he would be disappointed if Warsh didn't cut rates. On the same day, however, Warsh told the committee he did not promise Trump he would cut rates and said he would be "an independent actor" as Fed chairman.

Trump said in North Carolina that he had talked to Warsh ahead of the vote and told him, "You might as well vote with the board because it's not going to matter."

The ongoing disruptions from the Iran war, which have pushed up average gas prices more than 7% from just a month ago, threaten to spread through the economy and keep broader inflation stubbornly high. An inflation report last week showed core prices, which exclude food and energy, accelerated a bit in August.

According to the Fed's preferred measure, inflation was 3.7% in July compared with a year ago, up from 2.3% in April 2025, just before Trump unveiled sweeping tariffs. Core inflation, which excludes the volatile food and energy categories, was 3.3% in July, the latest data available, up from 3% just before the Iran war and far above the Fed's target.

Fed policymakers unanimously supported the rate hike, compared with late July, when the central bank kept rates steady and three officials dissented in favor of higher rates. Sixteen of the 18 Fed policymakers who submitted growth and interest rate projections penciled in at least one further rate hike this year, with four supporting two more increases.

Earlier Wednesday the government said retail sales jumped 1.2% in August from the previous month, a sign that consumers still are spending at healthy levels despite sentiment surveys that indicate Americans remain gloomy about the economy. Strong spending is a sign that interest rates at current levels aren't necessarily restricting the economy and cooling inflation.

"While uncertainty remains elevated owing, in part, to geopolitical developments, domestic spending has been resilient," the Fed said, a likely reference to ongoing consumer spending and strong investment in AI data centers by large technology companies.

Higher inflation isn't all about gas prices. Ongoing investment in AI has driven up prices for computer chips and other electronic gear, adding to overall inflation. Tariffs still may be elevating some costs, such as appliances, which jumped in price last month.

Trump harshly criticized Warsh's predecessor, Jerome Powell, for not cutting rates quickly enough. His Justice Department even launched a criminal investigation into Powell over brief testimony he delivered to Congress last year, although that probe eventually was dropped.