



Traders worked on the floor of the New York Stock Exchange on Wednesday. JEENAH MOON/ REUTERS

Markets Slump As Warsh Warns on Inflation

BY HANNAH ERIN LANG AND SAM GOLDFARB

Federal Reserve Chairman Kevin Warsh made it clear that inflation is still a problem. Wall Street was left wondering how far the Fed will go to address it.

Stocks slumped and the 10-year Treasury yield settled above 5% for the first time since July 2007 after Warsh struck a decidedly hawkish tone in remarks following the central bank's decision to raise interest rates for the first time in three years. *Note*

"Inflation is too high and has been for too long," Warsh said in remarks to reporters on Wednesday afternoon. He later added: "Today's action starts to show that we're serious about this."

At first, markets greeted the Fed's rate hike with relief; President Trump had argued rates

were already too high, and investors had worried that Warsh would hesitate to tackle price increases head-on. But soon after the new Fed chairman took to the podium Wednesday, stocks fell and the 10-year Treasury yield ticked up above 5% again.

"We have to be prepared that we are in a rate hiking cycle," said Mike O'Rourke, chief market strategist at JonesTrading. "You have uncertainty over the foreseeable future that warrants people being a little bit more defensive."

All three major U.S. stock indexes fell for the seventh time in the past eight sessions. The Dow Jones Industrial Average declined 1.2%, or 631 points. The S&P 500 fell around 0.4%, while the Nasdaq composite fell fractionally. The benchmarks were facing steeper declines before rebounding ahead of the close.

The Trump administration expressed its disappointment.

"Look, I think the president has been abundantly clear...on where he wanted interest rates to go," White House spokesman Kush Desai said during an interview on Fox News. "And certainly, today's rather unfortunate decision by the Federal Reserve to raise interest rates wasn't, from the administration's point of view, backed by a particularly compelling economic case."

In recent days, Wall Street came to see an interest-rate increase from the central bank as a near certainty. Investors were pricing in a 90% chance of an increase on Wednesday morning, and analysts warned of a sharp bond selloff if policymakers failed to deliver one.

Instead, the decision came in as expected—and a negative reaction took shape anyway. Markets responded as they often do when the Fed raises rates and signals inflation remains a concern: Yields rose and stocks fell. Note

At the start of 2026, many investors were banking on rate cuts. Then, the war in Iran scrambled inflation forecasts and jacked up fuel costs across the globe. Solid economic growth and the inexhaustible artificial-intelligence investing boom added to upward pressure on prices.

And over the past few months, an intensifying bond rout has placed even more pressure on Warsh and the Fed. Even an intervention from Treasury Secretary Scott Bessent proved insufficient in bringing down bond yields. Note

Earlier this week, the yield on 10-year Treasuries touched a new 19-year high, climbing above 5% for the first time since it got there during a single session in 2023. Rising yields also put pressure on stock prices, in part by lifting borrowing costs across the economy.

Treasury yields, which rise when bond prices fall, largely reflect investors' expectations for short-term rates set by the Fed. Early Wednesday, they fell along with oil prices, which have been playing a critical role in shaping investors' inflation outlook.

The 10-year yield initially didn't change much after the Fed's decision, but that changed as Warsh started speaking.

The yield was 5.020% in late afternoon trading, according to Tradeweb, up from 4.995% Tuesday. Brent crude, the international benchmark, still fell 2.7% to \$105.83 a barrel.

Some analysts said that Warsh's commitment to fighting inflation still left bonds in a better position than if he had shown less resolve.

"I think the market is content with this, and it shows the Fed has a credible resolve to bring inflation down to 2%," said Will Compennolle, macro strategist at FHN Financial.

Yields, Compennolle added, had stayed "within pretty narrow ranges all things considered."

But Wednesday's decision also turned traders' attention to the possibility of additional rate hikes at the Fed's meetings in October and December. Interest-rate futures showed a nearly 90% chance that the Fed will lift rates at least once more by the end of the year.

"Most people are bracing for further hikes," said Ben Emons, chief investment officer at Fed-Watch Advisors. "It's never really a one-and-done."

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U.S. stocks slip after Fed hikes interest rates

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By Stan Choe
The Associated Press

NEW YORK>> U.S. stocks slipped Wednesday after the Federal Reserve hiked its main interest rate for the first time in three years and suggested more may be ahead as it tries to get the nation's high inflation under control.

The S&P 500 fell 0.4% after giving up a modest gain from earlier in the day. The Dow Jones Industrial Average dropped 631 points, or 1.2%, and the Nasdaq composite was nearly unchanged after edging down by less than 0.1%.

Investors generally prefer lower interest rates because higher rates slow the economy's growth and undercut prices for stocks and other investments.

The U.S. stock market initially held onto its modest, early gains after the Fed announced its decision. The short-term pain of a slower economy may be worth it if it starves inflation of its fuel and gets further increases for the cost of living back to the Fed's 2% target.

But stock prices weakened later in the day as Fed Chairman Kevin Warsh said repeatedly in a press conference that inflation remains too high and the U.S. economy appears to be strengthening. That could imply the economy is solid enough to withstand more hikes to rates, and other officials at the Fed provided their own forecasts suggesting rates may need to go still higher.

The median Fed official expects the federal funds rate to end this year at 4.1%, according to forecasts published after the central bank's meeting. That's up from its current range of 3.75% to 4% following Wednesday's increase, and it's up from the median forecast of 3.8% that Fed officials gave three months ago.

Traders, meanwhile, suspect the Fed may go even further. They're betting on a 38% probability the Fed could hike the federal funds rate to a range of 4.25% to 4.50% by the end of the year, according to data from CME Group.

"Our decision comes at a time when the American economy appears to be strengthening," Fed Chairman Kevin Warsh said in his press conference.

He pointed to solid U.S. hiring trends, corporate profits and investments by businesses. A report on Wednesday morning, meanwhile, showed shoppers spent much more at U.S. retailers last month than economists expected.

"The plain fact is that inflation is too high and has been for too long," Warsh said. He later added, "Today's action starts to show we're serious about this."

