RCK ANALYTICS

MACROMATRIX

Rates, Reconsidered

Fed Holds Rates as Growth Slows, Inflation Cools

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Executive Overview

> ***The Fed held rates 9-3 with three dissents, only to see core inflation cool, GDP growth slow to 1.5%, and jobless claims rebound, all within 24 hours of its decision.***

Four releases between July 29 and July 30, 2026 gave the Federal Reserve a genuinely difficult setup, arriving just after its most consequential decision of the year.

On July 29, the FOMC voted 9-3 to hold rates at 3.50%-3.75%, with three officials dissenting in favor of a hike, in Chair Kevin Warsh's first meeting at the helm. Markets sold off immediately, with the Dow falling over 840 points intraday.

Less than a day later, core PCE, the Fed's preferred inflation gauge, showed June inflation cooling to 0.1% month-over-month from 0.3% in May, though the annual rate held at 3.3%, still well above target.

The same morning, second-quarter GDP came in at 1.5% annualized, down sharply from 2.1% in Q1. Jobless claims, meanwhile, rose to 197,000 for the week ended July 25, partially unwinding the prior week's 57-year low.

Together, the data shows an economy slowing on growth, cooling but not resolved on inflation, and still tight on labor, a combination the Fed will now have to reconcile without the benefit of having seen most of it before its July 29 vote.

Fed Holds, Three Dissent

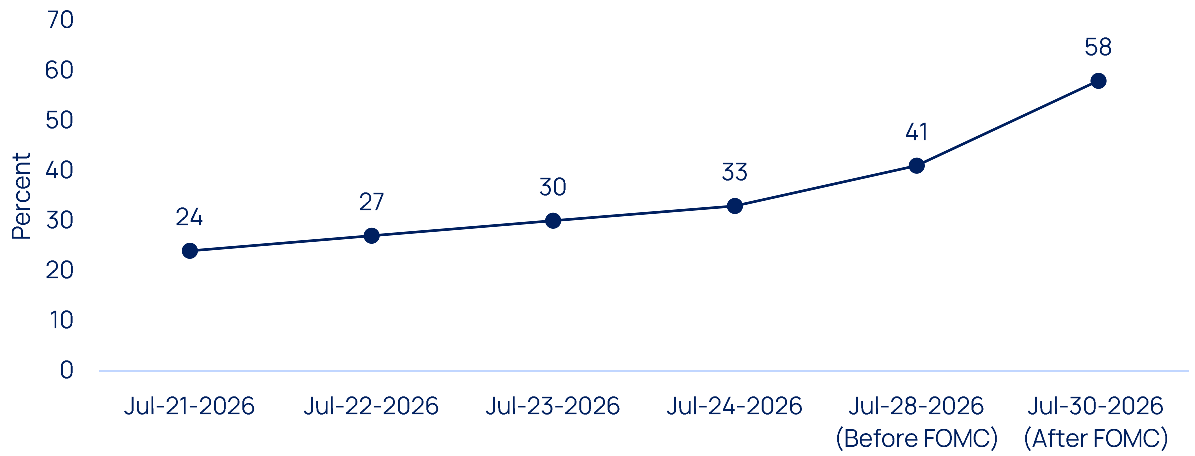
The Federal Reserve held rates 9-3, with three officials dissenting toward a hike in Chair Warsh's first meeting

The Federal Reserve announced on July 29, 2026 that it would hold the federal funds rate steady at 3.50%-3.75% for a fifth consecutive meeting. The vote was 9-3, not unanimous. Three officials, Cleveland Fed President Beth Hammack, Minneapolis Fed President Neel Kashkari, and Dallas Fed President Lorie Logan, dissented in favor of a 25-basis-point rate hike.

This was the first meeting chaired by Kevin Warsh, who confirmed at his post-meeting press conference that June's cooler inflation data did not meaningfully factor into the decision. The Fed's statement cited elevated uncertainty tied to the conflict in the Middle East, alongside solid economic activity and strong productivity and capital investment The Dow Jones Industrial Average fell more than 840 points intraday, a decline of roughly 1.6%. The S&P 500 dropped about 0.6%, and the Nasdaq Composite fell 0.5%. The 10-year Treasury yield rose 5 basis points to 4.657%, while the 2-year yield fell 4 basis points to 4.236%.

The Fed's next scheduled meeting is September 15-16, 2026. As of July 30, 2026, CME FedWatch data showed market-implied odds shifting following the decision, with investors recalibrating expectations for the September meeting.

Figure 1: **Markets Reprice September Rate Expectations**



Source: CME FedWatch

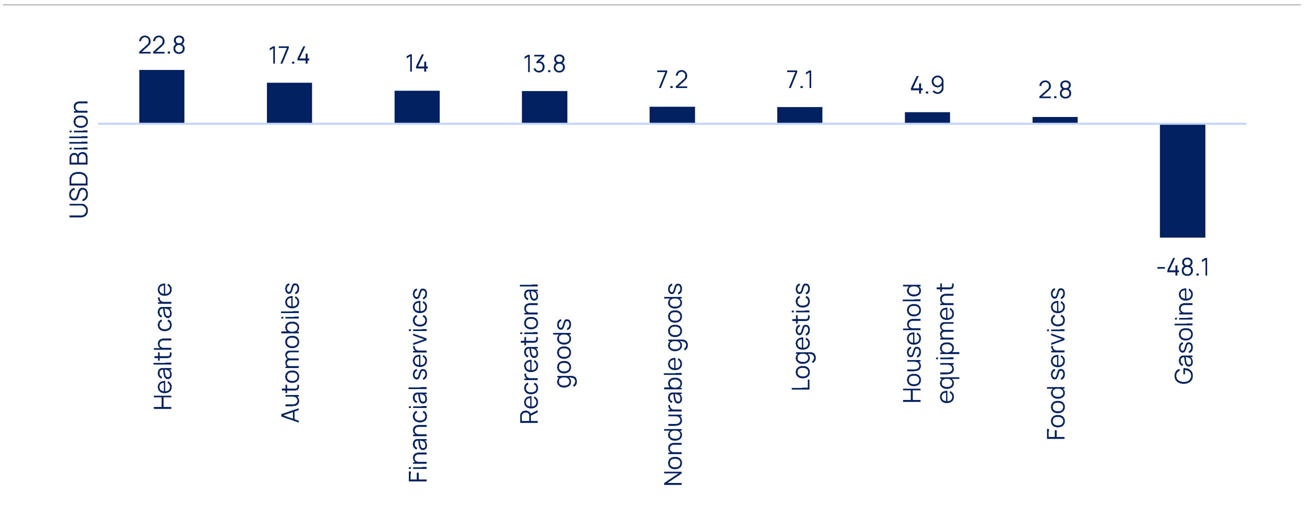
Core Inflation Cools Slightly

Core PCE eased to 0.1% monthly, but the 3.3% annual rate still sits well above the Fed's target

The Bureau of Economic Analysis reported on July 30, 2026 that the core Personal Consumption Expenditures Price Index, the Federal Reserve's preferred inflation gauge, rose 0.1% month-over-month in June, down from 0.3% in May. On an annual basis, core PCE stood at 3.3%, still well above the Fed's 2% target, though easing from May's reading near a three-year high. Headline PCE inflation, which includes food and energy, fell 0.1% month-over-month, pulling the annual rate down to 3.7% from 4.1% in May. The decline traced largely to a temporary truce in the conflict with Iran, which pulled energy prices lower during the survey period, a relief that has since proven partial rather than lasting.

Personal spending still rose 0.3% in nominal terms in June, and real PCE, adjusted for inflation, increased 0.4%. Services spending drove most of the gain, up $58.2 billion, compared with a $7.0 billion increase in goods spending, suggesting underlying demand held up even as prices cooled.

Figure 2: Gasoline Decline Reshaped Consumer Spending Mix



Source: U.S. Bureau of Economic Analysis

The timing here matters most: this data landed roughly eighteen hours after the Fed's July 29 rate decision, meaning policymakers did not have June's core PCE figure in hand when they voted 9-3 to hold rates steady. The next PCE release, covering July data, is scheduled for August 26, 2026, and will be the first inflation print the Fed sees heading into September.

GDP Growth Decelerates Sharply

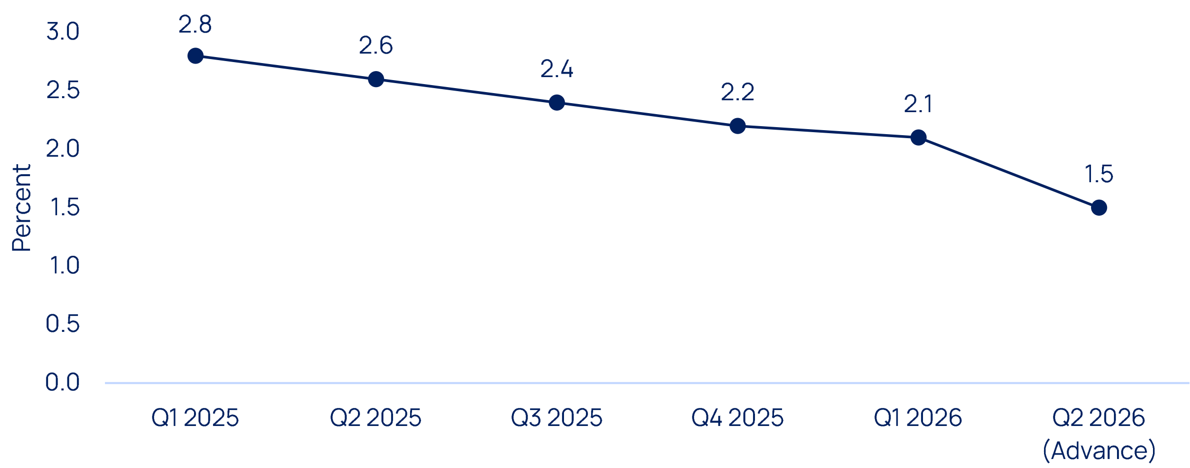
Second-quarter GDP slowed to 1.5% annualized from 2.1%, arriving hours after the Fed's rate decision

The Bureau of Economic Analysis reported on July 30, 2026 that US gross domestic product expanded at a preliminary annualized rate of 1.5% in the second quarter of 2026. That's a deceleration from the 2.1% pace recorded in the first quarter.

The GDP release landed the same morning as June's core PCE data, giving markets a combined read on growth and inflation within the same hour, less than a day after the Federal Reserve's rate decision. A slowdown of this magnitude, six-tenths of a percentage point, is meaningful enough to factor into the Fed's next policy discussion, even though it arrived too late to influence the July 29 vote. Slower growth alongside still-elevated core inflation at 3.3% year-over-year creates a genuinely difficult setup for the Federal Reserve heading into its September 15-16, 2026 meeting: growth data argues for easier policy, while inflation data argues for caution. This is a preliminary estimate.

The Bureau of Economic Analysis will issue a second estimate incorporating more complete source data before the GDP figure is considered final, and revisions to preliminary quarterly GDP readings are common and can move the headline number by several tenths of a percentage point in either direction.

Figure 3: Quarterly GDP Growth Continues To Slow



Source: Bureau of Economic Analysis

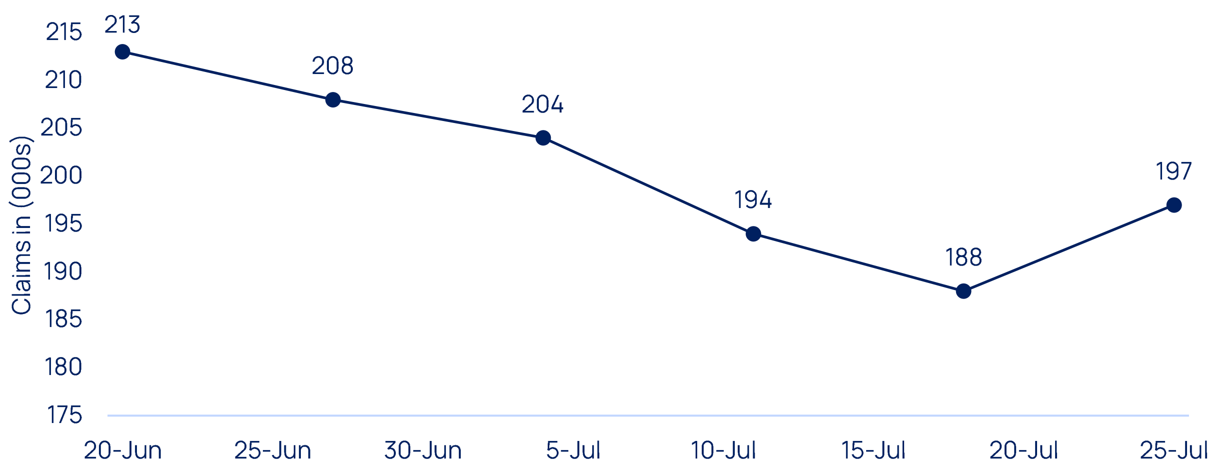
Claims Rebound From Low

Jobless claims rose to 197,000, partially reversing the prior week's lowest reading since 1969

The Department of Labor reported on July 30, 2026 that initial jobless claims rose to 197,000 for the week ended July 25, an increase of 9,000 from the prior week. That prior week's figure was revised up to 188,000 from an initially reported 187,000, which remained the lowest level of claims since September 1969. The Labor Department noted that claims tend to be volatile in July, when auto manufacturers typically idle plants for annual maintenance, and this year's uneven shutdown schedules, including Ford cancelling its traditional truck plant closures while General Motors kept most assembly plants running, may have thrown off the seasonal adjustment model used to smooth the data.

The four-week moving average, which reduces short-term volatility, fell to 202,750, its lowest level in more than two months, suggesting the underlying trend remains firmer than the single-week bounce implies.

Figure 4: Weekly Jobless Claims Edge Higher



Source: U.S. Department of Labor

Continuing claims fell for a third consecutive week, down 7,000 to 1,782,000 for the week ended July 18, below expectations of 1,800,000. Economists describe current labor conditions as "low fire, low hire," reflecting employers who are reluctant to cut staff aggressively but equally reluctant to hire, a pattern consistent with June's payroll growth of just 57,000 jobs against a three-month average of 164,000, and one the Federal Reserve will weigh closely ahead of September.

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