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Hiking Into a Supply Shock, Part Two: How the 2026 Fed Cycle Ends, December 2026 to 2028

One more hike in December, a long hold through 2027, and cuts once the oil shock has worked through core prices

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One more hike in December, a long hold through 2027, and cuts once the oil shock has worked through core prices

The Fed paused in October but did not change direction. The most likely end of this cycle is one more quarter-point hike in December, a hold through 2027 while the oil shock works through core prices, and first cuts in 2028. The risk to that path is not the headline figure but core PCE, which already runs above target, and whether the shock reaches wages.

The 2026 tightening cycle most likely ends with one more quarter-point hike at the 9 December meeting and a long hold after it. The October hold came with two dissents for a hike, and the September projections already place the year-end range one step higher. Headline inflation is carried by energy, but the committee's own core measure runs above target and is projected to rise this year, so the room to stop after one more move is thin. Cuts depend on oil working through core prices: the official outlook has Brent falling through 2027, and the projections show the first easing only a year later, in 2028. The main risk is that the shock reaches core prices and wage demands before it fades, which would turn a short cycle into a longer and costlier one.

HEADLINE INDICATORS

3.75-4.00 percent
FEDERAL FUNDS TARGET RANGE HELD ON 28 OCTOBER 2026

2 dissents
FOMC VOTES FOR A QUARTER-POINT HIKE AT THE OCTOBER MEETING

3.7 percent
CPI ALL ITEMS, 12 MONTHS TO SEPTEMBER 2026

3.1 percent
CORE PCE PRICE INDEX, 12 MONTHS TO SEPTEMBER 2026

123.10 USD
BRENT SPOT PRICE PER BARREL ON 27 OCTOBER 2026

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CENTRAL JUDGMENT

The Fed is hiking into a supply shock that is still building, and it is looking through the energy-driven headline to core PCE and long-run expectations. The committee will most likely take the range to 4.00-4.25 percent in December, hold it through 2027 while the oil price unwinds and its effect works through core prices, and begin cutting only in 2028.[1,2] Two things would change that path: a pass-through of energy costs into core prices and wages, which would add hikes and raise the odds of a hard landing, or an early reopening of Gulf supply, which would let the Fed stop at the current range and cut sooner.

KEY JUDGMENTS

KJ-1	The cycle most likely ends with one more quarter-point hike in December and a hold through 2027, with first cuts no earlier than 2028. The two-year yield leans above that path and prices a higher end point than the committee's median, so the market is the main dissent from this judgment rather than support for it. The October dissents for a hike and the September median path, which shows one more move this year and none next year, carry the judgment.	MODERATE
KJ-2	The committee is looking through the energy-driven headline figure and setting policy on core PCE and long-run expectations. On that measure core inflation is above target and projected to rise this year, so the room to stop after one more move is thin and a second hike early next year is a live risk. Core PCE runs above core CPI and above the goal, the September projections put it higher at year-end and two voters dissented for a hike, while long-run market expectations remain near target.	MODERATE
KJ-3	Oil sets the end date of the cycle mainly through its pass-through to core prices, with the labour market as the likelier trigger for an earlier end. The official energy outlook has Brent falling through 2027 while the projected first cut comes in 2028, a lag of about a year in which the committee waits for core PCE to follow the headline down, and that outlook is a single forecast that spot Brent already exceeds. The committee projects no cut in the year the oil unwind is largest and eases only once core PCE is projected near target, which puts the weight on core rather than on the oil price itself.	MODERATE
KJ-4	The risk of a hard landing within two years is real but not yet confirmed in the data. Hiring has slowed sharply, real wages are falling and real spending was flat in September, while output grew strongly in the third quarter, so the signal is mixed.	LOW
KJ-5	Long yields will stay high into year-end whether or not the Fed hikes in December, where high means the ten-year yield closing the year inside the band of claim C-5. Most of the ten-year yield reflects the expected path of the policy rate, which the committee projects flat through next year, and a measured term premium adds to it; the supply effect of the refunding is not yet known. The ten-year yield stands near five percent and the Board's term premium estimate is close to one percentage point, and a December hike that signals a hold leaves the expected path little changed.[9,13]	MODERATE

KEY STATISTICS

3.75-4.00 percent

Federal funds target range after the October FOMC meeting, 2026-10-28[1]

4.1 percent

September median projection of the federal funds rate midpoint for end-2026 and end-2027, 2026-09-16[2]

3.7 percent

CPI all items 12-month change for September 2026, 2026-10-14[3]

2.6 percent

CPI all items less food and energy 12-month change for September 2026, 2026-10-14[3]

3.1 percent

Core PCE price index 12-month change for September 2026, 2026-10-29[4]

3.4 percent

September median projection of core PCE inflation for 2026, 2026-09-16[2]

123.10 USD/barrel

Brent spot price, 2026-10-27[7]

4.56 percent

Two-year Treasury constant maturity yield, 2026-10-30[8]

4.94 percent

Ten-year Treasury constant maturity yield, 2026-10-30[9]

0.94 percent

Term premium on a ten-year zero coupon bond, Board estimate, 2026-10-23[13]

Scope and method

METHOD

This report reads the October FOMC statement, the September Summary of Economic Projections and the FOMC calendar; the BLS releases on consumer prices and employment for September, the BLS notice on the 2025 lapse in appropriations and the BLS release schedule; the BEA releases on personal income and outlays for September, the advance estimate of third-quarter GDP and the BEA release schedule; Treasury yields, the Board's ten-year term premium estimate, market inflation expectations and the Brent price as published in Federal Reserve Economic Data; and the EIA Short-Term Energy Outlook of October. All sources were read on 2 November 2026, before the midterm elections, the quarterly refunding announcement and the October employment and CPI reports. This revision rebuilds the inflation argument on core PCE, the committee's target measure, and moves the consumer price claims to November 2026. Probabilities are the author's own judgment unless a base rate is named. No client-attributable material is used.

SECTION 01 · ASSESSMENT

The October hold and the committee's lean

The FOMC held the federal funds target range at 3.75 to 4.00 percent on 28 October 2026 by a vote of 10 to 2, with Lisa D. Cook and Beth M. Hammack preferring a quarter-point hike; the statement said inflation remains elevated, that activity is expanding at a strong pace and that more information will help it return inflation to 2 percent in a timely way.[1]

The September Summary of Economic Projections put the median federal funds rate midpoint at 4.1 percent for end-2026 and end-2027, 3.9 percent for end-2028 and 3.2 percent in the longer run, which implies one more quarter-point hike in 2026, no change in 2027 and one cut in 2028.[2]

> **ASSESSMENT · MODERATE CONFIDENCE**
>
> The October pause was a wait for data, not the end of the cycle, and the committee's own path still has one more hike in it. Two dissents for a hike are a strong signal of where the centre will move if the next inflation reports do not soften.

SECTION 02 · ASSESSMENT

Headline against core: what the shock has reached

Consumer prices rose 3.7 percent in the 12 months to September 2026 while prices less food and energy rose 2.6 percent; in September alone the all-items index rose 0.6 percent, energy 5.2 percent, gasoline 9.1 percent and the core index 0.3 percent, seasonally adjusted.[3]

The PCE price index rose 3.6 percent and the core PCE index 3.1 percent in the 12 months to September 2026, each up 0.5 percent and 0.3 percent in the month.[4]

The September projections put median PCE inflation at 3.7 percent for 2026, 2.3 percent for 2027 and 2.1 percent for 2028, and core PCE at 3.4 percent, 2.5 percent and 2.2 percent.[2]

UNKNOWN: why core PCE runs half a point above core CPI in September, and how much of that gap is energy-sensitive items such as transport services and airfares that the two measures weight differently. The October releases will show whether the gap widens.

ASSESSMENT · MODERATE CONFIDENCE

The shock is in the headline figure, but on the committee's own target measure it has already reached core: core PCE runs above core CPI, above the goal and, on the committee's projection, higher still at year-end. That supports one more move with a real risk of a second, not an easy stop after December. Core CPI is the steadier series, but it is not the measure the committee targets, so it cannot carry the case for stopping.

SECTION 03 · ASSESSMENT

Labour and demand: the brake already applied

Nonfarm payrolls rose 29,000 in September 2026, the unemployment rate was 4.2 percent and average hourly earnings of private nonfarm employees were up 3.0 percent over 12 months.[5]

Real GDP grew at an annual rate of 3.4 percent in the third quarter of 2026 in the advance estimate, after 2.2 percent in the second quarter.[6]

In September 2026 real consumer spending rose by less than 0.1 percent in the month and the personal saving rate was 3.8 percent of disposable income.[4]

ASSESSMENT · LOW CONFIDENCE

Demand is being squeezed by falling real wages and a thin saving cushion even as quarterly output looks strong, so the labour market is a brake on further hikes and the likelier trigger for an earlier end. Wage growth below inflation means the classic second-round channel is weak for now, but one month of slow hiring and one quarter of strong output do not settle the direction.

SECTION 04 · ASSESSMENT

Oil: the path of the shock and its pass-through

The Brent spot price was 123.10 USD per barrel on 27 October 2026, after 128.30 USD on 23 October and 117.37 USD on 21 October.[7]

The EIA Short-Term Energy Outlook of 6 October 2026 forecast Brent at 105 USD per barrel in the fourth quarter of 2026, an average of 96 USD for 2026 and 84 USD for 2027, assuming Middle East

flows stay constrained through the fourth quarter; it put US retail gasoline at 4.35 USD per gallon in September 2026 and forecast 3.56 USD for 2027.[11]

UNKNOWN: whether and when Gulf flows through the Strait of Hormuz return to normal; the official outlook assumes constraint through year-end but gives no date for a full reopening. The oil path in this report rests on that one forecast.

> **ASSESSMENT · MODERATE CONFIDENCE**
>
> Oil sets the timing of cuts mainly through its pass-through to core prices: the committee is likelier to begin easing once core PCE is moving toward target than at the moment the energy contribution to headline inflation turns negative, which is why its projected first cut follows the oil unwind by about a year. Spot Brent is already well above the official fourth-quarter forecast, so the risk to the timing of cuts is that they come later, not sooner.

SECTION 05 · ASSESSMENT

What the curve already prices

The two-year Treasury yield was 4.56 percent and the ten-year yield 4.94 percent on 30 October 2026.[8,9]

The Board's estimate of the term premium on a ten-year zero coupon bond was 0.94 percent on 23 October 2026, after 1.00 percent on 19 October 2026.[13]

The five-year, five-year forward inflation expectation rate was 2.19 percent on 2 November 2026.[10]

UNKNOWN: the December hike odds implied by fed funds futures; no source this report may cite publishes them, so the market's December view is read here from the two-year yield alone.

> **ASSESSMENT · MODERATE CONFIDENCE**
>
> The front end leans above the committee's path and prices a higher end point than one more hike, which is the market's dissent from the baseline rather than support for it. At the long end the measured term premium is a minority of the ten-year yield, so most of its level reflects the expected path of short rates and the long end depends on the Fed more than a pure supply story allows. Long-run inflation expectations remain close to target, so the market sees a cycle that ends high rather than an inflation spiral.

SECTION 06 · ASSESSMENT

The calendar to the end of the cycle

The next FOMC meeting is on 8 and 9 December 2026 with a new Summary of Economic Projections, and the 2027 meetings with projections fall on 16 and 17 March, 8 and 9 June, 14 and 15 September and 7 and 8 December.[12]

The BLS did not publish an all items or an all items less food and energy index for October 2025, because it could not collect October 2025 survey data during the lapse in appropriations.[14]

The BLS schedules the October 2026 Employment Situation for 6 November 2026, the October 2026 CPI for 10 November 2026 and the November 2026 CPI for 10 December 2026.[5,15]

The BEA schedules Personal Income and Outlays for October 2026 for 25 November 2026.[16]

UNKNOWN: whether the October 2026 CPI release will carry 12-month changes for the all items and core indexes; with no October 2025 index the usual comparison has no base, so this report moves its consumer price claims to November 2026.

UNKNOWN: the outcome of the 3 November midterm elections and the sizes announced at the 4 November quarterly refunding, both of which may move long yields and the fiscal outlook before the December meeting.

> **ASSESSMENT · MODERATE CONFIDENCE**
>
> The December projections are the point at which the end of the cycle becomes visible, because they will show whether the committee still sees no cut in 2027. The short claims below should be locked before the December meeting, and they rest on the November CPI and the October PCE release rather than on an October 12-month CPI figure that may never appear.

SECTION 07 · DECISION

Decision

Decision	Owner	Trigger	Pre-authorised action
Position for a December hike and a hold after it	Rates portfolio lead	October core CPI rises 0.3 percent or more in the month, seasonally adjusted	Keep front-end duration short into the December meeting
Prepare for a longer cycle	Rates portfolio lead	Core PCE 12-month change for October at or above 3.3 percent, or the five-year, five-year forward rate above 2.5 percent	Extend the hedge on front-end rates through the March 2027 meeting
Prepare for an earlier end	Markets desk lead	Brent below 95 USD per barrel for two weeks, or October payrolls negative	Re-run the cut scenarios with first easing in 2027

SECTION 08 · OUTLOOK

Outlook

Baseline · One more and hold. The committee raises the range by a quarter point in December, signals a hold in its projections, and keeps policy unchanged through next year as the oil price eases from its peak and its effect works through core prices. Core inflation eases slowly, hiring stays slow, and the first cut comes once core PCE is back near target.

Deterioration. The energy shock reaches core prices, rents and wage settlements, long-run expectations drift up, and the committee hikes again early next year and holds higher for longer. The risk of a recession within two years then rises well above even; this is the author's judgment, not a measured base rate.

Stabilization. Gulf supply returns early, oil falls sharply, and headline inflation drops toward core. The committee stops at the current range or after the December move and begins to cut within next year, ahead of its own September path.

Claim C-1. The upper limit of the federal funds target range is at or above 4.25 percent after the FOMC meeting ending 9 December 2026. Probability 0.70. Resolves on 2026-12-10 from Federal Reserve Economic Data: YES if the upper limit of the federal funds target range (series DFEDTARU) for 10 December 2026 is at or above 4.25 percent, as first published, whatever the method. Horizon 60 days. Two dissents for a hike in October and a September median that places the year-end range one step higher point to a December move, and the two-year yield leans higher still. The October choice to wait keeps it short of certain. No base rate available: the firm holds no reference class for a hike at the meeting after a hold with dissents for a hike.

Claim C-2. The median projection of the federal funds rate for the end of 2027 in the December 2026 Summary of Economic Projections is at or above 4.1 percent. Probability 0.70. Resolves on 2026-12-10 from Federal Reserve Board data & statistics: YES if the median federal funds rate projection for 2027 in the Summary of Economic Projections released on 9 December 2026 is at or above 4.1 percent, as first published. Horizon 60 days. The September median already shows 4.1 percent for end-2027, and with core PCE above target a December hike would most likely lift or hold it. Only a December pause with softer core data would pull it lower. No base rate available: the firm holds no reference class for revisions of the median dot from one projection round to the next.

Claim C-3. The CPI-U all items 12-month change for November 2026 is at or above 3.5 percent. Probability 0.70. Resolves on 2026-12-10 from Bureau of Labor Statistics: YES if the all items CPI-U 12-month change, not seasonally adjusted, for November 2026 is at or above 3.5 percent, as first published, whatever the method. Horizon 60 days. September stood at 3.7 percent and Brent rose further in late October, above the official fourth-quarter forecast. A fall of more than two tenths in two months would need a drop in gasoline that the late October oil price does not show. No base rate available: the firm holds no series of monthly changes in the 12-month CPI rate under an energy shock.

Claim C-4. The CPI-U all items less food and energy 12-month change for November 2026 is at or below 2.7 percent. Probability 0.70. Resolves on 2026-12-10 from Bureau of Labor Statistics: YES if the CPI-U all items less food and energy 12-month change, not seasonally adjusted, for November 2026 is at or below 2.7 percent, as first published, whatever the method. Horizon 60 days. Core stood at 2.6 percent in September with a monthly pace of 0.3 percent. A rise of two tenths in two months would need a broad pass-through of energy costs that the September report does not show, though core PCE running higher is a warning. No base rate available: the firm holds no series of monthly changes in the 12-month core CPI rate under an energy shock.

Claim C-5. The 10-year Treasury constant maturity yield for 31 December 2026. Point and interval: lo 4.45, central 4.95, hi 5.45, unit percent, level 80. Resolves on 2027-01-05 from Federal Reserve Economic Data: the 10-year Treasury constant maturity yield (series DGS10) for 31 December 2026, in percent, as first published, whatever the method. Horizon 60 days. The yield stood at 4.94 percent on 30 October, with a measured term premium near one point and the rest reflecting an expected policy path that a December hike signalling a hold leaves little changed. The band allows for a move of about half a point either way over two months of event risk, including the refunding. No base rate available: the firm holds no reference class for two-month moves in the ten-year yield.

Claim C-6. The core PCE price index 12-month change for October 2026 is at or above 3.0 percent. Probability 0.80. Resolves on 2026-11-26 from Bureau of Economic Analysis: YES if the PCE price index excluding food and energy 12-month change for October 2026 in the Personal Income and Outlays release of 25 November 2026 is at or above 3.0 percent, as first published, whatever the method. Horizon 30 days. Core PCE rose 3.1 percent over the 12 months to September with a

monthly pace of 0.3 percent, and the September projections put it at 3.4 percent for the year. A fall of more than a tenth in one month would need a much softer October core reading than September showed. No base rate available: the firm holds no series of monthly changes in the 12-month core PCE rate under an energy shock.

Indicators.

- October core CPI monthly change, published 10 November 2026
- October payrolls and average hourly earnings, published 6 November 2026
- October core PCE 12-month change, published 25 November 2026
- November CPI all items and core 12-month changes, published 10 December 2026
- Brent spot price against the EIA fourth-quarter forecast
- Five-year, five-year forward inflation expectation rate against 2.5 percent
- The Board's ten-year term premium estimate and the refunding sizes announced on 4 November
- Dissents and the median 2027 dot at the December meeting

SECTION 09 · SCORECARD

Scorecard

- CLM-2026-310: advanced. This draft's C-1 restates it at 0.70 after the October hold, below the locked 0.75, because the committee chose to wait in October and no cited source yet prices the December move.
- CLM-2026-348: advanced. C-3 now tests the same November reading at 0.70, above the locked 0.60, after a September all items 12-month change of 3.7 percent.[3]
- CLM-2026-349: advanced. C-4 tests the November core reading against a 2.7 percent line, one tenth above the locked 2.6 percent line, after a September core 12-month change of 2.6 percent.[3]
- CLM-2026-353: advanced. The September gap between headline and core was 1.1 percentage points, above the 0.8 point line.[3]
- CLM-2026-350: advanced. Average hourly earnings rose 3.0 percent in the 12 months to September 2026, under the 3.1 percent line, before the October report.[5]
- CLM-2026-312: advanced. The unemployment rate was 4.2 percent in September 2026, below the 4.5 percent line.[5]
- CLM-2026-290: advanced. Brent was 123.10 USD per barrel on 27 October 2026, above the 100 USD line.[7]

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