In Charts: The Market Is Pricing a Hiking Cycle

Across the entire visible horizon, the market is not pricing a single basis point of easing

Summary: On the 2027 Path, the Market Is Closer to Right Than the Dot Plot

The split comes in 2027. The market-implied path peaks at 4.69% in September 2027 and ends the year at 4.63%, while the dot plot's 2027 median stays at 4.10%, unchanged from 2026. **The gap is 53 basis points, roughly two hikes.**

On the 53-basis-point gap between the market and the dot plot, I lean toward the market. Three reasons:

- The energy disruption has proved more persistent than the SEP assumed, and the buffer is already a third gone
- The pace of fiscal spending is not in the Fed's hands; the acceleration in war costs is set by the other side
- Synchronized global tightening narrows the dollar's rate advantage, and imported inflation will in turn constrain the Fed

One more, more technical: **the dot plot median does not include the Chair's own view, because Warsh does not submit a dot.**

This piece makes three core judgments, each with explicit falsifiers.

- **Judgment one:** on the 2027 path, the market is closer to right than the dot plot
- **Judgment two:** what moved market pricing is the persistence of the energy disruption, not the level of oil prices
- **Judgment three:** this rise in long yields is not driven by the term premium

What this means for asset prices. A simpler test: **ask two questions. How long until the money comes back? And does the business need to keep rolling over debt?**

- **Neither: relatively safe.** Energy, consumer staples, fee-driven large banks
- **Both: most exposed.** Financing-dependent data center developers, high-leverage growth, property developers
- **Only slow cash return: valuation pressure, solvency intact.** Cash-rich large-cap growth
- **Only rollover dependence: the exceptions within value.** Utilities, telecoms, regional banks

END-2027: MARKET VS. DOT PLOT

4.63% vs. 4.10%

The gap is 53 basis points, roughly two hikes.

KEY FIGURES

Fed funds range	**3.75% to 4.00%**
December hike probability	**90.6%**
Cut probability by Dec 2027	**0.1%**
Implied rate peak, Sep 2027	**4.69%**
10-year yield, this week	**5.01%**
10-year, year to date	**about +90 bp**
30-year, year to date	**about +49 bp**
30-year minus 10-year	**33 bp**
SPR stocks, Sep 11	**285M barrels**
Brent, this year	**up about 72%**
War cost (CENTCOM)	**$43.6B**
Projected FY2026 deficit	**$1.853T**

DATA AS OF

September 20, 2026

ANALYST

Sonny Xi

Independent equity and macro research

Introduction

On September 16, the Federal Reserve raised rates by 25 basis points, lifting the federal funds target range to 3.75% to 4.00%. It was the first hike since July 2023, and the decision was unanimous, 12 to 0.

But the 25 basis points are not what matters most about this meeting.

On CME FedWatch, the probability of a cut by the January, June and December 2027 meetings stands at **0.0%, 0.0% and 0.1%**. In other words, across the entire visible horizon, the market is not pricing a single basis point of easing.

At the start of the year, the same tool painted a different picture: the market expected a possible hike this year, followed by a cutting cycle in 2027.

Chair Warsh described the hike as "removing a dose of accommodation." The phrasing is worth pausing on: it implies he does not regard current policy as restrictive. Meanwhile, the latest Summary of Economic Projections lowered this year's unemployment forecast from 4.3% to 4.1%, and the statement emphasized resilient domestic spending, strong productivity and robust capital investment.

> In other words, this was a hike framed as "the economy is strong enough not to need as much accommodation," not a tightening meant to suppress demand. That distinction shapes nearly every judgment that follows.

This piece takes up three questions: what the market is pricing now, how this turn came about, and what it means for asset prices.

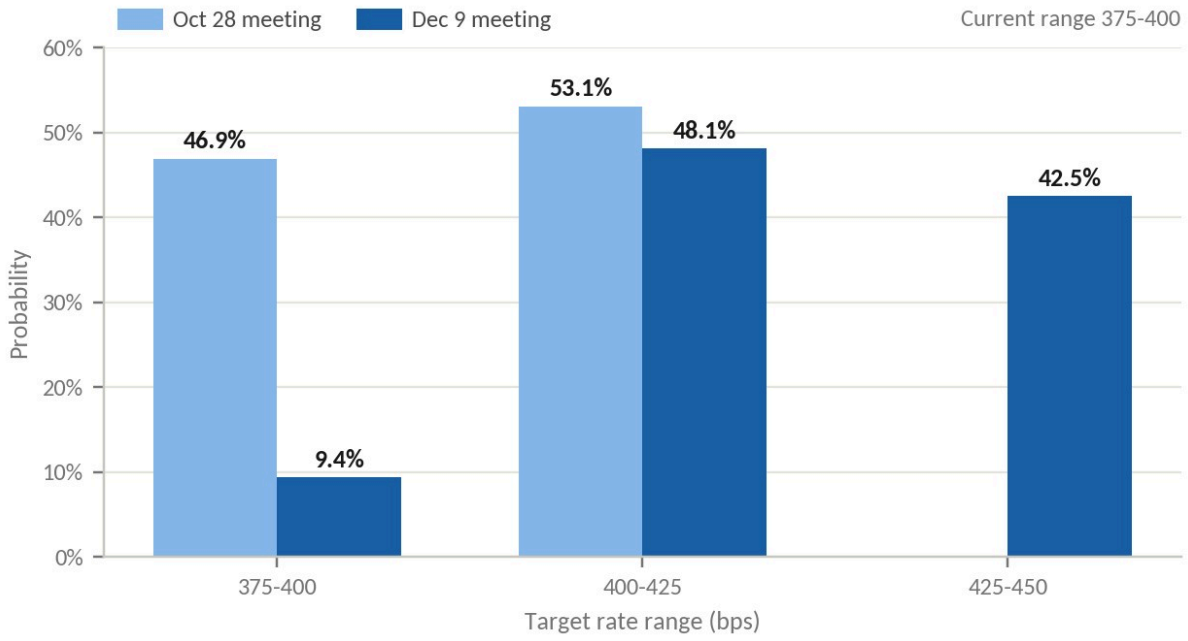
The Market Is Pricing a Hiking Cycle

Start with the two remaining meetings this year.

For the December meeting, the market assigns a **48.1%** probability to the 400-425 range and **42.5%** to 425-450, a combined **90.6%**. Only 9.4% remains on no change.

The real question is not whether the Fed hikes again, but whether it hikes once or twice more from here.

Exhibit 1. Target rate probabilities for the October and December meetings



Source: CME FedWatch, September 20, 2026

Extend the timeline into next year and the picture gets clearer.

Exhibit 2. Target rate probabilities by meeting

Current range

Meeting	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575
Oct 28 '26	0.0	**46.9**	**53.1**	0.0	0.0	0.0	0.0		
Dec 9 '26	0.0	9.4	**48.1**	**42.5**	0.0	0.0	0.0	0.0	0.0
Jan 27 '27	0.0	5.7	**33.0**	**44.7**	16.6	0.0	0.0	0.0	0.0
Mar 17 '27	0.0	1.8	14.4	**36.7**	**35.8**	11.3	0.0	0.0	0.0
Apr 28 '27	0.0	1.4	11.3	**31.2**	**36.0**	17.4	2.8	0.0	0.0
Jun 9 '27	0.0	0.8	7.0	22.7	**34.0**	**25.3**	9.0	1.2	0.0
Jul 28 '27	0.0	0.7	6.8	22.0	**33.5**	**25.7**	9.7	1.5	0.1
Sep 15 '27	0.0	0.6	6.0	20.0	**31.9**	**26.7**	11.9	2.6	0.3
Oct 27 '27	0.1	1.3	7.6	21.3	**31.3**	**25.0**	10.8	2.4	0.2
Dec 8 '27	0.2	1.9	9.1	22.4	**30.6**	23.5	9.9	2.1	0.2

Darker cells indicate higher probability; each row sums to 100%.

Probabilities are cumulative path outcomes, not independent per-meeting odds. Source: CME FedWatch, September 20, 2026

The center of gravity shifts right meeting by meeting through 2027: 4.25% to 4.50% in the first quarter, then 4.50% to 4.75% from April onward, where it stays on top for six straight meetings.

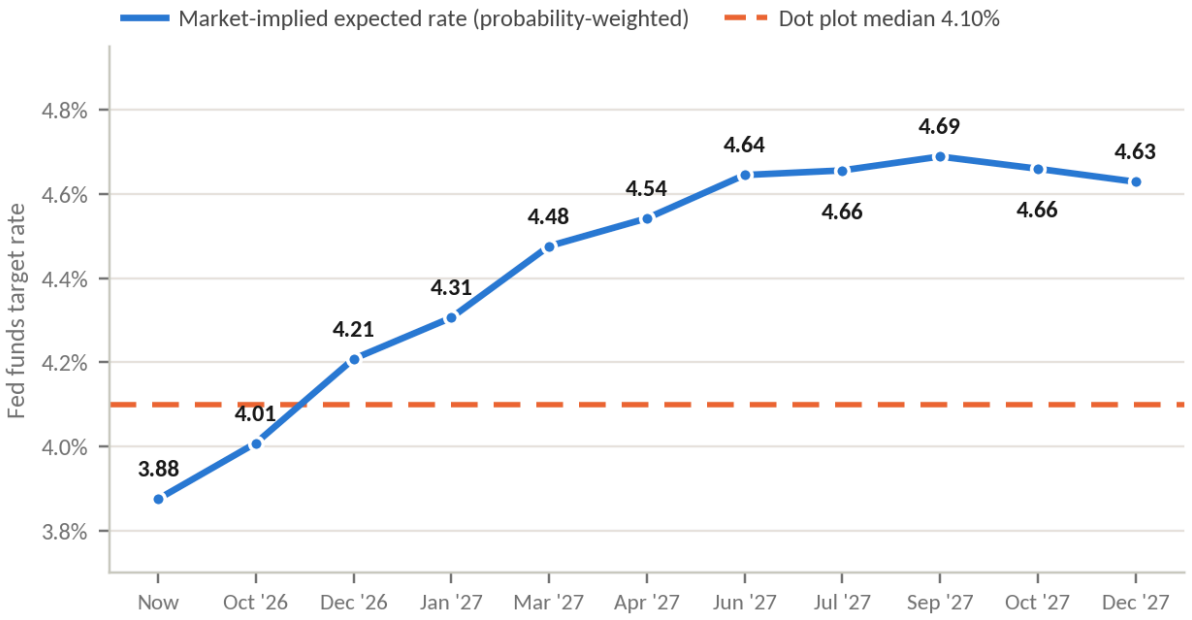
The other tail is more telling. **By December 2027, the combined probability of rates returning to the 375-400 range or lower is just 2.1%.**

And 375-400 is where rates are today. In other words, **fifteen months out, the market puts the odds of "rates back to today's level or lower" at one in fifty.**

The Market and the Fed Part Ways in 2027

Weighting each target range's midpoint by its probability gives the market-implied rate for each meeting.

Exhibit 3. Market-implied rate path versus the dot plot median



Implied rates weight each range midpoint by its probability. Source: CME FedWatch and the Fed's Summary of Economic Projections, September 20, 2026

The path starts at today's 3.88%, reaches 4.01% in October and 4.21% by year-end.

4.21% is only 11 basis points above the dot plot's 2026 median of 4.10%. For this year, the market and the Fed broadly agree.

The split comes in 2027. The market-implied path peaks at 4.69% in September 2027 and ends the year at 4.63%, while the dot plot's 2027 median stays at 4.10%, unchanged from 2026. **The gap is 53 basis points, roughly two hikes.**

Both sides agree on more hikes before year-end; they disagree on how long rates stay there. The Fed projects a hold through 2027. The market prices further increases and a high plateau near 4.6%.

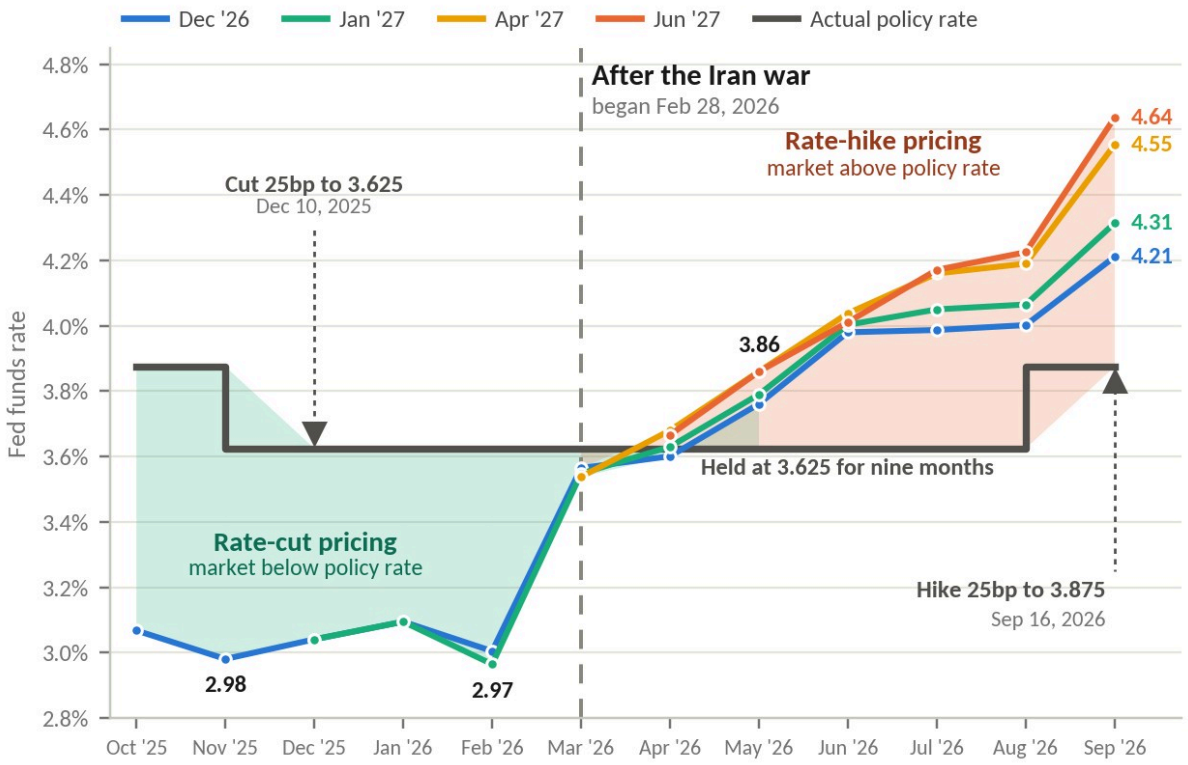
How the Turn Happened

The turning point was February 28, 2026.

Before that, on December 10, 2025, the Fed delivered what proved to be the last cut of the cycle, lowering the target range to 3.50% to 3.75%. It was the third consecutive cut since September, made in response to slowing job growth. At the time, the market was still pricing an ongoing easing cycle.

On February 28, 2026, war broke out with Iran. The Strait of Hormuz was disrupted, WTI crude rose from about $60 at the end of January to an average of $91 in March, and March CPI jumped from 2.4% in February to 3.3%.

Exhibit 4. Market-implied rate paths versus the actual policy rate



Source: CME FedWatch, September 20, 2026

In February 2026, the market-implied rate for the January 2027 meeting fell to 2.97%, 66 basis points below the policy rate at the time, equivalent to pricing two to three cuts.

After the war began, the implied rate for the same meeting rose about 58 basis points in March alone. The crossover was not a single move: most of it happened in March, but the implied rate did not settle above the policy rate until late April.

Nor was the climb a straight line. Brent fell back to around $70 in early July, and jobs data in early August triggered another pullback in hike expectations.

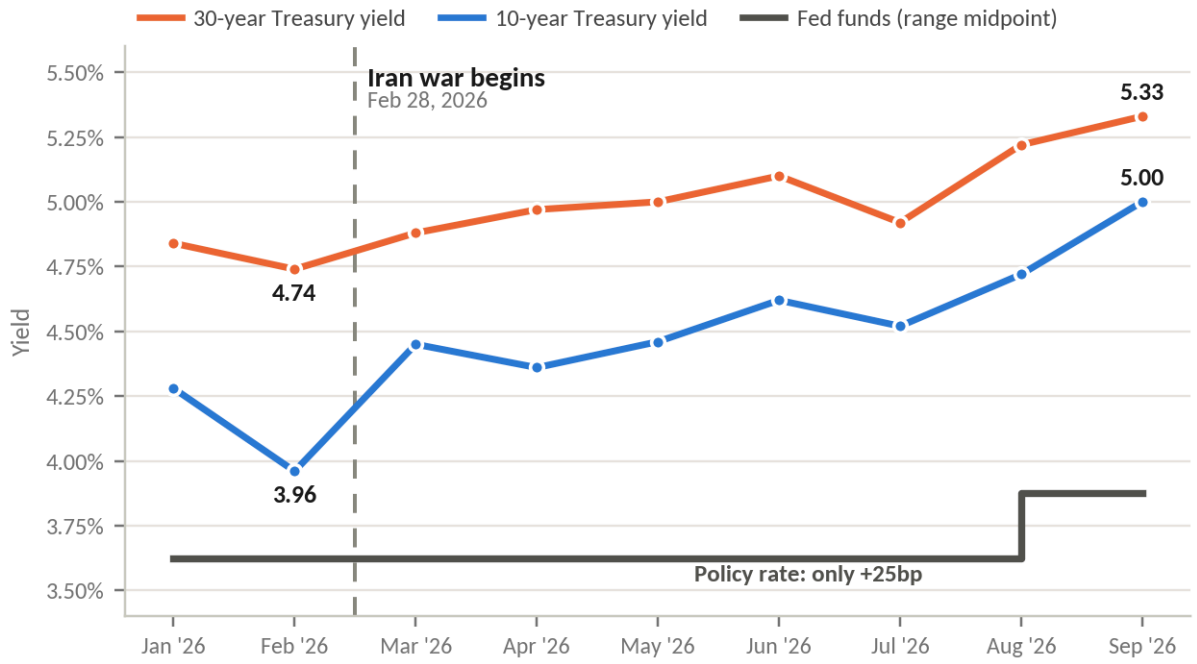
> But when oil fell, hike expectations did not return to where they started. The market is pricing something beyond the price of energy itself.

Not Just Oil: What Else?

A Puzzle First

The 10-year Treasury yield broke above 5% this week, touching 5.01%. It is up about **90 basis points** year to date. Over the same period, the policy rate moved just **25 basis points**, and only once in nine months.

Exhibit 5. U.S. 10- and 30-year Treasury yields versus the policy rate

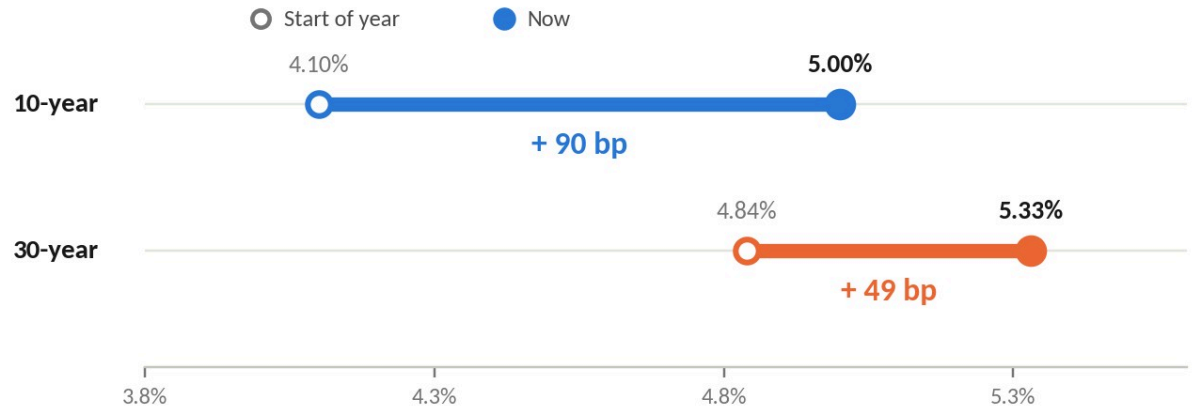


Source: Yahoo Finance, FRED

Long yields rose 90 basis points; the Fed accounts for only a quarter of that.

In theory, a long-term yield has two parts: the market's expectation of future short rates, plus extra compensation for the risk of locking money into long bonds, usually called the term premium. So which part drove this rise?

Exhibit 6. Year-to-date change in U.S. 10- and 30-year Treasury yields



Source: Yahoo Finance, FRED

The longer-dated 30-year rose only about 49 basis points, less than 60% of the 10-year's move.

If the driver were rising compensation for holding long bonds, the longest maturity should have been hit hardest. The opposite happened.

> So this rise was driven mainly not by risk compensation, but by a change in the market's expectations of future rates.

What, then, changed the market's view of future rates? Two threads.

Thread One: Not the Price of Oil, but How Long It Lasts

If the market were pricing only today's oil price, hike expectations should have fallen when Brent slid back to $70 in early July. They did not.

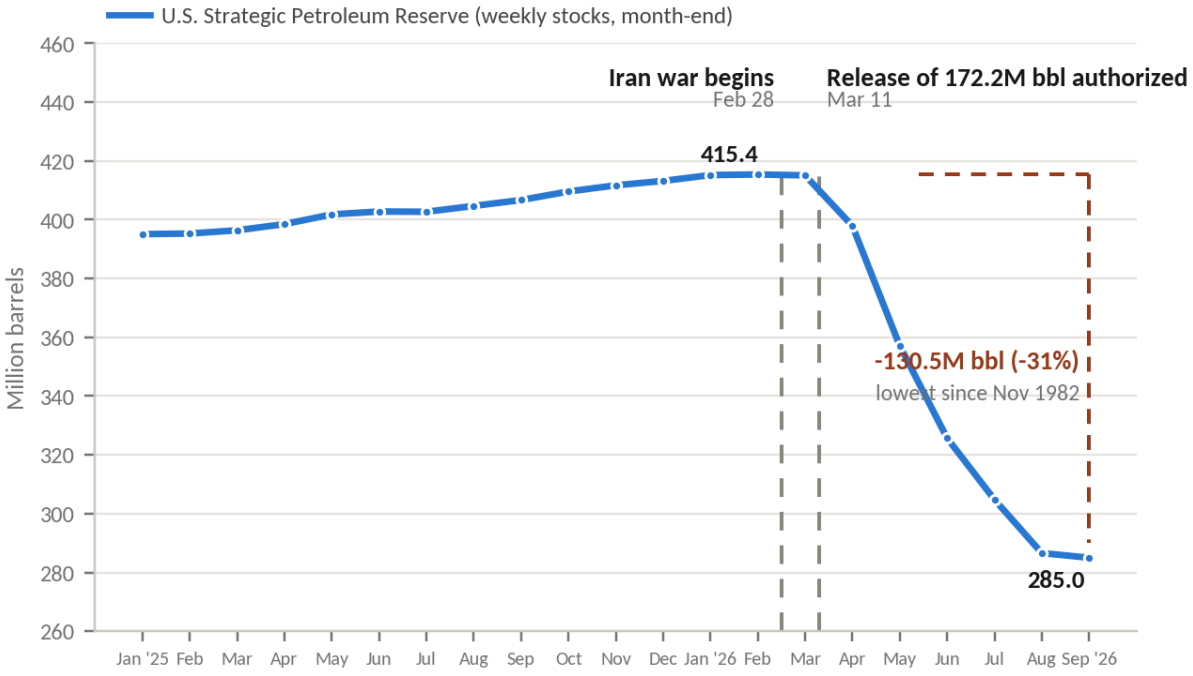
Start with the conflict itself. Saudi Arabia had tried to route crude around the Strait of Hormuz through its East-West pipeline to Red Sea ports, but the pipeline was shut after a drone attack on September 11. On September 19, the fuel storage area at King Khalid International Airport in Riyadh was struck. Brent is up about 72% this year.

Over the past seven months, the market has three times believed the conflict was about to ease, and three times been interrupted by a new disruption.

Then a less discussed layer: the capacity to absorb shocks is disappearing.

On March 11, the United States authorized the release of 172.2 million barrels from the Strategic Petroleum Reserve over roughly 120 days, as part of a 400-million-barrel International Energy Agency collective action, the largest in the agency's history.

Exhibit 7. U.S. Strategic Petroleum Reserve stocks



Of the 285 million barrels remaining, more than a quarter cannot be drawn because of aging infrastructure, per a May 2026 GAO report, leaving about 180 million barrels usable. Source: EIA

By September 11, the reserve had fallen to **285 million barrels**, down **31%** from 415.4 million in late March. That is its lowest level since November 1982, and about 40% of design capacity.

Availability is a bigger problem than the total. A May report from the Government Accountability Office found that, as of the end of 2025, more than a quarter of the inventory could not be drawn because of aging infrastructure. On that basis, only about 180 million barrels are actually usable.

The release is nearly complete, but stopping releases is not the same as refilling. Refilling needs time, budget and a lower oil price, and none of the three is in place.

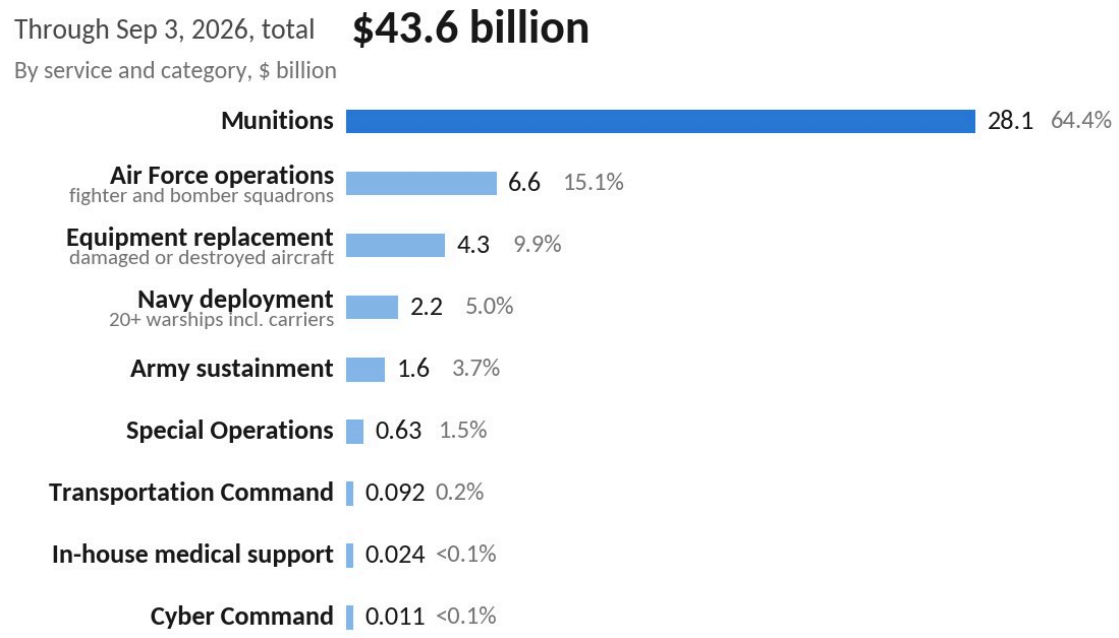
> The buffer that has absorbed energy shocks for decades was drawn down once in 2022 and never fully refilled, and has now lost another third in 2026. What the market must reprice is therefore not just today's oil price, but whether anything will be there to hold the line when the next disruption comes.

Thread Two: Fiscal Strain, and a Global Hiking Wave

On the fiscal side, federal debt is approaching $40 trillion, of which about $32 trillion is held by the public, and the FY2026 deficit is projected at $1.853 trillion. As rates rise, the deficit may keep widening, pushing up interest costs along with it.

And the war is adding to the bill, faster than expected.

Exhibit 8. Composition of U.S. spending on the Iran war



Source: The New York Times

The Congressional Budget Office estimated on September 15 that the conflict had cost **$38 billion** through August 1. Just over a month later, U.S. Central Command's figure to Congress is **$43.6 billion**. Munitions account for more than half, rising from $21.7 billion to $28.1 billion, **an increase of more than $6 billion in about a month**.

The acceleration itself matters. The main cost is air-defense interceptors, and interceptor use depends on how often the other side fires, not on American choices. **The pace of this spending is not set in Washington.**

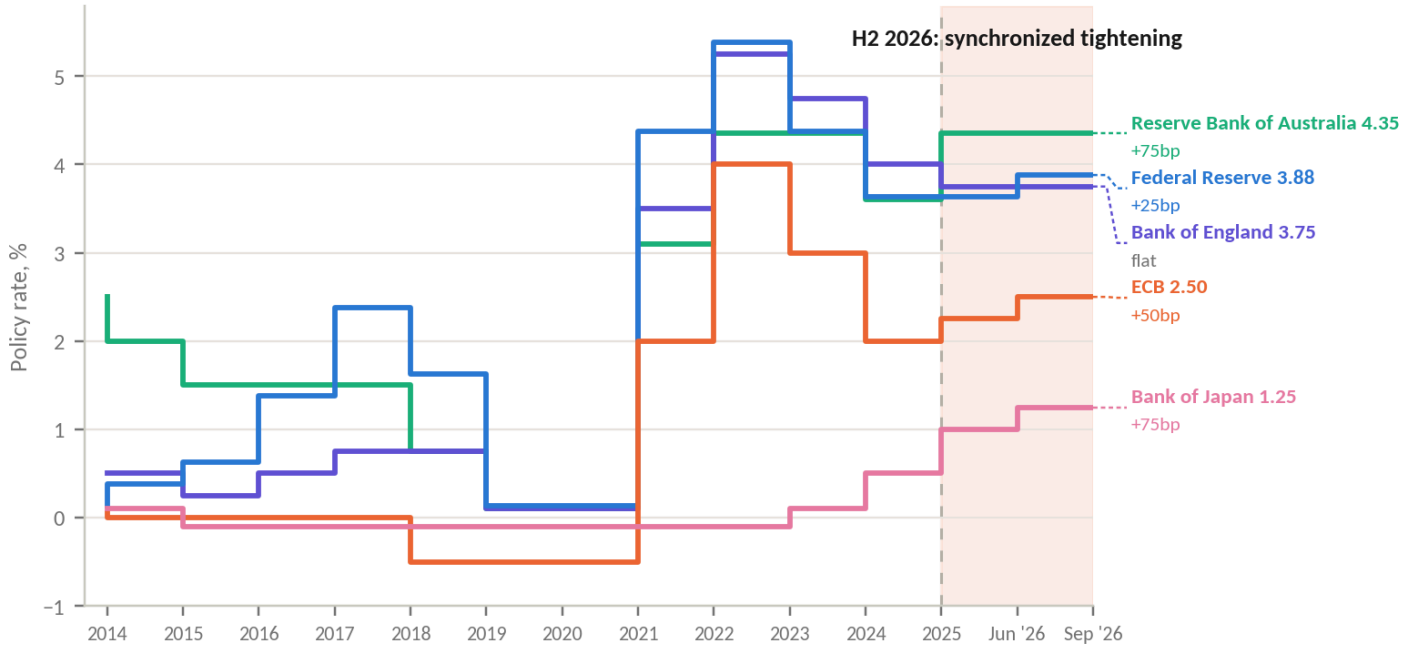
None of these estimates include the cost of repairing damaged U.S. facilities in the Middle East. A report from the Pentagon inspector general this week said Iranian strikes had damaged or destroyed hundreds of buildings and structures at U.S. bases in Kuwait, Bahrain, Qatar, the UAE, Saudi Arabia, Iraq, Oman and Jordan. Meanwhile, the White House is pushing a $1.5 trillion defense budget and asking Congress to approve a $95 billion funding package.

At the same time, the official buyers that long anchored the Treasury market are stepping back. China's holdings have fallen to their lowest since September 2008, and Japan, still the largest holder, has cut for four straight months from its February peak. In their place come custody and fund hubs: price-sensitive money that can leave at any time. I cover this in detail in my August piece on long-term rates.

> Credit loosening need not show up as default risk. It shows up first in pricing: the market is still willing to lend to the United States, but the compensation it demands is changing, and the money willing to buy at any price is disappearing.

On the currency side.

Exhibit 9. Major central bank policy rates, 2014 to 2026



ECB shown as the deposit facility rate; Fed as the target range midpoint; changes are cumulative since end-2025. Source: central banks

Major central banks are tightening in step. The ECB raised rates by 25 basis points in early September, taking the deposit rate to 2.50%. The Bank of Japan hiked to 1.25% on September 18, its highest level since 1995. Australia hiked at three consecutive meetings earlier this year, and markets expect another move at the end of September.

When everyone else is hiking and the United States stands still, the dollar's rate advantage narrows. For an economy whose inflation comes mainly from energy, which is priced in dollars, a weaker dollar means more imported inflation.

So even though the Fed's mandate does not include the exchange rate, in this environment keeping policy rates in line with other major economies is itself a practical reason to hike.

So Who Is More Likely to Be Right?

On the 53-basis-point gap between the market and the dot plot, I lean toward the market. Three reasons:

- The energy disruption has proved more persistent than the SEP assumed, and the buffer is already a third gone
- The pace of fiscal spending is not in the Fed's hands; the acceleration in war costs is set by the other side
- Synchronized global tightening narrows the dollar's rate advantage, and imported inflation will in turn constrain the Fed

One more, more technical: **the dot plot median does not include the Chair's own view, because Warsh does not submit a dot.** That 4.10% median is missing precisely the person who sets the agenda.

What This Means for Asset Prices

The allocation view is unchanged from my previous two pieces.

Exhibit 10. Asset scoreboard under rising long rates

Base case: long rates rising on supply and capital competition, not recession

Tailwinds	Depends on the Fed	Headwinds
Short-term cash & MMFs Zero duration, near-4% yield	**Gold** Weak USD helps, big hikes hurt	**Existing long-term bonds** Yields up, prices down
Life insurance & annuities Lock in long liabilities	**Crypto** Gold's direction, far noisier	**Real estate** Mortgages at 7.19%, lock-in
Energy & consumer staples Short duration, fast cash	**Large-cap growth** Valuation hit, solvency intact	**Refinancing-dependent AI links** Only the borrow-to-roll parts
Laddered long-bond buying Window to lock in high yields		**Regional banks** Double exposure: NIM, property

If the scenario flips to recession-driven, the middle column trades places with the sides. Not investment advice.

If the scenario flips to recession-driven, the middle column trades places with the sides

Premise: the above assumes the base case, in which long rates rise on supply and capital competition rather than recession. This is not investment advice.

A simpler test: **ask two questions. How long until the money comes back? And does the business need to keep rolling over debt?**

- **Neither: relatively safe.** Energy, consumer staples, fee-driven large banks
- **Both: most exposed.** Financing-dependent data center developers, high-leverage growth, property developers
- **Only slow cash return: valuation pressure, solvency intact.** Cash-rich large-cap growth
- **Only rollover dependence: the exceptions within value.** Utilities, telecoms, regional banks

What Would Prove Me Wrong

This piece makes three core judgments, each with explicit falsifiers.

Judgment	Falsifier	Metric	Check point
Judgment one: on the 2027 path, the market is closer to right than the dot plot	the December SEP raises the 2027 median, or the FedWatch implied path converges toward 4.10%	the gap between the end-2027 implied rate and the dot plot median, currently 53 basis points	December FOMC
Judgment two: what moved market pricing is the persistence of the energy disruption, not the level of oil prices	the Strait of Hormuz reopens and the SPR begins refilling, yet hike expectations do not fall	the correlation between Brent and the implied path; whether weekly SPR stocks turn to net increases	ongoing
Judgment three: this rise in long yields is not driven by the term premium	the 30-year begins outperforming the 10-year, steepening the long end	the 30-year minus 10-year spread, currently 33 basis points	ongoing

If any of these three is triggered, I will update the view in a follow-up.

Data and Sources

Written by Sonny Xi. Claude (Anthropic) assisted with editing, chart production and the English translation.

Data as of September 20, 2026. Rate probabilities and implied paths from CME FedWatch, with implied rates computed by the author as probability-weighted range midpoints; dot plot from the Federal Reserve's Summary of Economic Projections; Treasury yields from Yahoo Finance and FRED; Strategic Petroleum Reserve stocks from the EIA; reserve availability from the Government Accountability Office; war cost estimates from the Congressional Budget Office and U.S. Central Command as reported by The New York Times and the Associated Press; policy rates from the respective central banks.

Disclaimer: this article is personal research shared for information only and does not constitute investment advice. Markets carry risk; decisions require independent judgment.

DISCLOSURES

This report was prepared by Sonny Xi for informational purposes only and does not constitute investment advice or a recommendation to buy or sell any security.

ABOUT THE ANALYST

Sonny Xi

Independent equity and macro research

Sonny Xi is an independent investment researcher covering equities and macro, with a focus on rates and geopolitics. His work pairs bottom-up company valuation, such as the three-scenario DCF framework used in his equity reports, with top-down macro analysis.

EDUCATION

M.S. in Finance (STEM-designated)
University of Illinois Urbana-Champaign, 2026

B.A. in International Affairs and Finance, cum laude
The George Washington University, Elliott School of International Affairs

CERTIFICATION

CFA Program
Registered for the Level I exam, February 2027

EXPERIENCE

Sell-side equity research
Tianfeng Securities: small- and mid-cap coverage, including institutional reports on nuclear fusion and 3D printing

Private equity due diligence
Lionchase North America and Sunrise Tsinghua Capital: underwriting, technology due diligence, DCF and LBO models

Credit risk modeling
CIBC: Excel dashboards for the U.S. risk model team

Buy-side portfolio research
University of Illinois RCMP: financials coverage and a three-scenario DCF on CME Group

Equity analyst
GW Investment Institute

CONTACT

Email
sonnyxi1205@gmail.com

Research website
sonnyxi-research.com

SELECTED RESEARCH

- Meta Platforms, Inc. (META): equity research report, October 2026
- CME Group Inc. (CME): equity research report, October 2026
- Amazon.com, Inc. (AMZN): equity research report, October 2026
- The Ensign Group (ENSG): sell recommendation
- H2 2026 Macro Outlook
- VAR macro forecasting model
- Constructing a Portfolio for a Five Percent Return Objective

ANALYST CERTIFICATION

The views expressed in this report accurately reflect the personal views of the analyst about the subjects covered in this report. This report is independent research and was not commissioned or paid for by any company or third party.