



Edgar González

edgar.gonzalez@hrratings.com
Economic Analysis and Sovereign
Debt Senior Associate



Santiago Liceaga

santiago.liceaga@hrratings.com
Economic Analysis and Sovereign
Debt Analyst



Ricardo Gallegos

ricardo.gallegos@hrratings.com
Deputy Chief Economic Analysis Officer



Felix Boni

felix.boni@hrratings.com
Chief Credit and Economic Analysis
Officer

Federal Reserve raises rates for the first time since 2023, due to prolonged price pressures in the U.S. economy

The Federal Reserve (Fed) increased its target range for the federal funds rate by 25 basis points (bps) to 3.75%–4.00%, as anticipated by market participants. The statement emphasized that the Federal Open Market Committee (FOMC) is steadfast in its dedication to maintaining price stability, and the decision was unanimous. An update to the Summary of Economic Projections was also included in the decision, which was notable for its median expectation of an additional 25 bps increase in 2026. Additionally, the unemployment rate estimate was revised downward, while the growth and PCE inflation projections were revised upward.

This is consistent with Chairman Warsh's press conference statement to the effect that inflation has been "unduly high for an extended duration," showing scant confidence that fundamental inflation is advancing toward the Fed's goal clearly and even less so at a satisfactory rate. Moreover, he indicated that the central bank is poised to act as required by the circumstances.

HR Ratings anticipates an additional 25 bps increase in the reference rate for the remainder of the year. This is due to the persistent inflationary pressures in the U.S. economy, which may be further exacerbated by the extended Middle East conflict. As shown in the below graph, the midpoint of the current range implies a real ex-post rate of around 0.30%, which seems inadequate for an inflation rate significantly above the Fed's 2.0% target and even more so given that CPI inflation shows no sign of being on a downward trend. Furthermore, with the headline PCE inflation at 3.7% in July the real rate is nearly zero. Thus, an additional rate hike in December (if not earlier) is virtually imperative.

A downside, of course, is that higher short-term rates, in addition to recent rises in long-term yields will only further increment the Federal government interest cost. With little political support to reduce non-defense spending and calls to increase military expenditures, the impact on aggregate demand of higher rates is uncertain. In addition, if cries of doom will not deter AI development spending, for interest rate hikes to have an inflationary impact consumer spending and residential investment will have to decelerate significantly.



@HRRATINGS



HR RATINGS

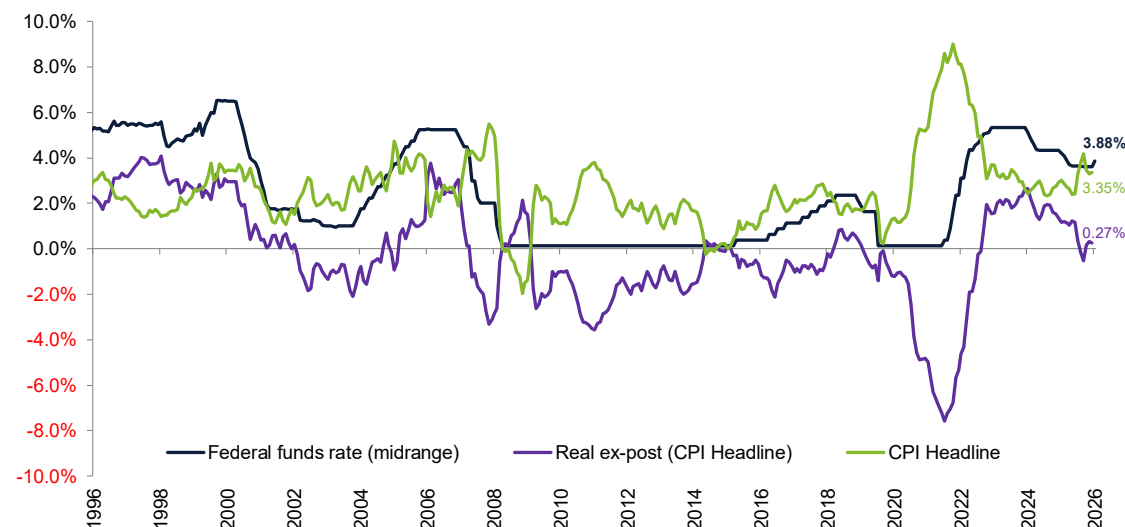


WWW.HRRATINGS.COM



HR RATINGS

Figure 1. Federal Fund Rates in Nominal and Real Terms



Although Chairman Warsh noted that the FOMC is attentive to trends rather than specific data points, the August inflation report revealed additional price pressures. The Consumer Price Index (CPI) rose 0.40% month-over-month (m/m), accelerating from the 0.07% m/m increase recorded in July. Unlike previous releases, inflationary pressures were also observed in the core CPI, which registered its largest percentage change in four months (0.29% m/m). Additionally, energy prices rebounded 2.10% m/m after two consecutive monthly declines, as shown in Figure 2. This reversal comes amid the ongoing escalation of the Middle East conflict, which has now persisted for over six months with no clear signs of a swift resolution.

Figure 2. CPI Inflation Evolution

Inflation During:	July-26		August-26		Annualized 3MMA		
	Monthly	Annual	Monthly	Annual	Jun-26	Jul-26	Aug-26
Headline	0.07%	3.30%	0.40%	3.35%	6.07%	3.77%	1.14%
Core	0.22%	2.47%	0.29%	2.45%	2.88%	2.36%	1.97%
Services less Energy	0.08%	3.01%	0.26%	3.01%	4.75%	3.62%	2.27%
Services less Rent	0.19%	2.99%	0.31%	3.10%	4.11%	3.50%	2.21%
Rent of Shelter	0.14%	3.15%	0.25%	3.03%	4.71%	3.99%	2.99%
Non Durable Goods	-0.29%	5.61%	0.73%	5.85%	15.16%	7.55%	-1.02%
Durable Goods	0.31%	-0.17%	0.01%	-0.33%	-1.25%	-0.29%	0.32%
Food	0.08%	2.94%	0.12%	2.63%	3.26%	2.64%	2.30%
Energy	-1.48%	14.45%	2.10%	16.05%	57.22%	23.11%	-9.32%
Gasoline	-2.86%	24.64%	3.90%	27.41%	115.44%	41.12%	-16.98%

Source: HR Ratings with seasonally adjusted information from the U.S. Bureau of Labor Statistics, retrieved from FRED.

Within core inflation metrics, the index for services, excluding energy services, saw a 0.3% month-over-month uptick, largely due to the contributions from shelter (0.3% m/m) and transportation (0.5% m/m), with the latter being partially spurred by a 2.7% month-over-month escalation in airline tickets linked to the summer vacation period. Alternatively, commodities excluding food and energy displayed more consistent behavior, with a minimal fluctuation of 0.1% from month to month.

Looking closely at energy inflation, the gasoline subcomponent jumped 3.9% m/m, accounting for over one third of the total monthly headline increase, as reported by the Bureau of Labor Statistics (BLS). In August, the national average price for regular gasoline



@HRRATINGS



HR RATINGS



WWW.HRRATINGS.COM



HR RATINGS

reached \$4.06 per gallon, up from \$3.93 in July 2026 and higher than the \$3.13 averaged in August 2025. On the contrary, natural gas and electricity prices fell 1.1% m/m and 0.2% m/m, respectively.

On a seasonally adjusted annual basis (y/y), headline and core inflation stood at 3.35% and 2.45%, respectively, compared to 3.30% and 2.47% in July. Among the most notable variations, the energy index surged 16.1% y/y, while the shelter index increased 3.0% y/y. At HR Ratings, we expect inflation to face continued upward pressure, primarily driven by high energy costs tied to the prolonged closure of the Strait of Hormuz. Consequently, our year-end 2026 headline CPI forecast remains unchanged at 3.8% y/y. As we mentioned before, these inflation levels could cause a more hawkish stance from the Federal Reserve, potentially leading to an additional 25 bps hike before the end of the year.

The last columns of Figure 2 suggest a cooling of inflationary pressures on an annualized intra-year basis. Driven by a negative reading in June—which we consider an anomaly under current conditions—annualized inflation for the three months ending in August dropped to 1.47%, down from 3.77% in July. However, assuming a 3.8% y/y baseline by year-end, we project the annualized rate to bounce back to approximately 4.2%.

Finally, the consensus expectation of a more hawkish Fed, the assumption of "higher-for-longer" inflation in the short and medium term, and growing concerns over the U.S. government's fiscal situation have caused significant upward pressure across the nominal yield curve. In the last twelve months, the 2-year Treasury yield has climbed more than 110 basis points, reaching levels not seen since July 2024. Furthermore, the 10-year Treasury yield has broken above 5.0% in recent days, while the 30-year Treasury yield surpassed 5.4%, with both benchmarks hitting multi-decade highs last recorded in 2007.



@HRRATINGS



HR RATINGS



WWW.HRRATINGS.COM



HR RATINGS

HR Ratings de México, S.A. de C.V. ("HR Ratings"), is an credit rating agency authorized by the National Banking and Securities Commission(CNBV) and registered by the Securities and Exchange Commission (SEC) as a Nationally Recognized Statistical Rating Organization (NRSRO) for the assets of public finance, corporates and financial institutions as described in section 3 (a) (62) (A) and (B) subsection (i), (iii) and (v) of the US Securities Exchange Act of 1934 and certified as a Credit Rating Agency (CRA) by the European Securities and Markets Authority (ESMA) and the Financial Conduct Authority (FCA).

The ratings and/or opinions of HR Ratings are opinions regarding the credit quality and/or the asset management capacity, or relative to the performance of the tasks aimed at the fulfillment of the corporate purpose, by issuing companies and other entities or sectors, and are based on exclusively in the characteristics of the entity, issue and/or operation, regardless of any business activity between HR Ratings and the entity or issuer. The ratings and/or opinions granted are issued on behalf of HR Ratings and not of its management or technical personnel and do not constitute recommendations to buy, sell or maintain any instrument, or to carry out any type of business, investment or operation, and may be subject to updates at any time, in accordance with the rating methodologies of HR Ratings.

HR Ratings bases its ratings and/or opinions on information obtained from sources that are believed to be accurate and reliable. HR Ratings, however, does not validate, guarantee or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information. Most issuers of debt securities rated by HR Ratings have paid a fee for the credit rating based on the amount and type of debt issued. The degree of creditworthiness of an issue or issuer, opinions regarding asset manager quality or ratings related to an entity's performance of its business purpose are subject to change, which can produce a rating upgrade or downgrade, without implying any responsibility for HR Ratings. The ratings issued by HR Ratings are assigned in an ethical manner, in accordance with healthy market practices and in compliance with applicable regulations found on the www.hrratings.com rating agency webpage. HR Ratings' Code of Conduct, rating methodologies, rating criteria and current ratings can also be found on the website.

Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue or issuer, and do not necessarily imply a statistical likelihood of default, HR Ratings defines as the inability or unwillingness to satisfy the contractually stipulated payment terms of an obligation, such that creditors and/or bondholders are forced to take action in order to recover their investment or to restructure the debt due to a situation of stress faced by the debtor. Without disregard to the aforementioned point, in order to validate our ratings, our methodologies consider stress scenarios as a complement to the analysis derived from a base case scenario. The fees HR Ratings receives from issuers generally range from US\$1,000 to \$1,000,000 (one million dollars, legal tender in the United States of America) (or the equivalent in another currency) per offering. In some cases, HR Ratings will rate all or some of a particular issuer's offerings for an annual fee. Annual fees are estimated to vary between \$5,000 and US\$2,000,000 (five thousand to two million dollars, legal tender in the United States of America) (or the equivalent in another currency).

Media Contact

comunicaciones@hrratings.com



@HRRATINGS



HR RATINGS



WWW.HRRATINGS.COM



HR RATINGS