Dow Slides 631.21 Points as Fed Rate Hike and Warsh's Inflation Warnings Rattle Investors

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The U.S. and European stock markets diverged sharply Wednesday: Wall Street gave back an early advance and closed sharply lower after the Federal Reserve raised interest rates for the first time in three years and, Chairman Kevin Warsh used his press conference to stress that inflation remains stubbornly high, while European shares held onto their gains and finished the session higher. All three major U.S. averages had been higher earlier in the day, only to turn decisively lower once the Fed's decision was announced and Warsh began speaking.

The market's early optimism, supported by stronger-than-expected U.S. retail sales, briefly reinforced the view that consumers remained resilient despite higher borrowing costs, elevated oil prices, trade disruptions, and fading fiscal support. That resilience, though, left the Fed little room to sound reassuring: investors had largely priced in the rate move itself, but not the tone that followed it.

The Federal Open Market Committee voted 12–0 to raise the target range for the federal funds rate by a quarter point, to 3-3/4 to 4 percent — its first increase since July 2023. The Committee also signaled that another hike could still come before year-end, a sharper-than-expected shift that, combined with Warsh's remarks, sent Treasury yields and market anxiety higher into the close.

U.S. Markets

Wall Street's early gains evaporated once the Fed's decision hit the tape and Warsh took the podium. The Dow Jones Industrial Average closed at 51,462.14, down 630.97 points or 1.21%, with financial shares leading the decline. The S&P 500 slipped 0.44% to 7,552.16, while the Nasdaq Composite finished essentially flat, down just 0.01% to 25,918.42.

Big bank stocks had their worst session since February. Bank of America and Wells Fargo each fell roughly 3% on concern that higher rates could slow lending growth and weigh on the broader economy, while American Express and Goldman Sachs also declined.

The selloff intensified during Warsh's press conference, where he repeatedly emphasized that inflation risk had not meaningfully eased. "Inflation is too high, and has been for too long," Warsh said, adding that this summer's readings did not point to genuine improvement in underlying trends. Markets treated the rate hike itself as fully expected, but Warsh's more hawkish tone reset expectations for how long elevated rates may persist.

Treasury yields responded immediately. The 10-year Treasury yield traded back above the psychologically significant 5% threshold to 5.01%, while the 2-year note, more sensitive to near-term Fed policy, rose to 4.74% as traders weighed the possibility that the Fed remains behind the curve on inflation even after Wednesday's move.

Not every stock moved with the broader market: shares of Intel traded higher on a report that it was in talks with South Korea's SK Hynix to build semiconductor capacity in the United States, helping cushion the Nasdaq's decline.

European Markets

European markets traded higher on Wednesday, reflecting an improved global risk tone and some relief from the modest decline in sovereign bond yields. Gains were led by banking and industrial shares, with German exporters among the session's strongest performers as the euro held steady against the dollar ahead of the Fed decision.

German Bund yields eased slightly alongside their U.S. counterparts, giving the DAX room to extend its advance, while UK gilts were little changed, leaving the FTSE 100's gain more modest by comparison. Autos and industrials outperformed on the continent, helped by easing concerns over trade-related cost pressures, while defensive sectors lagged as investors rotated toward cyclical names.

Nevertheless, investors remained attentive to the global implications of tighter U.S. monetary policy. A more hawkish Federal Reserve could strengthen the dollar, place additional pressure on international bond markets, and complicate the policy outlook for other major central banks, including the European Central Bank and the Bank of England, both of which are contending with their own inflation and growth trade-offs.

The three indexes we follow closed higher: Stoxx 600, up 2.91 points; FTSE 100, up 30.34 points; and DAX Index, up 135.47 points.

Energy Markets

Crude oil prices eased modestly after Tuesday's advance, with West Texas Intermediate trading near $104 per barrel, compared with approximately $106 during the previous session.

The pullback offered limited relief to markets increasingly concerned that sustained oil prices above $100 could feed into transportation, production, and consumer costs. Energy remained highly sensitive to geopolitical developments, leaving the inflation outlook vulnerable to further supply disruptions and headline-driven volatility.

Economic & Policy Outlook

U.S. retail sales increased 1.2% in August, more than reversing July's revised 0.5% decline. The improvement was broad-based, with nearly every major category advancing except building materials.

The report said consumer demand remained a key source of economic strength. Household spending held up despite higher interest rates, expensive energy, trade-related disruptions, and diminishing fiscal support.

That resilience was encouraging for the economic outlook, but it also complicated the Federal Reserve's fight against inflation. Strong consumer demand, combined with oil prices above $100 per barrel, increased the risk that inflation could remain above the Fed's 2% objective for longer than policymakers had anticipated.

Markets had overwhelmingly expected the FOMC to raise interest rates by 25 basis points, and the Committee delivered exactly that, approving the move by a 12–0 vote. The Committee raised the target range for the federal funds rate to 3-3/4 to 4 percent, in support of the Federal Reserve's dual mandate, and said it is continuing its policy of maintaining ample reserves in the banking system.

In its statement, the Committee described economic activity as expanding at a solid pace. While uncertainty remains elevated owing, in part to geopolitical developments, domestic spending has been resilient. Productivity growth is strong, and capital investment is robust. Job gains have kept pace with the workforce, and the unemployment rate has changed little.

On inflation, the Committee acknowledged that price pressures remain elevated but said Wednesday's policy action will support a timelier return to its 2 percent goal, adding that the Committee will deliver price stability.

The Final Word

The Federal Reserve faced a difficult equation: an economy resilient enough to withstand higher rates, but inflation persistent enough to demand them. Wednesday's quarter-point increase resolved the immediate question; whether one move is enough to tame inflation without derailing a still-solid expansion is the one markets will spend the coming weeks trying to answer.

GDPNow Update:

- The GDPNow for the third quarter 2026 was upated on September 16, 2026 rising to 5.10%, up from 4.40% a 15.91% increase.

Economic Update:

- **Target Federal Funds Rate Upper Limit:** is at 3.xx%, compared to 3.75% yesterday.
- **US Retail and Food Services Sales MoM:** rose to1.24%, compared to -0.54% last month.
- **US Export Prices YoY:** rose to 8.60%, compared to 8.10% last month.
- **US Import Prices YoY:** rose to 7.00%, compared to 6.10% last month.
- **US Wholesalers Inventories MoM:** rose to 1.29%, compared to 0.38% last month.
- **NAHB/Wells Fargo US Housing Market Index:** fell to 32.00, down from 35.00 last month.
- **NY Fed Business Leaders Survey Current Business Activity:** fell by -8.70, down from 0.50 last month.

Eurozone Summary:

- **Stoxx 600:** closed at 635.99, down 3.11 points or 0.49%.
- **FTSE 100:** closed at 10,697.57, up 47.13 points or 0.44%.
- **DAX Index:** closed at 25,440.81, down 127.75 points or 0.50%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 51,461.90, down 631.21 points or 1.21%.
- **S&P 500:** closed at 7,551.81, down 33.92 points or 0.45%
- **Nasdaq Composite:** closed at 25,978.42, down 3.14 points or 0.01%
- **Birling Capital Puerto Rico Stock Index:** closed at 4,982.06, down 42.88 points or 0.85%
- **Birling Capital U.S. Bank Index:** closed at 10,240.96, up 10.51 points or 0.10%
- **U.S. Treasury 10-year note:** closed at 5.01%.
- **U.S. Treasury 2-year note:** closed at 4.74%

Federal Reserve Summary of Economic Projections

September 2026 FOMC Meeting

Median projections, September 2026 vs. June 2026 — by variable and year

Source: Federal Reserve Board, Summary of Economic Projections


January 2022 through September 2026 FOMC meetings
Target Federal Funds Rate, Upper and Lower Limit
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
2022
2023
2024
2025
2026
Upper limit
Lower limit
Source: Federal Reserve Board — Birling Capital Advisors
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GDPNow: Real GDP Growth Estimate, Third Quarter 2026
Atlanta Fed model-based nowcast, tracked update by update
7.0%
6.5%
6.0%
5.5%
5.0%
4.5%
4.0%
3.5%
3.0%
6.20%
5.90%
5.80%
4.30%
4.00%
4.60%
4.80%
4.70%
4.40%
5.10%
8/3
8/4
8/6
8/14
8/18
8/26
9/1
9/3
9/10
9/16
Change vs. Prior Update
10%
0%
-10%
-20%
-4.84%
-1.69%
-25.86%
-6.98%
+15.00%
+4.35%
-2.08%
-6.38%
+15.91%
Source: Federal Reserve Bank of Atlanta — Birling Capital Advisors
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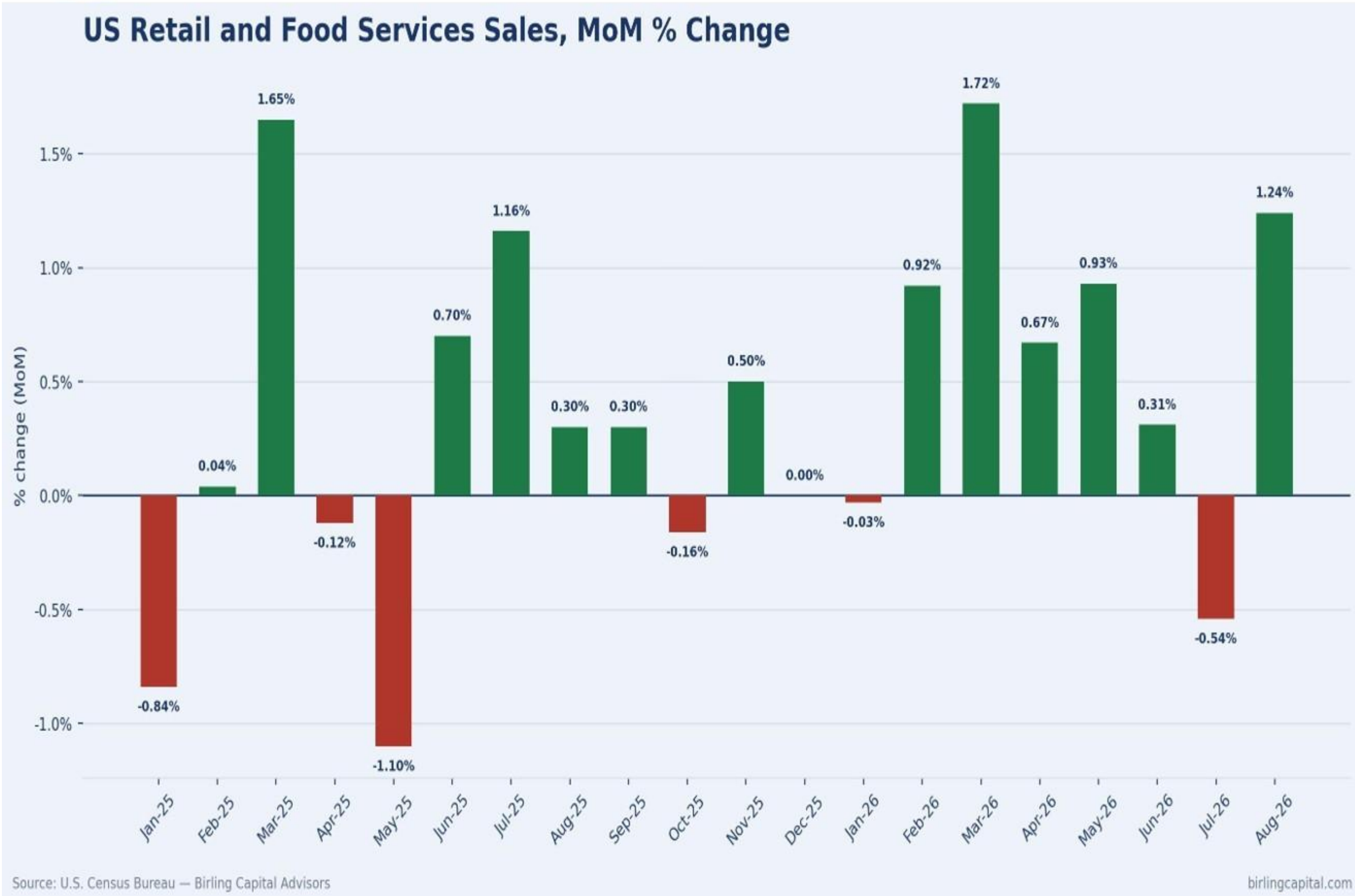
US Retail and Food Services Sales, MoM % Change
% change (MoM)
1.5%
1.0%
0.5%
0.0%
-0.5%
-1.0%
-0.84%
0.04%
1.65%
-0.12%
-1.10%
0.70%
1.16%
0.30%
0.30%
-0.16%
0.50%
0.00%
-0.03%
0.92%
1.72%
0.67%
0.93%
0.31%
-0.54%
1.24%
Jan-25
Feb-25
Mar-25
Apr-25
May-25
Jun-25
Jul-25
Aug-25
Sep-25
Oct-25
Nov-25
Dec-25
Jan-26
Feb-26
Mar-26
Apr-26
May-26
Jun-26
Jul-26
Aug-26
Source: U.S. Census Bureau — Birling Capital Advisors
birlingcapital.com


US Export and Import Prices, Year-Over-Year
Export prices YoY
Import prices YoY
US Wholesalers Inventories, MoM
NAHB/Wells Fargo Housing Market Index
NY Fed Business Leaders Survey: Current Activity
Source: U.S. Census Bureau, NAHB/Wells Fargo, Federal Reserve Bank of New York — Birling Capital Advisors
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Eurozone Indexes Close

Wednesday, September 16, 2026

Stoxx 600	FTSE 100	DAX Index
Closing price	Closing price	Closing price
637.09	10,688.47	25,537.75
▲ +2.91	▲ +30.34	▲ +135.47
+0.46%	+0.28%	+0.53%

Source: Bloomberg, LSEG — Birling Capital Advisors

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Wall Street Summary Close

Wednesday, September 16, 2026

Dow Jones Industrial Average	Closing price	51,461.90	▼ -631.21 pts	-1.21%
S&P 500	Closing price	7,551.81	▼ -33.92 pts	-0.45%
Nasdaq Composite	Closing price	25,978.42	▼ -3.46 pts	-0.01%
Birling Capital PR Stock Index	Closing price	4,982.06	▼ -42.88 pts	-0.85%
Birling Capital U.S. Bank Index	Closing price	10,240.96	▲ +10.51 pts	+0.10%
U.S. Treasury 10-Year Note	Closing yield	5.01%	▲ +4 bps	vs. 4.97% prior
U.S. Treasury 2-Year Note	Closing yield	4.74%	▲ +9 bps	vs. 4.65% prior

Source: Bloomberg, Federal Reserve Board — Birling Capital Advisors

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VAL
Dow Jones Industrial Average Level 51461.90
51461.90
Jan '26
Feb '26
Mar '26
Apr '26
May '26
Jun '26
Jul '26
Aug '26
Sep '26
VAL
S&P 500 Level 7551.81
7551.81
7000.00
VAL
Nasdaq Composite Level 25978.42
25978.42
VAL
Birling Capital Puerto Rico Stock Index Level 4982.06
4982.06
4000.00
VAL
Birling Capital U.S. Bank Index Level 10240.96
10240.96
9000.00
8000.00