

# FOMC holds rates as divisions emerge on guidance & inflation risks

US Rates Update

April 2026



بيت التمويل الكويتي

KFH

# Executive summary

## Background

### Key takeaways from the Federal Open Market Committee's rate decision on 29 April 2026:

- Policymakers held rates steady, but there were four dissents. Three of those were not about the rate path, but about language. Beth Hammack, Neel Kashkari and Lorie Logan dissented against an “easing bias” in the statement, while Stephen Miran dissented in favor of a quarter-point cut.
- Chair Jerome Powell announced he will continue to serve as governor for a period of time “to be determined” but “welcomed” the Department of Justice decision to drop a criminal probe into cost overruns in a renovation of the Fed’s Washington headquarters. He reiterated he wants certainty the investigation is “well and truly over.”
- At the press briefing, Powell reiterated the committee is not thinking about rate hikes at the moment but “the center” is moving toward a more neutral language in their statement.
- The S&P 500 fell about 0.19%, the most since May 2025, right after the Fed decision, and bond yields increased to the day’s highs after Powell signaled forward guidance could change at the next meeting. Forecasts for rate cuts in future markets are virtually gone.

## Profit rate strategy

### In the midst of a heightened uncertainty, we keep seeing selective opportunities in the current market environment:

Hedge medium to long-term risk via Profit Rate Swap. Swap rates remain high and tight financial conditions are expected to remain.

Forward-starting PRS seem to offer decent value given the relatively upward-sloping yield curve.

Alternative hedging strategy structured via options (like Profit Rate Collar).

01.

# US Rates Markets

# April Fed meeting update

## Policy unity fractures on guidance

- FOMC held the target range unchanged, voting 8-4, with only Miran dissenting on rates by favoring a quarter-point cut, while others supported the hold but objected to policy-statement regarding forward guidance and neutrality views.
- Three presidents dissented against perceived easing-bias language, reflecting growing concern about elevated inflation & energy-price risks, despite agreeing with the decision, illustrating intensifying debate over explicitly guidance.
- Powell emphasized policy is near neutral, ruled out rate hikes for now, and signaled flexibility to adjust forward guidance at future meetings, while noting resilient growth, cooling labor demand, and energy-driven inflation pressures clouding near-term progress toward the two-percent goal.

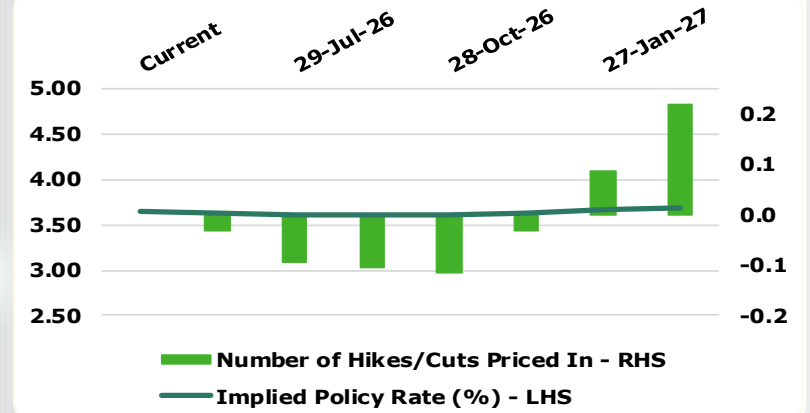
## Economic signals remain mixed, yet resilient

- Economic activity continues expanding at a solid pace, consumer spending remains resilient, and retail sales show households are still spending, even as housing stayed weak and business investment declined briskly amid tighter financial conditions and ongoing geopolitical uncertainty.
- On inflation, price pressures have risen and remain elevated, partly reflecting recent global energy price increases, while near term inflation expectations moved higher but longer-term expectations stayed consistent with the Federal Reserve's two percent objective despite volatility.
- Labor market conditions as cooling modestly, with job growth slowing, labor demand softening, and wage growth steady, emphasizing the labor market is not currently a source of inflationary.

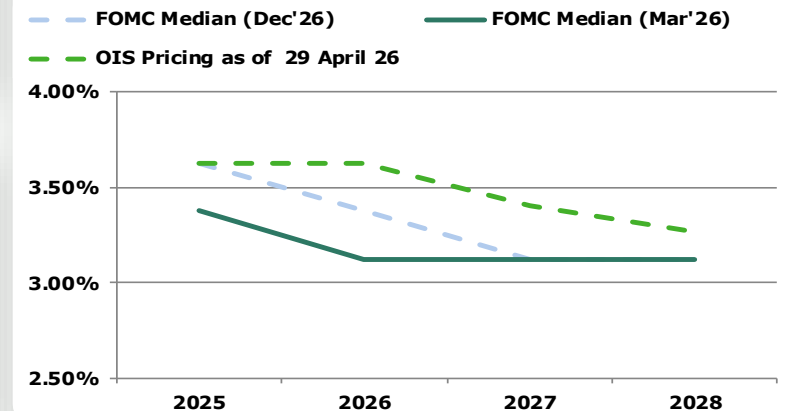
## Market Reaction

- U.S. stocks reacted positively but cautiously, with gains led by tech as the rate hold supported risk sentiment, though war impact & oil prices have superseded and pushed market to drop.
- The dollar was slightly weaker, as markets leaned toward future easing expectations but remained sensitive to Fed guidance on timing of cuts.
- Treasuries yields eased modestly after initial volatility, particularly at the front-end, as investors priced in a prolonged pause with gradual normalization ahead.

## Implied Overnight Rate & number of hikes / cuts (as of 29 April 26)



## “Dot plot” in Mar’26 vs Dec’25 meeting



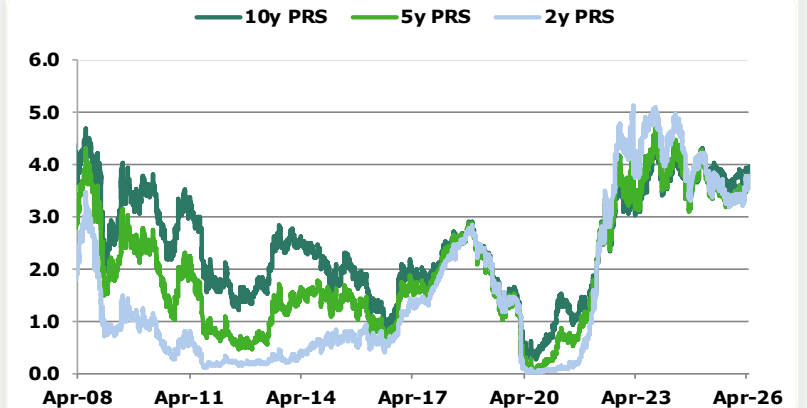
# Overview of the FOMC press conference

## Fed rate hold highlights divisions and shifting forward guidance

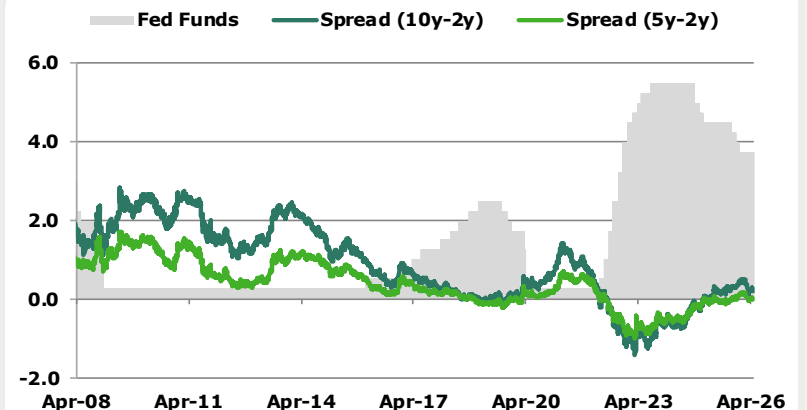
- Market widely characterized the April FOMC decision as a hawkish hold, emphasizing that while the Committee kept the federal funds target range unchanged, the outcome exposed unusually deep internal divisions. Commentaries focused on the significance of four dissents, a rare occurrence historically, with only one dissent opposing the rate decision itself.
- The debate over guidance outweighed the decision itself. Three presidents objected to what they viewed as an implicit easing bias in the statement. This objection was seen as reflecting growing discomfort that markets had interpreted prior guidance as skewed toward cuts. In contrast, Governor Miran's dissent in favor of an immediate quarter-point cut underscored the wide philosophical dispersion. Observers noted that such divisions complicate consensus-building going forward & may delay adjustments unless economic conditions deteriorate more clearly.
- Powell highlighted his careful effort to balance reassurance with restraint. Powell repeatedly emphasized that no one on the Committee is calling for rate hikes at present, while also declining to endorse near-term cuts. Analysts noted that his acknowledgment that forward guidance could change in the future prompted markets to reassess assumptions about the policy path.
- Inflation commentary received particular attention, with Powell stressing that price pressures have risen and remain elevated. Articles highlighted his view that tariff and oil-related inflation effects should peak over the next few quarters, while uncertainty remains high. The distinction Powell drew between rising near-term inflation expectations and stable longer-term expectations was seen as critical, suggesting credibility in the inflation framework remains intact.
- Powell's emphasized that growth remains solid overall, supported by resilient spending & steady retail sales. At the same time, weaker housing activity and declining business investment were highlighted as evidence that tighter financial conditions are restraining rate-sensitive sectors. Powell's comments on productivity gains were noted as a potential offset, supporting growth without reigniting inflation.
- Labor-market discussion was framed as central to the policy outlook. Powell described job growth as slowing modestly, labor demand as cooling, and wage growth as stable. Analysts emphasized his assertion that the labor market is not currently a source of inflationary pressure, contrasting sharply with conditions earlier in the cycle. However, the labor market was also depicted as still too strong to justify aggressive easing.
- Finally, Powell's decision to remain on the Board was widely interpreted as a defense of Fed independence, rather than an effort to influence future policy. His insistence that he would avoid acting as a "shadow chair" was seen as an attempt to ensure a smooth leadership transition. Many analyses concluded that the meeting marked a turning point, not just for policy direction, but for how internal debate and communication will shape expectations going forward.

Data source: Bloomberg

## Swap rates - Historical Data



## 10s2s and 5s2s (vs. SOFR) – Historical Data



# Overview of the FOMC press conference

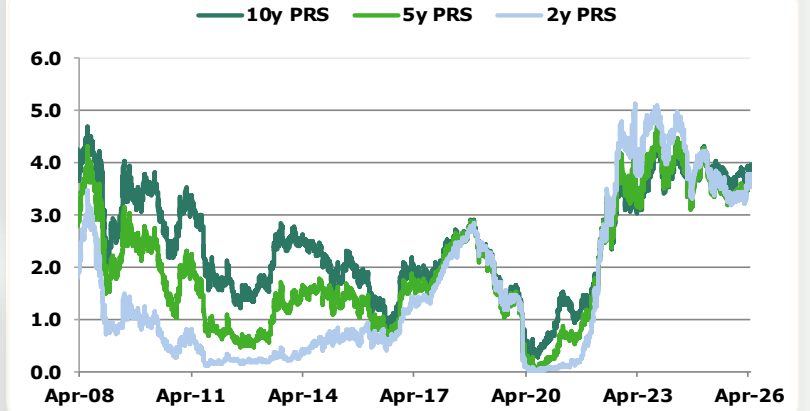
## SOFR and swaps reprice higher-for-longer outlook

- Front-end SOFR yields declined initially but retraced. SOFR futures and front-end rates (1Y–2Y) rallied right after the decision, reflecting expectations of eventual easing; however, during Jerome Powell's press conference, yields partially reversed higher as the Fed pushed back on near-term cuts and reinforced a cautious stance.
- SOFR OIS Forwards (1Y–5Y) and SOFR futures (reds/greens) remained broadly flat with a modest steepening bias, as front-end pricing (1Y–2Y) stayed supported while deferred tenors (2Y–5Y) held firmer, reflecting expectations of an extended policy pause followed by a gradual easing cycle rather than an aggressive rate-cut path.

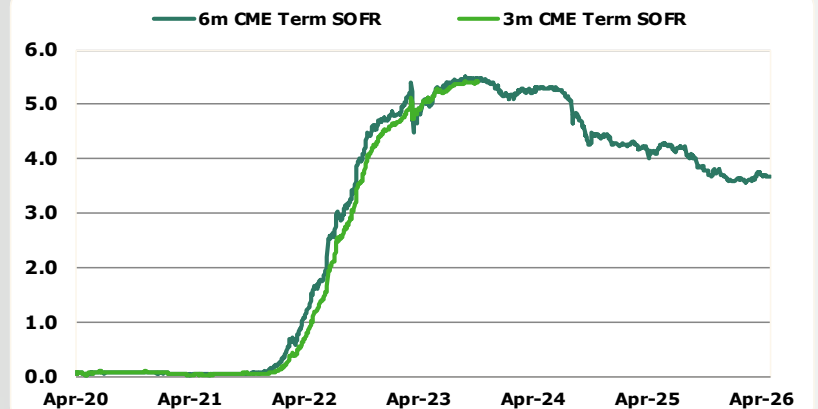
## US Rates monitor statistics

(January 2007 – PRESENT)		10yr PRS	5yr PRS	2yr PRS
Historical	Average	2.58	2.13	1.74
	Δ			
	Max	5.82	5.64	5.48
	Min	0.26	0.02	-0.01
	<b>Current</b>	<b>3.68</b>	<b>3.74</b>	<b>3.93</b>
	From Average	1.22	1.46	1.89
	From Max	-2.01	-2.06	-1.85
	From Min	3.54	3.56	3.64
(January 2019 – PRESENT)		6M CME Term SOFR	3M CME Term SOFR	Daily SOFR
Historical	Average	2.58	2.13	1.74
	Δ			
	Max	5.82	5.64	5.48
	Min	0.26	0.02	-0.01
	<b>Current</b>	<b>3.68</b>	<b>3.74</b>	<b>3.93</b>
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## Swap rates (vs. SOFR)

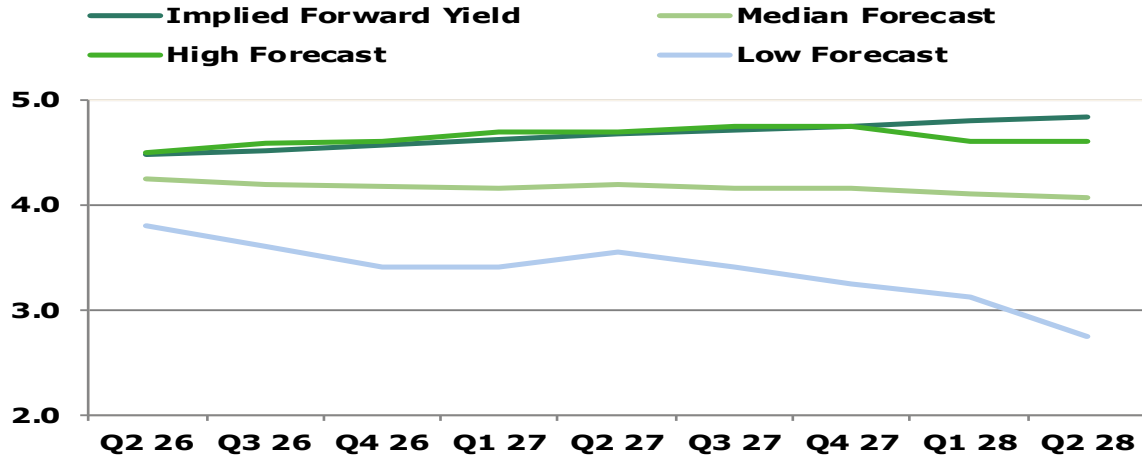


## CME Term SOFR

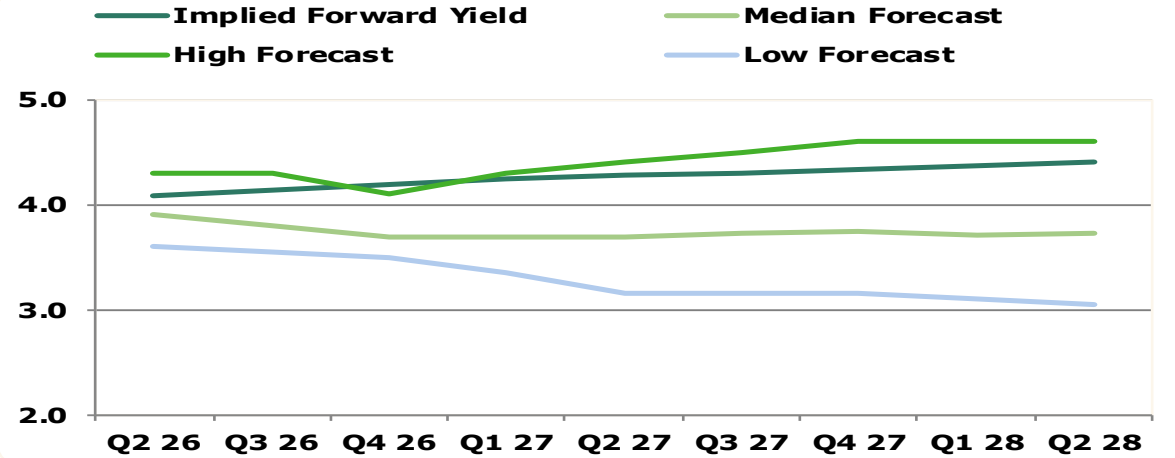


# Market Forecast

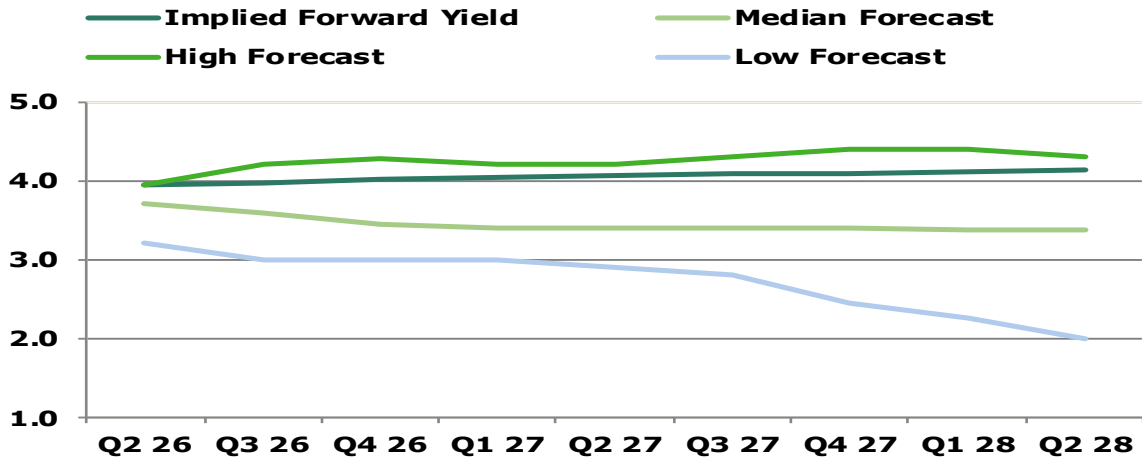
## 10yr US Treasury



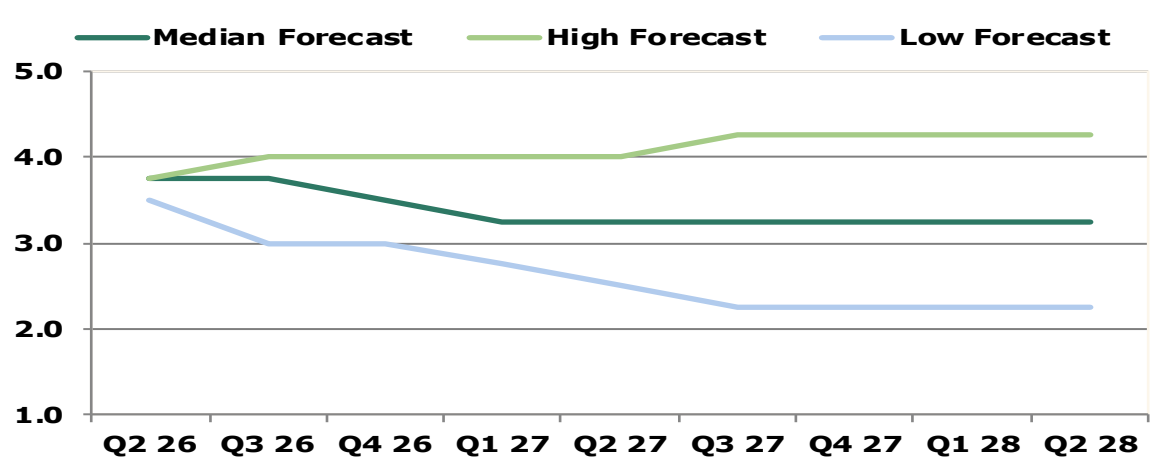
## 5yr US Treasury



## 2yr US Treasury



## Fed Funds Target – Upper Bound



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# Main Economic Indicators

# Economic activity: Consumers and Business

## Growth holds firm despite lower GDP & consumer headwinds

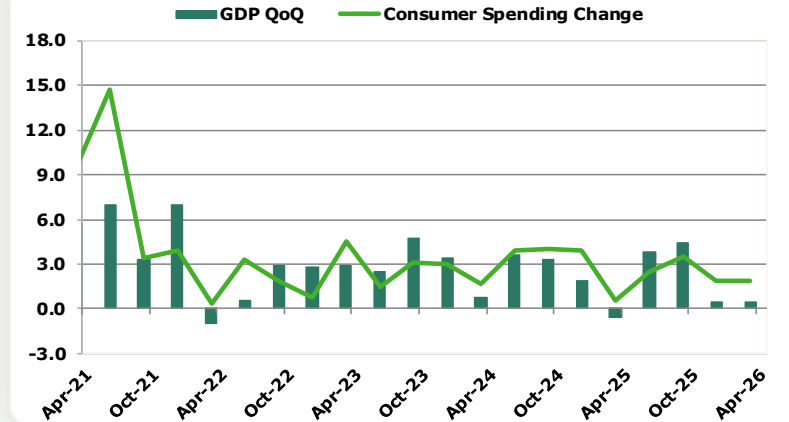
- The final estimate of fourth-quarter GDP was revised down to a 0.5% growth rate, from 0.7% previously. Real gross domestic income (GDI) pointed to a stronger underlying pace, rising 2.6% in 4Q. Income growth and core demand remained relatively solid, with real GDI growth exceeding the annual pace for all of 2025 and corporate profits surging.
- US real Q1 2026 GDP growth, due April 30, is likely to rebound to around 2.0% in the first quarter from 0.5% prior, reflecting the unwinding of temporary factors that had depressed growth amid the government shutdown last fall.
- Personal consumption rose at an annualized rate of 2.0% in Q4 2025, down from 2.4% in the advance estimate. US consumer spending barely, the government halved its initial estimate of growth in the fourth quarter, and the war with Iran has boosted energy prices and dented household sentiment.
- Economists fear a spending slowdown because the combination of surging energy prices driven by the conflict in Iran and weak job growth creates a "stagflationary" squeeze where households have less disposable income and less financial confidence to shop.

## Supply-driven inflation pressures intensify as activity expands

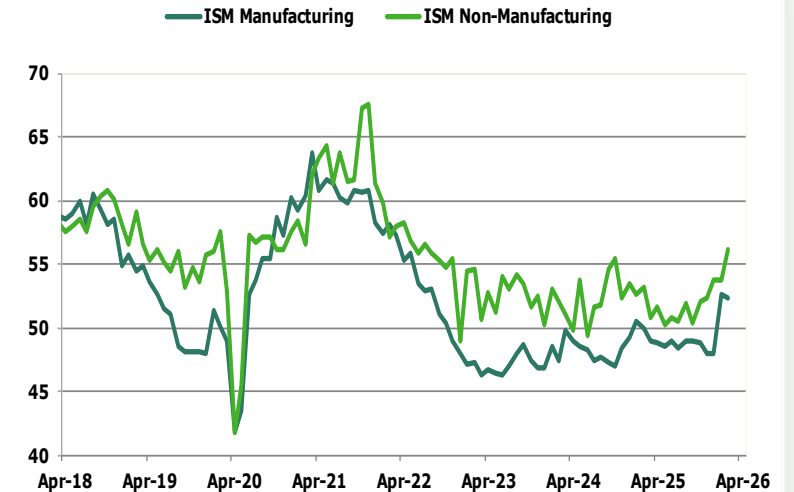
- US manufacturing activity expanded in March by the most since 2022, while input prices continued to surge amid Iran war. The Institute for Supply Management's gauge of prices paid for manufacturing inputs climbed another 7.8 points to 78.3, remaining at the highest since mid-2022. Over the past two months, the index has advanced 19.3 points, the most in nearly a decade.
- ISM manufacturing activity moved back into expansion in March, with the headline PMI rising to 52.7. Production and new orders improved as firms worked through backlogs accumulated earlier in the year. Slower supplier deliveries lifted the headline index, suggesting normalization in logistics and supply timing rather than a surge in end-demand or pricing-driven distortions.
- The US service economy expanded in March at a slower pace as employment shrank by the most since 2023 and input prices accelerated sharply. The Institute for Supply Management's gauge of prices paid for services and materials jumped to 70.7, the highest since October 2022, according to data released, readings above 50 indicate expansion.
- Businesses are experiencing a sharp run-up in cost pressures for energy and other inputs due to the Iran war. The conflict has essentially closed the Strait of Hormuz, a key passage for oil and other critical products. The ISM Services PMI was hampered by a sharp, pervasive rise in prices, which likely discouraged firms from hiring by managing inflationary pressures through focusing on cost controls and supply-chain risk management, affecting hiring, pricing and capital expenses.

Data source: Bloomberg

## Q4'25 GDP and Consumer Spending



## Business sector



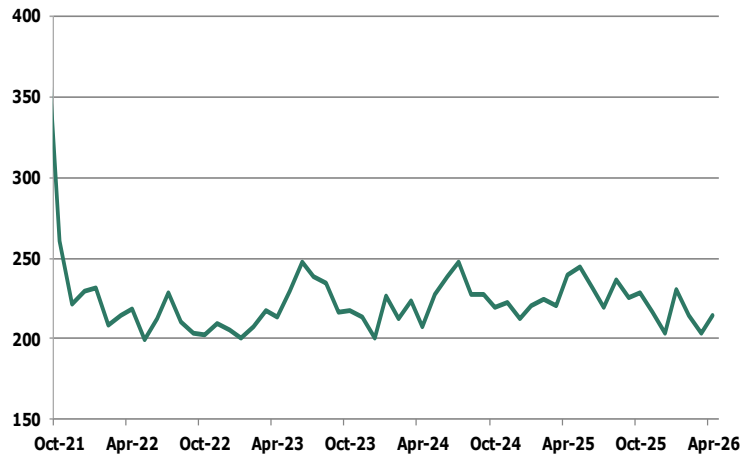
# Labor market

## Labor market remains firm as wage pressures ease

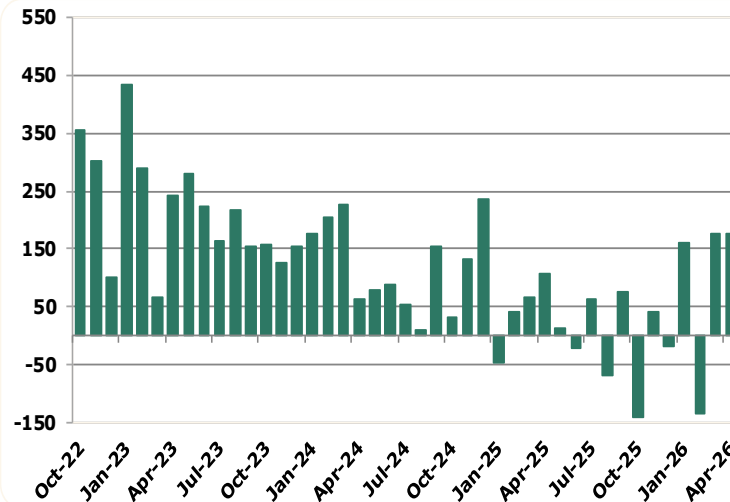
- Initial jobless claims remain historically low, rising modestly to 214,000 for the week ending April 18, with the four-week moving average at roughly 210,750. The data continue to signal a “low-fire” labor market environment, with no meaningful pickup in layoffs despite rising energy prices and geopolitical uncertainty.
- Nonfarm payrolls rebounded sharply in March, increasing by 178,000 jobs following a revised 133,000 decline in February. Job gains were concentrated in health care, construction, and transportation, while federal government employment contracted further, indicating uneven but still positive labor demand across sectors.
- The unemployment rate edged lower to 4.3%, driven largely by fewer job separations rather than stronger hiring. Labor force participation slipped to 61.9%, suggesting the improvement reflects labor-supply dynamics rather than accelerating employment.
- Average hourly earnings rose 0.2% month over month and 3.5% year over year in March, the slowest annual pace since mid-2021. Cooling wage growth alongside a stable unemployment rate points to easing labor-cost pressures, supportive of the Fed’s assessment that wage inflation risks are moderating.



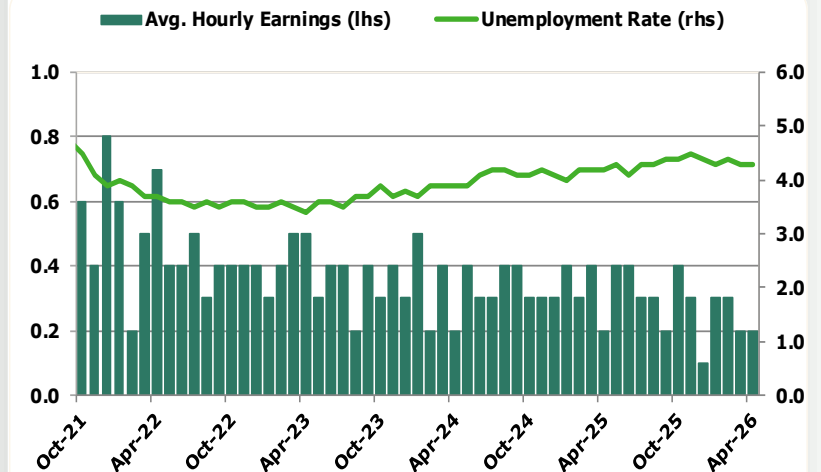
### Initial Jobless claims



### Non-Form Payrolls



### Unemployment and wages



Data source: Bloomberg

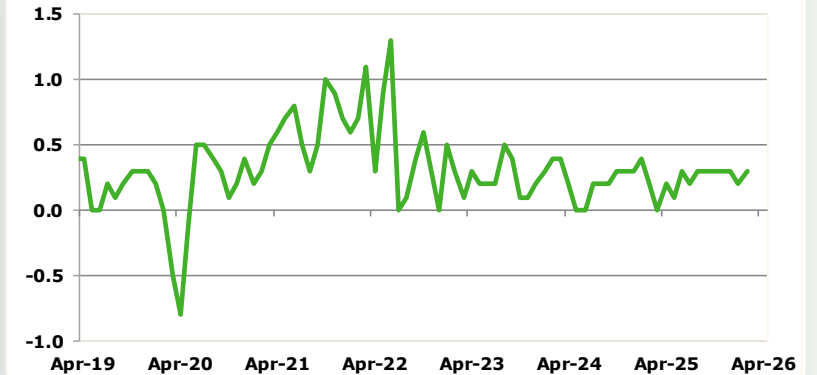
# Inflation outlook

## Energy shock drives headline inflation reacceleration

- Headline CPI inflation jumped to 0.87% in March (vs. 0.27% for February), while the core moderated to 0.20% (vs. 0.22% prior). On a year-over-year basis, the headline rose to 3.3% from 2.4%, and the core to 2.6% from 2.5%.
- Energy costs contributed 70 basis points to headline CPI. Seasonally adjusted gasoline prices increased 21.2% (vs. 0.8% prior), the biggest jump on record. Electricity costs rose 0.8% (vs. -0.7% prior), and natural-gas prices fell 0.9% (vs. 3.1% prior).
- Food inflation was essentially unchanged (vs. 0.4% prior), while food at home fell -0.2% (vs. 0.4% prior). Nonalcoholic beverages declined and fresh fruit and vegetable prices moderated, after both registered strong gains in February. Egg prices declined again after last year's spike.
- Core goods inflation remained at 0.1%, with a split evident among high-weight items. Used cars fell 0.4%, while new-car prices grew 0.1%. Prescription-drug prices were down 1.5%. Household furnishings and supplies fell -0.2% with declines in almost all components. With a shortage driving up memory-chip prices, computer software and accessories increased 4.0% and personal computers rose 1.5%. Meanwhile, telephone hardware, calculators, and other items dropping 0.8%. Recreation goods gained +0.5% and toys (+2.3%). Finally, apparel jumped 1.0% & personal care products gained 0.4%.
- Core services prices decelerated to 0.2% with airfares rising 2.7% shows that higher jet-fuel prices are already putting pressure on airfares. Primary residential rents and owner-equivalent rent ticked back up to 0.2% and 0.3%, respectively. Inflation in some discretionary services slowed like car rentals slowed to 1.3% in March. Hotel prices increased 0.2%. Recreation services fell -0.4%.
- The inflationary impact of the Iran war showed the most direct effect via gasoline prices. The fact that core CPI didn't accelerate should be encouraging for the Fed, allowing them to look through the oil-price spike. Still, the FOMC to stayed on hold.
- The Iran war represents another supply shock, adding complexity to the path of inflation back to the Fed's 2% target after more than five years above it. It is expected that inflation to gradually ease through 2026 and into 2027.
- Looking ahead, inflation risks are tilted higher as the Iran war drives up oil and gasoline prices, with knock-on effects to transportation and food costs, increasing the likelihood that headline CPI reaccelerates and potentially moves back above the 3% threshold, reinforcing near-term price pressure concerns.

Data source: Bloomberg

## Month-on-Month Change in Inflation



## Year-on-Year Change in Inflation



# Asset prices and the wealth effect

## US equities weaken as higher-for-longer fears resurface

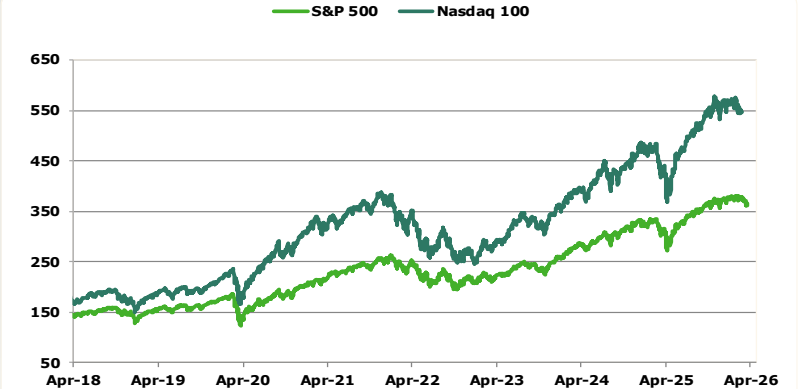
- The S&P 500 traded choppily but towards a gain path. Higher energy prices, geopolitical risks, and fading rate-cut expectations weighed on valuations, offsetting otherwise supportive earnings.
- The Nasdaq 100 underperformed the broader market, pressured by rising bond yields. Mega-cap Techs & AI-linked stocks saw increased volatility & profit-taking as investors reassessed longer-duration growth exposures amid higher-for-longer monetary policy expectations.
- Following the latest FOMC decision, markets declined modestly, reflecting disappointment over the lack of near-term easing signals. Markets interpreted hawkish dissents and guidance uncertainty as reinforcing restrictive policy, triggering risk reduction rather than disorderly selling, as investors recalibrated expectations for the timing and pace of future rate cuts.

## Housing activity rebounds as forward indicators turn cautious

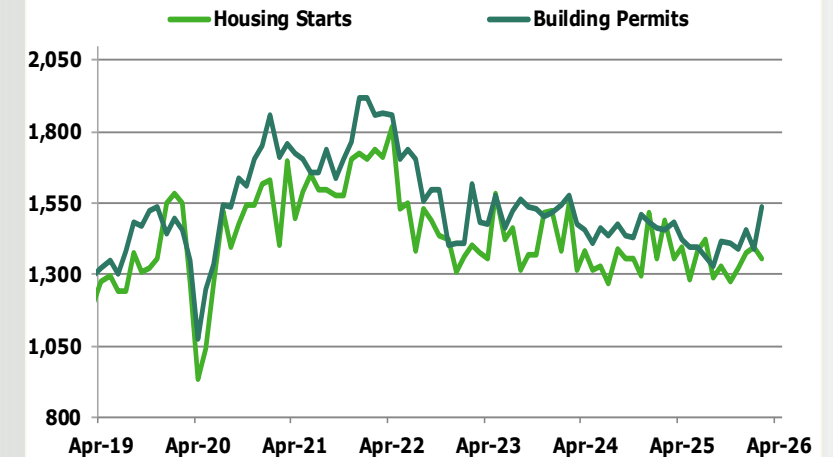
- Housing starts rebounded sharply in March, rising 10.8% to a 1.50 million annualized pace, the strongest level since late 2024. Single-family construction led the increase, reflecting improved weather conditions and builders working through backlogs, though sustainability remains questionable amid higher mortgage rates and rising construction costs.
- Single-family housing starts climbed 9.7% month over month to 1.03 million units, marking a 13-month high. The increase suggests near-term resilience in housing supply, but builders remain cautious as affordability challenges persist and financing conditions tightened following the recent rise in mortgage rates.
- Building permits declined 10.8% in March to a 1.37 million annualized rate, signaling softer future construction activity. Single-family permits fell 3.8% while multifamily authorizations dropped sharply, reflecting builder caution amid elevated input costs, higher borrowing rates, and increased uncertainty tied to geopolitical developments.
- Pending home sales increased 1.5% month over month in March, pointing to modest stabilization in buyer demand despite higher mortgage rates. Gains were concentrated in the South and Northeast, while activity remained uneven nationally, highlighting pent-up demand tempered by affordability constraints and inflation-driven cost pressures.
- On a year-over-year basis, pending home sales declined 1.1% in March, underscoring that the housing recovery remains fragile. While marginal monthly improvements suggest demand remains, elevated financing costs and limited inventory continue to restrain transaction volumes and slow a broader housing market rebound.

Data source: Bloomberg

## Equity markets



## Housing Sector



# Beyond the headlines

## What's your view?

### A pause for a little longer...



- Inflation accelerated on energy shocks, with headline CPI jumping sharply as oil and gasoline prices surged following Middle East disruptions.
- Economic activity remains resilient, as manufacturing expansion and consumer spending stay firm despite restrictive financial conditions.
- Labor markets remain tight, with unemployment near 4.3% and jobless claims hovering close to cycle lows.

**Persistent energy-driven inflation argues for maintaining a restrictive stance.**

### ... or easing rates further



- Core inflation continues to moderate, with underlying price pressures slowing despite headline volatility from energy prices.
- Rate-sensitive sectors are weakening, as housing activity remains constrained by affordability and higher mortgage rates.
- Wage growth is cooling, with average hourly earnings rising at the slowest pace as easing compensation pressures reduce the risk of sustained services inflation.

**Lower energy-prices, moderated core inflation & cooling wages could strengthen the case for policy easing.**

03.

# Profit Rate Hedging & Investment Products

# Hedging – Vanilla Profit Rate Swap

## Description

- A Profit Rate Swap is a highly liquid and very wide-spread derivative instrument used as the basic tool to hedge profit rate risk.
- It is an agreement between two parties to exchange periodic profit rate payments based on a fixed profit rate against payments based on a floating profit rate (e.g. Compounded SOFR), calculated on a notional amount and for a specified tenor.
- If coupled with a floating rate financing, the PRS eliminates the exposure to rising profit rate payments by creating a “synthetic” fixed profit rate financing

## Main features / drawbacks

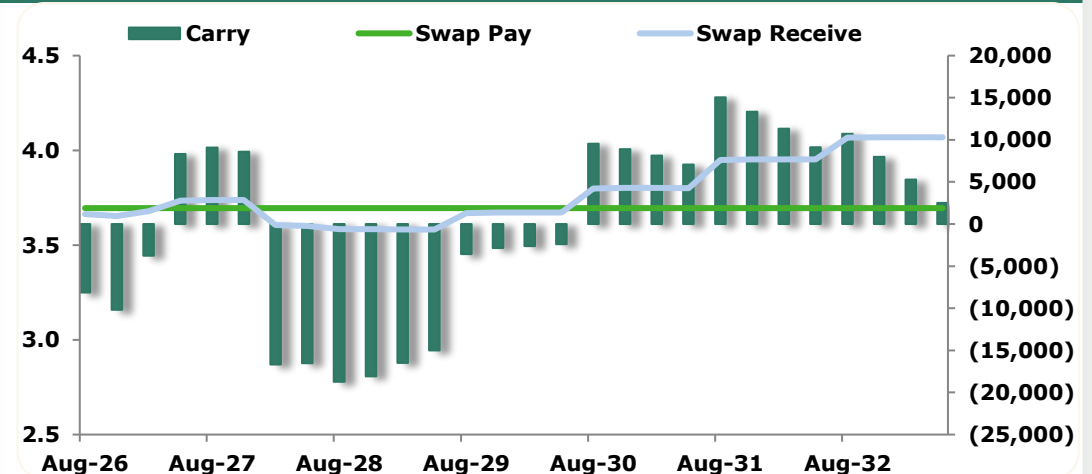
- Absolute certainty over future cash flows, supporting budgeting and planning exercise and easy accounting treatment (hedge accounting – no impact on P&L under certain assumptions).
- Flexibility over the financing amount (also with an amortizing profile) and tenor to be hedged, allowing for partial notional and shorter tenor than the full one.
- Can be structured in a fully Islamic format.
- The borrower cannot benefit if Compounded SOFR drops as they have locked in a fixed rate through the PRS.
- Should Compounded SOFR rise less than current market expectations (forward rates), the overall cumulative carry would be negative.

Data source: Bloomberg

## Indicative Terms\*

Notional	"Initial Notional of USD 100mn, Equally amortizing over the tenor"		
<b>Start Date</b>	<b>Spot</b>		
Tenor (alternatives)	5 years	7 years	10 years
Fixed rate paid	3.66%	3.69%	3.76%
Floating rate received	Compounded SOFR, quarterly		
Payments	Quarterly, act/360		

## 7yr PRS-Fixed rate vs. Floating rate scenario



# Hedging – Forward-start Profit Rate Swap

## Description

- While a Profit Rate Swap allows borrowers to eliminate their risk and avoid unwanted fluctuations in their profit payments, client can further reduce fixed rate to be paid by using a forward-start PRS.
- For example, in a 1year forward-start PRS the deal is concluded (hence, the rate is fixed) on the Trade Date, but the exchange of flows starts in one year (Start Date).
- Hence, between Trade Date and Start Date – if the borrower hold a view that rates will go further down before rising in future – then they can still benefit from the low Compounded SOFR.

## Main features / drawbacks (compared to a vanilla PRS)

- Client can benefit from short term rates remaining low for 1year or 2year and at the same time can be hedged for any rise in rates thereafter.
- The client achieves a slight negative carry initially. The initial difference between the floating rate received and the fixed rate paid is negative – this is offset by later positive cash-flows.
- Client in unhedged for the period between Trade Date and Start Date of the forward PRS.

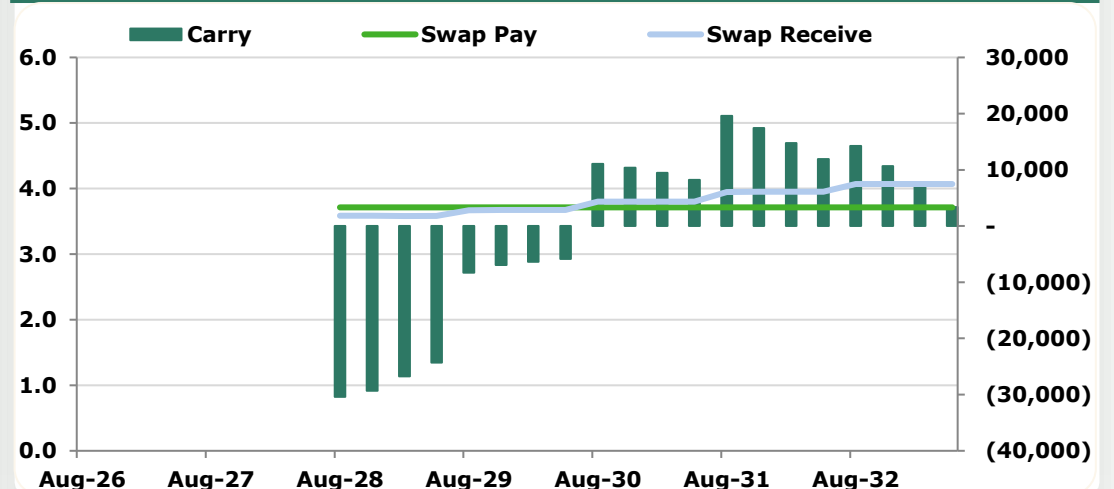
Data source: Bloomberg

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## Indicative Terms\*

Notional	"Initial Notional of USD 100mn, Equally amortizing over the tenor"			
<b>Start Date</b>	<b>1 year</b>		<b>2 year</b>	
Tenor (alternatives)	4 years	6 years	3 years	5 years
Fixed rate paid (%)	3.66%	3.70%	3.64%	3.71%
Floating rate received	Compounded SOFR, quarterly			
Payments	Quarterly, act/360			

## 2yrx5yr PRS - Fixed rate vs. Floating rate scenario



# Hedging – Profit Rate Collar

## Description

- A Profit Rate Collar is an option on a reference profit rate that would give the buyer a best case and worst-case rate.
- As a hedging tool, it works to protect a floating rate borrower (Collar buyer) should the reference profit rate (e.g. Compounded SOFR) rise above a certain threshold (Cap Strike) but should the reference profit rate (e.g. Compounded SOFR) fall below a certain level (Floor Strike) client has a minimum rate to pay.
- A Profit Rate Collar combines buying a Cap and selling a Floor, the sale of the floor allows the borrower to reduce the cost of the hedge while still allowing him to benefit from lower Profit Rates up to a certain level.

## Main features / drawbacks (compared to a vanilla PRS)

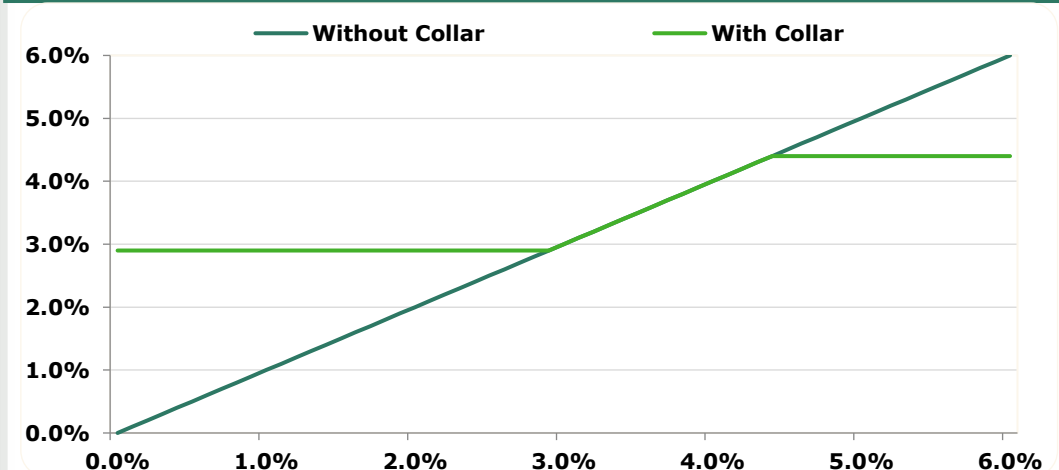
- Full protection above the Cap Strike, with the possibility to benefit should Compounded SOFR fall up to the floor level. Worst-case scenario and Best-case scenario is known at inception.
- Current market environment (flat to negative yield curve) allows Collar levels to be attractive.
- No cash flow if markets remain between the cap and floor.
- If Markets fall below floor, client will pay the floor which at the time will be above market levels, yet still it is lower than the current vanilla swap.

Data source: Bloomberg

## Indicative Terms\*

Notional	"Initial Notional of USD 100mn, Equally amortizing over the tenor"	
<b>Start Date</b>	<b>Spot</b>	
Tenor (alternatives)	5 years	7 years
Cap Strike (alternative)	4.48%	4.81%
Floor Strike (alternatives)	3.00%	3.00%
Underlying Index	Compounded SOFR, quarterly	
Payments	Quarterly, act/360	

## Hedge Rate: 5yr Cap@ 4.48% Strike and Floor @ 3.0% Strike



# Disclaimer & Contact Details

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