FRIDAY – SEPTEMBER 18, 2026

Well, hello, and welcome to The Dividend Cafe. I am your host, David Bahnsen. I am recording from our beautiful office in Phoenix, Arizona, where I've been for a couple of days with the team here, and where we have taken in a Fed week that is the necessary subject of today's Dividend Cafe.

Let me explain something. I really do not want The Dividend Cafe to be about the Fed every time there's a Fed meeting. It has been more so than normal recently for various reasons, and the sort of drama and adventure of having a new Fed chair. But if I were to set it up this way and just simply tell you that I think most Americans want prices to stabilize, I think most Americans that wanna buy a home would like a cheaper mortgage. I think there are some Americans that wanna sell a home to get a bigger and better one, but don't wanna trade a low mortgage for a high mortgage. I think many Americans want the valuation on their stock portfolio to stay high, and I think many Americans want groceries to be in a certain price range relative to their own expectations, et cetera, et cetera. Then all of a sudden, perhaps this thing seems more, shall we say, relevant to Dividend Cafe listeners, viewers, and readers. But when I talk about it as if it were an academic or macroeconomic exercise—Fed policy, interest rates, quantitative easing, other jargon I could throw on there—it can sound very boring.

But when you think of this, and the reason I'm writing about it, in a very practical sense, and I promise you I'm gonna be concluding today with some very practical, basic, and I would argue relevant takeaways, it changes the tenor a little bit. I'm gonna cut to the chase here from the very outset about the Fed's decision to hike rates by a quarter point this week. And I'm gonna unpack all of this and give you a little more meat on the bone. But what I primarily want to say is that the Fed, in hiking rates a quarter point, didn't really do anything much more than acknowledging that they're following the market, not trying to lead the market. The way that the short end of the yield curve, short-term interest rates, had been going higher, the long end of the yield curve had been going higher when the policy rate was not moving and when the Fed had announced that they—last meeting they were not hiking and, in fact, had not moved rates all year long. What you really were seeing was the market doing what the market wanted to do, not because of the Fed, but despite the Fed.

And I think this goes completely against the sort of reaction function and the policy, the desired policy function, that we've had for quite some time. Markets responding to what the Fed has done, markets responding to what the Fed is going to do, markets responding to what they believe the Fed is gonna do. That is all very different than what I think you're seeing now, where markets are leading the way and the Fed is following. And it's why I've titled this week's Dividend Cafe that it was the most performative rate hike. I'm not saying it in a pejorative way, and I'm not saying it in a complimentary way, but very descriptively, there's not a lot of substance in financial markets to this rate hike because the financial tightening that a policy rate increase would normally represent, the financial tightening has already been done. The financial markets had already moved higher, and the Fed is playing catch-up. And so I think that this rate hike was intended to be very cosmetic in that regard, and that is what it is. And I think you need to understand it that way.

And in a lot of ways, you could refer to it as a do-over from that December of 2025 rate cut. They're kinda taking that cut off of the table. And right now, seeing a more natural rate somewhere around 3.75 to 4%. But I will say there's an 87% implied probability in the Fed funds futures market of another rate hike by the end of the year. That's about 50% for one more, 37% for two more. So is there another 25, another 50 coming up into the Fed funds rate? The one or the other is what the market seems to be saying.

Now, many have asked about the politics of it all. There's been, first of all, some who said, "Oh, the Fed's not independent anymore. They respond to what the president bullies them into." And it's kind of an interesting thing. I do not believe that has ever been the case with Chairman Warsh. I've never expected it to be the case. I do not believe when they didn't hike in July, it had anything to do with President Trump, and I do not believe that when they did hike yesterday—or at this point, if you're listening Friday, I'm recording Thursday—that it was relevant that it was an attempt to upset the President. I think that Chairman Warsh is independent, and I think that means he can be independently right or independently wrong when he independently takes action or independently doesn't take action. But I do not believe that he's being bullied by the President.

But I've had this little theory for a while, and I've shared it with some in my inner circle, that the play here was for him, if he wanted to be able to hike rates and not upset the President, was to explain that it was providing the President a sort of heads-you-win-and-tails-I-lose scenario, meaning the President is gonna be okay either way because it gives him a scapegoat. President does like taking credit for good things in the economy. I think that's true of all politicians and presidents. I think it's more true of this one. And the President does not like being blamed for things. I think that's also true of all politicians and presidents, and I think it's more true of this one. But there's a sort of optionality that this scenario represents, and so to me, it was the way to present it as, I think there's a benefit to higher rates. I think it might bring the longer end of the yield curve down, provide some credibility and independence in perception for the Fed, and be used to some regard to match up policy rates with market rates. But to the extent that there are certain things that then drag or lag in the economy, you can blame it on me. And I don't think Chairman Warsh would mind being blamed at all. And so that, to me, was a messaging that would really be effective.

Well, I don't know if this conversation ever happened or not, but what's really interesting is that the President did not blame Chairman Warsh for hiking rates and did not get upset. He said, "Oh, well, I told Kevin, 'Go ahead and do it because you don't have a choice. Everyone else is doing it anyways. They're politically minded.'" As if Kevin Warsh, the chairman of the Fed, had to do it even though he didn't want to. And I don't even know what to say because I honestly do not know the answer, nor do the people I know. Do I expect that they would tell me the truth as to whether or not the President really believes that? Chairman Warsh clearly wanted to do this and clearly said so, and so where that came from is a little mysterious to me.

But then the President did something that I think is probably a little more clever than people are giving him credit for, and I didn't think so at first. But in Dividend Cafe, as a matter of fact, we'll put up on the screen right now the actual cut and paste of the President's Truth Social post where what he said was that interest rates should be 1% or less. He's saying, "Oh, yeah, rates really should be lower." And this then, you think, is where he would normally go to say, "Why is my central bank person hiking rates when they should be cutting?" And he goes on to say, "It's because we have such a great economy, great credit." And then this is the part that's fascinating. "If we stop trading every country we have a deficit with, we would make $1.5 trillion a year. The deficit is a fancy word for loss," referring to trade deficits, referring to the amount we're trading with other countries. "Lower interest rates for America fast."

So he confuses credit spreads that reflect the creditworthiness of the country with the actual interest rate and then goes on to talk about trade deficits, which have nothing to do with this at all. And some folks thought, "You know, this is pretty scary. The President's mixing up like two or three different things here." I think the President is completely wrong about what he's saying regarding trade deficits, that you lose money when you buy something from someone else. I just, I don't—I kind of do think he really believes that, but I have written time and time again about the errors of that mentality. But my point of bringing it up is that what the President did here might even be, you know, on purpose to just simply divert the attention away from what the Fed did and go into a couple different red herrings that are actually not connected, and it becomes this sort of non-critical criticism. Like, yes, he is saying rates should be lower, but then he's going on to talk about trade deficits that have nothing to do with the Fed decision.

And it seems to me it's almost like an effective way to move it and not defend his chairman, but not criticize the chairman. And I'm not one of these people that always thinks the President's playing 4D chess, and I'm also not one who thinks he's always being dumb. I think that sometimes he's right, sometimes he's wrong. But, like, in this case, I think those trying to assess the politics of it—I promise you there were media characters yesterday just begging for a soap opera between the President and the chairman. And I think what you saw was kind of this interesting way of not giving them what they wanted.

So whether or not my scapegoat theory is gonna play out, we will see. But nevertheless, the political side of it did not go to where many thought it would. And now, if you think the Fed is gonna raise rates one more time this year, I do suspect they won't do it at the late October meeting, being one week before the midterms, that they would wait till the December meeting. It's entirely possible they do one in October and not one in December. It's possible they do one in each. But I would imagine they won't. Now, the midterm thing is absurd. There's just absolutely no reason not to. If you think it's the best thing to do, the fact that it's six days before the midterm, like, some person's gonna say, "I was gonna vote this way for my congressman, but because of a rate hike six days ago..." I just don't believe it. And yet those that would say, "Oh, there's this appearance of political meddling," I think we say there's an appearance of political meddling to make there be an appearance of political meddling when there is no appearance of political meddling. But that's beside the point.

Whether or not they will, I suppose it's probably unlikely in October, and then we'll see in December. The table has been set for one more rate hike. What is their reasoning? Well, let me first point out that they got a 12-0 vote, and that's very important. It was 9-3 not to hike at the last meeting. It was 12-0 to hike at this meeting. And so the unanimous collegial consensus is important. I don't have a source on this. I'm speculating. I believe there were one, if not two, Fed governors that voted against a rate hike and changed their vote to allow for the unanimous consensus once they saw the way the vote was going. I at least suspect that of Fed Governor Waller and perhaps one other. But again, I don't know that. But either way, it avoids more drama within the Federal Open Market Committee and the Fed governors, and that's a healthy thing.

But I also think his comments in the press conference, Chairman Warsh's, speak to their general frame of mind. They think the jobs picture is good. They think the overall economy is good, and that then took the pressure off the other end of their dual mandate to focus on the price stability end. And what they said in July was that there was upward pressure on prices, but they acknowledged a supply shock, and they took that language about supply shock out. Now, someone in the press conference said a quarter-point rate hike isn't gonna reopen the Strait of Hormuz, and that's certainly true. But what I think that they believe, with some data behind this for sure, is that, yes, the Strait of Hormuz being closed and the various Middle East geopolitical elements are really not in the Fed purview. And by the way, there's other supply shock issues, I think tariff-related, that are not in the Fed's purview either. But that there's enough upward price pressure and markets have voted that they believe that they need to focus on the price stability component with the policy tool they have available, which is the Fed funds rate.

Now, they're paying 3.9% to banks to hold reserves at the Fed. They're paying on those excess reserves an interest rate of 3.9. That's right in the middle of the Fed funds rate, which is between now 3.75 and 4. So they're not trying to dramatically incentivize or disincentivize lending one way or the other. As long as the amount they're paying is within the Fed funds rate, it doesn't either tighten or expand lending really at all. It's a very neutral and, shall we say, performative monetary policy step.

How did the bond market react? Well, in the immediate aftermath, you saw the two-year jump up quite a bit. The 10-year moved up about five basis points, but it had been down five basis points before. So you saw further flattening of the yield curve, that the short end was up more than the long end. As I'm talking here middle of the day Thursday, the entire yield curve is down about five basis points, but evenly so. I think the 10-year is now down about six basis points. So look, a 30-year at 5.3% right now, a 10-year at 4.94. There's no big performative flex in the bond market on any of this. It directionally has moved where you might expect it to, but mortgage rates are back to 7%, and that's what's gonna matter more than anything else.

Is the 10-year gonna get back to 4.5, where you could actually see it start to pull mortgage rates lower? Probably not anytime soon. But the one thing I do wanna say, and it's an insanely difficult dance for the Fed as they're trying to use a higher long end to bring—excuse me, a higher short end to bring the long end lower—that markets very rarely will respond exactly as you want. And the markets are leading, as I've pointed out right now. When it comes to monetary distortions and interventions, all you really can do is get lucky or do damage, see things you don't want to happen. It's very hard to pull off desired policy aims without the trade-offs that you're trying to avoid.

Now, I'm gonna put a chart up real quick that you could argue is a positive element of the last day or so. This is the 10-year TIPS spread, the inflation breakeven, and you can see it's dropped about five basis points. Okay, so if the 10-year dropped five basis points and the TIPS spreads are down five, that means that you brought rates down a tiny bit without expectations of lower real growth. That's what they want. Now, it's been twenty-four hours, and it's only five basis points, but directionally, that's what you would like, is to be able to increase rates and believe that you are dampening inflation expectations without impacting real growth or hiring or productivity in the economy.

The question about what all this means to the stock market, I first wanna point out, and I say it over and over again, I cannot say it enough, looking at the first forty-five minutes or hour and a half after the Fed does anything at any Fed meeting day is a fool's errand. It is filled with traders, speculators, hedgers having to cover and rebuy or resell or whatnot from where they were in a very short expectation. You get very heightened volatility. I went back at the last ten Fed meetings. You see an average move in this very limited period of time of 83 basis points, peak to trough, in a 30-, 60-minute window. Going back twenty-four Fed meetings, you get three times the normal volatility in a regular hour, 90-minute period of time.

Do I believe that the Fed funds rate matters to equity valuations? Well, first of all, in theory, we know bond yields and the risk-free rate are a factor. However, they just simply haven't been for some period of time, and that doesn't mean they're not a factor. It means markets, investors have been, for now, looking through it. Mathematically, in the annals of corporate finance, we know what it is. But I wouldn't have guessed you could have a 4% Fed funds rate, a 4.5% two-year, a 5% 10-year, and maintain a 23-times multiple in the S&P. But we've done it for quite a while. So do I think that higher bond yields eventually put downward pressure on equity valuations? I mean, we know they do academically and theoretically. But what I would say is that trying to speculate on that or the timing of that, when you have earnings growth, the AI business model, oil prices, market valuations are all far more important factors than the Fed funds rate, will-they-won't-they talk from the Fed in terms of the state of stock markets.

Let me close with this. Yes, the Fed has raised rates a quarter point. No, it doesn't matter to the extent the financial markets had already done it. Yes, mortgage rates have moved higher in the last couple of months. And yes, those borrowing money then are theoretically paying more. That includes governments, and it includes commercial real estate developers, and it includes residential mortgage borrowers. But just please remember that every dollar that's ever been borrowed is a dollar that was lent. That for every debtor, there's a creditor. For every spender, there's a saver. And that one person's interest expense in the P&L is another person's interest income in the P&L.

And to the extent we think that a lot of times that's banks, that's fine. But also remember, there are widows, retirees, savers that now have more interest income that they're going to be spending. I am really of the mindset that I, nor you, nor the President, nor a central banker should be trying to pick favorites between the borrower and the lender, the saver and the spender, the creditor, the debtor. That these things are just part of organic, healthy market activity. And to the extent we still continue to require the Fed to set the prices for how those parties transact, which does effectively ask them to create a favorite in those transactions, I think it's problematic. Now, I know it's not going away anytime soon. I've said that repeatedly. But to the extent that the Fed is allowing markets to set rates and they play catch-up versus them trying to impact market rates, I take that as a baby-step victory.

That's where we are this week, a performative rate hike and an awful lot of room to go. But a lot of other bigger and more important questions for those trying to actually understand the economy and where risk assets will go. More important questions than the never-ending drama around the Fed. If I could say all this to the President of the United States, I would. And in the meantime, I'll settle for my wonderful listeners, readers, and viewers of The Dividend Cafe. Have a wonderful weekend.