

## Macro Pulse for September 20

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- The Fed turned more hawkish last week, raising the policy rate 25 basis points to 3.75%–4.00%, its first hike in more than three years. The updated projections showed most officials expect one additional hike this year, with rates then staying elevated through 2027. While we still see the labor market providing room for the Fed to hold rates steady from here, the Fed's renewed focus on inflation has led us to add one more rate hike to our year-end outlook. Markets took the meeting as hawkish, with short-term yields moving higher, the yield curve flattening, and equities pulling back after the decision. Read more about the GMS take [here](#).
- On Friday, the Bank of Japan raised rates 25 basis points to 1.25%, the highest level in more than 30 years, as inflation remains firm. The BoJ signaled that further hikes remain possible if the outlook holds. The yen weakened after the decision as the hike was largely expected, while higher domestic yields could gradually pull more Japanese capital back home. GMS wrote more about rising U.S. and international yields [here](#).
- The Iran conflict has kept energy markets under pressure, with crude oil spending most of the week above \$100 per barrel. Ongoing disruption through the Strait of Hormuz and renewed attacks on regional energy infrastructure have kept supply risks elevated. For investors, sustained triple-digit oil prices would keep pressure on inflation, consumers and central banks, reinforcing a higher-for-longer rate backdrop.

## Midterms 2026: The Stakes Beyond the Ballot Box

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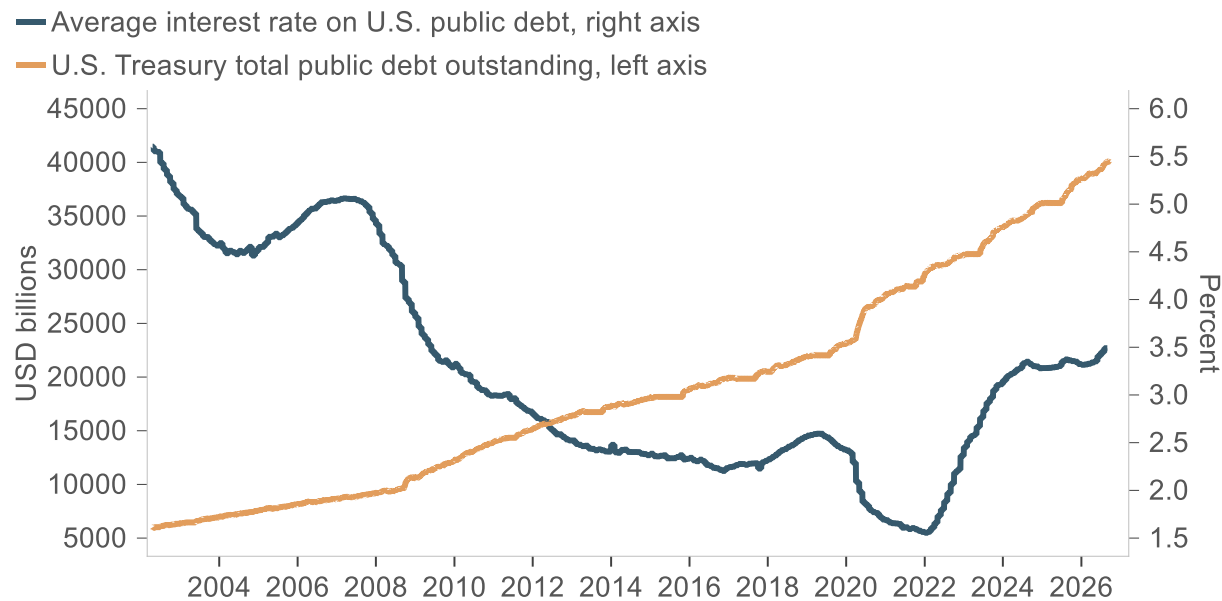
The Global Market Strategy team has published its 2026 midterm elections outlook. The report looks beyond the electoral horse race to examine what the results could tell investors about three forces shaping our outlook: fiscal pressure, the AI investment cycle, and the shift toward a more fragmented global economy.

Read the full report: [Midterms 2026: The Stakes Beyond the Ballot Box](#).

Here are the key takeaways:

- **Divided government is the most likely outcome in our view.** Both chambers of Congress are in play, although Democrats face a higher hurdle in the Senate. Split control would likely limit major legislation and shift more policymaking toward executive action.
- **Fiscal pressure is bigger than the election.** With limited appetite for fiscal restraint across parties, budget negotiations and a potential debt ceiling deadline in early 2027 could contribute to continued rate volatility. Persistent borrowing needs may keep longer-term yields elevated and volatile in our view.

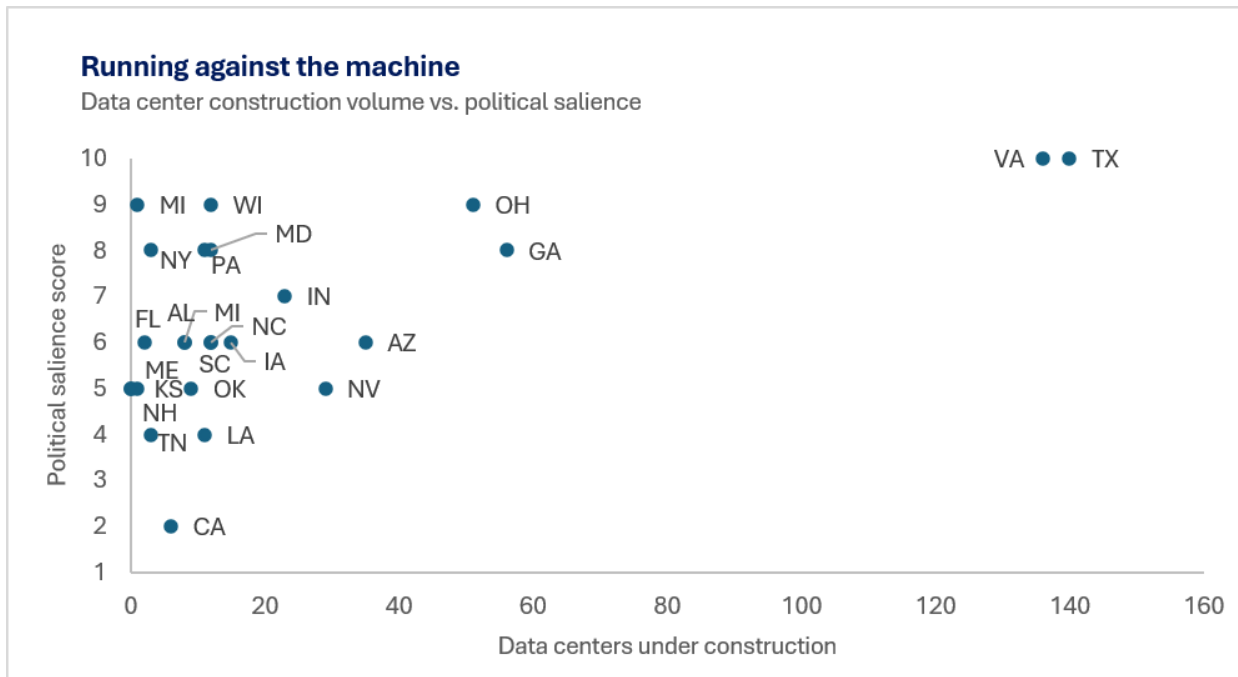
## Rising debt levels and financing rates are causing exponential growth in the U.S. interest burden



Sources: New York Life Investment Management Global Market Strategy, U.S. Department of Treasury, Macrobond, September 2026.

- **AI is becoming a local political issue.** Rapid data center development is bringing electricity costs, water use and land use, and other community impacts to the forefront in several states. Election results could help identify where local resistance may slow or redirect new construction, although we still expect AI investment to remain a durable, multi-year driver of U.S. growth.

The chart below shows that local resistance to AI infrastructure doesn't necessarily track how much is being built (VA and TX have the most data centers under construction, while states like MI and WI show comparable local attention despite far less construction activity).



- **Geopolitical realignment is likely to extend beyond November.** Competition with China, supply-chain security, and a more assertive trade policy have broad bipartisan support. The election may influence the pace and implementation of these priorities, but the broader move toward a more fragmented global economy is unlikely to hinge on control of Congress.

## Portfolio strategy

The midterms may create near-term volatility, but they are unlikely to derail the larger investment themes already underway. Fiscal pressures could keep the rate environment more dynamic; local constraints could create greater differentiation within the AI buildout, increasing the value of active management; and geopolitical fragmentation could continue to increase dispersion across countries and asset classes, strengthening the case for international diversification and exposure to real assets.

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