

A Priced-In Hike

Measuring the Impact of the Fed's September 2026 Rate Increase on 2-, 10- and 30-Year Treasuries

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Data as of: September 18, 2026 close

Key Takeaways

- 1. The decision itself barely moved the curve.** On September 16 the FOMC voted 12-0 to raise the target range by 25bp to 3.75%-4.00%, its first hike since July 2023. Yet on decision day 2-, 10- and 30-year Treasury yields moved only +7bp, +1bp and -1bp.
- 2. Theory and reality diverged sharply.** A full 25bp parallel pass-through would have cost a \$1mm long position about \$18,800 in the 10-year and \$35,100 in the 30-year. The actual decision-day loss on the 10-year was \$760 (4% of the theoretical figure), and the 30-year gained \$1,445.
- 3. The price damage came before the meeting.** From August 27 to September 15 the 2-year yield rose 47bp (about 1.9 hikes' worth), the 10-year 33bp and the 30-year 17bp; a \$1mm long in the 10- or 30-year lost roughly \$25,000 over that stretch.
- 4. The news was in the dots.** Sixteen of 18 participants expect another hike this year, driving a bear flattening: the 2s10s spread narrowed from 33bp to 27bp on the day and to 25bp by September 18.
- 5. The long end held still because two forces offset.** On decision day the 10-year real yield rose 6bp while breakeven inflation fell 5bp: tighter policy was offset by stronger anti-inflation credibility.
- 6. The right framework is DV01 × surprise.** As of September 18, markets priced about a 55% chance of another hike on October 28 and about 90% by December 9. If a hike arrives as priced, its direct price impact is likely to be similarly limited.

1. The Decision

At 2:00 p.m. ET on September 16, 2026, the Federal Open Market Committee voted 12–0 to raise the target range for the federal funds rate by 25 basis points to 3.75%–4.00%, its first increase since July 2023. The statement said inflation remains elevated and that the move would support a timelier return to the 2% goal.

Table 1 Policy settings (effective September 17)

Item	New setting
Federal funds target range	3.75%–4.00% (+25bp)
Interest on reserve balances (IORB)	3.90%
Primary credit rate (discount window)	4.00%
Standing repo facility (SRF) rate	4.00%
Overnight reverse repo (ON RRP) rate	3.75%

Source: Federal Reserve statement and implementation note (September 16, 2026)

The dot plot was more hawkish than the decision itself. Of the 18 participants who submitted projections, **16 expect another hike this year**, and four of them see two more as possible (Chair Warsh has not submitted a dot since taking office). Views on 2027 are split: eight see further hikes, six a hold and four cuts. The September Summary of Economic Projections (SEP) raised the year-end 2026 PCE inflation projection to 3.7%.

Markets left little room for surprise: going into the meeting, fed funds futures priced a better-than-90% probability of a hike. That frames the central question of this report—how much did a fully anticipated hike actually move Treasury prices?

2. Data and Methodology

2.1 Data

Yields are closing values from the U.S. Treasury's daily par yield curve (CMT), which is fitted to bid-side quotes on the most recently auctioned securities collected by the New York Fed at around 3:30 p.m. each business day. The effective federal funds rate and TIPS real yields come from the Federal Reserve's H.15 release. Because the decision was announced at 2:00 p.m., the September 15 close is the pre-meeting reference, and the September 16 close captures most of the reaction to the decision and press conference.

2.2 Securities

To anchor the analysis in tradable instruments, we use the three current on-the-run securities:

Table 2 The three on-the-run securities

Tenor	Coupon	Maturity	Auction date	Auction high yield
2-Year	4½%	Aug 31, 2028	Aug 25, 2026	4.204%
10-Year	4½%	Aug 15, 2036	Aug 12, 2026	4.683%
30-Year	5½%	Aug 15, 2056	Aug 13, 2026	5.216%

Note: The 30-year coupon is from the Treasury auction results release (CUSIP 912810UW6). The 2- and 10-year coupons are derived from the Treasury rule that sets the coupon at the highest 1/8% multiple not exceeding the auction high yield.

2.3 Method

We fix settlement at September 17 (T+1), use CMT yields for each security, and fully reprice each bond on a semiannual, actual/actual basis. Holding settlement constant strips out carry, so the results reflect only the change in yields. The duration-convexity approximation is:

$$\Delta P / P \approx -D_{\text{mod}} \times \Delta y + \frac{1}{2} \times C \times (\Delta y)^2$$

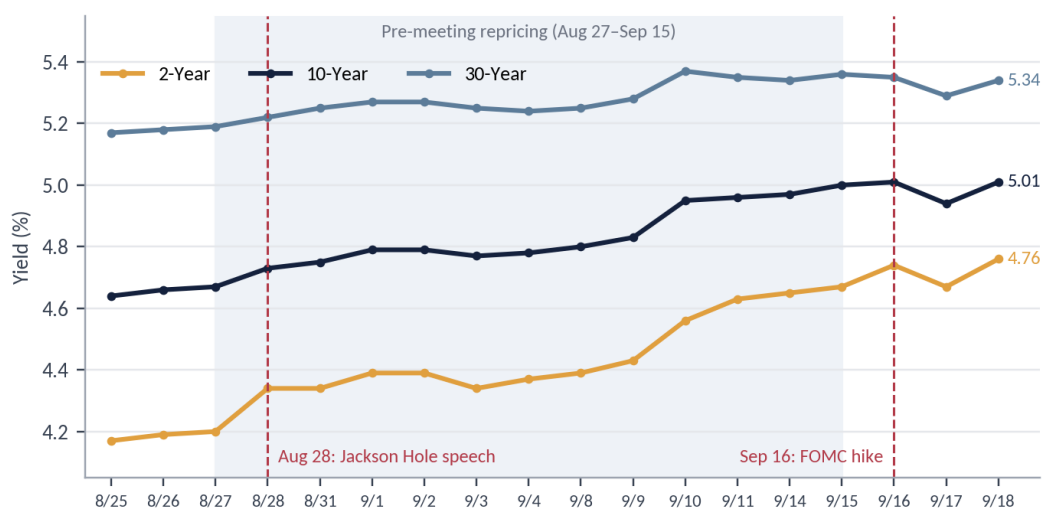
Table 3 Risk metrics (at September 15 closing yields)

Security	Yield	Clean price	Mod. duration	Convexity	DV01 (per \$1mm face)
2-Year	4.67%	98.99	1.85	4.4	\$183
10-Year	5.00%	97.09	7.80	73.5	\$761
30-Year	5.36%	96.51	14.89	333.1	\$1,444

Source: U.S. Treasury; author's calculations

Take a 25bp rise in the 30-year yield: the duration term is $-14.89 \times 0.25\% = -3.72\%$ and the convexity term is $+\frac{1}{2} \times 333 \times 0.0025^2 = +0.10\%$, for a total of -3.62% , matching full repricing. For the 2-year, convexity adds only about 0.001% and can be ignored.

3. Yield Moves: Most of the Work Was Done Before the Meeting

Figure 1 2-, 10- and 30-year Treasury yields (August 25 – September 18, 2026)

Source: U.S. Treasury daily par yield curve (CMT)

Table 4 Yields and curve spreads on key dates

Close	2-Year	10-Year	30-Year	2s10s	2s30s
Aug 27 (pre-Jackson Hole)	4.20%	4.67%	5.19%	47bp	99bp
Sep 15 (pre-meeting)	4.67%	5.00%	5.36%	33bp	69bp
Sep 16 (decision day)	4.74%	5.01%	5.35%	27bp	61bp
Sep 17	4.67%	4.94%	5.29%	27bp	62bp
Sep 18	4.76%	5.01%	5.34%	25bp	58bp

Source: U.S. Treasury

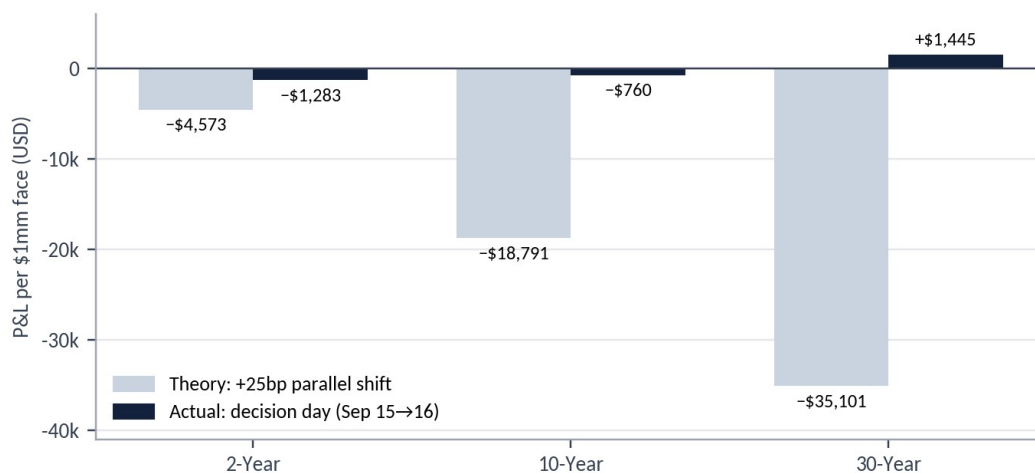
Three phases stand out. **Pre-meeting repricing (Aug 27–Sep 15):** after Chair Warsh's Jackson Hole speech, markets moved quickly to price a hike; the 2-year rose 47bp, the 10-year 33bp and the 30-year 17bp, a pronounced bear flattening. **Decision day (Sep 16):** the 2-year rose 7bp, the 10-year 1bp and the 30-year fell 1bp; only the front end reacted, to the dots. **After the decision (Sep 17–18):** yields fell 6–7bp across the curve on September 17, which markets attributed to Warsh's reaffirmed commitment to fighting inflation; on September 18 they rebounded as Middle East supply concerns lifted energy prices.

4. Price Impact

Table 5 Price impact by window (P&L on a \$1mm long; second line: yield change | price change)

Window	2-Year	10-Year	30-Year
① Theory: +25bp parallel shift	–\$4,573 +25bp –0.46%	–\$18,791 +25bp –1.93%	–\$35,101 +25bp –3.62%
② Pre-meeting, Aug 27→Sep 15	–\$8,671 +47bp –0.87%	–\$25,492 +33bp –2.55%	–\$25,014 +17bp –2.52%
③ Decision day, Sep 15→16	–\$1,283 +7bp –0.13%	–\$760 +1bp –0.08%	+\$1,445 –1bp +0.15%
④ Day after, Sep 16→17	+\$1,283 –7bp +0.13%	+\$5,336 –7bp +0.55%	+\$8,739 –6bp +0.90%
⑤ Decision week, Sep 15→18	–\$1,649 +9bp –0.17%	–\$760 +1bp –0.08%	+\$2,894 –2bp +0.30%

Note: Settlement fixed at September 17; excludes coupon income and financing costs; price changes are on a full-price basis. Source: author's calculations

Figure 2 Decision-day P&L: theory vs. actual (per \$1mm face)

Source: author's calculations

Pass-through (yield change ÷ 25bp) was 28% for the 2-year, 4% for the 10-year and –4% for the 30-year on decision day, and 36%, 4% and –8% over the decision week. In the pre-meeting window it was 188%, 132% and 68%. For the 10- and 30-year, in other words, nearly the entire "price" of this hike was paid before the meeting.

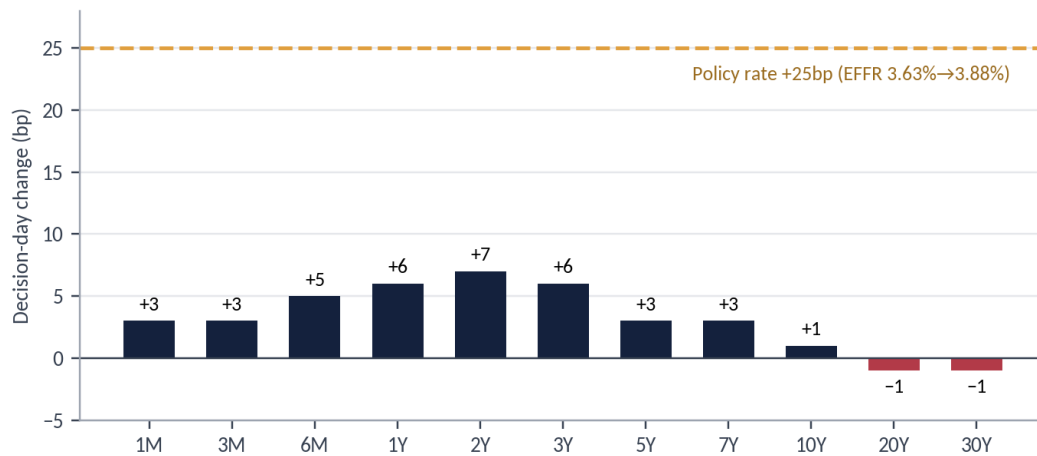
5. Interpretation

5.1 The 25bp was spent before the meeting

Markets priced the hike within about three weeks. After Warsh's Jackson Hole speech on August 28, the futures-implied probability of a September hike jumped from 35.4% the previous day to 57.5%; by the meeting it exceeded 90%. The front end was already there: on September 15 the 1-month bill yield stood at 3.93%, above the old target-range ceiling of 3.75%. The 2-year's 47bp pre-meeting rise was worth roughly 1.9 hikes—markets were pricing a path of hikes, not just this one.

5.2 The dots were the news

On decision day the 2-year yield rose 7bp and touched 4.73% intraday, more than 10bp above its pre-meeting level. Figure 3 shows the transmission gradient: the overnight rate passed through fully (the effective fed funds rate went from 3.63% to 3.88%), the 3-month bill moved only +3bp because the hike was already priced, the 1–3-year sector moved most (+6 to +7bp), and the response faded further out, with 20- and 30-year yields falling 1bp. The curve bear-flattened: 2s10s narrowed from 33bp to 27bp and 2s30s from 69bp to 61bp.

Figure 3 Decision-day yield changes by tenor vs. the policy-rate change

Source: U.S. Treasury; Federal Reserve H.15

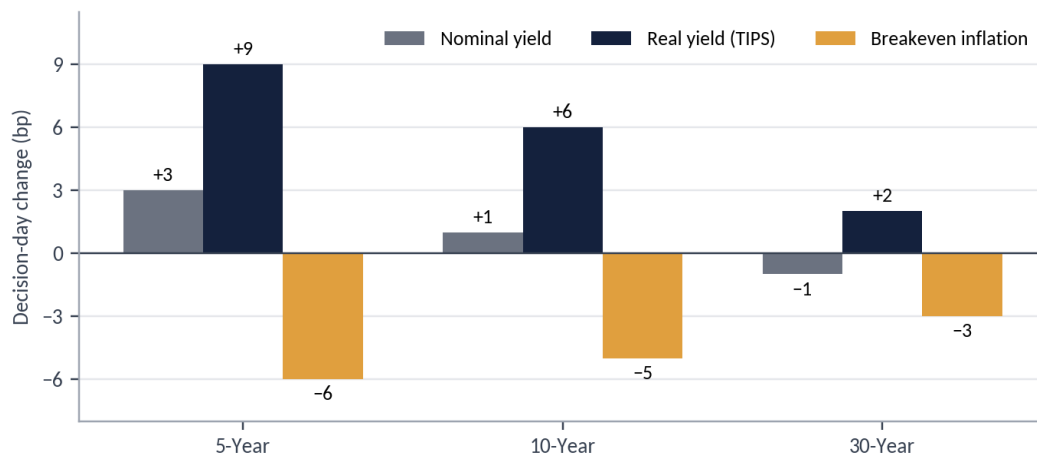
5.3 Why the long end held still: real yields vs. breakevens

Using TIPS real yields from H.15, the nominal move can be split into a real-yield component and a breakeven-inflation component (nominal $\approx$ real + breakeven):

Table 6 Decomposition of decision-day yield changes (Sep 15→16)

Tenor	Nominal yield	TIPS real yield	Breakeven inflation
5-Year	4.83%→4.86% (+3bp)	2.42%→2.51% (+9bp)	2.41%→2.35% (-6bp)
10-Year	5.00%→5.01% (+1bp)	2.62%→2.68% (+6bp)	2.38%→2.33% (-5bp)
30-Year	5.36%→5.35% (-1bp)	3.07%→3.09% (+2bp)	2.29%→2.26% (-3bp)

Source: Federal Reserve H.15; author's calculations

Figure 4 Decomposition of decision-day nominal yield changes

Source: Federal Reserve H.15; author's calculations

The hike pushed real yields higher (the tightening effect) but also strengthened confidence in the Fed's resolve to curb inflation, lowering inflation compensation (the credibility effect). The two nearly cancelled out at the long end—the core reason the 10- and 30-year yields barely moved on decision day.

5.4 Duration drives P&L

The DV01s of the three securities stand in a ratio of roughly 1 : 4.2 : 7.9. Although the 2-year is the most policy-sensitive, on days when the whole curve moves together the dollar P&L at the long end dwarfs the front end. On September 17, for example, yields fell 6–7bp across the curve: a \$1mm 30-year position gained \$8,739, about 6.8 times the 2-year's \$1,283. For portfolio management, exposure to policy events should be measured in DV01 rather than by the size of yield moves.

6. Outlook and What to Watch

As of September 18, markets priced roughly a 55% probability of another hike at the October 28 FOMC meeting and about 90% by December 9. Based on this episode, we suggest assessing the next policy move with a "DV01 × surprise" framework:

$$\Delta \text{price} \approx -\text{DV01} \times (\text{actual change} - \text{priced change})$$

If a December hike arrives as priced, its direct price impact is likely to be similarly limited; the real risk lies in the dots, the SEP or the Chair's messaging deviating from expectations.

Key risks

- **Inflation and energy:** oil-price swings driven by the Middle East (WTI around \$101 a barrel) remain the main source of disturbance to inflation expectations.
- **Long-end term premium:** fiscal supply pressure and shifting foreign demand—especially the repatriation of Japanese capital (see our companion report, *The Anchor Slips*)—could push long-end yields higher independently of the policy rate.
- **Policy-path surprises:** the dots' expectation of another hike this year, and the clear split over 2027, mean every meeting can deliver a surprise.

Table 7 Key dates

Date	Event
Oct 27–28	FOMC meeting (about a 55% hike probability priced)
Oct 29–30	Bank of Japan meeting (Outlook Report)
Dec 8–9	FOMC meeting with SEP and dot plot (about 90% hike probability by Dec 9)
Monthly	CPI and PCE inflation; 10- and 30-year Treasury auctions

Appendix A Daily Yields

Table A1 Treasury CMT closing yields (2026)

Date	2-Year	10-Year	30-Year
Aug 25	4.17%	4.64%	5.17%
Aug 26	4.19%	4.66%	5.18%

Date	2-Year	10-Year	30-Year
Aug 27	4.20%	4.67%	5.19%
Aug 28	4.34%	4.73%	5.22%
Aug 31	4.34%	4.75%	5.25%
Sep 1	4.39%	4.79%	5.27%
Sep 2	4.39%	4.79%	5.27%
Sep 3	4.34%	4.77%	5.25%
Sep 4	4.37%	4.78%	5.24%
Sep 8	4.39%	4.80%	5.25%
Sep 9	4.43%	4.83%	5.28%
Sep 10	4.56%	4.95%	5.37%
Sep 11	4.63%	4.96%	5.35%
Sep 14	4.65%	4.97%	5.34%
Sep 15	4.67%	5.00%	5.36%
Sep 16	4.74%	5.01%	5.35%
Sep 17	4.67%	4.94%	5.29%
Sep 18	4.76%	5.01%	5.34%

Source: U.S. Treasury daily par yield curve

Appendix B Methodology Notes

- Bonds are priced on street convention: semiannual compounding, with the first coupon period prorated on an actual/actual basis.
- The 2-year note follows the end-of-month rule (coupons at end-February and August 31); the 10- and 30-year pay on February 15 and August 15.
- $DV01 = \text{modified duration} \times \text{full price} \times 0.0001$, per \$1mm face.
- CMT yields are used as proxies for the on-the-run yields; since the CMT curve is fitted to those securities' quotes, differences are usually small.
- The analysis excludes carry, repo financing costs and transaction costs.

Sources

1. Federal Reserve: FOMC statement and implementation note, September 16, 2026.
2. Federal Reserve: H.15 Selected Interest Rates (Daily), release of September 18, 2026.
3. U.S. Department of the Treasury: Daily Treasury Par Yield Curve Rates, 2026.
4. TreasuryDirect: Treasury auction results, 30-year bond (August 13, 2026).
5. Coverage of the 2-year (Aug 25) and 10-year (Aug 12) note auctions: CME Group/Econoday, investingLive, Exante Data.
6. CNBC: coverage of the Fed decision and the Treasury market (September 16–17, 2026) and of Jackson Hole (August 28, 2026).
7. Bloomberg: coverage of U.S. two-year yields (September 16, 2026).
8. Trading Economics: U.S. 10-year Treasury yield commentary (September 17–18, 2026).

9. Bondsavvy: analysis of the September 2026 Fed dot plot.

10. Investrade: Market Review (September 18, 2026).

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