Macro Flash Note

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FED HIKES 25BPS; FOMC STILL SIGNALS AT LEAST ONE MORE HIKE IN 2026

The Fed has moved from holding rates to renewed tightening

At its September 15–16 meeting, the Federal Reserve raised the federal funds target range by 25bps to 3.75%–4.00%, marking its first hike since 2023. More importantly, the decision was unanimous at 12–0, compared with the 9–3 vote to hold rates in July, when three members had already preferred a 25bp hike. The September SEP also raised the median end-2026 policy rate to 4.1%, while 16 of 18 participants projected at least one additional hike this year. The debate has therefore shifted from whether the Fed will tighten again toward how much additional restraint is required to return inflation to the 2% target.

The Fed's inflation diagnosis has also broadened. Rather than attributing persistent inflation mainly to supply-side shocks, the FOMC now emphasizes resilient domestic spending, strong productivity and robust capital investment. This suggests that underlying demand is increasingly contributing to price pressures and that the economy remains sufficiently resilient to absorb tighter financial conditions.

Vietnam: less room to ease, but no immediate need to tighten

The main implication is a narrower policy-easing window through the USD–VND interest-rate differential and FX channel, rather than an immediate need for domestic monetary tightening. Economic activity remained relatively strong in August, supported by manufacturing, FDI and public investment, while recent inflation pressure remained concentrated largely in fuel and has not yet shown clear evidence of broad-based transmission into consumer prices.

Short-term banking-system liquidity has also improved. Treasury deposit balances remain at elevated levels, the SBV continues to manage liquidity flexibly through OMO operations, public investment is accelerating, and funds previously held outside the banking system are gradually returning as deposits. By August 22, VND deposits had increased 8.77% YTD, slightly ahead of 8.38% YTD growth in VND credit. Nevertheless, the maturity structure and cost of medium- and long-term funding remain constraints. Our base case therefore remains targeted liquidity management and improved credit transmission rather than aggressive policy-rate cuts or a large-scale injection of VND liquidity.

VN-Index: the principal transmission is through the cost of capital

The Fed decision does not materially weaken Vietnam's current earnings or production cycle. Its main effect is instead through higher discount rates, refinancing costs and required equity returns. This reinforces a selective equity strategy rather than the case for a broad market rerating. Companies with high leverage, large refinancing requirements or valuations dependent on distant future cash flows should remain more rate-sensitive, while cash-generative companies with stronger balance sheets are better positioned.

At its September 15–16 meeting, the Federal Reserve raised the federal funds target range by 25bps to 3.75%–4.00%, its first rate increase since 2023. More importantly, the decision was unanimous at 12–0, compared with July's 9–3 vote to hold rates, when three members had preferred a hike.

The statement also materially changed the Fed's diagnosis of inflation. Rather than emphasizing supply shocks in selected sectors, the FOMC now highlights resilient domestic spending, strong productivity and robust capital investment while stating that the hike should support a "timelier return" of inflation toward the 2% target.

Key decisions from the September meeting:

Tool	Decision
Federal funds target range	+25bps to **3.75%–4.00%**
Interest on reserve balances	Raised to **3.90%**
Standing Repo Facility	Raised to **4.00%**
ON RRP	Raised to **3.75%**, with the US$160bn daily counterparty limit maintained
Balance-sheet implementation	No material change

The Fed will continue purchasing short-dated Treasury securities when necessary to maintain ample reserves, rolling over Treasury principal at auction and reinvesting agency principal into Treasury bills. These transactions remain instruments for liquidity implementation and short-term rate control, rather than a new round of QE.

Summary of September FOMC Economic Projections:

Median projection	Jun-26 SEP	Sep-26 SEP	Change
2026 GDP growth	2.2%	**2.3%**	+0.1ppt
2026 unemployment	4.3%	**4.1%**	-0.2ppt
2026 PCE inflation	3.6%	**3.7%**	+0.1ppt
2026 core PCE	3.3%	**3.4%**	+0.1ppt
End-2026 FFR midpoint	3.8%	**4.1%**	+0.3ppt
End-2027 FFR midpoint	3.6%	**4.1%**	+0.5ppt

The September SEP is materially more hawkish: higher growth, lower unemployment, higher inflation and a materially higher appropriate policy-rate path. The median end-2026 FFR projection of 4.1% is consistent with another 25bp increase from the current range. The distribution is even more informative: sixteen of eighteen participants expect at least one additional hike this year, while none project a cut. At the same time, the FOMC still expects headline PCE inflation to decline sharply to 2.3% in 2027 and 2.1% in 2028, implying that policymakers currently view additional tightening as sufficient to restore disinflation without requiring a recession.

ACBS QUICK COMMENT:

We view the September decision as more than a mechanical response to recent movements in crude oil prices. The Fed is shifting from primarily containing second-round inflation risks toward acknowledging that domestic demand itself is also contributing to persistent price pressures. The FOMC statement explicitly points to resilient consumption and strong capital investment, while the SEP simultaneously raises the growth forecast and lowers the unemployment projection. Fed Chair Kevin Warsh has similarly argued that current inflation can no longer be adequately explained by oil prices and tariffs alone, with domestic spending and investment playing an increasingly important role.

This requires a revision to our August view. At that time, ACBS expected the Fed to maintain the federal funds target at 3.50%–3.75% through year-end, as labour-market weakness had increased the economic cost of further tightening. A 25bp hike was treated as an upside-rate risk conditional on renewed core inflation pressure and stabilization in labour demand. The September information set has changed that assessment. The Fed now judges that the economy remains sufficiently resilient to absorb tighter financial conditions, while inflation is high enough that continued inaction has become more difficult to justify..

However, the September decision does not overturn our previous distinction between the policy rate and long-term Treasury yields. Treasury buybacks can reduce liquidity stress and limit abnormal movements in the liquidity component of the term premium, but they cannot offset tighter monetary policy, large net Treasury supply or persistent inflation risk. The current regime is therefore more restrictive than we assumed in August: the policy rate is rising while long-term yields remain subject to structural upward pressure.

The market reaction is fairly consistent with this interpretation. The 2Y Treasury yield rose more sharply than longer maturities, flattening the curve as investors repriced the near-term policy path. The U.S. dollar strengthened while equity markets weakened. This differs from the August Treasury-buyback episode, when the long end moved materially while the front end was comparatively stable. The two developments therefore operate through different components of financial conditions rather than representing contradictory policy signals.

Implications for Vietnam's monetary policy:

For Vietnam, the September Fed hike primarily reduces the SBV's policy flexibility rather than creating an immediate need for domestic tightening. Vietnam enters this environment with relatively strong economic activity but limited inflation headroom. In August, the IIP increased 14.4% YoY, manufacturing PMI reached 53.3, realized FDI rose 12.0% YoY, and public-investment disbursement continued to accelerate.

Headline CPI reached 4.89% YoY, while core inflation eased somewhat compared with July. The composition therefore continues to indicate that the latest inflation shock remains concentrated largely in fuel and has not yet provided clear evidence of broad transmission across consumer prices.

This creates an asymmetric policy constraint. The SBV does not currently need to raise policy rates aggressively to suppress domestic demand. However, a wider USD–VND interest-rate differential would make substantial monetary easing increasingly difficult because of its potential impact on the exchange rate.

At the same time, short-term banking-system liquidity has improved. Treasury deposit balances remain at elevated levels, the SBV has continued to manage liquidity flexibly through OMO operations, Vietnam is accelerating public-investment execution, and funds previously held outside the banking system are gradually returning and being converted into deposits. By August 22, VND deposits had increased 8.77% YTD, slightly faster than the 8.38% YTD increase in VND credit.

Nevertheless, this does not mean that the funding-maturity constraint has been fully resolved. Medium- and long-term credit demand still requires an appropriately matched funding base, while long-term funding costs remain important for bank NIMs and balance-sheet expansion. Our base case therefore remains that the SBV will prioritize liquidity management and targeted measures to improve credit transmission, rather than implementing an aggressive policy-rate-cut cycle or broadly loosening monetary conditions through a large injection of VND liquidity.

The September Fed decision therefore reinforces rather than overturns ACBS's current view: domestic growth remains sufficiently strong that the economy does not require broad monetary easing, while inflation and higher global interest rates make such easing increasingly difficult to deliver.

Implications for the Vietnam equity market:

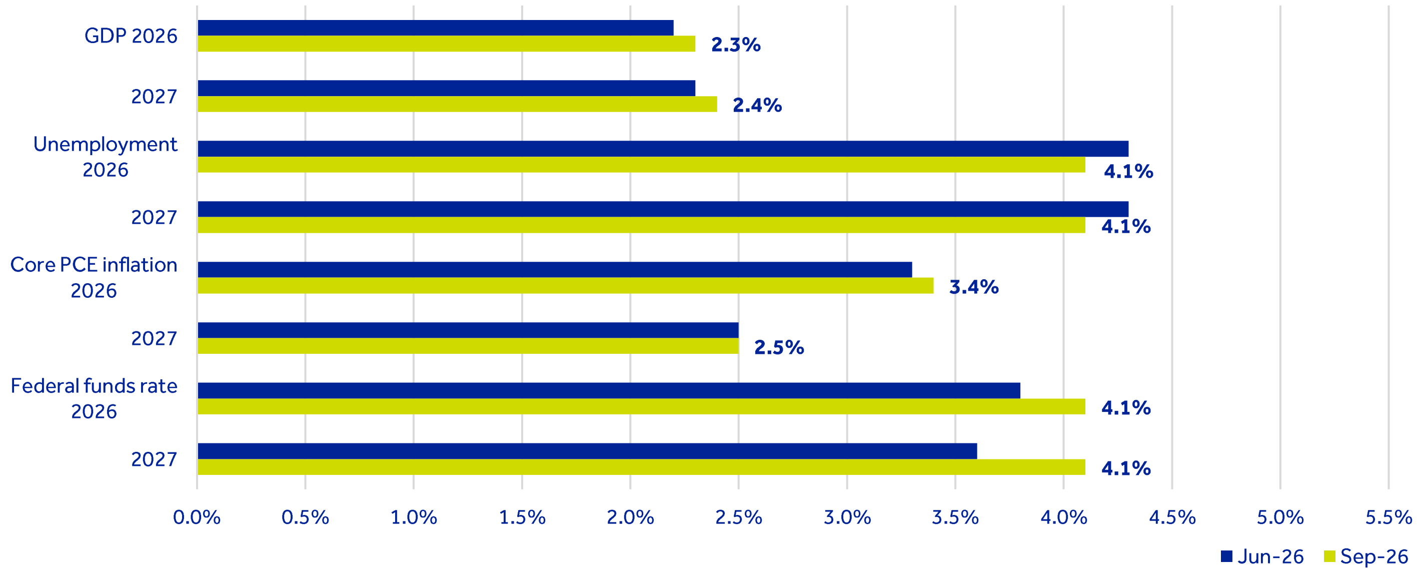
The negative impact of the Fed decision is transmitted primarily through the cost of capital and equity discount rates, rather than through an immediate deterioration in Vietnam's corporate earnings outlook. Vietnam's current growth cycle remains supported by manufacturing, FDI and public investment. However, higher global interest rates increase required equity returns and refinancing costs for leveraged companies.

RISKS / RELATIVELY LESS FAVOURABLE	OPPORTUNITIES / GREATER RESILIENCE
Residential property and highly leveraged companies: sustained funding and refinancing costs remain a constraint, particularly for issuers dependent on bonds or long-duration borrowing.	**Banks with stable deposit franchises:** relative advantages accrue to banks with stronger CASA/deposit bases, lower dependence on wholesale funding and better funding-cost control.
Securities companies: persistently high global rates reduce the scope for valuation expansion and may constrain liquidity and demand for leverage.	**Exporters with USD revenue and high domestic value added:** a firmer USD may provide a translation benefit where USD-linked input costs do not rise proportionately.
Airlines and businesses with significant USD-denominated costs: exposed to FX, aircraft leasing/acquisition expenses and higher financing costs.	**Infrastructure and public-investment beneficiaries:** earnings drivers are more closely linked to domestic fiscal execution and therefore less directly dependent on the U.S. rate cycle.
Long-duration growth equities: valuations remain more sensitive to persistently elevated discount rates.	**Cash-generative, low-leverage businesses:** lower refinancing dependence provides greater resilience under a higher-for-longer cost-of-capital regime.

A longer U.S. tightening cycle would also reduce global financial leverage and available liquidity. This lowers the probability that global liquidity itself becomes a catalyst for a broad VN-Index rerating. The Fed decision therefore does not directly undermine Vietnam's production cycle, but it raises the cost of financing that growth cycle. This reinforces a selective strategy focused on companies with visible earnings, strong cash generation and sustainable balance sheets rather than broad-based market exposure.

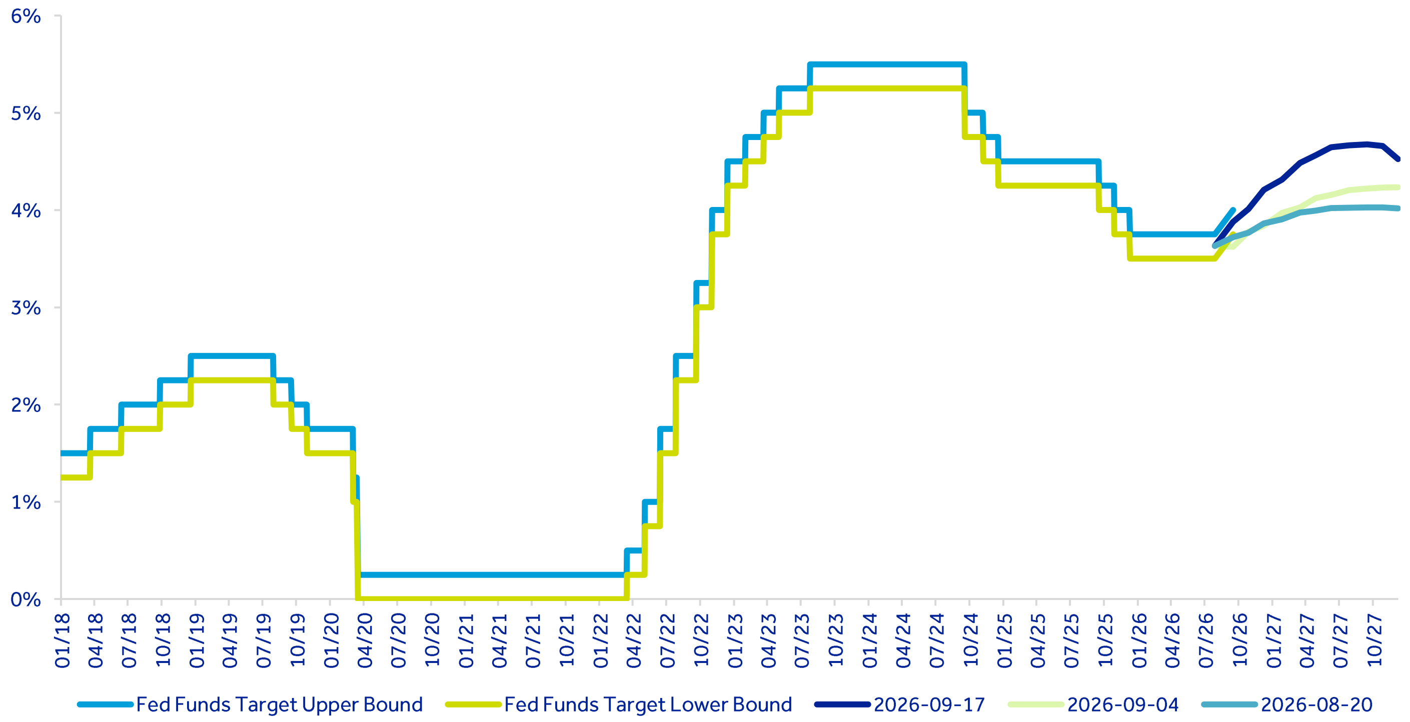
Appendix

Summary of Economic Projections from FOMC



Source: FOMC

Implied Fed Fund Rates in 2027



Source: Bloomberg

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OUR RECOMMENDATION SYSTEM

BUY: Expected prospective total return (including dividends) in VND will be 20% or more within 12 months
OUTPERFORM: Expected prospective total return (including dividends) in VND will be from 10% to 20% within 12 months
NEUTRAL: Expected prospective total return (including dividends) in VND will be from -10% to 10% within 12 months
UNDERPERFORM: Expected prospective total return (including dividends) in VND will be from -20% to -10% within 12 months
SELL: Expected prospective total return (including dividends) in VND will be less than -20% within 12 months

DISCLAIMER