Strategy Review

Wall Street on Rates

what GS, MS, BofA, JPM, Citi & Wells are telling clients

After the Federal Reserve's first rate increase since 2023, the large US banks agree that rates will stay high, but disagree on how many more increases are coming. A weak jobs report and bond yields above 5 per cent have made the next step harder to call.

Global Markets Research · Rates and Strategy Desk Prepared by **Andra Markets**

consensus: higher for longer, but how much higher?

Coverage summary. In the three weeks since the Federal Reserve raised its target range to 3.75% to 4.00% on 16 September, the research departments and executives of the largest US banks have revised their forecasts and published their views on rates and markets. This note brings those views together. On policy, the range runs from Bank of America, which expects two more increases by December, to Citi, which sees a reasonable chance of a pause in October. On bonds, Bank of America has raised its year-end forecast for the ten-year Treasury yield to 5 per cent, a level the market has already exceeded. On equities, strategists still expect stocks to rise, while warning that bonds have become serious competition. Bank executives, led by Jamie Dimon, are the most cautious voices of all.

Fed funds range	10-year Treasury, 7 Oct	September payrolls	Market pricing
3.75 to 4.00%	**5.30%**	**+29k**	**Dec hike**
+25bp on 16 September	*30-year 5.68%*	*vs ~90k expected*	*October hold priced*

Exhibit A. What the banks are saying, in one table

BofA = hawk

Citi = dove

Institution	Fed call	Markets view
Bank of America	+25bp Oct and Dec; peak 4.50%	10y 5.0% at year end; bonds now rival stocks
Morgan Stanley	+25bp Dec and Mar; peak 4.25 to 4.50%	stronger dollar, especially against the yen
Goldman Sachs	+25bp Dec (moved from Oct)	S&P 500 8,000 year-end target (May)
Wells Fargo	one more hike in 2026; 4.00 to 4.25%	long yields have a higher floor
Citi	October hold possible if CPI soft	strategist: next move could be a cut
JPMorgan	Dimon: inflation "not slayed"	sell-off overdone; buy cyclicals and chips

Views as reported between 17 September and 7 October 2026; individual strategists and economists may differ within each bank. Colour convention (charts only): red marks tightening or downside, green marks easing or upside. Handwritten notes and highlights are Andra Markets commentary.

1.0 Executive Summary

Key takeaways

nobody expects cuts in 2026 anymore

Agreement on direction, not on distance. None of the large banks now expects the Federal Reserve to cut rates this year. The debate is between one more increase, the view of Goldman Sachs, Wells Fargo and current market pricing, and two more, the view of Bank of America and Morgan Stanley. The difference matters: it implies a peak in the policy rate of either 4.25 or 4.50 per cent.

29k jobs: the data turned softer

The data has turned the debate. A hawkish Fed meeting first pushed forecasts higher, but a softer inflation reading for August and a September jobs report with only 29,000 new jobs, against expectations of about 90,000, led several banks to delay their calls. Goldman Sachs moved its next increase from October to December and now sees a strong chance the Fed decides no more increases are needed.

2.0 Background

From cuts to hikes

a full U-turn in 2026

At the start of 2026, most banks expected the Federal Reserve to keep cutting rates. That changed during the year as inflation moved back above 3 per cent, driven by tariffs, energy prices linked to the conflict in the Middle East and strong demand related to AI investment. In June, Bank of America became one of the first large banks to forecast increases, and on 16 September the Fed raised rates by 25 basis points, unanimously, to 3.75% to 4.00%. The minutes, published on 7 October and analysed in our note 2026-30, showed that most officials expect another increase by year end, although they disagree on why.

wages only +3.0% y/y, not overheating

Since the meeting, the data has been mixed. Core PCE inflation for August rose 0.25 per cent on the month, below expectations. Payrolls rose just 29,000 in September and earlier months were revised down by 60,000, while the unemployment rate rose to 4.2 per cent from 4.1 per cent and wage growth slowed to 3.0 per cent a year. Growth, by contrast, remains strong, with Goldman Sachs tracking third-quarter GDP growth of 3.3 per cent.

3.0 The Fed Call, Bank by Bank

Range of forecasts

GS: "more hawkish than we expected" then backed off 10 days later

Exhibit 1 sets out the calls. Bank of America, in its weekly of 18 September titled “Hiking season in full bloom”, expects increases in October and December, taking the upper bound to 4.50 per cent. Morgan Stanley, which had expected a pause, now forecasts increases in December and March to the same peak, after chief economist Seth Carpenter said the Fed’s view that policy is not restrictive enough was the more important signal. Goldman Sachs called the September meeting “more hawkish than we expected” and added a second increase, but on 30 September moved it from October to December. Wells Fargo expects one more increase this year to 4.00 to 4.25 per cent and none in 2027, arguing that most of the excess inflation comes from supply. Citi’s Andrew Hollenhorst sees the October decision as dependent on September core inflation, saying a reading of 0.2 per cent or less could keep the Fed on hold.

Exhibit 1. Federal Reserve calls of the large banks and market pricing, as of early October 2026

	28 Oct	9 Dec	Mar 2027	Peak, upper
Bank of America	●	●		**4.50%**
Morgan Stanley	○	●	●	**4.50%**
Goldman Sachs	○	●		**4.25%**
Wells Fargo	one hike by year end			**4.25%**
Citi	○	*hold if September CPI is soft*		n/a
Market pricing (to Dec)	○	●		**4.25%**

the most hawkish

market agrees with GS

Source: Andra Markets compilation of bank research as reported by Investing.com, Yahoo Finance, Finvaulta and others (17 September to 7 October 2026). Red dot: 25bp increase; open dot: hold; blank: no call. Current range 3.75% to 4.00%. Citi’s comments refer to October only.

Behind the forecasts lie two readings of the same inflation. Banks that expect fewer increases, such as Goldman Sachs and Wells Fargo, stress that much of the excess inflation comes from energy and tariffs, which higher rates cannot fix, and that wage growth is moderate. Goldman expects core PCE inflation of 3.0 per cent in the fourth quarter, below the Fed's own median of 3.4 per cent. Banks that expect more increases, such as Bank of America and Morgan Stanley, point to strong consumer spending, and to the Fed's own assessment that policy is barely restrictive.

MS + BofA: policy still too loose

Wells + GS: inflation is supply, so don't overdo it

4.0 Bond Yields

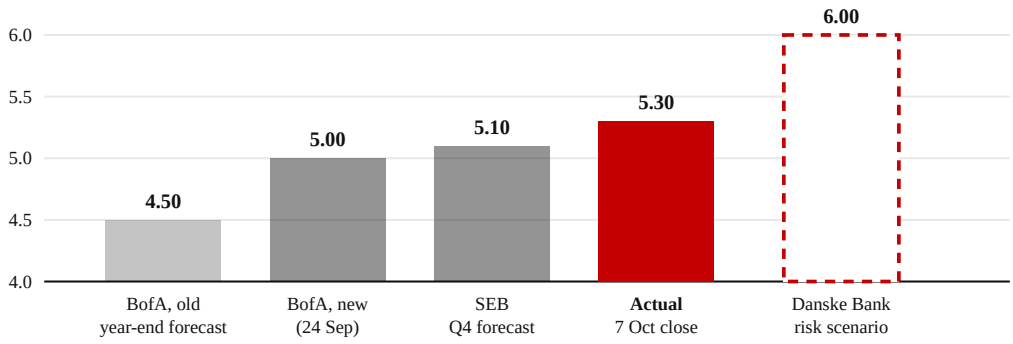
Above the forecasts

forecasts are chasing the market

The bond market has moved faster than the forecasters. On 24 September Bank of America raised its year-end forecast for the ten-year Treasury yield to 5.0 per cent from 4.5 per cent, citing energy risks related to Iran, fiscal challenges, trade tensions and uncertainty over AI ahead of the midterm elections. By 7 October the yield was already 5.30 per cent and the thirty-year 5.68 per cent. Among European banks, SEB expects 5.10 per cent at the end of the year, while Danske Bank warns of a risk that ten and thirty-year yields reach 6 per cent. Wells Fargo argues that the floor for long-term yields has risen because of solid growth, heavy government and corporate bond issuance and policy uncertainty.

6% on the 10y would be a shock

Exhibit 2. Ten-year Treasury yield: actual level against bank forecasts and risk scenario (%)



already above BofA's new call

Source: Investing.com (BofA, 24 September 2026); BigGo Finance (SEB, Danske Bank and market levels, 7 October 2026). Axis starts at 4.0 per cent. Red marks the actual level and the risk case.

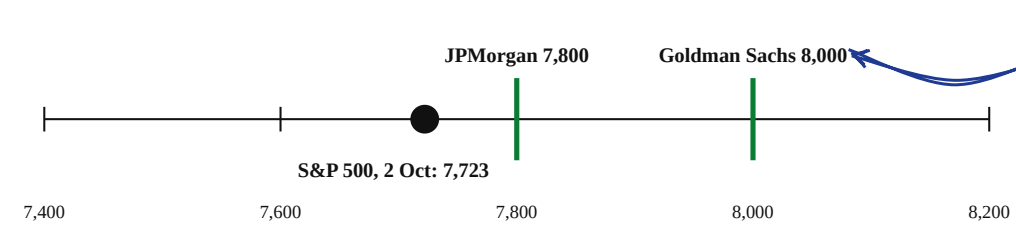
5.0 Equity Strategists

Constructive, with caveats

Equity strategists remain positive but more cautious than earlier in the year. Goldman Sachs raised its year-end S&P 500 target to 8,000 in May, on earnings growth driven by AI investment. JPMorgan raised its target to 7,800 in June while warning of a high probability of a flash crash in speculative AI stocks. On 7 October, JPMorgan's strategists led by Mislav Matejka argued that the recent sell-off driven by bond yields looked overdone, that sentiment had become too bearish, and that the unwinding of momentum trades was "a reset" that could allow stocks to rise into year end, with semiconductors as their top pick.

S&P ~7,720 vs targets 7,800 to 8,000: little upside left

Exhibit 3. S&P 500: latest level against bank year-end targets



+3.6% upside to GS

Source: Tapeboard (index close, 2 October 2026); Yahoo Finance (JPMorgan target, June 2026; Goldman Sachs target, May 2026). Targets may since have been revised.

TINA is dead: bonds pay 5%+

The sharpest warning came from Bank of America. Savita Subramanian, its head of US equity strategy, said its long-term valuation model points to annual S&P 500 returns below 5 per cent over the next decade. "Bonds are becoming a formidable competitor to stocks for the first time in decades," she wrote, while stressing that this is a ten-year valuation judgement rather than a short-term prediction. With ten-year Treasuries yielding over 5 per cent, investors can now earn a similar long-term return with far less risk. Citi's equity strategist Scott Chronert struck a different note on 1 October, suggesting the Fed could be in pause mode and that its next move could even be a cut.

6.0 The Banks' Own Executives

The cautious voices

the people running the banks are more worried than their economists

BofA guided IB fees −10%: first crack?

The executives who run the banks have been more cautious than their research departments. Jamie Dimon of JPMorgan said after the September increase that "it's not clear to me we've slayed inflation", urged companies to prepare for volatile rates, and argued that rising unemployment would be the trigger for credit losses. His co-president Doug Petno said in September that business conditions felt "too good" to bankers who have lived through many cycles. Bank of America, for its part, told investors in mid-September that its investment banking fees would fall about 10 per cent in the third quarter, a guidance that briefly sent bank shares lower.

7.0 Agreement and Disagreement

Where the banks stand

3 points of consensus

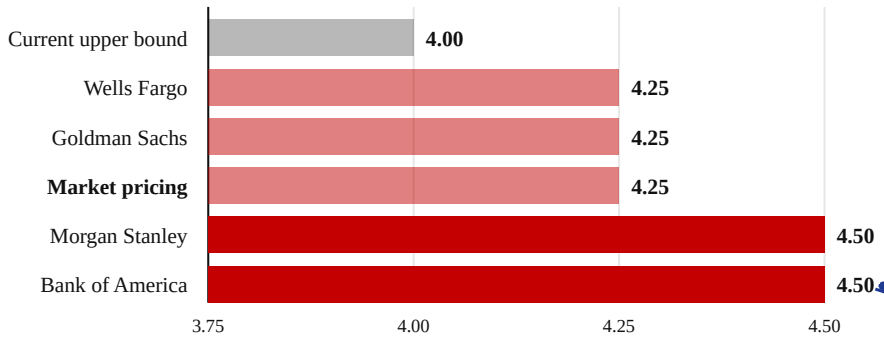
Three points are shared by almost every bank. First, there will be no rate cuts in 2026 and the policy rate will peak between 4.25 and 4.50 per cent. Second, inflation will stay above 3 per cent into 2027 because of energy, tariffs and AI-related demand. Third, long-term yields will stay high, because heavy borrowing by governments and by companies financing AI investment keeps the supply of bonds large.

the real split: is inflation supply or demand?

jobs data decides who wins

The disagreement is about the cause of inflation and therefore the cure. If it is mainly supply, from energy and tariffs, more rate increases would slow the economy without fixing prices, and the Fed should stop soon; this is broadly the view of Goldman Sachs, Wells Fargo and Citi. If it is demand, from strong consumers and the AI boom, the Fed needs to go further; this is the view of Bank of America and Morgan Stanley. The same split runs through the Federal Reserve itself, as the September minutes showed. The September jobs report has tilted the argument towards the first camp, at least for October.

Exhibit 4. Expected peak in the fed funds upper bound, by institution (%)



only 25bp separates hawks from doves

Source: Andra Markets compilation (see Exhibit 1). Axis starts at 3.75 per cent. Morgan Stanley's peak is reported as 4.25 to 4.50 per cent.

8.0 Market Implications

What it means for investors

cash & short bonds pay 4%+ again

For bond investors, the consensus implies that short-term rates have little room to fall and that long-term yields, already above forecasts, could keep rising if inflation does not slow. For equity investors, high yields raise the bar: stocks need strong earnings growth to keep up, which favours companies benefiting from AI investment and penalises those with high debt. Banks such as JPMorgan benefit from higher rates through their net interest income as long as unemployment does not rise.

strong dollar helps euro investors in US assets

9.0 Outlook and Monitoring Points

What to watch

next week = CPI + bank earnings

The next two weeks will test the forecasts. The September consumer price index, which Citi sees as the decisive figure for October, the start of bank earnings on 13 October, where executives will update their views on the economy and credit, and the October jobs report will shape the Fed's decision on 28 October. Investors should watch whether ten-year yields hold above 5 per cent, whether more banks move their calls from October to December, and whether any bank returns to forecasting rate cuts in 2027. For now, Wall Street agrees that rates will stay high; the argument is only about how high.

checklist: CPI, jobs, 10y, Dimon on 13 Oct

verdict: one more hike is the consensus. the risk is that it isn't the last

Methodology and Source Notes

Method. This note compiles publicly reported views of the large US banks on policy, yields and equities between 17 September and 7 October 2026. Bank research is mainly for clients; we rely on press summaries, which may simplify it. Peak rates are inferred from forecast increases where not stated, and the S&P 500 targets in Exhibit 3 may have been revised since. Handwritten notes are informal desk commentary. This note is analysis, not investment advice.

Principal sources. Investing.com, Yahoo Finance, Finvaulta, TheStreet, BigGo Finance, CNBC, Gokhshtein, First Trust, The Daily Hodl and Reuters, reporting on research and remarks by Bank of America, Morgan Stanley, Goldman Sachs, Wells Fargo, Citi and JPMorgan between 17 September and 7 October 2026 (dates as cited in the text).

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