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FMeX EDITORIAL | INCOME INVESTING | OCTOBER 2026

Reviewing Your Investment Income After the Fed's Rate Increase

Higher yields offer more income options. The next step is understanding how those options fit your goals, time horizon and risk tolerance.

KEY TAKEAWAYS

- On Sept. 16, 2026, the Federal Open Market Committee (FOMC) voted 12–0 to raise the federal funds target range by 25 basis points to 3.75%–4.00%, citing elevated inflation.
- FOMC participants' median year-end 2026 federal funds rate projection of 4.1% suggests possible further tightening. Projections are not commitments.
- On Oct. 6, 2026, Treasury par yields were 4.21% for three months, 4.79% for two years and 5.27% for 10 years.
- The September jobs report underscores the economic uncertainty surrounding income planning.
- The rate outlook can change quickly. Income planning should reflect individual needs, rather than depend on a forecast.

The Question Has Changed

During periods of low interest rates, some savers considered riskier investments in search of higher income. Higher rates have expanded the options available. On Sept. 16, 2026, the Federal Open Market Committee unanimously raised the target range for the federal funds rate by 25 basis points to 3.75%–4.00%, citing elevated inflation.

FOMC participants' updated projections put the median year-end 2026 federal funds rate at 4.1%, suggesting possible further tightening. These projections are not commitments. Meeting minutes released Oct. 7 indicated that most participants considered another increase likely to be appropriate before year-end, while emphasizing that future decisions would depend on incoming information.

What Higher Rates Mean for Your Income

Treasury yields provide a dated snapshot of income opportunities. On Oct. 6, 2026, the Treasury's daily par yield curve showed 4.21% for the three-month bill, 4.79% for the two-year note and 5.27% for the 10-year note. For investors, including those ages 27 to 57, higher yields may increase income on cash reserves, emergency funds and short-term savings, depending on the account or investment selected.

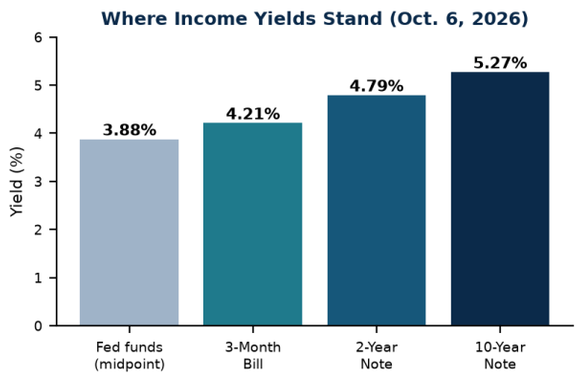

Figure 1. Federal funds target midpoint and selected Treasury par yields, Oct. 6, 2026. The midpoint is a policy reference, not an investor yield. Sources: U.S. Department of the Treasury; Federal Reserve.

Higher yields also bring trade-offs. When interest rates rise, existing bond prices generally fall; longer-maturity bonds are typically more sensitive, all else equal. Borrowing costs may also rise for mortgages, auto loans and credit cards. An income review therefore considers both investments and debt.

Why Forecasts Are an Uncertain Foundation

Yields can respond quickly to economic data. CNBC's cited Oct. 2 report described the September jobs report as weaker than expected: the 10-year Treasury yield fell to

about 5.18% in morning trading, and CME FedWatch pricing indicated an 84% probability of an October rate hold. The U.S. Bureau of Labor Statistics reported a payroll gain of 29,000 and an unemployment rate of 4.2%, describing both as little changed. The cited market report indicated that yields later reversed and closed higher that day. Such shifts illustrate the limits of relying on a rate forecast for income planning.

Five Questions to Review With Your Advisor

1. What is each dollar for? Distinguish money needed within 12 months, funds for goals one to five years away and long-term savings. Each time horizon may call for a different approach.

2. How does your cash yield compare? Checking accounts and low-rate savings accounts may earn less than short-term Treasuries. A comparison should also consider liquidity, deposit insurance, taxes and costs.

3. How much interest-rate risk can you tolerate? The cited Treasury yields were higher at longer maturities, but longer-term bond prices are generally more sensitive to rate changes. Staggered maturities in a bond ladder may provide opportunities to reinvest over time, while retaining interest-rate and reinvestment risk.

4. Is yield masking risk? High-yield bonds and high-dividend stocks may offer more income, but credit and market risks can become more pronounced during an economic slowdown. Total return includes income and changes in market value; yield alone does not capture the outcome.

5. Are taxes and debt part of the picture? Treasury interest is generally exempt from state and local income taxes, while municipal bond interest may qualify for federal tax exemptions, subject to exceptions. Reducing variable-rate debt may lower interest costs. Any comparison with investment income should account for taxes, loan terms and liquidity needs.

Matching Tools to Time Horizons

Time Horizon	Income Options to Discuss
0–12 months	High-yield savings accounts, money market funds, Treasury bills
1–5 years	Certificates of deposit (CDs), short- and intermediate-term Treasuries, bond ladders
5+ years	Diversified bond funds, dividend-paying stocks

Illustrative examples only, not recommendations. Suitability depends on individual circumstances; risks and liquidity vary by product.

Putting the Review in Perspective

Higher rates can expand income options, but yield is only one part of the decision. A review begins with goals, time horizons and risk tolerance, then considers investments in that context. A plan based on individual needs may help frame decisions as rates change, although it cannot eliminate investment risk. A discussion with a financial advisor can help assess how an income strategy fits those needs.

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Important Disclosures

The federal funds target midpoint (3.875%, rounded to 3.88%) is a policy reference, not a yield available to investors. Treasury par yields are annualized market references, not guaranteed total returns or quotes for a specific investment.

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