Kaiko Research

How Bitcoin Usually Reacts to the Fed

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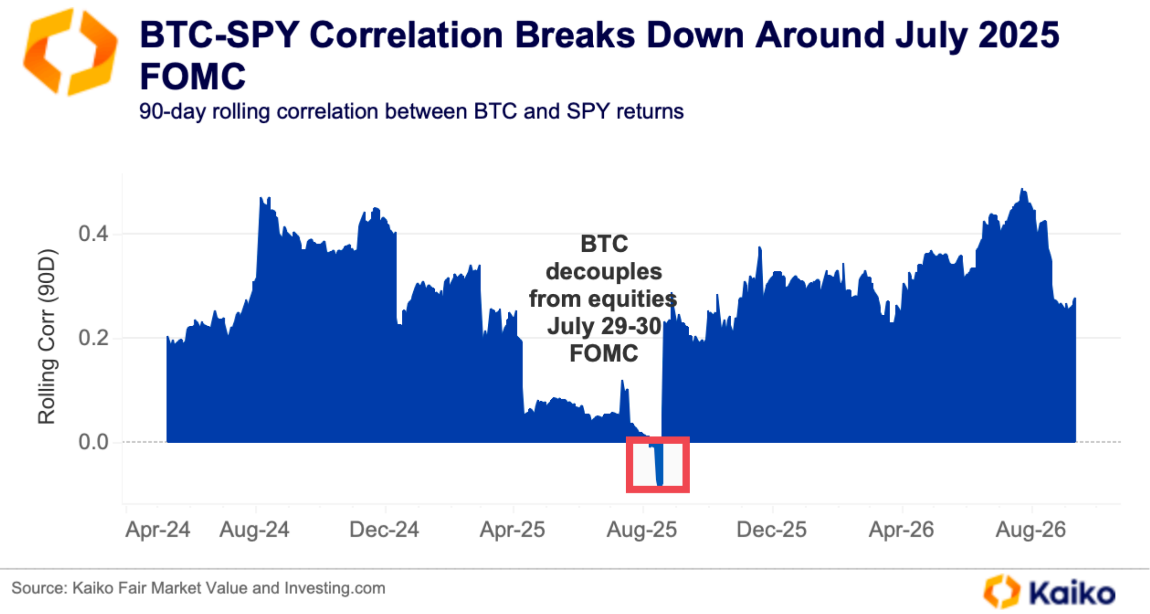
By Andrew Yang

With the Federal Reserve's next interest rate decision approaching, many are asking how Bitcoin might respond. The relationship is more complex than a simple reaction to a rate hike, cut, or hold. Bitcoin has shown a link to Federal Reserve interest rate decisions for some time, and this analysis uses historical data to better understand it. We find that Bitcoin's reaction depends less on whether the Fed hikes, cuts, or holds rates. Instead, it depends more on how much the meeting changes expectations about the future path of interest rates. When Fed communication causes a sharp shift in these expectations, Bitcoin's price reaction tends to be stronger.

- BTC moves most when a meeting shifts rate expectations, not when it confirms them.
- Bitcoin's macro correlations aren't fixed. Its link to both equities and the Fed's own rate breaks down around key Fed moments.
- This decision carries more uncertainty than usual. Warsh has dropped forward guidance, and inflation is still elevated.

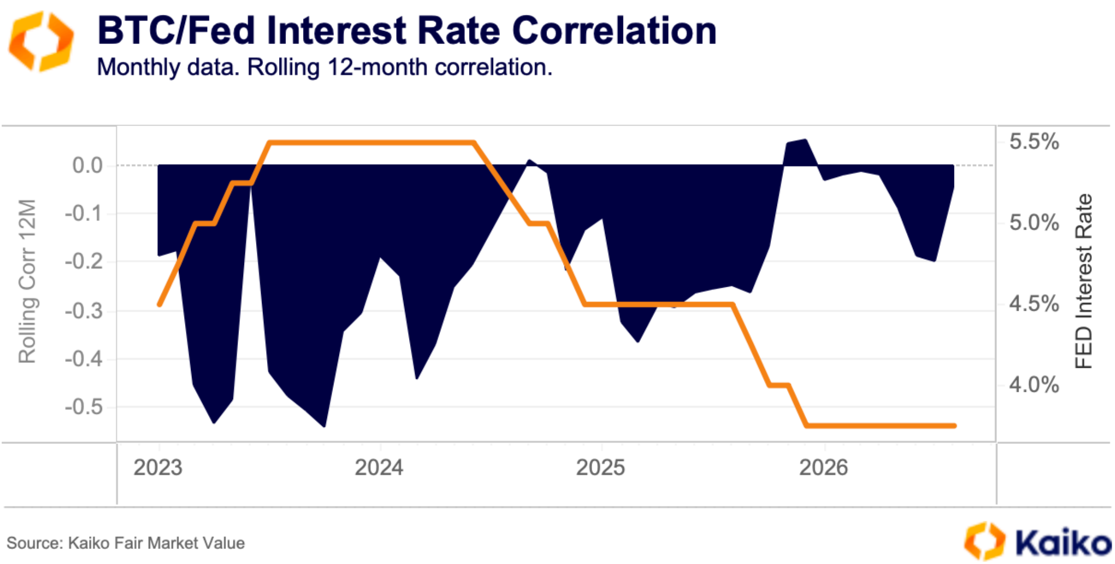
Bitcoin's Link to Equities Breaks Down Around Fed Surprises

Bitcoin's correlation with equities, measured against SPY, has stayed positive over the past three years, but has not been stable. The clearest break came around the July 29-30, 2025 FOMC meeting, when the rolling correlation briefly turned negative. Bitcoin was trading on its own dynamics rather than tracking equity sentiment. Correlation then rebuilt through 2026, climbing back above 0.4. This episode supports the idea that Bitcoin's link to macro assets weakens precisely when the market is least sure what the Fed's next move means for rates.



BTC and the Fed Interest Rate Correlation

Bitcoin's relationship with equities is only part of the picture. Looking at BTC returns and its correlation with the Fed interest rate changes shows a similarly unstable pattern. The rolling 12-month correlation has been negative for nearly the entire post-2023 period, and has only crossed into positive territory exactly twice: briefly in late 2024 and again around the turn of 2026, as the Fed stepped off a plateau and began cutting rates.



Through 2026, the correlation has stayed compressed near zero rather than reverting to its earlier depth, consistent with a market that has priced the easing cycle and is no longer taking direction from the rate level itself.

Warsh's Shift Away From Forward Guidance Leaves Markets With Less to Go On

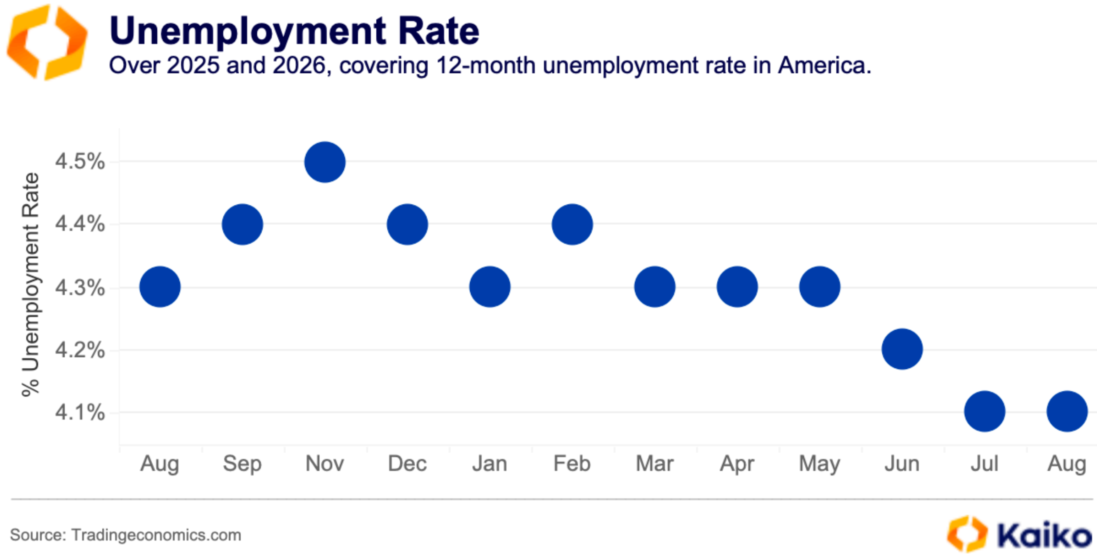
The reason for that shift starts with a change in Fed leadership. Jerome Powell's stepped down as chairman in May and was replaced by Kevin Warsh. Powell had served as chairman for eight years, and markets had grown accustomed to his regular forward guidance on the likely policy path and positioned around those signals accordingly.

Warsh has broken from that approach. In his Jackson Hole symposium keynote on August 28, 2026, he argued forward guidance distorts price discovery and called it a crisis-era legacy that had persisted too long. He pointed to the "hall of mirrors" problem, a feedback loop where markets try to anticipate the Fed's next move while the Fed simultaneously reads market reactions, leaving both sides less attuned to the real economy. The shift is not uniform across the committee: Waller's recent comments about "giving disinflation a chance," paired with a conditional signal on holding in September, are guidance of exactly the kind Warsh is stepping away from. Hence, the Fed is now operating in a more uncertain environment than markets are used to.

Unemployment and Inflation Stay Elevated as the Fed Weighs Its Next Move

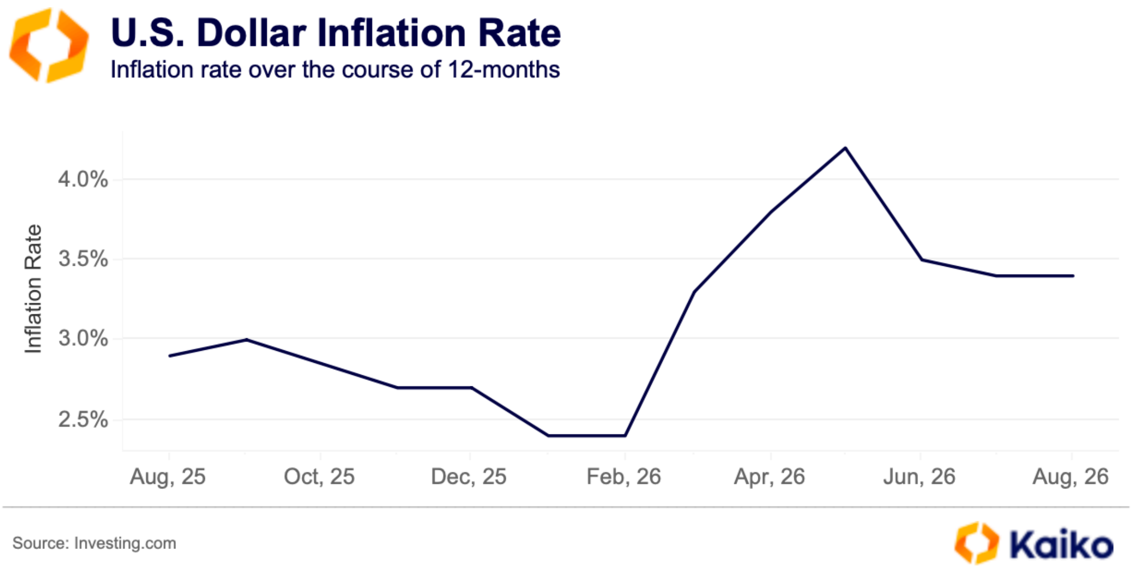
Those communication choices are not being made in a vacuum. The data the Fed is reading right now pulls in two directions, which is part of why the path has become harder for markets to price.

The U.S. economy remains in a delicate position. Inflation is still running above the Fed's 2% target, and unemployment has held steady over the past year, ranging between 4.1% and 4.5%. The Fed must balance supporting growth against the risk of letting inflation run too high, and it watches the unemployment rate closely as a signal for its future policy path. For markets, it means the policy path now hinges on the inflation prints rather than on guidance from the Fed about where it intends to go.

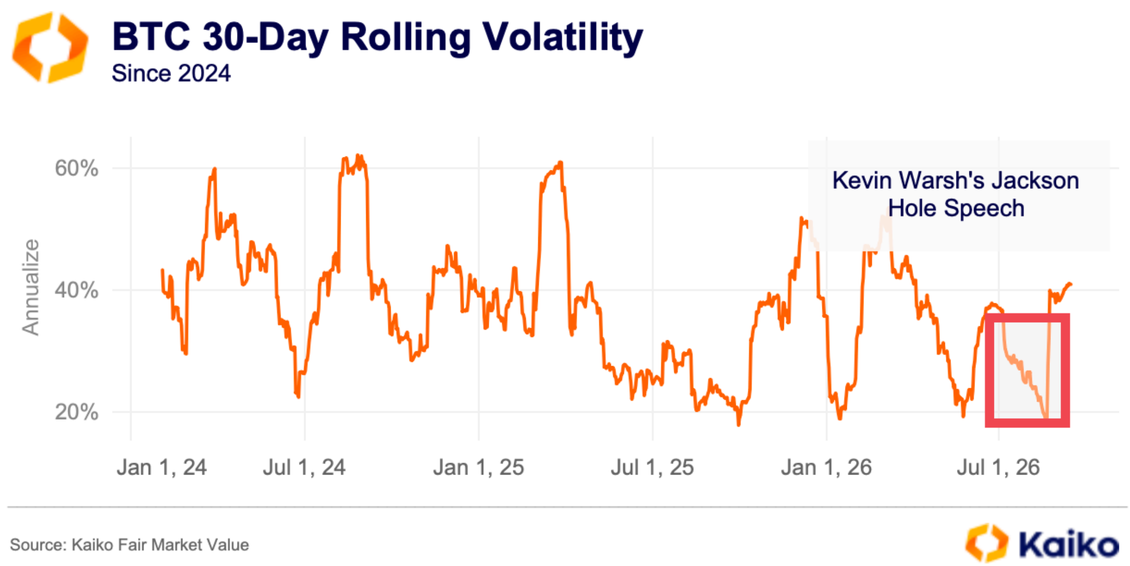


Unemployment has held in a narrow band for the past year, giving the Fed little urgent signal from the labor market. Inflation has moved more, and its recent path is the more direct input into the Fed's next decision.

Inflation cooled through late 2025 before climbing back above 4% in the spring of 2026, then easing slightly to around 3.4%. That renewed pickup is part of why Warsh's shift away from forward guidance lands at a more sensitive moment than it might have a year ago.



With Warsh signaling he will not offer the kind of forward guidance Powell did, markets have less visibility into the Fed's next move than they are used to. That shift shows up directly in Bitcoin's volatility, which has stayed elevated through 2026 and ticked up again around the Jackson Hole speech.

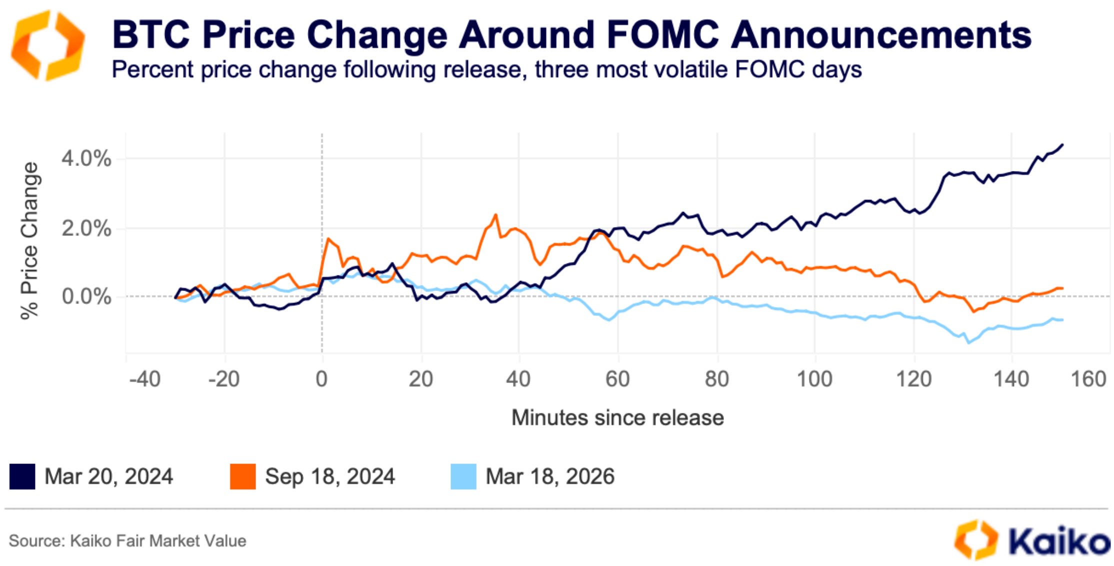


Volatility spiked briefly right after the Jackson Hole speech, then eased before climbing again into September. That pattern of uncertainty followed by another leg higher fits a market still recalibrating how much weight to put on Fed communication under the new approach.

Bitcoin Moves More on Changed Expectations Than on the Rate Decision

Looking at the three most volatile Federal Open Market Committee (FOMC) days in the past years, the size of BTC's price move tracks the size of the shift in rate expectations, not the decision itself.

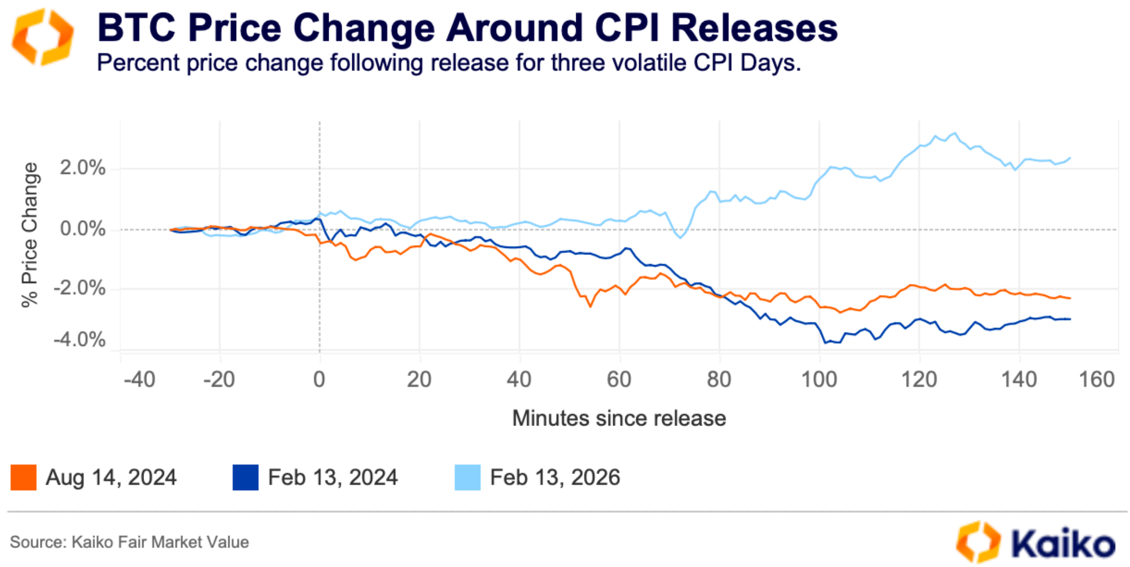
The largest came on March 20, 2024, a dovish surprise. The Fed held rates steady, as expected, but the key was the dot plot: going into the meeting, markets worried the Fed would trim its projection from three 2024 rate cuts down to two, given hotter-than-expected January and February Consumer Price Index (CPI) prints. Instead, the Fed kept the dot plot at three cuts, even while raising its GDP and inflation forecasts. That shift in expectations, not the hold itself, is what drove Bitcoin's reaction.



CPI Surprises Move BTC as Much as Fed Meetings Do

CPI releases mostly produce the same pattern. On February 13, 2026, CPI came in cooler than expected (2.4% versus a 2.5% forecast), and Bitcoin rallied. On February 13, 2024, CPI came in hotter than forecast, and Bitcoin sold off.

August 14, 2024, breaks the pattern. That report actually came in cooler than expected too, yet Bitcoin still fell about 2.2% over the next two hours. The most likely explanation is timing. The release landed just nine days after the August 5, 2024 global carry trade unwind, when Bitcoin had briefly dropped to around $49,000 alongside a broader risk-off selloff in equities. A single cooler CPI print was not enough to offset that lingering risk aversion. A CPI surprise moves price most reliably when it is the dominant story that day, but when the market has something bigger to react to, the move can be less consistent.



Conclusion

Across FOMC meetings, CPI releases, and Bitcoin's shifting correlation with equities, the same pattern holds. Bitcoin's price reaction is driven by how much an event moves rate expectations, not by the headline outcome itself. A hold that confirms what the market already expected produces little movement. A hold paired with an unexpected dot plot, or a CPI print that surprises in either direction, produces a much sharper move.

This matters more than usual heading into the next decision. Warsh has stepped away from the forward guidance markets relied on for eight years under Powell, so there is less signal available ahead of each meeting to shape expectations in advance. Inflation is still above target and unemployment is holding in a narrow band, which leaves more room for the outcome to surprise markets rather than confirm what they already priced in.