

Fed Holds Steady on Rates, Easing May Come Later in 2025

Transcript

Okay. There are three things to highlight from the just finished FOMC meeting where Fed Chair Powell hit one down the middle today, which is exactly what he was supposed to do. So, first, the FOMC statement removed a comment about inflation making progress toward their 2% objective. The market initially viewed that as hawkish, but Powell thankfully cleaned up any confusion nicely during the presser, where he explicitly said progress toward their target is still their expectation.

It struck me as a bit of a stretch to think otherwise when Core PCE rose just a tenth month-on-month in the last report, and appears poised for another modest gain in the coming report. So, there was nothing to the adjustment to the statement. Second, as expected, he said the Fed does not need to be in a hurry to lower rates.

And that strikes us as totally reasonable. We think getting some clarity on policy--policies that are going to come out from the Trump administration--before adjusting policy further is prudent. And if the extremes on inflation and immigration are voided, then we think this will allow inflation to continue the process of slowing from here. And with labor backdrop that has slowed, this could open the door back up for easing policy. But at this point, we think that'll happen later in the year. It's not for today. Third and finally, we think his response on neutral funds is something investors really need to keep in mind. After all of the cuts we've had, Powell still thinks policy is meaningfully restrictive.

That seems like important context in the face of tariffs that are likely to come. In other words, I would expect his initial reaction on tariffs to go something like, well, if policy is already restrictive, then that would remove the need to raise rates. There will be a lot of moving parts on this economically speaking, but we think as a first reaction from Powell, that sounds about right.
