Special Update

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What's the Fed up to?

The Federal Reserve (Fed) maintains its benchmark federal funds rate at a range of 4.25% to 4.50%, a level unchanged since December 2024 following a series of cuts totaling 1% over late 2024. This pause reflects a cautious approach amid solid economic growth, a resilient labor market, and persistent inflation above the Fed's 2% target, currently at 2.8%. The Fed's current policy stance is restrictive, aimed at curbing inflation without tipping the economy into recession, while its latest actions include slowing the reduction of its $6.4 trillion bond holdings—reducing Treasury runoff to $5 billion monthly from $25 billion starting April 1—to enhance market liquidity (U.S. Bank, March 19, 2025; Reuters, April 5, 2025). Fed Chair Jerome Powell has emphasized a "wait-and-see" posture, driven by uncertainty over President Trump's tariff policies, which began with a 10% import tariff on April 5 and are set to expand with reciprocal tariffs on April 9, potentially stoking inflation further (Reuters, April 4, 2025).

The likelihood of rate cuts in 2025 hinges on evolving economic data and tariff impacts, with projections varying widely. At its March 2025 meeting, the Federal Open Market Committee (FOMC) forecasted two quarter-point cuts by year-end, bringing the rate to 3.75%-4.00%, contingent on inflation cooling or labor market weakening (J.P. Morgan, March 19, 2025). However, stubbornly high inflation and tariff-related risks have tempered expectations. Goldman Sachs now predicts three cuts—in July, September, and November—raising its recession odds to 35%, arguing tariffs could necessitate "insurance" cuts if growth falters (Investopedia, March 31, 2025).

Conversely, some analysts and Fed officials, like Raphael Bostic, suggest only one cut, or none, if inflation persists, with markets pricing a 50-50 chance of a third cut by December (Reuters, March 24, 2025; CNBC, March 19, 2025). Powell has noted “elevated uncertainty” and risks of both higher inflation and unemployment, suggesting the Fed could hold rates steady or even hike if inflationary pressures dominate (Reuters, April 4, 2025). With the next FOMC meeting in May, June emerges as the earliest likely window for a cut, though persistent inflation or tariff escalation could delay action further (Morningstar, March 31, 2025).

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