

# Special Update

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## **This is it! The Fed Meets!**

The Federal Open Market Committee (FOMC) is scheduled to meet on July 29–30, 2025, to assess economic conditions and determine the stance of U.S. monetary policy. Expectations are that the FOMC will maintain the federal funds rate at its current range of 4.25% to 4.50%, reflecting a cautious approach amid mixed economic signals, tariff-induced inflationary pressures, and labor market resilience. The decision follows a series of rate cuts in 2024 (50 basis points in September, 25 basis points each in November and December) and a pause in all 2025 meetings to date. However, a potential 25-basis-point rate cut is under consideration, driven by Fed Governor Christopher Waller's advocacy for easing to provide flexibility for future adjustments. Key factors influencing the decision include inflation trending above the Fed's 2% target (Core PCE at 2.7%), solid but slowing labor market indicators, and uncertainties from trade policies, notably the U.S.-Japan trade deal and upcoming tariff implementations. Markets anticipate no immediate change but assign a 50% probability of a cut by September, with two cuts projected for 2025. The FOMC's policy statement, Chair Jerome Powell's press conference, and discussions on the monetary policy framework shift from Flexible Average Inflation Targeting (FAIT) to Flexible Inflation Targeting (FIT) will be critical for signaling future policy direction. This report provides a detailed analysis of these expectations, supported by credible sources.

### **Background**

The FOMC, the Federal Reserve's monetary policy-making body, meets eight times annually to set the federal funds rate, which influences borrowing costs across the economy, including mortgages, credit cards, and savings accounts. The committee, chaired by Jerome Powell, comprises seven Board of Governors members, the New York Fed President, and four rotating Reserve Bank presidents (Federal Reserve, 2025a). The FOMC's dual mandate is to promote maximum employment and price stability, targeting 2% inflation as measured by the Personal Consumption Expenditures (PCE) price index (Federal Reserve, 2025b).

Following aggressive rate hikes from March 2022 to July 2023 to combat inflation, which peaked at 9.1% in June 2022, the Fed paused rates at 5.25%–5.50% until September 2024, when it initiated cuts totaling 100 basis points, bringing the rate to 4.25%–4.50% (Investopedia, 2024; J.P. Morgan, 2024). In 2025, the FOMC has maintained this range across its first four meetings (January 28–29, March 18–19, May 6–7, June 17–18), citing elevated economic uncertainty, particularly from President Donald Trump’s tariff policies (U.S. Bank, 2025; Forbes, 2025a). The July 29–30 meeting, the fifth of 2025, is critical as it precedes the August 1 implementation of new tariffs, including a 15% rate on Japanese exports from the July 22 U.S.-Japan trade deal (Reuters, 2025a).

## Economic Context and Key Influences

### Current Economic Indicators

- **Inflation:** Core PCE inflation, the Fed’s preferred gauge, was 2.7% year-over-year (YoY) in May 2025, down from 3.1% in January 2024 but above the 2% target. Total PCE inflation was 2.5%, with upside risks from tariffs expected to push core inflation toward 3.2% by year-end (U.S. Bank, 2025; EY, 2025). Recent Consumer Price Index (CPI) data showed inflation rising for two consecutive months to its highest since February 2025, driven by tariff-related price pressures (KobeissiLetter, 2025).
- **Labor Market:** The labor market remains solid, with unemployment at 4.2% in June 2025, near historic lows, and job growth beating expectations for three consecutive months. However, signs of softening include a decline in job openings (7.769 million in May to an expected 7.550 million in June) and rising continuing claims, indicating challenges for the unemployed (Edward Jones, 2025; Morningstar, 2025; KobeissiLetter, 2025).
- **Economic Growth:** The first estimate of Q2 2025 GDP, due July 30, is projected at 2.3% annualized growth, rebounding from Q1’s -0.5%, though tempered by tariff-related import slowdowns. The FOMC lowered its 2025 GDP forecast to 1.4% from 1.7% in June, reflecting trade policy impacts (Kiplinger, 2025; U.S. Bank, 2025).
- **Trade Policy:** The U.S.-Japan trade deal, setting a 15% tariff on Japanese exports, and a similar U.S.-EU deal on July 27, have eased trade war fears but introduced cost pressures. Tariffs set to resume on August 1, including Trump’s “reciprocal” measures, could further elevate inflation, complicating the Fed’s mandate (Reuters, 2025a; Nuveen, 2025).

## Monetary Policy Framework Review

The FOMC is reviewing its monetary policy framework, with discussions at the May and June 2025 meetings focusing on shifting from FAIT, adopted in 2020 to allow inflation to overshoot 2% temporarily, to FIT. FIT emphasizes a symmetric 2% inflation target with greater tolerance for employment deviations, aiming for robustness against shocks like tariffs. Scenario analysis is becoming a key tool for assessing risks, with no formal framework change expected at the July meeting (EY, 2025; Federal Reserve, 2025c).

## Expectations for the July 29–30, 2025, FOMC Meeting

### Federal Funds Rate Decision

- **Consensus Expectation:** The FOMC is widely expected to maintain the federal funds rate at 4.25%–4.50%, consistent with its cautious “wait-and-see” approach. This aligns with market expectations, with the CME FedWatch Tool indicating a 90% probability of no change, down from near 100% in June (Reuters, 2025b; Forbes, 2025b; Investopedia, 2025). The Fed’s June 2025 statement noted “diminished but elevated” uncertainty, and Chair Powell emphasized a data-dependent policy, awaiting clarity on tariff impacts (Nuveen, 2025; American Banker, 2025).
- **Potential for a Rate Cut:** Fed Governor Christopher Waller has publicly advocated for a 25-basis-point cut in July, arguing it would provide “room to hold steady for several meetings” and avoid more aggressive cuts later if economic conditions deteriorate. Waller’s stance, expressed in a July 17 speech, suggests a possible dissent, though the FOMC’s unanimous votes in 2025 indicate limited support (Waller, 2025; Investing.com, 2025a; DeItaone, 2025). Markets assign a 10% chance of a July cut, with a 50% probability by September (Forbes, 2025b).
- **Rationale for Holding Rates:** The Fed’s decision to pause reflects several factors:
  1. **Inflation Pressures:** Core PCE at 2.7% and rising CPI indicate persistent inflation, exacerbated by tariffs. Powell noted in June that tariff effects take time to manifest, warranting caution (American Banker, 2025; EY, 2025).



2. Labor Market Strength: Despite softening signals, unemployment at 4.2% and consistent job growth support a restrictive policy stance (KobeissiLetter, 2025; Edward Jones, 2025).
3. Economic Uncertainty: The FOMC's June projections anticipate two 25-basis-point cuts in 2025, but internal divisions (10 members for cuts, seven for no change) and tariff uncertainties delay action (EY, 2025; Nuveen, 2025).
4. Policy Positioning: The current rate is "significantly closer to neutral" (estimated at 2.5%–3.5%), allowing the Fed to monitor data without immediate easing (J.P. Morgan, 2025a; Federal Reserve, 2025d).

## Policy Statement and Press Conference

- Policy Statement: The FOMC's statement is expected to retain language that inflation is "somewhat elevated" and labor market conditions are "solid." The June phrase "uncertainty about the economic outlook has diminished but remains elevated" may be adjusted to acknowledge easing trade tensions post-U.S.-Japan and U.S.-EU deals. The statement may shift from "extent and timing" of rate adjustments to "any" adjustments, signaling flexibility for a September cut (EY, 2025; Nuveen, 2025).
- Powell's Press Conference: At 2:30 p.m. on July 30, Powell is expected to emphasize data dependency and caution, echoing his June remarks that the Fed is "well positioned to wait" for tariff clarity. He may address Waller's dissent, tariff-induced inflation risks, and the FIT framework shift, but avoid explicit forward guidance due to FOMC divisions (American Banker, 2025; EY, 2025). Powell is likely to highlight robust consumer spending and labor market resilience while noting downside risks to growth (U.S. Bank, 2025).
- No Summary of Economic Projections (SEP): Unlike March and June meetings, July will not include an SEP or dot plot update, focusing attention on the statement and press conference for policy signals (Federal Reserve, 2025a).

## Quantitative Tightening (QT) and Balance Sheet

The FOMC has reduced its balance sheet from \$9 trillion in 2022 to \$6.4 trillion by June 2025, with monthly caps of \$5 billion for U.S. Treasuries and \$35 billion for agency mortgage-backed securities. No changes to QT are expected in July, following a slowdown announced in March 2025. The Fed's standing repo facility (SRF) enhancements, including early settlement options, will continue as planned (Federal Reserve, 2025c; U.S. Bank, 2025).

## Market Analysis and Expectations

Market Sentiment: Fixed-income markets, per the CME FedWatch Tool, expect rates to remain unchanged in July, with a 50% chance of a 25-basis-point cut by September and two cuts by year-end, potentially lowering the rate to 3.75%–4.00% (Forbes, 2025b). Equity markets, with the S&P 500 up 1% last week, anticipate stability but are sensitive to Powell's comments on tariffs and inflation (Edward Jones, 2025).

### Analyst Forecasts:

- J.P. Morgan: Expects no change in July, with gradual easing in late 2025, citing solid economic conditions and tariff uncertainties (J.P. Morgan, 2025a; J.P. Morgan, 2025b).
- Wells Fargo: Predicts rates will hold steady, with potential cuts in September if economic slowdown materializes and inflation allows (Wells Fargo, 2025).
- EY: Foresees a September cut, with two 25-basis-point reductions in 2025, driven by deteriorating labor market conditions and tariff effects (EY, 2025).
- Nuveen: Anticipates two cuts in 2025, with Powell maintaining a cautious tone due to fiscal and trade policy uncertainties (Nuveen, 2025).
- Potential Dissent: Waller's call for a July cut may lead to a rare dissent, though historical FOMC unity in 2025 suggests consensus will prevail (Waller, 2025; EY, 2025).

## Implications and Risks

- **Economic Implications:**
  1. No Rate Change: Maintaining rates supports price stability but risks slowing growth if tariffs reduce consumer spending. A steady rate could stabilize savings and borrowing rates but may not address softening labor market signals (Forbes, 2025a; U.S. Bank, 2025).
  2. Rate Cut: A 25-basis-point cut, as Waller advocates, could boost growth and employment but risks fueling inflation, particularly with tariffs driving prices higher. It would signal a proactive stance but may unsettle markets expecting stability (Investingcom, 2025a; Reuters, 2025b).



3. Market Reactions: Equity markets may remain muted, as seen post-May (up <1%), if rates are unchanged. A surprise cut could boost equities but raise Treasury yields, while hawkish Powell comments could trigger a sell-off (J.P. Morgan, 2025b; Edward Jones, 2025).

4. Policy Risks: Tariff-driven inflation could push Core PCE above 3.2%, forcing the Fed to reconsider cuts or raise rates, risking stagflation (slow growth, high inflation, rising unemployment). Conversely, a weakening labor market could necessitate earlier easing, complicating the Fed's dual mandate (U.S. Bank, 2025; EY, 2025).

## Critical Analysis

The FOMC's likely decision to hold rates at 4.25%–4.50% reflects a prudent response to mixed economic signals. Inflation above 2% and tariff pressures justify caution, while a robust labor market and Q2 GDP growth reduce the urgency for cuts. Waller's push for a July cut highlights internal FOMC divisions, with his focus on slowing GDP (1.4% forecast) and labor market softening (rising continuing claims) contrasting Powell's emphasis on data dependency (Waller, 2025; American Banker, 2025). The FIT framework shift signals a long-term strategy to balance inflation and employment more symmetrically, but its July discussion will likely be preliminary, with no immediate policy impact (EY, 2025). Markets' 50% probability of a September cut reflects uncertainty, amplified by the August 1 tariff implementation and upcoming economic data (Q2 GDP, July jobs report). The Fed's challenge is navigating potential stagflation risks, with tariffs threatening growth and inflation simultaneously. Powell's press conference will be pivotal, as any hint of earlier easing or hawkish caution could sway markets significantly.

## Conclusion

The FOMC's July 29–30, 2025, meeting is expected to maintain the federal funds rate at 4.25% -- 4.50%, reflecting caution amid tariff-driven inflation (Core PCE at 2.7%), a solid labor market (4.2% unemployment), and economic uncertainty. While Fed Governor Waller advocates for a 25-basis-point cut to preempt future risks, consensus favors a pause, with markets eyeing a potential September cut. The policy statement and Powell's press conference will be closely watched for signals on tariffs, labor market trends, and the FIT framework shift. With two cuts projected for 2025, the Fed's data-dependent approach will balance inflation control with employment support, navigating a complex landscape shaped by trade policies and economic data. Investors should prepare for volatility, maintaining diversified portfolios to mitigate risks from unexpected policy shifts or economic surprises.



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