

Fed Remains Firmly on Hold; Hopes for June Cut Dashed

By unanimous vote, Fed officials announced *no change* in the overnight funds target at the conclusion of the May FOMC meeting this afternoon. The official statement mirrored the previous meeting, with an important addition: "...the risks of higher unemployment and higher inflation have risen." This isn't a surprise given the tariff overhang, but the fact that Fed officials have now acknowledged increased risks to both sides of the mandate is significant. Extreme uncertainty in the midst of expectations for higher prices and job losses indicate Fed officials will be on hold until the outlook becomes clearer.

What *didn't* change in the official statement was the Fed's forward guidance, continuing to insist that "the committee will carefully assess incoming data, the evolving outlook, and the balance of risks." If Fed officials intended to open the door for a June rate cut, this data-dependent language might have been tweaked. *It wasn't*. So, July 30 remains the most likely date for the next cut.

There was no summary of economic projections (SEP) scheduled for release this afternoon, but the Fed's overly optimistic outlook from the March FOMC meeting will most certainly be recalibrated at the June meeting with lower GDP growth and higher core inflation expected for 2025.

At the much-anticipated post-meeting press conference, Chairman Powell began his prepared remarks by emphasizing the Fed was committed to price stability and full employment. He mentioned deteriorating confidence measures but is uncertain on how this will affect future spending and investment. Powell was relatively certain that sustained tariffs are likely to increase prices and unemployment while slowing economic growth.

During the Q&A portion of the press conference, Powell was consistent in his intent to watch the data and wait for clarity. He said policy was "in a good position" and "we don't need to be in a hurry" multiple times, believing the committee is "in a good position to wait and see" as "the cost of waiting is fairly low." While emphasizing *patience* repeatedly, he added that the committee could "move quickly when appropriate."

Powell believes the underlying inflation picture is good, but the tariffs bring uncertainty. He suggested that upcoming trade talks could materially change the picture, but didn't offer an opinion on what the new picture might look like. On the rising odds of recession and the possibility of a preemptive move by the Fed, Powell was carefully ambiguous.

Bond yields moved slightly lower in the minutes following the announcement, while stocks slipped. As of this afternoon, the futures market has priced-in three quarter point cuts for 2025, the first coming at the end of July. The most recent "dot plot" from the March meeting indicated two.

Powell did not respond to a question about President Trump potentially seeking to

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

Extreme uncertainty in the midst of expectations for higher prices and job losses indicate Fed officials will be on hold until the outlook becomes clearer.

Powell was relatively certain that sustained tariffs are likely to increase prices and unemployment while slowing economic growth.

remove him as Fed Chairman before his term expires next year. President Trump, a vocal critic of Powell and the Fed, has not posted reaction to the Fed's insistent patience.

In other news this afternoon, President Trump announced he will not preemptively lower tariffs on Chinese imports, a starting point requested by Chinese trade officials before trade talks begin later this week. The financial markets have reacted puzzlingly well to this news.

Market Indications as of 2:27 P.M. Central Time

DOW	Up 147 to 40,976 (HIGH: 45,014)
NASDAQ	Down -98 to 17,592 (HIGH: 20,174)
S&P 500	Up 6 to 5,613 (HIGH: 6,144)
1-Yr T-bill	current yield 4.01%; opening yield 3.98%
2-Yr T-note	current yield 3.78%; opening yield 3.81%
3-Yr T-note	current yield 3.75%; opening yield 3.78%
5-Yr T-note	current yield 3.87%; opening yield 3.92%
10-Yr T-note	current yield 4.27%; opening yield 4.33%
30-Yr T-bond	current yield 4.77%; opening yield 4.82%

President Trump announced he will not preemptively lower tariffs on Chinese imports, a starting point requested by Chinese trade officials before trade talks begin later this week.

The paper/commentary was prepared by Hilltop Securities Asset Management (HSAM). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS and/or HSAM as of the date of the document and may differ from the views of other divisions/departments of affiliates Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. Sources available upon request.

Hilltop Securities Asset Management is an SEC-registered investment advisor. Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS and HSAM are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP.