

No Surprises in FOMC Minutes, but Risks Remain Elevated

The minutes from the May 7 FOMC meeting, released this afternoon, contained no real surprises. The key takeaway is that tariffs have contributed to an uncertain economic outlook, suggesting that monetary policy will likely remain on hold until there is greater clarity on government actions.

Committee members expressed unusually pessimistic views. They anticipate a significant weakening in the labor market and consider the likelihood of a recession nearly equal to the baseline scenario. Tariffs are expected to drive prices higher this year, and many members believe inflation could remain persistently elevated. This inflation risk is likely to keep the Federal Reserve on the sidelines, even as economic growth slows.

Although the minutes are now three weeks old, more recent statements from Fed officials provide better insight into the likely direction of policy at the upcoming meeting. Earlier this week, New York Fed President John Williams emphasized that policymakers cannot assume inflation expectations will remain anchored, implying a prolonged pause in rate changes. Minneapolis Fed President Neel Kashkari echoed this sentiment, citing tariff-related uncertainty as a reason to maintain the current policy rate. He does not expect clarity before the September meeting.

Last week, St. Louis Fed President Alberto Musalem highlighted the FOMC's focus on managing long-term inflation expectations. Meanwhile, Chicago Fed President Austan Goolsbee noted that the threshold for rate cuts in the near term has become "a little higher."

Despite the Fed's cautious stance, public pressure to lower rates is mounting. On Monday, William Pulte, the Trump-appointed director of the Federal Housing Finance Agency (FHFA), urged the Fed to cut rates, stating, "Jay Powell needs to lower interest rates—enough is enough." Pulte argued that the housing market would benefit from such a move. However, while the Fed controls the overnight funds rate, 30-year mortgage rates are tied to the 10-year Treasury yield, which is influenced by inflation expectations—the very expectations the Fed aims to manage by holding rates steady.

In a related development, the president reiterated his intention to take Fannie Mae and Freddie Mac public, while maintaining their implicit government guarantee. This guarantee, which existed prior to the 2008 financial crisis, has long been a topic of debate.

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Market Indications as of 3:33 P.M. Central Time

DOW	Down -245 to 42,099 (HIGH: 45,014)
NASDAQ	Down -98 to 19,101 (HIGH: 20,174)
S&P 500	Down -33 to 5,889 (HIGH: 6,144)
1-Yr T-bill	current yield 4.16%; opening yield 4.12%
2-Yr T-note	current yield 3.99%; opening yield 3.96%
3-Yr T-note	current yield 3.96%; opening yield 3.93%
5-Yr T-note	current yield 4.06%; opening yield 4.03%
10-Yr T-note	current yield 4.47%; opening yield 4.44%
30-Yr T-bond	current yield 4.97%; opening yield 4.95%

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