Fed Holds Rates Steady; 2025 Outlook Signals Two Cuts Amid Diverging Views

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The Federal Open Market Committee (FOMC) voted unanimously this afternoon to maintain the federal funds target range at 4.25%–4.50% *for the fourth consecutive meeting*. The updated "dot plot" continues to project two quarter-point rate cuts in 2025, though it was somewhat surprising that the projection wasn't reduced to a single cut, given the persistent economic uncertainty.

Divergence of opinion within the committee was notable: seven of 19 FOMC members foresee no rate cuts this year, two expect one cut, eight anticipate two, and two project three. Looking further ahead, the committee trimmed its 2026 forecast from two cuts to one, while maintaining a single projected cut for 2027.

The Fed's updated Summary of Economic Projections (SEP) reflected a slightly more cautious outlook than at the March meeting. The 2025 year-end inflation forecast rose from +2.8% to +3.1%, while GDP growth expectations were revised downward from +1.7% to +1.4%. However, officials expect the inflation uptick to be temporary, projecting a decline to +2.4% in 2026 and +2.1% in 2027. GDP growth is forecast to rebound slightly to +1.6% in 2026 and +1.8% in 2027.

Labor market projections suggest continued stability. The unemployment rate is expected to end 2025 at 4.5%, remain unchanged in 2026, and edge slightly lower in 2027. These forecasts indicate that Fed officials see little cause for concern over employment conditions at this time.

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The Fed's official statement, released at the conclusion of the meeting remained largely unchanged, with one notable exception: the line stating that "the risks of higher unemployment and higher inflation have risen" was removed. This deletion may signal economic risks tied to the ongoing trade tensions have stabilized. However, the bond market's muted reaction suggests investors viewed the change as largely inconsequential.

Chairman Jerome Powell's press conference offered few new insights. His prepared remarks were optimistic yet deliberately noncommittal, emphasizing that the U.S. economy remains "solid", and that monetary policy is "well positioned to respond in a timely manner to potential economic developments." Tariffs dominated the Q&A session, with Powell acknowledging that import taxes are likely to negatively affect prices and economic activity, though he emphasized that the timing and magnitude of these effects remain "highly uncertain." In his view, maintaining the current policy stance is the most prudent course for now.

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Powell also addressed the reduced number of projected rate cuts in 2026, downplaying their significance by noting that committee members have limited confidence in long-term forecasts amid elevated uncertainty. When asked about the labor market, he described conditions as "pretty good," acknowledging that employment has consistently outperformed expectations, though he anticipates eventual softening. On the topic of artificial intelligence, Powell characterized its impact on employment as broadly neutral.

Markets showed little reaction during Powell's remarks, a testament to his ability to project calm while offering few concrete signals on near-term policy. With no indication that the July meeting will be "live," attention now turns to mid-September as the most likely date for the first of the two anticipated rate cuts this year.

Market Indications as of 2:44 P.M. Central Time

DOW	Up 16 to 42,232 (HIGH: 45,014)
NASDAQ	Up 67 to 19,588 (HIGH: 20,174)
S&P 500	Down -6 to 5,976 (HIGH: 6,144)
1-Yr T-bill	current yield 4.09%; opening yield 4.09%
2-Yr T-note	current yield 3.94%; opening yield 3.95%
3-Yr T-note	current yield 3.89%; opening yield 3.90%
5-Yr T-note	current yield 3.98%; opening yield 3.99%
10-Yr T-note	current yield 4.39%; opening yield 4.39%
30-Yr T-bond	current yield 4.89%; opening yield 4.89%