

## Fed Cuts Rates, Signals Shift Toward Neutral

By a vote of 11–1, the Federal Open Market Committee (FOMC) lowered the federal funds target range by 25 basis points to 4.00% to 4.25%, marking the first rate cut since December. The lone dissent came from newly appointed Fed Governor Stephen Miran, who favored a more aggressive 50 bp reduction.

The Fed's official statement acknowledged a cooling labor market, noting that "job gains have slowed, and the unemployment rate has edged up but remains low." Inflation, meanwhile, "has moved up and remains somewhat elevated." The Committee cited rising downside risks to employment as a key factor in its decision, framing the move as a "risk management cut."

Chair Powell emphasized that today's cut was not the start of a new easing cycle, but rather a step toward a more neutral policy stance considering shifting risks. The Fed's long-run rate estimate (R-star) remains anchored at 3.00%, suggesting policymakers are now aiming to align policy closer to neutral after a prolonged period of restriction. Fed funds futures are projecting the overnight rate to fall below the Fed's neutral estimate by late 2026.

The updated Summary of Economic Projections (SEP) shows the median participant expects two more cuts in 2025, bringing the year-end rate to 3.6%, followed by one cut in 2026 and one in 2027. Core PCE inflation is projected to remain at 3.1% in 2025, easing to 2.6% in 2026. Unemployment is expected to rise to 4.5% by year-end.

The dot plot revealed a wide dispersion of views. While most participants penciled in one or two additional cuts this year, one dot remained above the post-meeting target range, likely reflecting hawkish resistance to easing. At the other end, Miran's dot stood out as the lowest, reinforcing his call for a deeper cut.

Miran's dissent and dovish stance contrasted sharply with regional presidents like Kansas City's Jeffrey Schmid, who had previously expressed concern over tariff-driven inflation and opposed any cut. Powell acknowledged the range of views but maintained that the Committee remains united in its data-dependent approach.

Powell declined to comment on Governor Lisa Cook's legal status, citing ongoing court proceedings. Cook, who was allowed to participate in the meeting despite a pending dismissal challenge, remains a symbol of the Fed's institutional independence amid political pressure. Powell reiterated the Fed's commitment to its dual mandate and public mission, subtly reinforcing its autonomy.

In his prepared remarks, Powell noted that job creation is now below the breakeven rate needed to hold unemployment steady. He acknowledged that inflation has ticked up, particularly in goods, but suggested tariff-related price pressures may be short-lived. During the Q&A, Powell described the cut as a "risk management" move and reiterated that policy decisions will be made "meeting by meeting."

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Powell's tone throughout the Q&A was polite but firm. He pushed back on calls for deeper easing, noting that there wasn't broad support for a larger cut. He also addressed the role of artificial intelligence in the labor market, citing Fed research that suggests its impact on employment has so far been modest. When pressed on whether the Fed is open to independent review, Powell responded, "We're certainly open to always trying to do better."

Markets responded with a mix of relief and restraint. Treasury yields initially fell, but Powell's cautious tone sent them back up. Equities hovered near record highs, and the dollar briefly touched a year-to-date low before rebounding. Futures markets now reflect expectations for two total rate cuts by year-end, suggesting investors believe the Fed's path to neutral may be shorter than Powell implied, even if the Chair isn't ready to say so out loud.

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## Market Indications as of 3:10 P.M. Central Time

DOW	Up 260 to 46,018 (HIGH: 46,108)
NASDAQ	Down -73 to 22,261 (HIGH: 22,349)
S&P 500	Up 1 to 6,608 (HIGH: 6,615)
1-Yr T-bill	current yield 3.60%; opening yield 3.60%
2-Yr T-note	current yield 3.55%; opening yield 3.50%
3-Yr T-note	current yield 3.53%; opening yield 3.47%
5-Yr T-note	current yield 3.64%; opening yield 3.59%
10-Yr T-note	current yield 4.07%; opening yield 4.03%
30-Yr T-bond	current yield 4.67%; opening yield 4.65%

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