

Fed Holds Rates First Time in Six Months

Last year, the Fed cut rates at each of its final three meetings. Today, they met and held rates steady, keeping the federal funds target range unchanged at 3.50 - 3.75%. This was the third to last meeting before Chair Powell's term ends in May, though he could continue serving as a Governor on the Board until 2028. This year also brings new voting regional presidents rotating onto the Federal Open Market Committee: Beth Hammack of Cleveland, Anna Paulson of Philadelphia, Lorie Logan of Dallas, and Neel Kashkari of Minneapolis.

The vote was 10 in favor and 2 dissents. Governors Stephen Miran and Christopher Waller both preferred a rate cut. Miran was widely expected to dissent, as he's done consistently since being appointed by President Trump. Surprisingly, Miran favored only a 25-basis point cut, where in prior meetings he had pushed for a 50-basis point drop. Waller's dissent stands out because he is viewed as a leading candidate for a potential for Chair in May, and his decision to oppose the pause is likely to strengthen his standing with the administration. Some expected Michelle Bowman to dissent as well, but she voted with the majority in favor of holding rates.

During the press conference, the first question focused on Governor Cook's ongoing Supreme Court case. Powell described it as one of the most important in the Fed's 113-year history but declined to elaborate. He also declined to comment on his January 11 statement regarding political pressure on the Fed, repeating that he had nothing further to add. When asked whether he planned to remain at the Federal Reserve after his chairmanship ends in May, Powell again offered no comment, which drew noticeable laughter in the room as reporters attempted several ways to ask the same question.

Powell was also asked about the recent decline in the US dollar. He noted the Treasury Department oversees currency and exchange rate policy. The dollar has weakened in recent weeks as investors weigh lower interest rates, policy uncertainty, and market perceptions that the administration favors a lower dollar. Powell did not address these factors directly and moved on.

The official statement saw several changes to the language. The Fed softened its labor market comments, removing prior references to rising downside risks to employment and shifting away from emphasis on low job gains. Instead, the statement highlighted that the unemployment rate has shown some signs of stabilizing, signaling less concern about labor market deterioration. The committee upgraded their economic outlook, moving from *activity expanding at a moderate pace* to indicators showing *activity has been expanding at a solid pace*, while still underscoring attentiveness to risks on both sides of the dual mandate.

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Market reaction was muted, and interest rate futures currently price in roughly a one in three chance of a rate cut at the next meeting at the end of April. Analysts generally expect easing to resume around midyear as inflation continues to moderate and the Fed works to guide policy toward what it views as a neutral level near 3 to 3.50%. Powell's comments today reinforce that the Fed can afford to wait for more data before making its next move. All that said, the increasing risk of another government shutdown could derail that path, as delayed and incomplete economic data would again leave policymakers navigating with limited visibility, like the challenge they faced at the end of last year.

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Market Indications as of 2:39 P.M. Central Time

DOW	Down -36 to 48,968 (HIGH: 49,590)
NASDAQ	Up 45 to 23,862 (HIGH: 23,958)
S&P 500	Up 6 to 6,984 (NEW HIGH)
1-Yr T-bill	current yield 3.51%; opening yield 3.49%
2-Yr T-note	current yield 3.58%; opening yield 3.57%
3-Yr T-note	current yield 3.65%; opening yield 3.64%
5-Yr T-note	current yield 3.84%; opening yield 3.82%
10-Yr T-note	current yield 4.25%; opening yield 4.24%
30-Yr T-bond	current yield 4.86%; opening yield 4.86%

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