January Fed Minutes Prove Uneventful

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This afternoon's release of the January FOMC minutes reflect Fed officials trying to navigate an economy that begins the year on surprisingly solid footing, while tariff uncertainty continues to complicate the inflation path. In a 10-2 vote, the committee held the overnight funds rate steady at 3.50% to 3.75%, with two members favoring an immediate 25 bp cut. Those dissents, from Fed Governors Chris Waller and Stephen Miran, highlight the internal debate on whether the monetary policy should be less restrictive as manufacturing and tech employment show signs of softening.

The bond market had largely priced-in a lengthy pause *before the meeting*, with *FedWatch* showing a 90% probability of *no change* at the March meeting. A significant portion of the committee's discussion in January focused on inflation dynamics. While core inflation continues trending lower, new trade tariffs introduce what several participants described as "one time" or "transitory" price effects that needed to be weighed carefully. The minutes suggested members remain concerned that tariff shocks could evolve into widespread inflation expectations if left unchecked. This concern explains the Fed's shift away from the series of rate cuts in late 2025 toward a more cautious approach in early 2026.

Economic growth expectations were revised modestly higher, from "moderate" to "solid," as more recent data pointed to a resilient consumer and firming labor conditions, despite scattered soft patches. Several participants emphasized that the economy was not showing signs of stalling, which contributed to the majority's view that maintaining the current overnight rate was consistent with both the employment and inflation mandates. However, the minutes also acknowledged that downside risks remain, especially if tariff related disruptions expand or if global conditions deteriorate.

This debate suggests the expected rate path, with the Fed likely on hold until summer, is less settled than headline communications imply.

The internal split between policymakers is worth watching. The two dissenters argued that proactive easing would help cushion a cooling labor market and reduce the risk of a potentially sharper downturn later in the year. The majority believe patience is warranted until the committee is able to distinguish temporary price spikes from sustained inflationary pressure. This debate suggests the expected rate path, with the Fed likely on hold until summer, is less settled than headline communications imply.

While the minutes don't suggest an imminent pivot, they do indicate a more divided and data dependent committee than any time in recent memory.

Finally, Powell used the January press conference to reiterate the committee's focus on transparency and its dual mandate. He emphasized that policy decisions will continue to be driven by incoming data and that the committee will adjust policy *as needed* to maintain price stability and maximum employment. While the minutes don't suggest an imminent pivot, they do indicate a more divided and data dependent committee than any time in recent memory.

Judging by a muted reaction from the financial markets, the minutes offered few surprises.

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

DOW	Up 102 to 49,635 (HIGH: 50,188)
NASDAQ	Up 161 to 22,739 (HIGH: 23,958)
S&P 500	Up 18 to 6,861 (HIGH: 6,979)
1-Yr T-bill	current yield 3.49%; opening yield 3.46%
2-Yr T-note	current yield 3.47%; opening yield 3.44%
3-Yr T-note	current yield 3.50%; opening yield 3.47%
5-Yr T-note	current yield 3.65%; opening yield 3.62%
10-Yr T-note	current yield 4.09%; opening yield 4.05%
30-Yr T-bond	current yield 4.71%; opening yield 4.68%