FOMC On Hold As They Cite Uncertainty

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As expected, the FOMC left their target fed funds rate unchanged in a range of 3.50%-3.75%. The 11-1 vote had Trump appointee Stephen Miran dissenting once again, favoring a 25 bps rate cut. The official statement was little changed from the January 28 statement with just two differences. The first change noted that the unemployment rate "has been little changed in recent months" whereas the January statement said the unemployment rate "has shown some signs of stabilization." The second change acknowledged the war in Iran with a very understated comment: "The implications of developments in the Middle East for the U.S. economy are uncertain."

The updated dot plot and summary of economic projections was adjusted slightly, with the forecast for core inflation by the end of 2026 up from December's 2.5% to 2.7%; GDP up a tenth to 2.4%; and unemployment steady at 4.4%. The FOMC's December projection for one 25 basis point rate cut this year and another next year was unchanged. One notable change was an increase in the median estimate for the longer run rate, which was nudged up from 3% to 3.1%. This suggests members see a higher neutral rate, in fact the highest they have had in their projections since 2016.

During his press conference, Chair Powell noted that the standard playbook tells them to look through an oil/energy price related inflation spike, but the context is important and the impact on inflation expectations is important. He noted that, "The labor market is clearly not a source of inflationary pressures." Perhaps one of his most revealing statements was this: "It's important to keep policy either mildly restrictive or close to that but not too restrictive because of the downside risks in the labor market. We are balancing these two goals." That statement pretty much sums up the situation and tells us we should expect this Fed to be on hold for some time.

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Powell also very directly addressed his future, referring to the ongoing Justice Department investigation and stating, "I have no intention of leaving the board until the investigation is well and truly over with transparency and finality." He also said that he would serve as "chairman pro-tem" until his successor was named and confirmed, which he said was provided for in the law. He went on to say that he had not yet decided whether he will serve out his term as a Fed board member until January 2028, although that will clearly be influenced by the status of the investigation.

Bond yields were little changed on the initial announcement but moved to session highs during the press conference, particularly following his statement that he would remain on the Board as long as the investigation was unresolved. The balance of comments has leaned toward the hawkish side. Stock markets have extended their losses as well.

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Market Indications as of 2:18 P.M. Central Time

DOW	Down -658 to 46,335 (HIGH: 50,188)
NASDAQ	Down -249 to 22,230 (HIGH: 23,958)
S&P 500	Down -66 to 6,650 (HIGH: 6,979)
1-Yr T-bill	current yield 3.66%; opening yield 3.62%
2-Yr T-note	current yield 3.75%; opening yield 3.68%
3-Yr T-note	current yield 3.75%; opening yield 3.68%
5-Yr T-note	current yield 3.86%; opening yield 3.79%
10-Yr T-note	current yield 4.26%; opening yield 4.20%
30-Yr T-bond	current yield 4.88%; opening yield 4.85%