



FOMC Keeps the Fed Funds Rate Unchanged

Headlines

- **As widely expected, the FOMC left the fed funds rate unchanged in a range of 3.50%-3.75%.**
- **While support for the pause was broad-based, Governors Miran and Waller voted in favor of a 25 basis point cut.**
- **The FOMC removed the language that downside risks to employment rose in recent months.**
- Chair Powell stated there is **friction between the FOMC's dual mandate** of maximum employment and stable prices. But with the economy starting the year on “firm footing,” the friction could persist for longer.
- **PNC expects the FOMC to remain on hold during the first half of this year and then cut the fed funds rate by 25 basis points in July and September, lowering it to a range of 3.00%-3.25%.**

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Details

As widely anticipated, the FOMC left the fed funds rate – its key short-term policy tool – unchanged at the conclusion of this week’s meeting. Since rapidly raising the rate to a peak of 5.25%-5.50% in July 2023 in an attempt to reduce surging inflation, the FOMC has engineered seven rate cuts for a total of 175 basis points, lowering the target range to 3.50%-3.75% in December 2025. Today’s decision wasn’t unanimous, with Governors Stephen Miran and Christopher Walling voting for a 25 basis point cut.

In the post-meeting statement, the committee stated “available indicators suggest that economic activity has been expanding at a **solid pace** [a change from the December statement of a **moderate pace**]. Job gains have remained low, and

the **unemployment rate has shown some signs of stabilization. Inflation remains somewhat elevated.”**

The committee also stated that “uncertainty about the economic outlook remains elevated” and “in considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks.”

Another noteworthy change in the statement was the removal of “the committee judges downside risks to employment rose in recent months.” This could be interpreted as more balanced and will allow the FOMC more time to determine the state of the labor market.



In his press conference, Chair Powell mentioned inflation has eased but remains elevated, primarily due to goods inflation related to tariffs. However, tariff inflation should peak in mid-2026, allowing overall inflation to ease in the second half of this year.

Monetary policy is at the higher end of a range of neutral, although Chair Powell stated a good portion of normalization has been accomplished through prior rate cuts. We view this as suggesting the bar for a rate cut in March is high.

Although job growth remains weak, layoffs remain low. This will allow the FOMC ample time to assess the incoming economic data before adjusting the fed funds rate.

Market reaction was muted. Stocks were mixed but little changed, the 10-year yield was up roughly 2 basis points, and the dollar was up slightly.

We view the statement and press conference as roughly balanced. After an extended pause in the first half of 2026, PNC expects the FOMC to cut the fed funds rate by 25 basis points in July and September, lowering the fed funds rate to a range of 3.00% to 3.25%. As of this writing, the market is pricing in a 32% probability of a 25 basis point rate cut in July, little changed from before the FOMC's decision to leave the fed funds rate unchanged.



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