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Making Sense

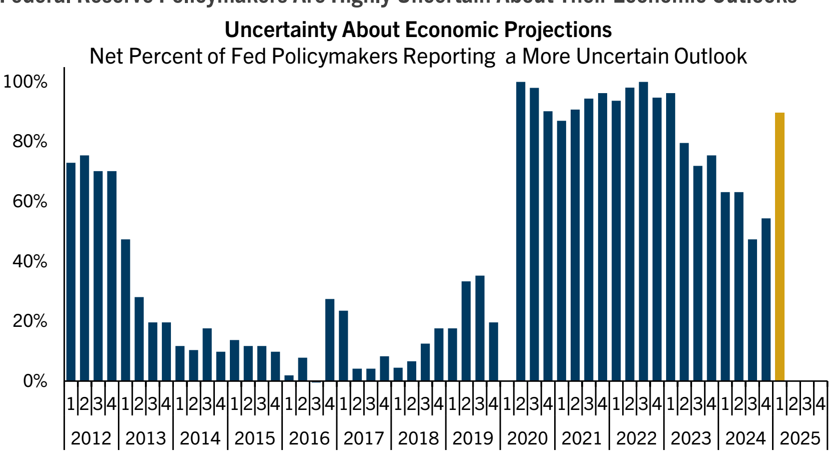
Federal Open Market Committee Meeting | March 19, 2025

Fed Acknowledges Higher Uncertainty

The Federal Reserve held interest rates steady today at 4.25%, as widely expected.[1] Both the quarterly economic projections and the chairman in his press conference emphasized a highly uncertain economic outlook. In such an uncertain environment, investors and also policymakers will be following the same fundamental economic and market data releases. While in this "wait-and-see" mode, markets could remain volatile – and headline-driven – as the signal becomes harder to locate in the noise.

The headlines from today's Fed meeting were focused on policymakers' expectations for interest rates and the economy, but we think the heightened uncertainty around these projections is at least as important. For example, most policymakers still see two 0.25% interest-rate cuts as the base case this year. But several policymakers now see just one or zero cuts this year, and a couple see as many as four or five. In addition, Fed members now expect 2025 will see higher inflation, lower economic growth, and slightly higher unemployment compared to their views three months ago. However, around 90% of policymakers rated their forecasts with high uncertainty. If the Fed cuts interest rates this year, it may be doing so to support a weaker economy, not because inflation is coming down, which was its justification for cutting rates by 1.0% late last year.

Federal Reserve Policymakers Are Highly Uncertain About Their Economic Outlooks[2]



Source: Federal Reserve

Our eyes remain on fundamentals. Policy uncertainty can and likely will affect factors like employment and earnings. But like Fed policymakers, we are waiting to see the effect of this uncertainty on reported data. In coming weeks, data on employment, inflation, business activity, and consumer spending will be critical in assessing the true impact on the economy and markets.

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Takeaways

- The FOMC voted to hold rates at 4.25-4.50%.
- The economy remains solid, but inflation is above target and uncertainty is high.
- The Summary of Economic Projections showed elevated inflation and slower growth for the remainder of 2025.

What does it mean for you?

- In times of economic uncertainty, market volatility will likely persist.

What to watch

- We will continue to monitor inflation rates, labor market data, and US policy decisions from Washington.

[1] The target range for the federal funds rate is 4.25-4.5%.

[2] The chart shows the average diffusion indexes of Fed participants' uncertainty assessments for GDP growth, the unemployment rate, and core PCE inflation in the Federal Reserve's Summary of Economic Projections. The 2025:Q1 value is approximated.

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