

## Economics

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## Fed announcement: More patient, but still dovish

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The Fed kept rates on hold as expected, and there was a bit more unity in the FOMC this time around with only two dissents, one from Governor Waller and the other from Governor Miran. Powell confidently asserted there was broad support for a hold, including among non-voters, which now casts Waller as an outlier. The list of arguments in favor of a pause was much longer and more persuasive than those for a cut. After three straight cuts and broader financial conditions easing, the data show the job market could be stabilizing, consumer spending remains robust, and inflation momentum has been decent, though impacted by data distortions. Those developments were acknowledged via changes in the statement today and throughout Powell's press conference. Taking a slower, data-dependent pace makes sense, given the Fed is now within the estimated neutral range, albeit toward the higher end of those estimates.

Upside risks to inflation and downside risks to the job market have both diminished; this is the key takeaway for the Fed's outlook on future policy. Policy need not be as reactive to either side, and the Fed can wait to see how the data evolve. When speaking about the job market, Powell did not appear confident that the job market is actually stabilizing and wanted to see more evidence that this is a durable trend. Job growth is still very soft, and he pointed to survey evidence of additional cooling. Future Fed policy continues to depend crucially on the next few job reports, leaving the door still open to a cut in March.

On inflation, Powell was encouraged and sounded more confident. He noted that tariff-induced inflation would peak at some point and weigh on goods price growth, with Fed staff penciling in mid-2026 as the possible peak. He also signaled that would be the point at which the Fed could ease more, as the risk of knock-on effects would likely be lower. Lower-than-expected tariff rates and anchored measures of long-term inflation expectations have convinced the Fed that inflation's medium-term trajectory is in line with their goals, and that explains what seems to be a slight bias toward the employment mandate.

Many questions were, of course, about Fed independence, and Powell deflected most of them. We're not convinced that concerns about Fed independence will push the Committee one way or another. The Fed is a complex organization, and the Fed Chair only has so much sway. The real test for Fed independence will be with future appointments to the Board of Governors, and there are several significant obstacles—politics and markets—that limit the risk of a tangible erosion of Fed independence in the near-term. Even a very dovish Chair will have very little room to maneuver.

The funny part of all of this is that this configuration of the FOMC has been dovish for the past few years. Over the last two years the Fed has aggressively cut rates when the job market mildly cooled, despite inflation remaining high and the economy very strong. And more recently the FOMC has completely looked through tariff-induced inflation and its associated risks throughout the fall, and is also downweighing the demand influence of AI investment that could portend higher future price pressures. It's open question whether there is even a need to really try to push the Fed in a certain direction. This group has seemed to consistent end up on the dovish side since inflation came within a percentage point of target and expectations looked rock solid at 2%. Powell's comments today more or less affirm the view that dovish view of the economy, only they are more patient now that they are closer to neutral.

**Re: Economic forecast** — Our expectation is the Fed will ease two more times this year, in March and June.

**Re: Markets** — Market pricing for the Fed did not change much, with the next cut expected around the middle of the year.

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