

## Investment Insight

# Fed Hold Rates Steady on Heels of "Solid" Economy

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**Dominic Pappalardo**

Chief Multi-Asset Strategist,  
Morningstar Wealth

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## Key Takeaways

- The Fed made no change to the federal funds rate, maintaining the target rate at 3.5–3.75%. There were two dissenters, both of whom favored a rate cut.
- The Fed stated economic activity has been expanding at a "solid" pace and downside risks to the labor market have subsided.
- Market reaction to the announcement was muted as this decision was widely expected.

## Summary

The Fed announced their decision to hold the federal funds rate at its current 3.5-3.75% range. This pause comes on the heels of three consecutive cuts at their final three meetings of 2025. Today's decision did not come as a surprise -- the probability from the CME futures market showed a 98% probability of a cut. However, two Fed voters dissented as Stephen Miran and Christopher Waller favored another rate cut.

Notably, the language in their official statement was updated to explain that in their view "*economic activity has been expanding at a solid pace.*" Compare this to their previous statement, which stated economic growth was only "moderate," a small tweak for sure, but certainly signals an improvement from their perspective. In another positive tweak, the statement expressed that "*the unemployment rate has shown some signs of stabilization*" replacing language around the rate increasing. Additionally, the phrase stating "*downside risks to employment rose in recent months*" was completely removed. In summary, the Fed softened their language around economic concerns and weakening labor markets.

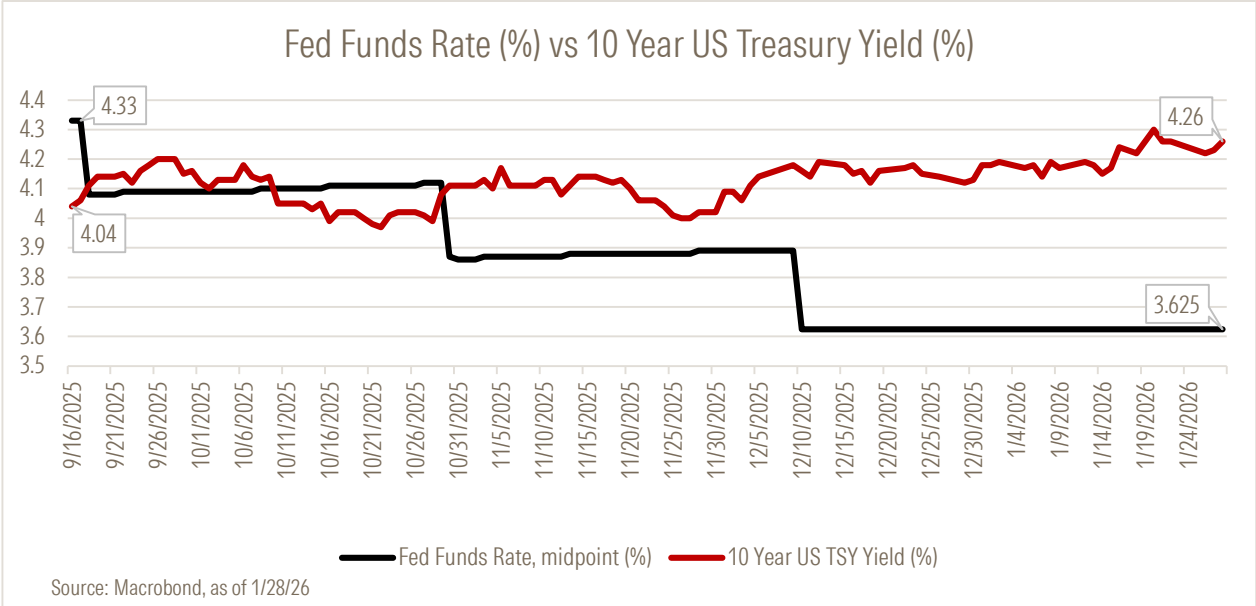
Inflation continues to be above the Fed's stated 2% target with the most recent PCE report showing a 2.9% increase, led by increases in the goods sectors, likely driven by higher tariffs. The Fed acknowledged this as ongoing concerning stating that "inflation remains somewhat elevated." However, they believe and are comfortable with the fact that inflation is on a downward trend and moving closer to target.

### Market Reaction

Markets did not react to today's announcement in any meaningful way. Markets were mixed prior to the announcement and remained so as of 1:45 PM CST as shown in the Morningstar Style Box.



Within fixed-income markets, US Treasury bond yields held steady with the 10-year yield up to 4.26%. It's noteworthy that the 10-year Treasury bond yield is actually higher since September 15, 2025's, level of 4.06% through today—Fed cuts occurred on September 16, 2025; October 29, 2025; and December 10, 2025, a somewhat counterintuitive move. The chart below demonstrates how the yield curve continues to steepen as the gap between the fed funds rate and the 10-year Treasury yield is expanding, confirming the adage that Fed controls the short-end of the curve, but "the market" controls the longer maturity range.



## Looking Ahead

While the outcome of today's meeting was expected, the future path of rates into 2026, especially the second half as Fed turnover will be significant, remains much less clear. Per the CME, futures markets are pricing in only a 14% probability of another 0.25% cut at the Fed's next meeting in March. Longer term, futures show an 89% chance of at least one rate cuts at some point in 2026, and a 51% chance of at least two rate cuts by year end. As a reminder, Chairman Powell will only oversee two more rate decisions prior to his term end in May 2026. In addition, at least three other positions on the committee will see turnover as well, making future prognostications challenging.

It appears economic strength is becoming more evident to the Fed as such their fear of downside risks is subsiding, allowing them to pause the cutting cycle they began in September of 2025, driven particularly by labor market weakness.

## For Additional Information

+1 (800) 886-1749

wealth.us@morningstar.com

mp.morningstar.com

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