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Investment Insight

Fed Holds Rates Steady, Cuts 2025 Growth Projection

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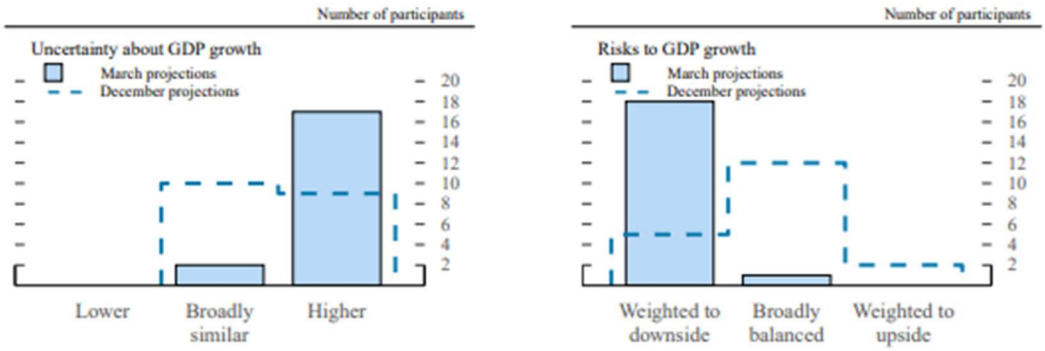
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The Fed **left interest rates unchanged** following the conclusion of its March 2025 meeting keeping the fed funds rate target range at 4.25-4.50%. This move remained consistent with market pricing and forecasts with eyes now turning to future meetings as more hard data comes through though updates to the Fed's economic outlook will keep investors on edge.

Despite the rate decision coming in as expected, the Fed made some notable updates to their economic forecasts and language within their meeting statement. Starting with the update to economic data, **the Fed sharply lowered their growth forecast** from 2.1% to 1.7% for the year ending 2025. Additionally, **the underlying inflation estimate, defined by Core PCE, was revised up** to 2.8% from the 2.5% forecast back in December 2024. Lastly, unemployment also edged higher to 4.4% from 4.3%.

Further, the update to the statement included a rather interesting change, noting previously: "**The economic outlook remains uncertain."** Today their statement includes the following: **"Uncertainty around the economic outlook has increased."** It's arguable how much a difference that really is, yet the fact that they made this slight change is rather telling of their heightened worry surrounding the outlook for the US economy. Below we can observe the Federal Reserve's assessment of uncertainty and risk to US GDP. The uncertainty surrounding growth notably higher and risk to growth heavily weighted to the downside compared to their December projections.

Exhibit 1: Fed Assessments of Uncertainty and Risks Around Their Economic Projections

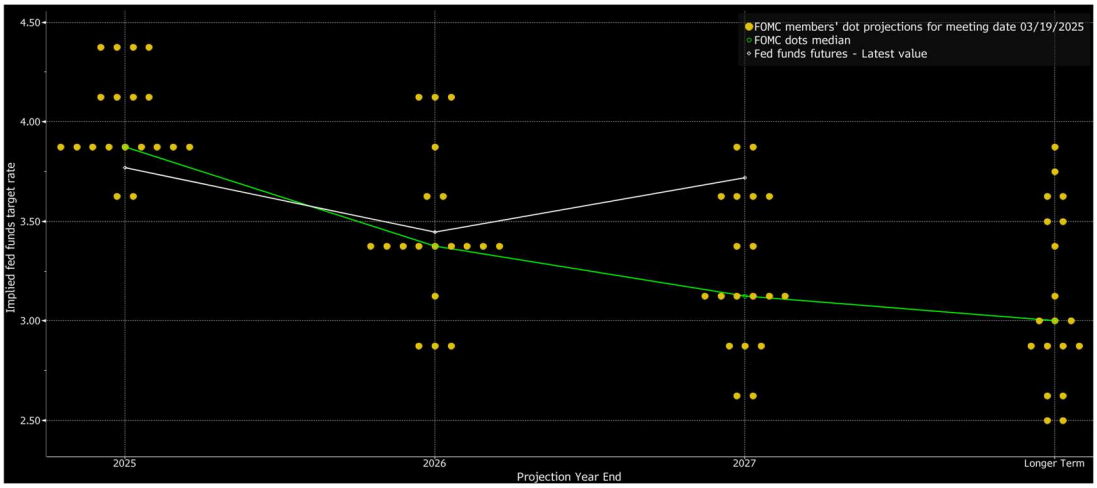


Source: Federal Reserve

The Fed's so-called dot plot, which the US central bank uses to message its outlook for the path of interest rates, shows the year-end 2025 median projection for the federal funds rate at 3.88%. **That suggests 50 basis points of cuts this year,** which is unchanged from their prior forecast.

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Exhibit 2: Fed's March Dot Plot



Source: Bloomberg

These decisions come at a time when pessimism about the US economy has increased through various market-based and survey-based data. Recently, we've seen a rather steep decline in the February report of US Consumer Confidence, labor market data and business plans to hire have fallen, and consumer data, such as credit card and auto delinquencies have shown some uptick. In addition to that, survey-based inflation expectations have risen dramatically as measured by the University of Michigan Inflation Expectation survey.

What began as consensus regarding US exceptionalism heading into 2025 has reversed relatively quickly following the continued threat of policy-related decisions and tariff impacts. That said, the Fed is unlikely to comment on White House decisions and their impact on the US outlook and, even more, will stay clear of adjusting monetary policy to sentiment driven pessimism before seeing it in the hard data. Yet, it's clear that the Federal Reserve is acknowledging some the early data this year suggests downside risks have increased.

Despite a rather benign announcement, market-based pricing has seen some adjustment even in the early aftermath following the Fed's decision. Per the CME, fed fund's futures for the May 2025 meeting increased the likelihood of a 25-basis point cut by 2 percentage points, while the June 2025 meeting odds for 25 basis points increased 2 percentage points, and odds of 50 basis point cut increased 5 percentage points.

Exhibit 3: Post Announcement Rate Probabilities

Fed Funds Rate Projection - May 2025 Meeting			
	No change	25bp Cut	50bp Cut
Pre-Meeting Odds	83%	17%	0%
Post-Meeting Odds	81%	19%	0.2%

Fed Funds Rate Projection - June 2025 Meeting			
	No change	25bp Cut	50bp Cut
Pre-Meeting Odds	40%	51%	8%
Post-Meeting Odds	34%	53%	13%

Source: Morningstar, CME FedWatch Tool. Data as of March 19, 2025.

MARKET REACTION

Today's announcement was viewed as rather bullish for equity markets, which took relief in the Fed maintaining the 50-basis point cut call for 2025 and not budging from that despite the inflation forecast increase. As of writing, the S&P 500 is up 1.05% and the Nasdaq up 1.43%, growth equities are leading the pack higher, while small caps are outperforming large, in general. What's difficult to distinguish is if the relative enthusiasm stems from this meeting or perhaps is just a relief rally that had started prior to the Fed meeting today following a 10% correction in equities. It's arguable how much good news came from the meeting today, especially as the Fed noted increased economic uncertainty, lowered growth estimates, increased inflation forecasts, and ticked up the unemployment rate. Traditionally, these "stagflation" type of moves wouldn't be as supportive for risk assets.

Further, for bonds, the 10-year US Treasury yield is down a modest three basis points to 4.25%, while the 2-year yield is down six basis points to 3.98% as of 2:30 pm CT. Growth concerns seem to be driving Treasury markets at the moment, despite the slight upward adjustment to the inflation forecast. Still, inflation concerns remain at large in the face of tariff uncertainty and continued volatility across equity and bond markets is likely as both the Fed and investors traverse the current environment.

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