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FOMC Update

As summarized by Smith Shellnut Wilson

March 19, 2025

Fed Holds Rates, Expects Slower Growth and Higher Inflation

The Federal Reserve has maintained its benchmark interest rate at 4.25%-4.50%, citing economic and inflationary uncertainties stemming from President Trump's policy changes. The Fed's economic projections indicate lower growth forecasts for this year, higher inflation estimates, and a median expectation of two quarter-point rate cuts.

The Fed reported that the economy "continued to expand at a solid pace," with the unemployment rate stabilizing at a low level and labor market conditions remaining robust. Inflation remains somewhat elevated. The Fed revised its statement, removing the assertion that risks to the outlook were balanced, and instead noted, "Uncertainty around the economic outlook has increased. The committee is attentive to risks to both sides of its dual mandate." This indicates that while risks are still two-sided, the FOMC can no longer determine if they are balanced. During the news conference, Chair Powell highlighted a "moderation in consumer spending" and anticipated that tariffs could exert upward pressure on prices, contributing to the committee's more cautious economic outlook.

Additionally, the Fed announced a slower pace of reducing its balance sheet, with a lower monthly cap on Treasury maturities. Governor Christopher Waller dissented from this decision. Starting next month, the Federal Reserve will reduce the amount of bond holdings it allows to roll off each month, lowering the cap on Treasuries maturing without reinvestment to $5 billion from $25 billion, while keeping the cap on mortgage-backed securities unchanged at $35 billion. This decision is influenced by ongoing negotiations on the debt ceiling and money-market signals.

The Fed has downgraded its collective outlook for economic growth and raised its inflation projection. Officials now expect the economy to grow at a 1.7% pace this year, down from the previous projection of 2.1% in December. Core inflation is projected to rise at a 2.8% annual rate, up 0.3 percentage points from the previous estimate. The "dot plot" of officials' rate expectations shows a slightly more hawkish stance on rates compared to December, with four participants now seeing no rate changes in 2025, up from just one previously.

The bond market has adopted a more dovish stance, now forecasting three 25-basis point cuts to the Fed Funds Rate by year-end (see Chart below). This would lower the effective overnight rate from 4.33% to 3.58%. Additionally, the market anticipates that the 10-year Treasury yield will increase from 4.25% to 4.31% by the end of 2025.

Please click the link for a side-by-side comparison of the U.S. Federal Open Market Committee statements from March 19, 2025 and January 29, 2025.

Current CME Fed Fund Rate Probabilities

	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES										
MEETING DATE	200-225	225-250	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475
3/19/2025					0.0%	0.0%	0.0%	0.0%	1.0%	99.0%	0.0%
5/7/2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	19.3%	80.5%	0.0%
6/18/2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	11.3%	54.9%	33.6%	0.0%
7/30/2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.8%	25.8%	47.9%	22.5%	0.0%
9/17/2025	0.0%	0.0%	0.0%	0.0%	0.0%	2.5%	18.3%	40.3%	31.2%	7.7%	0.0%
10/29/2025	0.0%	0.0%	0.0%	0.0%	0.9%	7.9%	25.8%	37.2%	23.2%	5.1%	0.0%
12/10/2025	0.0%	0.0%	0.0%	0.4%	4.4%	16.9%	31.5%	30.1%	14.1%	2.5%	0.0%
1/28/2026	0.0%	0.0%	0.1%	1.1%	6.6%	19.5%	31.3%	27.3%	12.0%	2.1%	0.0%
3/18/2026	0.0%	0.0%	0.4%	2.8%	10.6%	23.1%	30.1%	22.6%	9.0%	1.4%	0.0%
4/29/2026	0.0%	0.1%	0.7%	3.8%	12.1%	24.0%	29.1%	20.9%	8.0%	1.3%	0.0%
6/17/2026	0.0%	0.2%	1.2%	5.0%	13.8%	24.7%	27.9%	19.0%	7.0%	1.1%	0.0%
7/29/2026	0.0%	0.2%	1.4%	5.6%	14.5%	24.9%	27.4%	18.3%	6.7%	1.0%	0.0%
9/16/2026	0.0%	0.2%	1.0%	4.1%	11.3%	21.2%	26.5%	21.6%	10.9%	3.1%	0.4%
10/28/2026	0.0%	0.1%	0.9%	3.8%	10.7%	20.3%	26.0%	22.0%	11.8%	3.7%	0.6%
12/9/2026	0.3%	1.6%	5.3%	12.8%	21.6%	25.1%	19.7%	10.0%	3.0%	0.5%	0.0%

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