

Fed on Hold Until the “Fog” Clears?

At its January meeting today, the Fed kept the federal funds rate steady at 4.25–4.50%. As the new administration begins implementing its fiscal policy plans, we expect the Fed will remain cautious in monitoring inflation.

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Topic

Market Events

Key takeaways

- The Fed held its key interest rate at 4.25–4.50% at its January meeting, and we think future rate reductions won't occur before May.
- While inflation remains elevated compared with the Fed's 2.0% target, recent data indicates that U.S. consumers generally are in a healthy financial position.
- The interest rate market currently expects the Fed to lower rates to around 4.00% by the end of 2025, but a lot depends on how inflationary fiscal policy turns out to be.

Today, the Federal Open Market Committee announced it will keep its key interest rate, the federal funds rate, at 4.25–4.50% for now. We think the likely window for any future rate reductions won't open before May, and we expect the Federal Reserve (Fed) to cut twice this year.

The U.S. inflation rate remains slightly elevated compared with the Fed's 2.0% target. The Fed's preferred measure of prices, the [Personal Consumption Expenditures \(PCE\) Price Index](#), has risen lately to 2.4%, and the core PCE Price Index (which excludes food and energy) has stayed elevated, at 2.8%. The good news is that the services sector component, especially rents, has continued dropping on a year-over-year basis; the labor market is still strong; and recent bank earnings show that U.S. consumers generally are in a healthy financial position.

As the new administration starts implementing its fiscal policy plans, we expect the Fed will remain cautious in monitoring inflation. For 2025, the interest rate market currently expects the Fed to cut rates to somewhere around 4.00% by year-end. A lot will depend on how inflationary U.S. fiscal policy turns out to be.

We continue to like equities—especially the cheaper parts of the U.S. equity market and parts of international markets that benefit from central bank cuts and weaker currencies. We expect the equity rally to broaden and believe that any relief from looser monetary policy would likely support equity prices in the medium term. The outlook for higher-yielding bonds remains favorable despite tighter spreads, as a U.S. recession looks unlikely.

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