ECONOMY

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March FOMC Recap—Holding Steady … For Now

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The Federal Open Market Committee (FOMC) today voted to keep the target range for the fed funds rate unchanged at 3.50% to 3.75%. This decision was widely anticipated and had been almost fully priced in futures markets. With the conflict in Iran escalating significantly since the start of the Federal Reserve's (Fed) "quiet period" on March 7, today provided the FOMC with its first opportunity to communicate how recent developments were being incorporated into economic forecasts.

In its prepared statement, the committee again characterized inflation as "somewhat elevated" and noted that the unemployment rate remained "little changed in recent months" despite a disappointing February labor market report. As anticipated, a reference was made to the ongoing war in Iran but instead of offering specifics, the committee highlighted the "uncertain" implications for the US economy, a theme that persisted throughout the subsequent press conference. The decision to maintain the current policy rate range was approved by an 11-1 vote, with Federal Reserve (Fed) Governor Stephen Miran dissenting in favor of a 25-basis-point (bp) cut. In a modest surprise, Fed Governor Christopher Waller, who had dissented at the last meeting in favor of a rate cut, supported holding rates steady today.

The updated Summary of Economic Projections (SEP) also aligned closely with expectations. Surprisingly, the committee raised its median GDP forecasts across all periods, which Fed Chair Powell later attributed to "growing confidence in productivity." On inflation, projections for 2026 and 2027 were revised upward, reflecting expectations for higher energy prices stemming from the ongoing war. Median expectations for the appropriate level of the fed funds rate remained unchanged from the December SEP, except for the longer-run estimate, which increased by 0.1% to 3.1%.

Looking at rate expectations for 2026, the range of responses narrowed significantly compared to the December SEP, reflecting the Fed's continued preference for moving cautiously amid rising uncertainty. Seven participants expect rates to remain at current levels throughout 2026, while only five (instead of eight in December) anticipate that multiple rate cuts will be appropriate. Importantly, all 19 respondents see the appropriate level of rates at the end of 2026 as either unchanged from or lower than current levels.

In the press conference, Powell was put in the familiar situation of having to explain the committee's current assessment of the balance of risks. In considering the inflation side of the mandate, Powell emphasized the straightforward point that a global energy shock adds to forecasting difficulties that are already hampered by tariff-related passthrough into goods prices. While we don't necessarily agree, Powell suggested that recent elevated inflation readings are primarily the result of tariffs and that progress in that area is required to realize the projected rate forecast. He went on to suggest that assuming progress on goods inflation, the committee could look through the impact of an energy shock provided longer-term inflation expectations remain well-anchored, but the post-pandemic inflation experience makes this a more difficult decision.

On the labor market, Powell described an environment of "effectively … zero net job creation" and "nonexistent growth in the labor force" creating a "zero employment growth equilibrium." All of this is to say that we've not really seen this type of labor market in recent history and the committee as a whole continues to see risks as pointed to the downside.

Powell went on to again assert that “the labor market is clearly not a source of inflationary pressures.”

Away from monetary policy decisions, Powell was asked about the upcoming transition to a new FOMC chair to which he offered up several pointed statements about his own future. Should a successor not be confirmed by the end of his term, Powell declared that he would act as “chair pro tem” until a confirmation is put through. He went on to say that he has “no intention of leaving the board” until the ongoing Justice Department probe is completely resolved and that he would consider staying on as governor (his term doesn’t end until January 2028) if it were “best for the institution and the people we serve.”

Although the statement, SEP and press conference were largely in line with expectations, the rates market responded with an aggressive continuation of the recent trend of pricing out any Fed rate cuts in 2026. Since the onset of the Iran conflict, futures-implied cuts for 2026 have declined from 60 bps to just 15 bps. While we acknowledge that heightened uncertainties related to the conflict are likely to delay future rate cuts, we continue to believe the likelihood is low for the next policy move to be a rate hike. For hikes to be considered a more plausible outcome from here, we feel strongly that we would need to see a dramatic firming in the labor market or a sizeable increase in longer-term inflation expectations, both of which we view as unlikely in the near term. We find current yields in short tenors attractive outright and as a potential hedge if risk sectors trade poorly.

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