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## **MONETARY AFFAIRS:**

**Preview: Fed To Remain On Hold in July, In Spite of  
Trump's Pressures, Given Upside Inflation Risks**

**by**

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## Roubini, Rosa, Balavadze, *Fed To Remain on Hold in July, 28 July 2025*

### Executive Summary

- ✧ **Expected Decision:** *We expect the Fed to hold rates in July.* In line with consensus, we expect the Fed to hold steady its target Fed funds range at 4.25% - 4.50% in July. Regarding *forward guidance*, the Fed will continue to be data-dependent regarding further policy changes. Markets expect a possible September rate cut, so market participants will eagerly look for any hint about that, during Powell's press conference. Regarding *balance sheet policy*, in May last year the FOMC decided to slow down the pace of QT.
- ✧ **Policy Discussion:** *Despite mounting pressure from President Trump, the Fed is holding off on interest rate cuts for now, with markets expecting a potential 25-bps cut in September.* While most FOMC members support maintaining current rates, a minority, including Fed Governor Christopher Waller and Trump appointee Michelle Bowman, are pushing for a cut at the July FOMC meeting. Waller, who has signaled willingness to take over Powell's role if offered by Trump, argues that the Fed should act pre-emptively given rising economic risks and growth softness as well as limited evidence of persistent tariffs-driven inflation. He expects slower growth for the rest of 2025, following a modest 1% pace in the first half. Bowman has similar view but both Board members may be interested in replacing Powell as Fed Chair; thus, their views are biased by their own ambitions.

Other officials, like Governor Adriana Kugler and New York Fed President John Williams, remain cautious, warning that tariffs could still fuel inflation. Investors largely anticipate a hold in July, but markets will be closely watching for signals in the FOMC statement or Powell's press conference that could hint at a policy easing in September. But it is likely that Powell will leave the FOMC options open repeating that any policy decision will be made on a meeting-by-meeting basis. He will also point out that, by the September FOMC, there will be two new payroll numbers and two inflation prints that will affect what the Fed will decide in September. Closer to the September FOMC Powell will have a chance to elaborate on his view and provide some further policy hint at the August Jackson Hole conference.

Meanwhile, concerns over the Fed's independence are growing. A Reuters poll found that over 70% of economists are worried about political interference. Trump's repeated attacks on Powell and calls for steep rate cuts have escalated tensions, including a rare presidential visit to the Fed where he renewed criticism of both monetary policy and the Fed buildings' renovation cost overruns, though he dismissed the idea of firing Powell as unnecessary.

### Key Picture: US Federal Reserve Forecasts – 2025-2027

	2025 <sup>f</sup>			2026 <sup>f</sup>		2027 <sup>f</sup>		Longer Run	
	Latest Reading	June Report	March Report	June Report	March Report	June Report	March Report	June Report	March Report
GDP ( <i>real growth, y-o-y</i> )	2.0	1.4	1.7	1.6	1.8	1.8	1.8	1.8	1.8
Unemployment rate (% <i>y-o-y</i> )	4.1	4.5	4.4	4.5	4.3	4.4	4.3	4.2	4.2
PCE Inflation (% <i>y-o-y</i> )	2.3	3.0	2.7	2.4	2.2	2.1	2.0	2.0	2.0
Core PCE Inflat. (% <i>y-o-y</i> )	2.7	3.1	2.8	2.4	2.2	2.1	2.0	-	-
Federal Funds Rate (%)	4.327	3.9	3.9	3.6	3.4	3.4	3.1	3.0	3.0

Source: Federal Reserve 'Summary of Economic Projections' [June](#) and [March](#) 2025. Note: 1. GDP reading for Q1-2025; 2. Unemployment rate as of June 2025; 3. PCE and core PCE inflation as of May 2025; 4. Projections reflect the median of FOMC projections

## Analysis

- ✦ **EXPECTED DECISION:** *On July 30, we expect the US Federal Reserve's FOMC to hold its Fed funds range at 4.25% - 4.50%.* In 2024, the Fed cut interest rates for three consecutive meetings, for a total of 100bps of easing. Since December, the Fed has entered a prolonged period of unchanged policy, even if Powell publicly said that – if it wasn't for Trump's tariffs which pose upside risks to inflation – the Fed would have already cut rates in 2025. According to the March dot plot, officials still anticipate a half-point rate cut by 2025, despite uncertainty around Trump's tariffs and fiscal policies.

Regarding *forward guidance*, the Fed will continue to be data-dependent regarding further policy changes with decisions being made meeting by meeting. Key points to watch include whether Fed Chair Jerome Powell responds to ongoing pressure from President Trump—something he's previously avoided, citing legal protections against removal without a cause, and any signals of a possible September rate cut or internal dissent within the FOMC.

Markets currently expect a September rate cut, and if the Fed is leaning that way, hints may appear in the July statement or Powell's press conference. While June CPI showed some tariff-related inflation, overall price pressures have eased since February, and the labor market remains strong if softening. FOMC officials are taking a wait-and-see approach as they assess the data. The economy is clearly slowing down and inflation is expected to increase as the pass-through of tariffs and dollar weakness will lead over the next few months to higher import and domestic prices.

Regarding *balance sheet policies*, the Fed in May last year decided to slow down the pace of QT from June. The Committee plans to further decrease its Treasury securities, agency debt, and agency mortgage-backed securities holdings. Starting in April, the Committee will slow the reduction of its securities holdings by lowering the monthly Treasury redemption cap from \$25 billion to \$5 billion, while keeping the agency debt and mortgage-backed securities cap at \$35 billion.

- ✦ **POLICY DISCUSSION:** *Despite Trump's pressure, the Fed, led by Chair Jerome Powell, is holding off on cuts for now.* Markets expect the next move in September with a modest 25-basis-point cut. Most FOMC members support holding rates steady, though a few, including Chris Waller and Trump appointee Michelle Bowman, back a cut as early as the July FOMC meeting. Waller recently said he'd accept the Fed chair role if offered by Trump; thus, his current dovishness may be partly biased by his Fed Chair ambitions. In a Reuters poll, over 70% of economists expressed concern about the Fed's political independence as Trump has repeatedly stepped up his attacks against Powell.

Though Powell has largely maintained consensus within the FOMC, dissent may grow—especially as some members – such as Waller and Bowman - position themselves for a potential 2026 chair nomination amid Trump's criticism of the Fed. Markets will be watching closely for signs of internal division or policy shifts in July. Any hints could appear in the FOMC statement or Powell's press conference. Powell is unlikely to address Trump's criticism directly, but signs of dissent within the committee could signal a shift.

Fed Governor Christopher Waller reiterated his call for a 25-basis-point rate cut at the end of July, citing rising risks to the economy and little evidence that tariff-driven inflation will persist. Waller, along with Vice Chair Michelle Bowman, stands apart from most Fed officials who prefer to wait, arguing that inflation remains near the 2% target and expectations are anchored. He believes the Fed should act preemptively rather than wait for further labor market deterioration. While the economy is still expanding, Waller expects slower growth for the rest of 2025 after a 1% growth pace in the first half.

Other officials, including Governor Adriana Kugler and New York Fed President John Williams, remain cautious, citing concerns about tariff-induced inflation. Investors largely expect the Fed to hold rates in July, with a possible cut in September.

The Fed's independence is increasingly under pressure from political interference, as President Trump continues to attack Chair Jerome Powell over the Fed's reluctance to cut rates amid rising tariffs-driven inflation. President Trump visited the Federal Reserve, marking the first such trip by a sitting president in nearly 20 years, where he renewed calls for lower interest rates alongside Fed Powell, criticized renovation cost overruns (perhaps to justify Powell's dismissal for a cause), and dismissed the idea of firing Powell as unnecessary, despite past threats.

Meanwhile, Treasury Secretary Scott Bessent called for a broader review of the Fed's performance, not just its renovation spending, questioning whether it has fulfilled its mission. Bessent also criticized the Fed's reluctance to cut rates, arguing inflation remains low and the impact on inflation of past tariff were overstated. Meanwhile, Rep. Anna Paulina Luna requested a DOJ investigation into Powell for allegedly misleading Congress, though the Fed has not commented on this attack.

- ✦ **MACROECONOMIC ANALYSIS:** *The US economy shrank by 0.5% in Q1 2025 due to sharp downward revisions in consumer spending and exports.* The GDP contracted at a 0.5% annual rate in Q1 2025, a sharper decline than the previously estimated 0.2%, as Trump's trade wars disrupted business activity. The contraction followed 2.4% growth in Q4 2024 and marked the first quarterly decline in three years. A surge in imports, up by 37.9%, the fastest since 2020, as companies rushed to beat incoming tariffs, subtracted nearly 4.7 pp from GDP. Consumer spending also slowed significantly, rising just 0.5% compared to 4% in the previous quarter, as households grew wary of the financial impact of tariffs.

US consumer prices rose in June as Trump's tariffs began filtering through the economy. CPI inflation increased 0.3% m-o-m, lifting the annual inflation rate to 2.7%, its highest since February and above the Fed's 2% target. Core inflation, which excludes food and energy, rose 0.2% monthly and 2.9% annually.

Inflation had been slowing since January despite trade war fears, but June data showed mixed effects from tariffs. Economists remain cautious about attributing inflation to tariffs. Nonetheless, Trump used the report to demand deep Fed rate cuts, claiming inflation is low and urging a 3-point reduction to save on interest costs.

In the labour market, the US added 147K jobs in June, beating forecasts and easing concerns that Trump's trade and immigration policies would dampen hiring. The figure topped May's revised 144K and far exceeded the 110K expected. The unemployment rate dipped to 4.1%, while April and May job gains were revised up by 16,000. The data lifted the S&P 500 by 0.8% to a record high and triggered a sell-off in U.S. government bonds. Trump celebrated the numbers, calling them a blowout. The strong report reduces pressure on the Fed to cut interest rates, despite the president's ongoing demands for monetary easing.

But the labor market is starting to show signs of softness as most of the recent payroll growth has been outside of the private sector. The economy is clearly slowing down and may grow no more than 1% in H2. At the same time, with some lags, the inflation rate is likely to increase and core PCE may be in the 3.2-3.5% range by year end. The SEP projections show two 25 bps rate cuts this year, but these could end up being three 25 bps rate cuts, starting with a rate cut in September, if the economy and labor markets weaken faster while inflation remains in check with limited upside move.

- ✦ **MARKET IMPLICATIONS:** *Markets will remain nervous around the time of the announcement and press conference.* They reacted calmly to Trump's visit to the Fed, with 10-year Treasury yields rising slightly after a drop in jobless claims signalled a stable labor market. The dollar remained near multi-year lows. The markets are expected to react calmly to the July's decision. To put things into context, *in the fixed-income space*, UST yields fell as investors assessed the economy and recent trade news. As of July 28, the 2y UST fell by 1 bps to around 3.93% since the last meeting on June 18 (-31 bps y-t-d). The 10y UST edged up by 3 bps to 4.42% since the last meeting (-14 bps y-t-d). *In the currency space*, the dollar rose against the euro on trade talk progress and strong PMI data, holding the Dollar Index at 97.55, while

it was mixed against the yen amid rate hike expectations and political uncertainty. As of July 28, and since the last meeting in June, the *dollar index* edged down by -0.5% and trades around 98,4 (-9.9% y-t-d). *EUR/USD* rose by 1.0% to 1.16 since June meeting (+5.0% y-t-d). *In the equity space*, the S&P 500 reached a record high as investors balanced optimism over trade talks with disappointing housing data and mixed earnings results. Meanwhile, the Dow was weighed down by declines in major stocks like UnitedHealth. As of July 28, S&P 500 is up by 6.7% to 6380.35 (+8.4% y-t-d).

✦ **APPENDIX (Macro Background):** *In Q1, US economy shrinks, worse than initially estimated.* In Q1, according to the final estimate, the US economy contracted by an annualized 0.5%, marking the first decline since Q1 of 2022 (c: -0.2%; p: 2.4%). Still it represents a sharper decline from the second estimate of a 0.2% decline due revisions to consumer spending and exports. Consumer spending cooled (0.5% vs 4.0% in Q4) marking its slowest rate since 2020. Government spending contracted (4.6% vs 4.0%) and resident investment also shrank (-1.3% vs 5.5%). Exports rose (0.4% vs. -0.2%), while imports surged more (37.9% vs. -1.9%).

*The US business activity rebounds, marking the fastest pace of growth in 2025.* In July, the *S&P Global US Composite PMI* rose to 54.6 (p: 52.9). The *Services PMI* also increased to 55.2 (c: 53.0; p: 52.9). The *Manufacturing PMI* fell to 49.5 (c: 52.6; p: 52.0).

*Labour market is broadly stable.* In June, the *unemployment rate* edged down to 4.1% (c: 4.3%; p: 4.2%). Total nonfarm payroll employment increased by 147K (c: 110K; p: 144K). Wage growth increased by 4.7% in May (p: 4.6%). The U-6 unemployment rate, which includes those marginally attached to the labour force and those working part-time for economic reasons, fell at 7.7% (p: 7.8%).

*Inflation pressures accelerate as Trump's tariffs pushed up prices.* In May, the *personal consumption expenditures (PCE)* – the Fed's preferred inflation gauge – rose to 2.3% y-o-y (c: 2.2%; p: 2.3%). The *core-PCE* – which excludes volatile energy and food prices – increased to 2.7% y-o-y (c: 2.6%; p: 2.6%). In June, headline and core inflation rates accelerated to 2.7% y-o-y (c: 2.7%; p: 2.4%) and 2.9% y-o-y (c: 3.0%; p: 2.8%).



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