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Review: FOMC Keeps Rates Unchanged, And Future Moves Will Strictly Depend on Data

by

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Executive Summary

- **Decision Made**: *The Fed kept US interest rates unchanged in January.* The FOMC kept its target Fed funds range at 3.50% - 3.75%. The Fed maintained its data-dependent approach. The FOMC remained divided: Powell and nine members supported the move, while Miran and Waller pushed for a 25 bp cut.

  Since September, the Fed has cut rates by 75bp, bringing policy close to neutral. The move should support labor market stability while inflation continues easing toward 2% as tariff effects fade. Future decisions will be data-dependent and made meeting by meeting, not on a preset path. In terms of balance sheet, in December, the Fed announced to resume Treasury purchases after ending runoff in October, to the tune of $40 billion in T-bills, with elevated purchases for a few months before tapering.

- **Policy Discussion**: *Powell said future rate moves remain undecided and will be made meeting by meeting based on incoming data.* He noted broad agreement that policy is now near neutral and no longer clearly restrictive, adding that the outlook has strengthened on firmer growth, inflation broadly in line with expectations, and signs of labor market stabilization following three recent cuts.

  Powell also addressed questions on Fed Governor Lisa Cook, calling the case "perhaps the most important" legal challenge in the Fed's 113-year history and explaining his decision to attend oral arguments at the Supreme Court of the United States, citing precedent set by Paul Volcker.

  He forcefully defended central bank independence as a cornerstone of democratic governance and a safeguard against politicized monetary policy, warning that political pressure—especially around elections—would undermine credibility. The FOMC reaffirmed its commitment to maximum employment and price stability, guided by longer-run goals, risk assessments, and regular reviews of its policy framework.

Key Picture: US Federal Reserve Forecasts – 2025-2028

	2025*f*			**2026*f***		**2027*f***		**2028*f***		**Longer Run**	
	Latest Reading	December Report	Sep. Report	December Report	Sep. Report	December Report	Sep. Report	December Report	Sep. Report	December Report	Sep. Report
GDP *(real growth, y-o-y)*	2.3	1.7	1.6	2.3	1.8	2.0	1.9	1.9	1.8	1.8	1.8
Unemployment rate *(%, y-o-y)*	4.4	4.5	4.5	4.4	4.4	4.2	4.3	4.2	4.2	4.2	4.2
PCE Inflation *(%, y-o-y)*	2.8	2.9	3.0	2.4	2.6	2.1	2.1	2.0	2.0	2.0	2.0
Core PCE Inflat. *(%, y-o-y)*	2.8	3.0	3.1	2.5	2.6	2.1	2.1	2.0	2.0	-	-
Federal Funds Rate *(%)*	3.75	3.6	3.6	3.4	3.4	3.1	3.1	3.1	3.1	3.0	3.0

Source: Federal Reserve '*Summary of Economic Projections' September and December* 2025. *Note:* 1. GDP reading for Q3-2025; 2. Unemployment rate as of December 2025; 3. PCE and core PCE inflation as of November 2025; 4. Projections reflect the median of FOMC projection

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Analysis

- **DECISION MADE**: *On January 28, the US Federal Reserve's kept cut its Fed funds range at 3.50% - 3.75%.* FOMC was divided: Powell and 9 others voted for the policy; Voting against the action were Stephen I. Miran and Christopher J. Waller, who favored a 25-basis-point rate cut. This marked Miran's fourth straight dissent before his January departure, and Waller's second. The last meeting in December with three dissents also reflected a similar split between those favoring tighter versus looser policy.

  Since September, the policy rate was reduced by 75 basis points, bringing it into a range consistent with estimates of neutral. According to the statement, this normalization should help stabilize the labor market while allowing inflation to continue easing toward 2% once tariff effects fade. Future rate moves will depend on incoming data, the outlook, and risk balance, with decisions made meeting by meeting rather than on a preset path.

  Regarding *forward guidance*, the Fed continues to be data-dependent with decisions being made meeting by meeting. The post-meeting statement reused language from last year's FOMC communication. It said: "*In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks*".

  Regarding *balance sheet policies*, in December the Fed restarted Treasury purchases, building on its October announcement to stop balance sheet runoff. According to the statement, reserve balances are now considered ample, and the Committee is buying short-term Treasuries as needed to keep them at that level.The shift reflects concerns about strains in overnight funding markets. It began with $40 billion in Treasury bill purchases, with elevated buying expected for the next few months before tapering sharply.

- **POLICY DISCUSSION:** *Fed Chair Jerome Powell said future rate moves remain undecided, stressing that policy is not on a preset path.* Decisions will be made meeting by meeting, based on incoming economic data, and the Fed is well positioned to adjust rates as needed. There was wide agreement that the federal funds rate is now roughly neutral, with many members seeing policy as no longer significantly restrictive given the incoming data. Powell said the outlook is stronger than at the last FOMC meeting, citing improved growth data, inflation broadly in line with expectations, and signs of labor market stabilization. He reiterated that rate decisions will be made meeting by meeting based on incoming data, adding that after three recent cuts the Fed is well positioned to manage risks as growth remains solid, unemployment stable, and inflation still somewhat elevated.

  During the press conference, obviously, Powell received questions about Lisa Cook and central bank independence. Powell said the Cook case is "perhaps the most important" legal case in the Fed's 113-year history, explaining his unusual decision to attend oral arguments at the Supreme Court of the United States. He said it would have been hard to justify not attending, noting precedent set by Paul Volcker.

  Powell strongly defended central bank independence, calling it a cornerstone of modern democracies and a safeguard against politicized monetary policy. He said independence exists to prevent elected officials from directly controlling rate decisions, a system that has broadly served the public well. His remarks come amid growing pressure from Donald Trump, who has criticized the Fed and argued presidents should be consulted on rates. Powell warned that politicizing policy—especially around elections—would undermine its credibility, adding that independence, while imperfect, remains essential and intact.

  In its Statement on Longer Run Goals and Monetary Policy Strategy, the FOMC is committed to its mandate of maximum employment, price stability, and moderate long-term interest rates, and to clear communication to reduce uncertainty and strengthen transparency and accountability. Monetary policy

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is primarily conducted by adjusting the federal funds rate, with the full set of tools available if needed, especially at the effective lower bound. Policy decisions reflect longer-run goals, the medium-term outlook, and risks—including financial stability—and recognize policy lags. When employment and inflation objectives conflict, the Committee takes a balanced approach. The framework is reviewed annually, with a comprehensive review roughly every five years.

- **ECONOMIC ASSESSMENT:** *Economic activity continues to expand at a solid pace, supported by resilient consumer spending and rising business investment, while housing remains weak.* The temporary federal government shutdown likely weighed on growth last quarter but should reverse with reopening this quarter. Labor market conditions appear to be stabilizing after gradual softening. The unemployment rate has held at 4.4%, job gains remain subdued, and recent payroll declines largely reflect slower labor force growth from lower immigration and participation, alongside softer labor demand. Other indicators, openings, layoffs, hiring, and wage growth, have been broadly stable.

  Inflation has fallen sharply from its 2022 peak but remains "somewhat elevated", above the 2% target. Over the year to December, total PCE inflation was 2.9% and core PCE 3.0%, driven mainly by goods inflation linked to tariffs, while services disinflation continues. Near-term inflation expectations have eased, and longer-term expectations remain anchored around 2%.

- **OUR TAKE:** *In our central scenario, the Fed only cuts once in 2026.* We expect at most one rate cut to occur in 2026, if the labour market continues to remain subdued and inflation moderated. In a risk scenario, an additional cut could be conceived only if economic activity moderated markedly, with inflation falling significantly.

- **MARKET REACTION AND IMPLICATIONS:** *Traders are now focused on longer-term policy signals. Futures pricing via the CME FedWatch Tool from CME Group points to two quarter-point rate cuts by the end of 2026. In the fixed-income space,* the 10-year yield climbed over 3 bp to 4.26%, the 2-year rose about 1 bp to 3.59%, and the 30-year gained more than 3 bp to 4.87%. *In the currency space,* the US dollar index slid to multiyear lows on Tuesday after Trump dismissed the decline, then rebounded Wednesday after Treasury Secretary Bessent ruled out U.S. currency market intervention. After the meeting, dollar index fell to around 96.4. *In the equity space,* the S&P 500 briefly hit 7,000 for the first time before pulling back, trading near flat amid post-Fed pressure. The Dow Jones Industrial Average was also flat, while the Nasdaq Composite edged up about 0.3%.

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