



**ROSA & ROUBINI**  
ASSOCIATES

## **MONETARY AFFAIRS:**

**Preview: Fed To Remain on Hold in April,  
Possibly the Last FOMC Meeting Chaired by Powell**

**by**

**Nouriel Roubini, Brunello Rosa**

**And Nato Balavadze**



**27 April 2025**

Nouriel Roubini, Brunello Rosa and Nato Balavadzé

*Preview: Fed To Remain on Hold in April, Possibly the Last FOMC Meeting Chaired by Powell*

27 April 2025

### Executive Summary

Page | 2

- ✧ **Expected Decision:** *We expect the Fed to keep rates unchanged in April.* In line with consensus, we expect the Fed to maintain its target Fed funds range at 3.50% - 3.75% in April. The Fed held rates steady in January and March after three 25bps cuts late last year. Since then, the Iran war has lifted energy prices and clouded the outlook for growth even if the labor market remains resilient, reinforcing a cautious, data-dependent stance. Officials remain in wait-and-see mode, with markets pricing in a near-certain pause at the next meeting. Almost all of the FOMC is still in the wait and see mode while the only dissent is again likely to be the one of dove Miran who will vote – as in March – for a rate cut. The FOMC post-meeting statement will be consistent with the data-dependent wait and see approach of the Fed. On forward guidance, the Fed will remain data-dependent and decide policy meeting by meeting. Regarding *balance sheet policy*, in May last year the FOMC decided to slow down the pace of QT. Consistent with the SEP we expect only one rate cut this year, likely in Q4. But some sell side analysts believe that the new Warsh Fed may likely do two rate cuts this year, starting with September.
- ✧ **Policy Discussion:** *The Middle East conflict has pushed up fuel prices, forcing markets to scale back expectations for Fed rate cuts.* A Reuters poll now suggests the Federal Reserve is unlikely to cut rates for at least six months, as energy-driven inflation pressures build and consumer confidence weakens. Even dovish policymakers acknowledge that inflation remains uncomfortably elevated, pushing back expectations for easing: the only true dove left in the FOMC is now Miran as, even Waller and Bowman, are now in favor of a pause to assess the impact of the oil shock. While most economists still expect at least one rate cut this year, the timeline has shifted later, with a slim majority now seeing rates unchanged through September and a growing minority expecting no cuts at all in 2026. Against this backdrop, even previous dove Christopher Waller has struck a more cautionary tone, warning that the Iran war could trigger a more persistent, pandemic-style inflation dynamic. What begins as an energy shock, he argues, may not remain contained, especially when layered on top of existing tariff pressures. Early signs of spillovers are already visible, with energy costs feeding into broader price measures. If the conflict persists, the economy could face a more difficult mix of elevated inflation and weakening growth—a stagflationary scenario that would constrain the Fed’s ability to respond. The key risk is that inflation expectations become unanchored, turning a temporary shock into a more durable problem; this is more likely the longer the conflict with Iran last will energy prices remaining higher for longer.
- At the same time, leadership uncertainty adds complexity. The DOJ finally, and possibly definitely, dropped its investigation on Powell and that should pave the way to the confirmation of Kevin Warsh as next Chair. However Jerome Powell may remain as governor in the FOMC for a few more months to make sure that the Fed remains independent. The transition is less about timing and more about credibility, as Warsh must balance political pressure for lower rates with the need to keep inflation expectations anchored. Now that Warsh is likely to be confirmed and become Chair next month, the bond market has reacted to this news as being mildly dovish and suggesting rate cuts sooner and larger than previously expected. But that market perception is likely to be wrong: before the war Powell and Warsh had similar views on the inflation outlook and the policy outlook. And the war makes the case for a wait and see approach rather than a rate cut even stronger. Also, Warsh will not have any majority in the FOMC for early rate cuts.

**Key Picture: US Federal Reserve Forecasts – 2025-2028**

	2026f			2027f		2028f		Longer Run	
	Latest Reading	March Report	December Report	March Report	December Report	March Report	December Report	March Report	December Report
GDP ( <i>real growth, y-o-y</i> )	2.0	2.4	2.3	2.3	2.0	2.1	1.9	2.0	1.8
Unemployment rate (% <i>y-o-y</i> )	4.3	4.4	4.4	4.3	4.2	4.2	4.2	4.2	4.2
PCE Inflation (% <i>y-o-y</i> )	2.8	2.7	2.4	2.2	2.1	2.0	2.0	2.0	2.0
Core PCE Inflat. (% <i>y-o-y</i> )	3.0	2.7	2.5	2.2	2.1	2.0	2.0	-	-
Federal Funds Rate (%)	3.75	3.4	3.4	3.1	3.1	3.1	3.1	3.1	3.0

Source: Federal Reserve 'Summary of Economic Projections' March 2026 and December 2025. Note: 1. GDP reading for Q4-2025; 2. Unemployment rate as of March 2025; 3. PCE and core PCE inflation as of February 2026; 4. Projections reflect the median of FOMC projection

### Analysis

✦ **EXPECTED DECISION:** *On April 29, we expect the US Federal Reserve's FOMC to keep its Fed funds range at 3.50% - 3.75%.* Fed held rates steady at its January and March meetings, after cutting by 25bps at each of the final three meetings last year to cushion the labor market. Since then, the Iran war has driven up energy prices and significantly clouded the economic outlook, reinforcing the Fed's cautious stance. Regarding *forward guidance*, the Fed will continue to be data-dependent regarding further policy changes with decisions being made meeting by meeting. Fed officials have adopted a wait-and-see stance, assessing how the economy absorbs the shock from the Iran war. Markets are aligned with this caution, with the CME Group pricing in a near-certain pause at the next meeting.

Regarding *balance sheet policies*, the Fed in May last year decided to slow down the pace of QT from June. The Committee will continue reduce the size of its balance sheet made of Treasury securities, agency debt, and agency mortgage-backed securities holdings. Starting in April, the Committee slowed 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:** *The Middle East conflict has sharply raised fuel prices, prompting markets to scale back expectations for rate cuts.* A Reuters poll suggests the Fed is unlikely to cut rates for at least six months, as war-driven energy shocks push inflation higher and erode consumer confidence. Even dovish policymakers now acknowledge inflation remains uncomfortably elevated, reducing the urgency to ease. While most economists still expect at least one rate cut this year, the timeline has shifted later. A slim majority now sees rates unchanged through September, and nearly a third expect no cuts at all in 2026.

Former dovish Fed Governor Waller struck a more cautionary tone, warning that the Iran war could push the US economy toward a pandemic-style inflation shock. What begins as a surge in oil prices, he argued, may not remain contained. Layered on top of existing tariff pressures, these shocks risk evolving into something more persistent, echoing the inflation dynamics seen after Covid.

The early signs are already visible. Energy-driven price increases have begun feeding into broader inflation measures, and further rises appear likely in the months ahead. If the conflict drags on, Waller suggested, the economy could face a far more difficult mix: elevated inflation alongside weakening growth and a softer labor market, a classic stagflationary setup.

In such an environment, the Fed's room to respond would be constrained. Cutting rates to support the economy could prove risky if inflation remains high. The real danger, in Waller's view, is not just higher prices today, but a shift in expectations, households and businesses beginning to assume that inflation

will stay elevated. If that happens, a temporary energy shock could harden into a more durable inflation problem.

April's meeting could mark the final one led by Powell, but the timeline remains uncertain. His term as chair expires in May, yet his successor, Kevin Warsh, must still be confirmed by the Senate in time for the June meeting. If that process slips, Powell has indicated he would stay on temporarily to ensure continuity. He could also remain on the Fed's Board of Governors through 2028 to ensure that the Fed remains independent even after the DOJ has finally dropped its investigation, hopefully for good. The potential transition from Powell to Warsh is less about timing and more about balancing political pressure with market credibility. While aligned with Trump's push for lower rates, Warsh must avoid appearing overly dovish amid elevated inflation and energy shocks that risk un-anchoring expectations. Confirmation delays could keep Powell in place temporarily, extending uncertainty, while Warsh's preference for balance sheet reduction and productivity-led disinflation points to a different easing path; however Warsh would have a hard time to convince the FOMC that rate cuts are warranted soon; he thus is unlikely to have a majority for them right after he becomes Chair.

✦ **MACROECONOMIC ANALYSIS:** *Looking ahead, growth may rebound, but the Middle East conflict poses downside risks.* Q4 growth was revised down to 0.5% annualized, mainly due to weaker business investment and inventories. Consumer spending was also trimmed slightly to 1.9%. The slowdown largely reflected the prior government shutdown and followed a strong 4.4% pace in Q3. Underlying domestic demand remained moderate, with final private sales growing 1.8%. Despite softer growth, corporate profits surged to a \$246.9bn increase (from \$175.6bn in Q3). On average (GDP + GDI), activity expanded at a modest 1.5%. Expectations are that Q1 growth may also be soft with the Atlanta Fed Nowcast now down to 1.2% after earlier stronger forecasts for Q1.

Headline inflation accelerated to 3.3% y-o-y in March (from 2.4%), the highest in nearly two years, driven mainly by an energy shock linked to the US-Israel-Iran war. Fuel prices surged, with gasoline up 21.2% m-o-m, the largest increase on record, accounting for most of the inflation rise. Higher energy costs also pushed up airfares and clothing, while food prices remained flat for now. The shock is primarily energy-led, with limited spillovers so far, but risks broadening if high oil prices persist.

The S&P Global flash US Composite PMI rose to 52 in April 2026, a three-month high, from 50.3 in March, its lowest since August 2023, signalling a modest rebound in business activity after the Middle East conflict. However, overall growth remained subdued, particularly in services, where the index edged up to 51.3 from 49.8 but demand stayed weak. New business at service providers increased at the slowest pace in two years, weighed down by a continued decline in exports. By contrast, manufacturing output saw a strong acceleration, rising to 55.7 from 53.2, the fastest expansion in four years.

US consumer sentiment fell sharply in April, with the University of Michigan index dropping to a record low of 49.8 (from 53.3 in March), reflecting growing concerns over inflation and the Iran war.

✦ **MARKET IMPLICATIONS:** *Markets will eagerly watch the press conference to get any indication on Powell's intentions.* US Treasury yields edged higher, as escalating geopolitical tensions and the prolonged Hormuz deadlock pushed oil prices up and reignited inflation concerns. To put things into context, *in the fixed-income space*, as of April 24, the 2y *UST* rose by 3 bps to 3.78% (+30 bps y-t-d). The 10y *UST* edged up by 5 bps to 4.31% since the last meeting (+14 bps y-t-d). *In the currency space*, dollar hold near the high-98 range and headed for a 0.4% weekly gain as rising US-Iran tensions dampened risk appetite. As of April 24, and since the last meeting in March, the *dollar index* edged down by 1.6% to around 98.53 (+0.1% y-t-d). *EUR/USD* rise by 2.4% to around 1.17 since March meeting (-0.2% y-t-d). *In the equity space*, US stocks ended mostly higher on Friday, with the S&P 500 and Nasdaq 100 hitting fresh record highs. Gains were led by Intel, which surged over 23% to a record after issuing stronger-than-expected Q2 revenue guidance, boosting the broader chip sector. The rally extended to

software stocks, reinforcing optimism around AI-driven growth. As of April 24, S&P 500 rose since the last meeting by 8.2% to 7.165,09 (+4.5% y-t-d).

✦ **APPENDIX (Macro Background):** *US economic growth slowed due to weaker business investment and inventory buildup, though corporate profits rose sharply.* In Q4, the US economy decelerated to an annualized 0.5% (c: 0.7%; p: 4.4%). Consumer spending slowed (1.9% vs 1.4% in Q3). Growth for fixed investment also increased less than anticipated (1.5% vs 1.6% in Q3). Government spending and investment dropped sharply (-5.6% vs. -5.8%), subtracting 0.99 percentage points from overall growth amid the government shutdown. Exports fell by 3.2% (slightly better than the initial -3.3%), marking the sharpest contraction since Q2 2023. Imports also declined a bit less than first estimated (-1.0% vs. -1.1%). Meanwhile, For 2025 as a whole, the US economy expanded by 2.1%.

*Business indicators signal a modest rebound in business activity after the Middle East Conflict.* In April, the S&P Global US Composite PMI increased to 52 a three-month high, from 50.3 in March, its lowest since August 2023. However, overall growth remained subdued, particularly in services, where the index edged up to 51.3 from 49.8 but demand stayed weak. By contrast, manufacturing output saw a strong acceleration, rising to 55.7 from 53.2—the fastest expansion in four years.

*The US unemployment rate drops despite economic uncertainty.* In March, the unemployment rate edged down to 4.3% (c: 4.4%; p: 4.4%). NFP rose by 178K (c: 60K; p: -133K), the most since December 2024. Wage growth increased by 4.3% in February (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, increased to 8.0% (p: 7.9%).

*Headline Inflation rose to the highest since May 2024.* In March, the *personal consumption expenditures (PCE)* – the Fed’s preferred inflation gauge – rose by 2.8% y-o-y (c: 2.8%; p: 2.8%). The *core-PCE* – which excludes volatile energy and food prices – declined to 3.0% y-o-y (c: 3.0%; p: 3.1%). In March, headline and core inflation rate jumped to 3.3% y-o-y (c: 3.3%; p: 2.4%) and 2.6% y-o-y (c: 2.7%; p: 2.5%) respectively.

Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 75 King William Street, London EC4N 7BE, United Kingdom. For information about Rosa&Roubini Associates, please send an email to [info@rosa-roubini-associates.com](mailto:info@rosa-roubini-associates.com) or call +44 (0)20 7101 0718.

**Analyst Certification:** We, Brunello Rosa and Nato Balavadze, hereby certify that all the views expressed in this report reflect my personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates' business, nor by personal or client relationships. We also certify that no part of my compensation was, is or will be, directly or indirectly, related to the views expressed in this report.

**Disclaimer:** All material presented in this report is provided by Rosa & Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the US SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates' written permission.