First Trust
ECONOMIC RESEARCH REPORT
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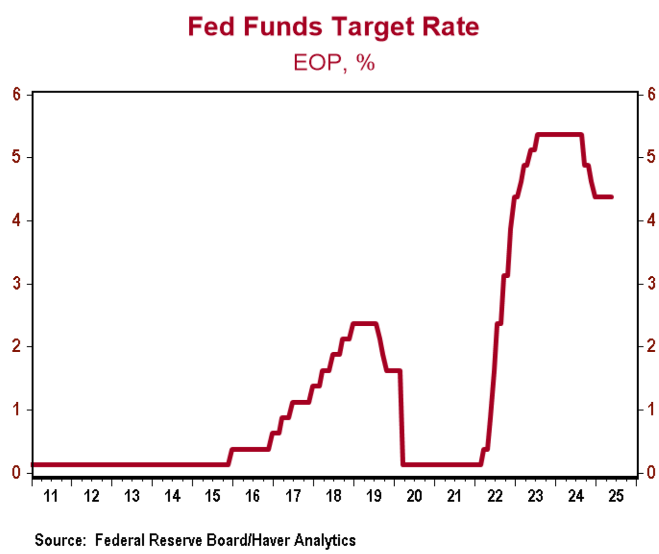
Awaiting Further Clarity

The Federal Reserve held rates steady today, while emphasizing that elevated uncertainty has clouded the path forward. If, when, and how much tariff policy will change in the months to come will play a large part in dictating the next move for the Fed. But until greater clarity arrives, the Fed is happy to watch and wait.

Starting with today's FOMC statement, there were a few changes worthy of note. In the very first sentence, the Fed added text that "swings in net exports have affected the data," which made sense given how the first quarter GDP declined, but all due to a temporary surge in imports. Additional changes to the text noted rising uncertainty in the economic outlook, with the Fed judging risks are higher for both unemployment and inflation – the two parts of the Fed's mandate.



We admit this is an incredibly difficult time to forecast, with soft sentiment data moving in negative direction while some hard data on real activity continues to progress. The remnants of COVID-era spending measures are still echoing through the system, and how the economy will progress in the short term if true progress is made in cutting deficit spending and signing new trade deals is still to be seen. The era of easy everything is over, and while that may not be a welcome transition for many, it's a necessary transition. Kudos to Chair Powell for stating during the press conference that US debt has been on an unsustainable path. But just how much discomfort the Fed is willing to endure during a period of transition is yet to be seen.

For the time being the Fed is confident that monetary policy is sufficiently restrictive to continue pushing inflation lower, while giving them leeway to wait for further data to allow a cleaner assessment of how the economy, inflation, and employment are impacted by policy out of Washington. In Powell's words, "there is no cost to waiting." And while pressed time and again by reporters to comment on what should be done on the tariff and tax front, Powell – to his credit – simply stated that those are not Fed decisions to make and that they stand ready to act and react to the environment in front of them. We only wish the Fed would have taken the same hands-off approach during COVID.

Much could happen between now and the next Fed announcement scheduled for June 18. At the very least, the next meeting will bring updated economic and rate projections from Fed members (the dot plots), and we will have at least a month of full data looking at the early impacts any trade disruptions have brought. Throughout this period of increased uncertainty, we are working harder than ever to dive into the data and identify the trends that we believe are critical to navigating the current environment. From the Monday Morning Outlook, Three on Thursday, Data Watches, and Wesbury 101 videos, our goal is to help bring you clarity on the numbers that matter most.

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Text of the Federal Reserve's Statement:

Although swings in net exports have affected the data, recent indicators suggest that economic activity has continued to expand at a solid pace. The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid. Inflation remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook has increased further. The Committee is attentive to the risks to both sides of its dual mandate and judges that the risks of higher unemployment and higher inflation have risen.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. 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. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of *incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.*

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Susan M. Collins; Lisa D. Cook; Austan D. Goolsbee; Philip N. Jefferson; Neel Kashkari; Adriana D. Kugler; Alberto G. Musalem; and Christopher J. Waller. Neel Kashkari voted as an alternate member at this meeting.