

January 28<sup>th</sup>, 2026 • 630.517.7756 • [www.ftportfolios.com](http://www.ftportfolios.com)

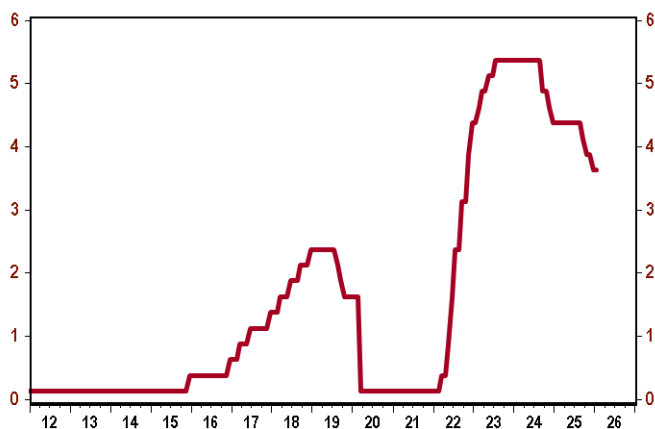
## Nothing, for Now

The Federal Reserve held rates unchanged at the first meeting of 2026, while it waits to see what direction inflation, employment, and other policies take in the months ahead.

Starting with the Fed statement, the most significant language changes suggest stronger economic fundamentals. Economic growth was categorized as “solid,” an upgrade from the prior characterization of “moderate.” The unemployment rate has “shown some signs of stabilization” (the last Fed statement noted the unemployment had edged up over the prior months). On the inflation front, comments that inflation had moved up since earlier in the year were struck from today’s statement and now simply reads that inflation “remains somewhat elevated.”

### Fed Funds Target Rate

EOP, %



Source: Federal Reserve Board/Haver Analytics

Notably, both Christopher Waller and Stephen Miran voted against today’s decision to keep rates unchanged, preferring to continue the rate cut process with a further 0.25% cut, a hint of what the president would like to see the Fed do once he’s replaced Powell later this year.

Moving to the press conference, reporters tried early and often to get Powell to speak out on political matters. From the Supreme Court case surrounding Fed Governor Lisa Cook, the looming Supreme Court ruling on the legality of existing tariff measures, to Trump’s plans to replace Powell when his term ends in May, these questions were quite rightly rejected with no comment. We wish we could say that the Fed’s track record of staying out of politics is as strong as Powell’s avoidance today, but that’s a story for another day.

Once it became clear that political questions wouldn’t generate a headline, the conversation shifted to the question on so many minds: What’s next? The FOMC believes that

their current stance is roughly neutral – or at least not restrictive at current levels – and therefore they have the time and capacity to wait and see how things evolve. Yet, there remains tension between inflation that’s still too high and a job market showing a slow pace of job gains. We would add that what job growth has occurred has been concentrated in areas like health care and social assistance which are heavily government subsidized.

It’s clear that inflation is higher on the priority list for many voters, so the question was asked, why isn’t the Fed placing inflation at the forefront? Put simply, inflation has seen little shift in either direction over the last year, but the Fed believes that has been in no small part due to tariff impacts that are likely to ease in 2026. By their estimates, inflation beyond tariffs looks to be running in the low 2% range, roughly in-line with their long-term goals. As a result, they don’t want to act to address an area that looks likely to resolve itself in due time.

Finally, when asked if the current economic environment and the AI boom remind Powell of the late 1990s, Powell said the current environment doesn’t rise to the irrational exuberance levels Greenspan once heralded. It remains to be seen how today’s AI investment will translate to productivity growth in the years ahead. We are hopeful, but cautious. Models are as good as their inputs. Garbage in, garbage out. And if there is one thing we learned repeatedly during the COVID years, it’s that official “knowledge” quite often proves false once tested with time and more data.

The next Fed meeting will take place mid-March, and will be accompanied by updated Fed forecasts. We don’t anticipate a hike at that meeting, but we will watch the data in the interim for signs that the balance of risk has shifted. There is a good chance that little happens on the rate front between now and the end of Powell’s term, but there could be a substantive shift in the tone coming from the Fed with the changing of the guard. From rates, to reserves, to potential changes to the regional Fed bank system itself, 2026 could yet prove a boisterous year for Fed watchers. We, meanwhile, will be keeping our eyes on what it all means for the M2 money supply.

**Brian S. Wesbury, Chief Economist**  
**Robert Stein, Deputy Chief Economist**

### Text of the Federal Reserve's Statement:

*Available indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained low, and the unemployment rate has shown some signs of stabilization. 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 remains elevated. The Committee is attentive to the risks to both sides of its dual mandate.*

*In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 3-1/2 to 3-3/4 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 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; Lisa D. Cook; Beth M. Hammack; Philip N. Jefferson; Neel Kashkari; Lorie K. Logan; and Anna Paulson. Voting against this action were Stephen I. Miran and Christopher J. Waller, who preferred to lower the target range for the federal funds rate by 1/4 percentage point at this meeting.*