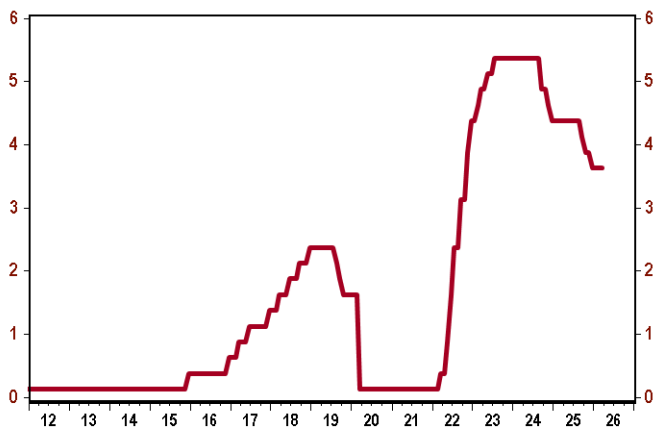


So Long, but Not Farewell...

In Jerome Powell’s last meeting as Fed Chair, the FOMC held on rates while issuing a statement with the largest number of dissenters in more than thirty years. Geopolitics – beyond the Fed’s control – have added to economic uncertainty and cloud the outlook as Fed Chair nominee Kevin Warsh (who this morning won the backing of the Senate Banking Committee and will now head to the Senate for final confirmation) looks almost certain to take the reins in just over two weeks.

Starting with the statement, there were two notable wording changes today. First, language was added that inflation “is elevated, in part reflecting the recent increase in global energy prices.” The second change was a modification of language from the March statement, noting that developments in the Middle East are “contributing to a high level of uncertainty about the economic outlook.” Neither of those changes are surprising given recent comments from FOMC members, but what was a surprise was the number of dissenters to today’s release. Governor Miran once again dissented in preference for a ¼ percentage point rate cut, while regional presidents Beth Hammack, Neel Kashkari, and Lorie Logan all supported keeping rates unchanged but “did not support inclusion of an easing bias in the statement at this time.” More on that shortly.

Fed Funds Target Rate
EOP, %



Source: Federal Reserve Board/Haver Analytics

The press conference brought the biggest news. Powell concluded his opening remarks by confirming that while his term as Chair will end on May 15th, he will be staying on at the Fed as a governor for the foreseeable future. Yes, the Department of Justice probe of Powell was dropped less than a week ago, and the DOJ also stated that the case would not be reopened unless there was a criminal referral by the Federal Reserve’s Inspector General, but Powell will remain at the Fed until he believes that investigations are well and truly over.

This creates an unusual situation that will play out over the weeks (months?) ahead. With Warsh taking the helm but Powell

still present it threatens to create a fractured FOMC. Prior chairs have historically stepped away from the Fed with time remaining on their position as a board governor specifically to avoid putting the new chair in such a compromising position, and some will see Powell’s decision as a political statement. Only time will tell how long this will last, but if Powell remains on through the next FOMC meeting in mid-June, you can be sure this dynamic will be one of the first questions to come up at that press conference.

Beyond the Powell drama, questions focused on how other FOMC voting members see the path forward from here. Are today’s three dissents on the easing bias a sign that the tide has shifted towards a rate hike being the likely next step when the Fed does choose to move again? Powell addressed this one head on, stating that the central tendency among voting members has moved towards a more equal balance between hike or cut, but the majority of members believed that the most appropriate action was to leave wording unchanged (hinting at the next move being a cut) and wait to see how things play out before making any changes to the language. There is no need to rush, and certainly not when visibility on potential outcomes is so low.

So for now, inflation remains a central concern. Just as the Fed worried about tariff pressures in 2025, we believe that the FOMC’s concerns over higher oil prices are a bit misguided. It’s true that inflation measures remain above the Fed’s 2% target, and higher energy costs did show in the most recent readings, but the M2 measure of money has been growing below the historical trend pace over recent years, and higher energy prices are likely to be offset by consumers pulling back in other areas, which will see those other prices eventually decline. We aren’t advocating for rate cuts any time soon, but we do believe that if the Iran War ends sooner rather than later, oil prices will cool, and we could see modest rate cuts before the year is out.

A new Chair Warsh may make some modest changes to the functioning of the Fed as he takes control, but rate cuts aren’t likely to happen anytime soon. Especially with Iran and the US at loggerheads in negotiations and the Strait of Hormuz remaining closed. No wonder the 10-year Treasury yield popped back up above 4.4% today.

We expect the new Fed will look much like the old Fed for now. He will need the votes from other board members and Fed bank presidents, who may be especially cautious about changing their tone so as to not show any signs of political influence. Until the fog of war clears – or there are signs of weakness in the broader economy – expect the Fed to simply hold course.

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

Text of the Federal Reserve’s Statement:

Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained low, on average, and the unemployment rate has been little changed in

recent months. Inflation is elevated, in part reflecting the recent increase in global energy prices.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Developments in the Middle East are contributing to a high level of uncertainty about the economic outlook. 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; Philip N. Jefferson; Anna Paulson; and Christopher J. Waller. Voting against this action were Stephen I. Miran, who preferred to lower the target range for the federal funds rate by 1/4 percentage point at this meeting; and Beth M. Hammack, Neel Kashkari, and Lorie K. Logan, who supported maintaining the target range for the federal funds rate but did not support inclusion of an easing bias in the statement at this time.