

Fed Watch

FOMC HOLDS LINE, SO DO MARKETS



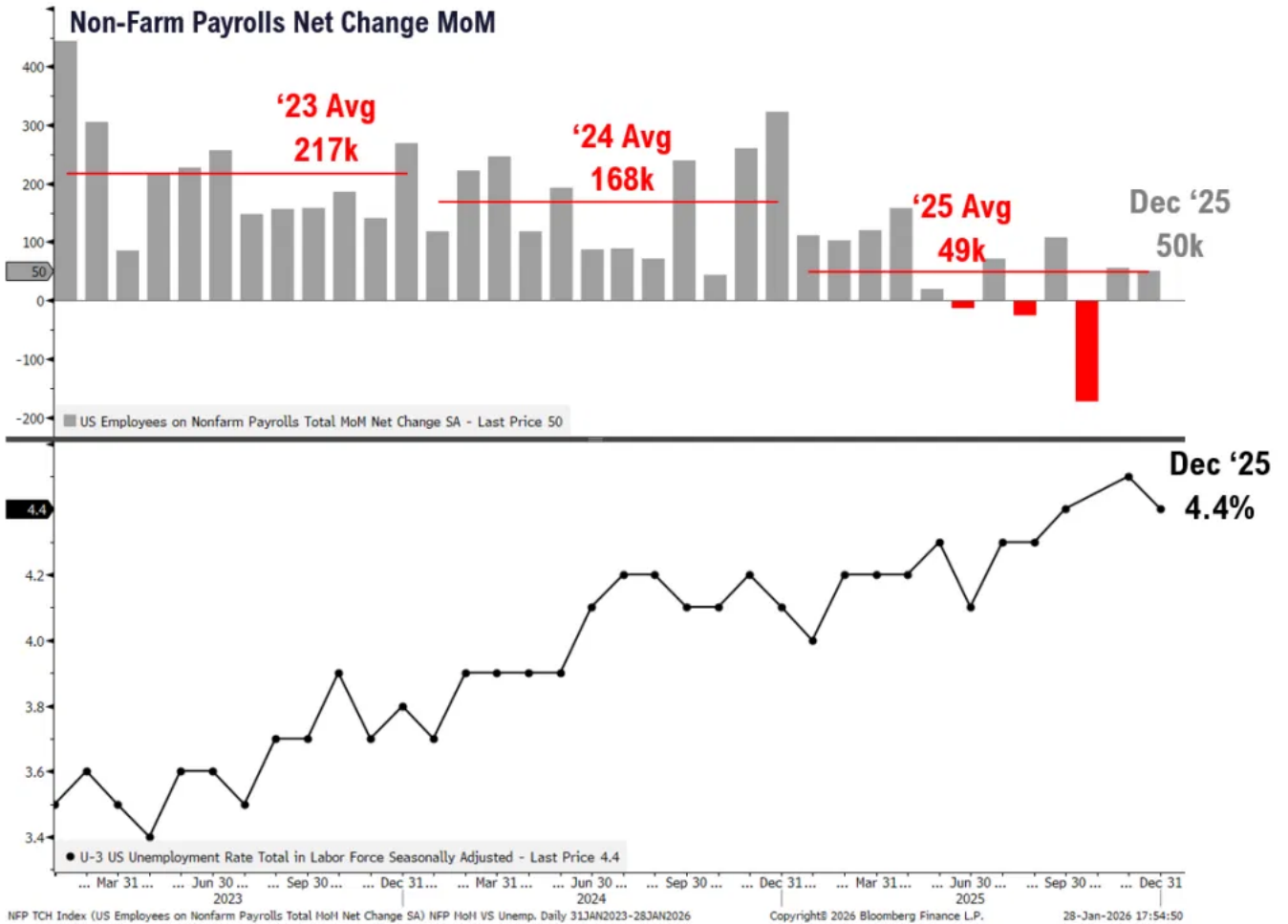
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As expected, the Federal Reserve on Jan. 28, 2026 maintained its benchmark policy rate at 3.50-3.75%. The decision was not unanimous, as two of the most dovish Fed chairs, Waller and Miran, dissented in favor of a 25bp cut. Yet it should be noted that Miran had previously called for a 50 bp cut, so this can be seen as a moderation in his dovishness.

To us, the revisions to the Committee's official statement indicate that the FOMC members have seen improvements in economic data, including growth and unemployment. Notably, the statement purged previous language from December that had expressed concern about "downside risks to employment."

Fed Chair Powell reiterated that the Committee believes rates are in a good place, characterizing economic activity as "expanding at a solid pace," with labor market growth having "remained low," and the unemployment rate having "shown some signs of stabilization."

Non-Farm Payrolls vs. Unemployment Rate
Since 2023



Source: Fundstrat, Bloomberg, BLS

The Chair had previously indicated that last fall's government shutdown had affected the reliability of labor-market data, causing the Fed to err on the side of caution – in other words, hawkishly. With that shutdown moving further away in the rear-view mirror, Powell indicated that the impact on data reliability was diminishing. (Note: Although the possibility exists that another shutdown will begin on Saturday, our Washington Policy Strategist Tom Block told us his instincts lead him to suspect that it might be of a shorter, less impactful duration.)

Powell told reporters that "the outlook for economic activity has improved – has clearly improved – since the last meeting, and that should matter for labor demand and for employment over time." Consistent with our view, Powell described the

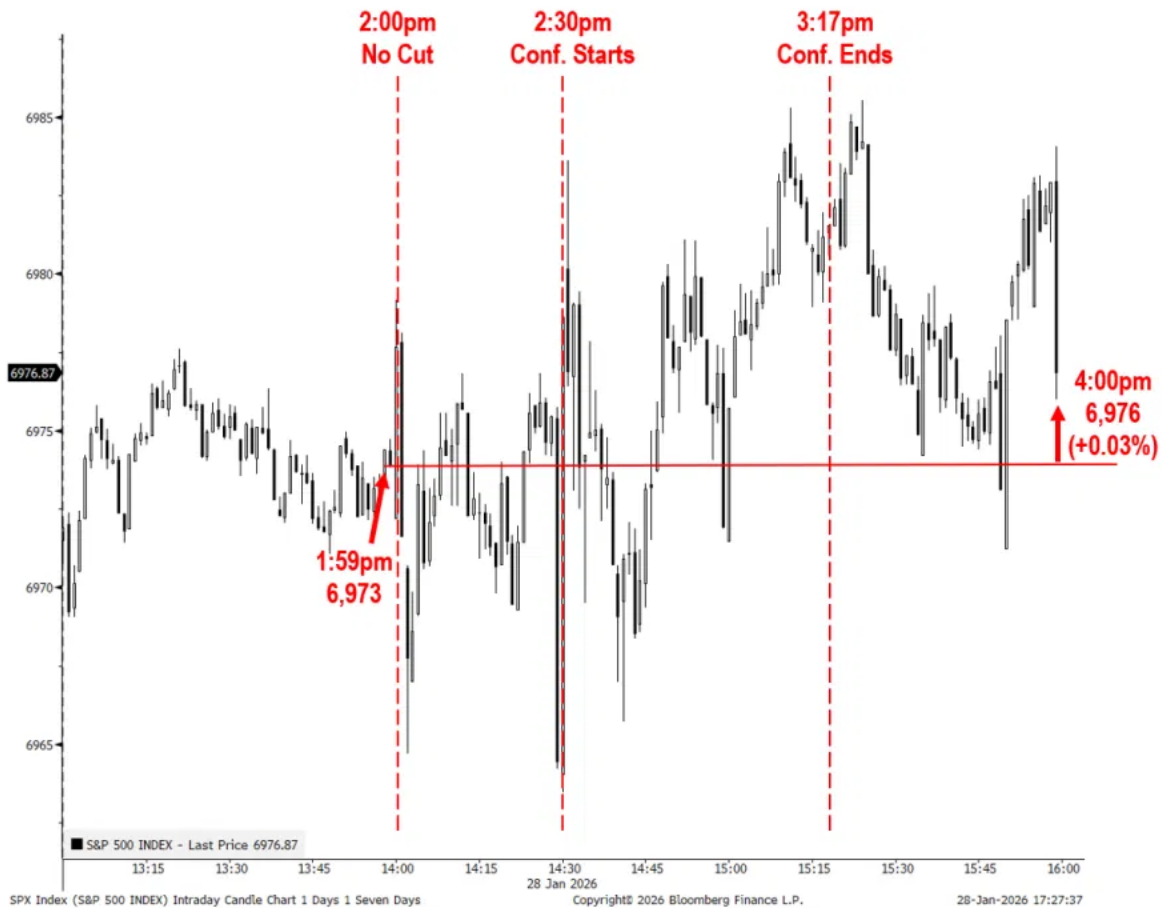
upside risk to inflation as probably "diminished" and in particular noted the "ongoing disinflation in all the categories of services."

Market Reaction

In contrast to recent past FOMC conferences, the market had an extremely benign reaction to the press conference today, likely a result of the meeting largely being within expectations. The S&P 500 moves ranged within +0.15% and -0.15% from the time of the rate decision at 2 p.m. to the end of the trading day at 4 p.m., ending the day nearly flat from the open. Yields were also largely unaffected, with both the 2Y and the 10Y closing with a smaller than 1bp change from yesterday.

S&P 500 Price Reaction to Jan 2026 FOMC Meeting

1 Minute Price Chart 1:00PM – 4:00PM EST



Source: Fundstrat, Bloomberg

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Federal Reserve vs. the DOJ

Over the past year, Fed Chair Powell has been generally dismissive of political discourse, generally addressing the current climate only so far as the president's actions affected the data they use and choosing not to comment on the majority of the threats and pressure made by the executive branch.

In contrast to his usual behavior, on Jan. 11, Powell issued a surprise public statement announcing that the DOJ had served the Federal Reserve with grand jury subpoenas two days prior, threatening a criminal indictment. He made it clear in his statement that he believes the actions of the DOJ are a result of “the Federal Reserve setting interest rates based on our best assessment of what will serve the public, rather than following the preferences of the president.” He went on to frame the situation as “whether the Fed will be able to continue to set interest rates based on evidence or economic conditions-or whether instead monetary will be directed by political pressure or intimidation.”

While the situation is a direct escalation of the president's continued pressure on the Federal Reserve, we view it as unlikely to result in any major changes to the structure or actions of the Fed in the near future.

The Supreme Court has previously isolated the Federal Reserve as a special exception from the president's ability to fire Board members. In a May 2025 order specifically involving the president's power to fire board members from independent agencies, the Supreme Court clarified that the decision to grant the president the power to fire these board members did not extend to the Fed, as it acts as a “uniquely structured, quasi-private entity that follows in the distinct historical tradition of the First and Second Banks of the United States.”

As recently as this Wednesday, many of the Supreme Court justices, including some of the more conservative justices, appeared to maintain this view. Justice Brett Kavanaugh, a Trump appointee, was particularly pointed in his dialogue with White House attorneys while discussing Trump's attempt to remove Fed Governor Lisa Cook.

As such, it seems unlikely that the Trump-ordered removal of Powell, Cook, or any Federal Reserve Governor will take place.

Odds of Trump-Ordered Removal of Fed Chair
As of 1/28/26

Lisa Cook



Lisa Cook out as Fed Governor by...?

\$10,161,631 Vol. Polymarket

February 28, 2026 **4%**

\$16,057 Vol.

Buy Yes 4.5c

Buy No 95.9c

Jerome Powell



Jerome Powell out as Fed Chair by...?

\$729,338 Vol. Polymarket

March 31 **4%**

\$438,420 Vol.

Buy Yes 3.9c

Buy No 96.3c

May 14 **9%**

\$290,918 Vol.

Buy Yes 8.8c

Buy No 91.6c

Source: Polymarket

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That said, we are approaching the end of Powell's tenure as Fed Chair. Though it would be an unusual decision to make, he would still have the option of staying on as a Federal Reserve Governor afterward. Powell refused to comment on the possibility during the press event.

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