

Fed Watch

## THE ONLY CERTAINTY IS UNCERTAINTY



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FED WATCH TEAM

### Key Takeaways

- The Fed held rates steady at 3.5% to 3.75% in an 11-1 vote, with Governor Stephen Miran dissenting in favor of a 25bp cut.
- The median dot still shows one cut in 2026, even as inflation forecasts inched higher and officials acknowledged greater uncertainty tied to the Iran war and energy prices.
- Chair Powell said he would remain in place as chair until his successor is confirmed by the senate.

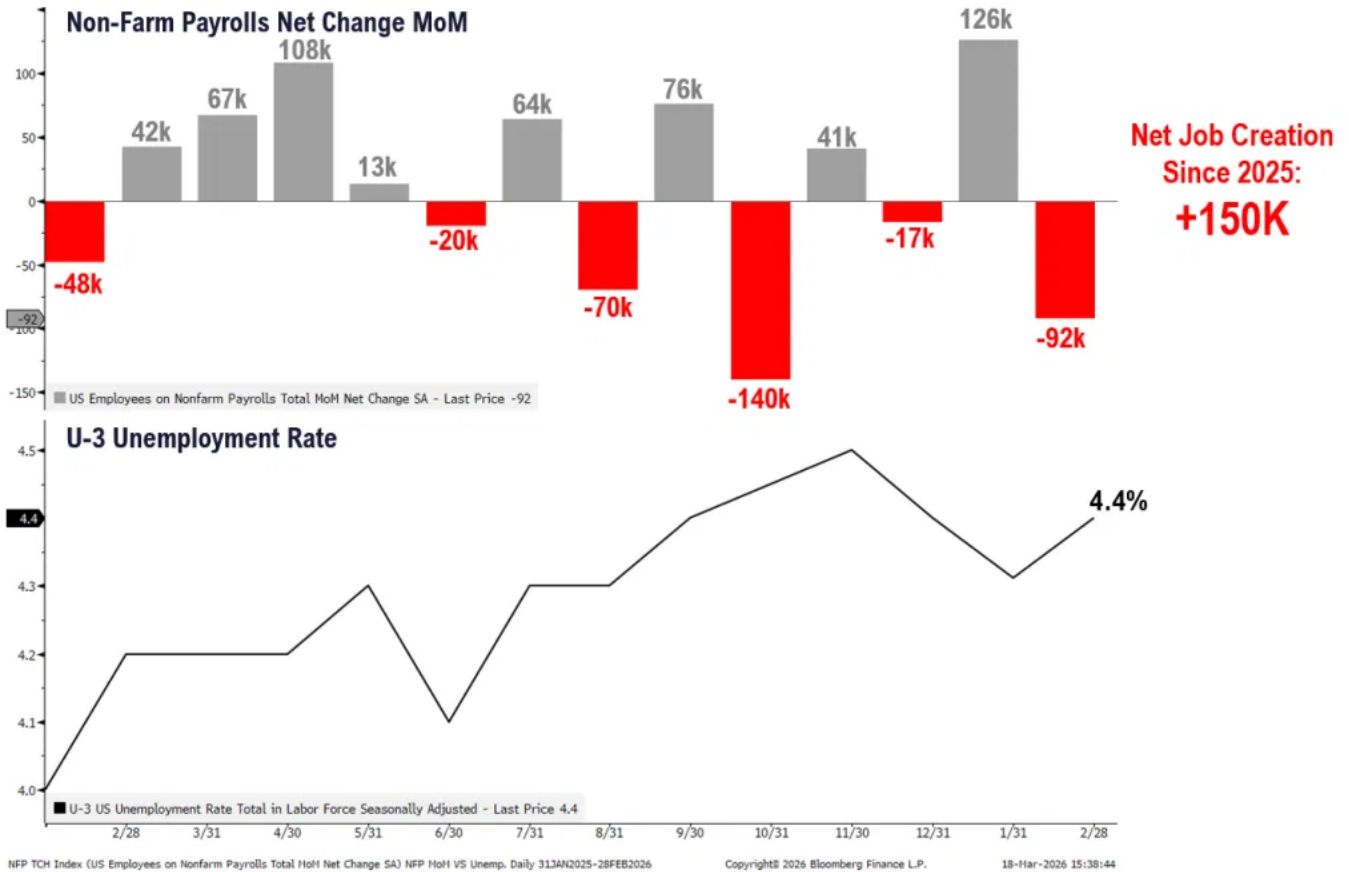
The March meeting did not offer much new in the “dots”, but Chair Powell’s language made one shift clearer: the Fed is once again balancing two mandates that are no longer moving comfortably together. “We are balancing these two goals in a situation where the risks to the labor market are to the downside, which would call for lower rates, and the risks to inflation are to the upside, which would call for higher rates, or not cutting anyway.” That is a sharper framing than January, when Powell said risks to both sides of the mandate had “diminished a bit” and that while tension remained, “it’s less than it was.”

The economic backdrop had weakened meaningfully heading into this meeting. 4Q25 GDP was revised in half, from 1.4% to 0.7%, while February Non-Farm Payrolls, expected at +55k, instead showed a net loss of 92k jobs, with prior months revised

lower as well. January still allowed officials to point to labor stabilization. By March, that argument had become harder to defend.

**Non-Farm Payrolls vs. Unemployment Rate**

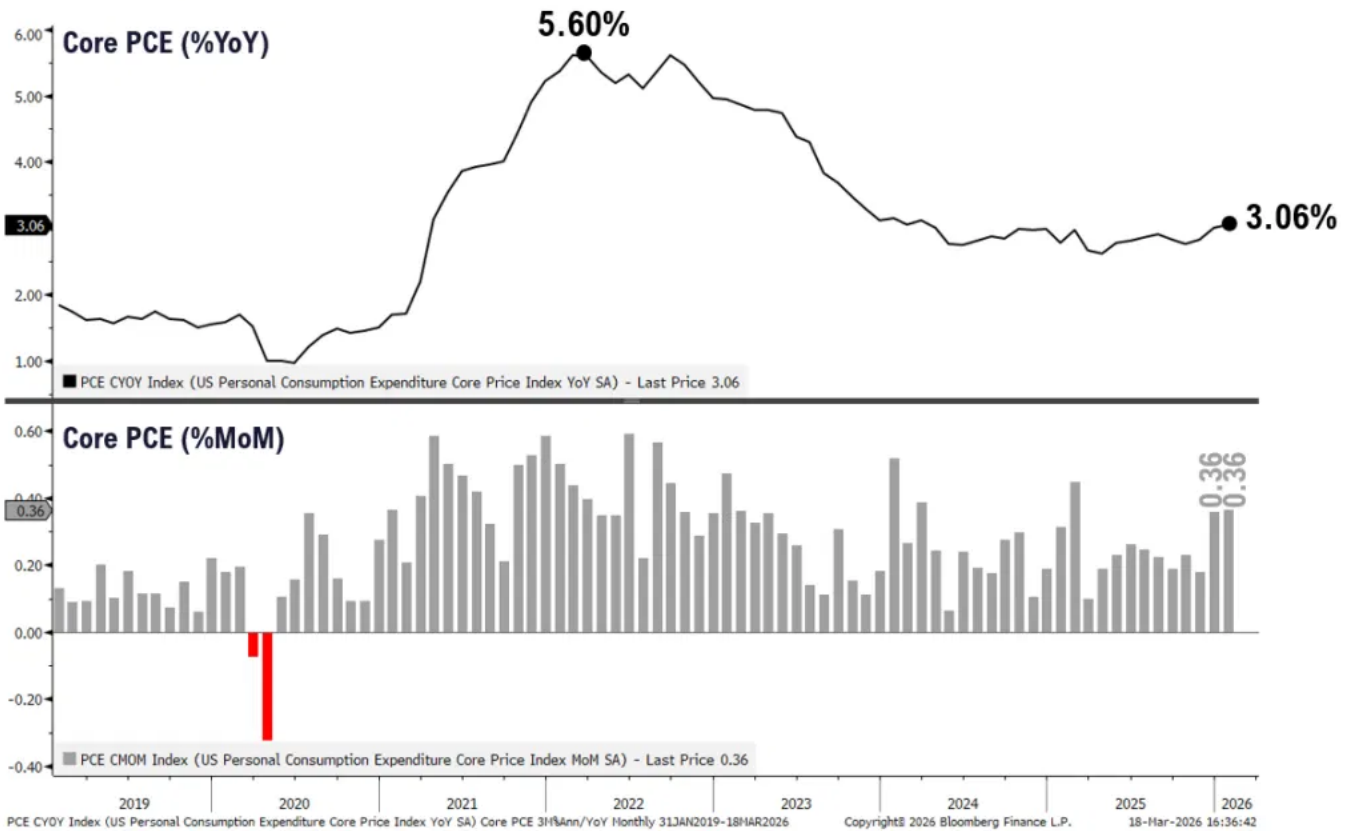
Since the Start of 2025



Source: Fundstrat, Bloomberg, BLS

Inflation has also remained stubborn, with PCE YoY% trending higher, rising to 3.06%, in January, compared to 2.78% a year earlier. The two most recent PCE MoM% readings have also been far from supportive of a decline to 2%, both releasing at 0.36%. Powell acknowledged that directly: “The forecast is that we will be making progress on inflation, not as much as we had hoped, but some progress on inflation.”

**Core PCE YoY and MoM**  
Since 2019



Source: Fundstrat, Bloomberg

That distinction matters because Powell did not describe inflation as stalled. His language remained consistent with slower progress rather than a failed disinflation process, while still suggesting there remains a path to cut if inflation continues to improve.

Tariffs remain central to that logic. Powell was unusually explicit in tying tariffs to stubborn core inflation: “If you look at total core inflation, it’s about 3 percent. And some big chunk of that, between a half and three-quarters, is actually tariffs, so we’re looking for progress on that.” That suggests officials still view a meaningful share of remaining inflation as temporary enough to fade if tariff effects continue to move through the system as expected.

That matters because an oil shock is now arriving before that tariff process is fully visible in the data. Powell described recent inflation less as a single trend and more

as a sequence of interruptions: “A series of shocks have interrupted progress that we’ve made over time, and that happened most recently with tariffs, and now there will be some effects on inflation coming forward.” In effect, the Fed is trying to assess a second supply shock before the first has fully cleared.

He was equally clear about the near-term macro effect: “The net of the oil shock will still be some downward pressure on spending and employment and upward pressure on inflation.” That combination naturally raises stagflation concerns, but Powell explicitly rejected that framing: “I would reserve the term stagflation for a much more serious set of circumstances.” He argued current conditions still do not resemble a true stagflation regime, particularly with unemployment still near longer-run normal levels.

Instead, Powell leaned on an argument that has repeatedly supported the Fed’s patience over the past two years: the economy has absorbed shocks better than expected. “The U.S. economy has really been just doing pretty well through a lot of significant challenges over the past few years, it’s been amazing to see.” That helps explain why oil changed the uncertainty around the baseline more than the baseline itself.

Markets nevertheless reacted as though Powell materially tightened the policy outlook. Fed Cut Estimates (per Fed Funds Futures) had already fallen from 2.5 cuts by end-2026 on 2/27 to 0.9 cuts before the meeting, then declined further to 0.6 cuts after the press conference. Part of that repricing came when Powell tied future easing directly to visible inflation improvement: “If we don’t see that progress, then you won’t see that rate cut.”

# Fed Cuts Estimated in 2026  
YTD. Implied by Fed Funds Futures.



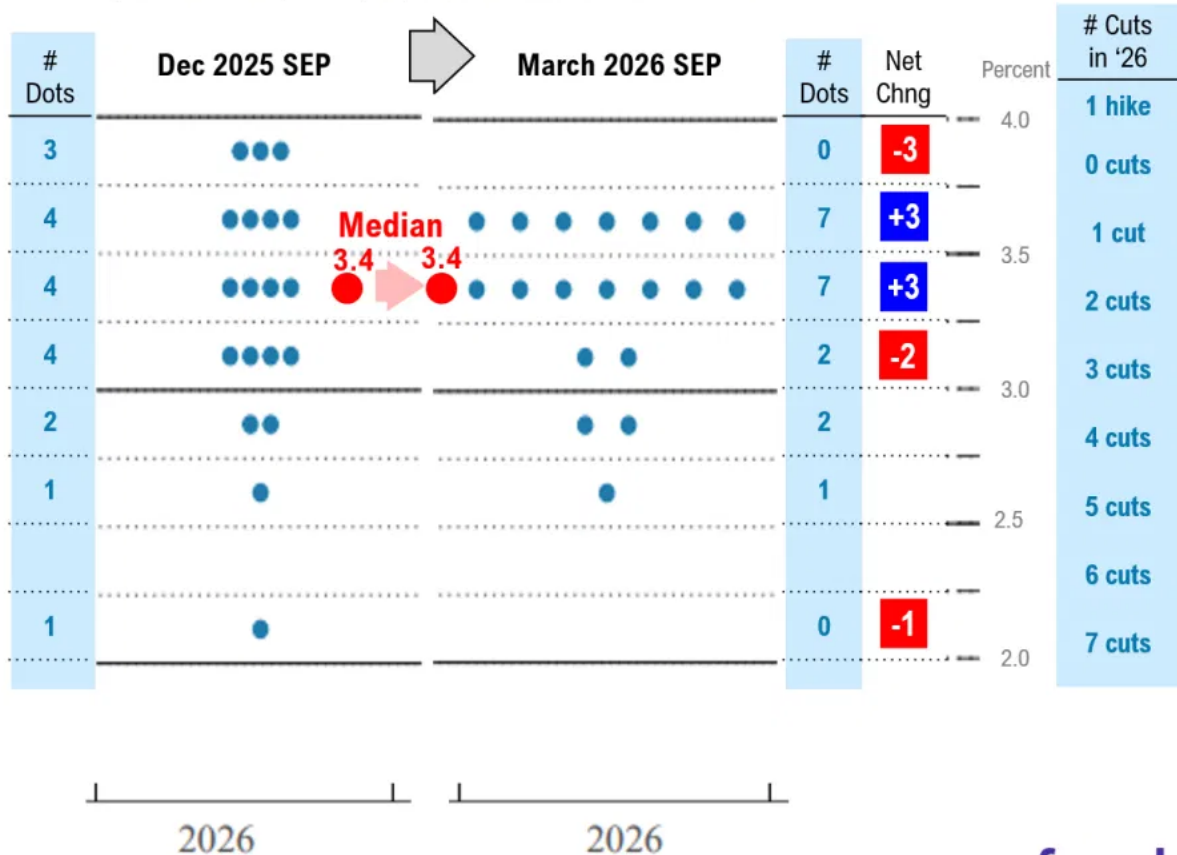
Source: Fundstrat, Bloomberg

\*1 cut represents 25-basis-point decrease in Fed Funds Rate

But even there, Powell did not describe a new reaction function. He clarified the evidence the Fed still wants to see: tariff-related inflation easing before oil broadens price pressure further into the data. The Chair paired that condition with the same flexibility he has emphasized throughout this cycle: “Monetary policy is not on a preset course.”

The unchanged dot plot looked less like conviction than process: officials still had to write down a path, even as Powell stressed how little confidence they have in what the oil shock ultimately does to inflation or growth. “People are writing down something that seems to make sense, but have no conviction.” He made the point even more directly moments later: “The thing I really want to emphasize is that nobody knows.”

**FOMC Participants' Assessments of Target Level for Fed Funds Rate by YE2026**  
 FOMC Summary of Economic Projections (SEP), Sept 2025 vs. Mar 2026



Source: Fundstrat, the Federal Reserve

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The next catalyst is whether incoming inflation data begins to show tariff-sensitive goods easing before higher energy costs spread more broadly. Until then, Powell's framework remains intact: cautious, conditional, and still unwilling to move on forecast alone.

Until next time, Fed Watchers!

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