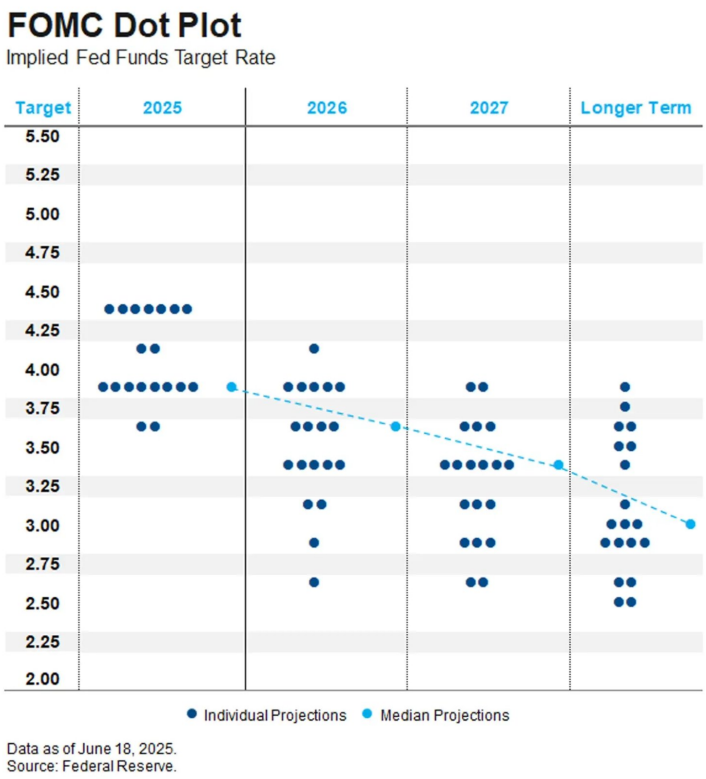
CHIEF ECONOMIST UPDATES

Fed Maintains Wait-and-see Posture

June 18, 2025
Author: Stephen Douglass



The Federal Open Market Committee (FOMC) left the federal funds rate target unchanged today as expected, maintaining the wait-and-see posture they have adopted since trade policy uncertainty spiked in the springtime. Today's outcome does not materially change our outlook for monetary policy or the U.S. economy. Our modal expectation remains that the next phase of the easing cycle will begin with a 25-bp cut in January and proceed at a quarterly pace to a terminal rate just below 3%.

The Summary of Economic Projections (SEP) shifted in a moderately stagflationary direction. The 2025 median real growth projection fell by three tenths to 1.4%, and the 2025 median core PCE inflation projection rose by three tenths to 3.1%. The dot plot shifted slightly in a hawkish direction, but not enough to change the closely watched median dot for 2025, which still shows two cuts this year. Four FOMC participants raised their 2025 dots causing the average dot to rise by about 5 bps. The dot plot for 2025 is fairly bimodal, with seven participants projecting zero cuts this year and nine participants projecting two cuts (and two pairs projecting different outcomes). Thus the 2025 median is a fragile one: it would only take one participant raising their dot to move the

median to one cut, and three participants raising their dots to move the median to zero cuts.

Chairman Powell's tone at the press conference was similar to the May FOMC meeting. Real activity continues to expand at a robust pace, and the labor market is in good shape with a historically low unemployment rate and "healthy" levels of job creation. He did, however, acknowledge the tipping point risk that we have highlighted: the low hiring rate means that any increase in layoffs would cause the unemployment rate to rise quickly.

In response to a question about the pass through from tariffs to consumer prices, Powell expressed an inflation outlook similar to our own. He saw isolated pockets of tariff inflation in the May CPI report – specifically citing personal computers and audiovisual equipment – though this was offset by cooler readings in services and other core goods components. He also stated that the Fed expects tariff inflation to appear more clearly in the next few months, and, that most of the tariffs will ultimately be passed through to consumer prices.

We liked Powell's description of the pass-through dynamics: it's basically a game of hot potato between manufacturers, exporters, importers, retailers and consumers who are all trying to avoid bearing the cost of the tariffs. At today's FOMC meeting, Powell acknowledged the extreme uncertainty from this unprecedented trade shock:

> *"That process is very hard to predict. And we haven't been through a situation like this. And I think we have to be humble about our ability to forecast it. So that's why we need to see some actual data to make better decisions."*

And therein lies the logic of the wait-and-see policy stance. Inflation data through May have continued to make significant progress towards the Fed's 2% objective, but the Fed can't afford to cut until they assess the inflationary impact of tariffs. Ironically, as the president continues to bash Powell, we figure today's meeting probably would have produced a rate cut if not for the inflationary risk from tariffs.

Disclosure Information

This material has been prepared by NISA Investment Advisors, LLC (“NISA”). This material is subject to change without notice. This is for information and illustrative purposes only. It is not, and should not be regarded as “investment advice” or as a “recommendation” regarding a course of action, including without limitation as those terms are used in any applicable law or regulation. This information is provided with the understanding that with respect to the material provided herein (i) NISA is not acting in a fiduciary or advisory capacity under any contract with you, or any applicable law or regulation, (ii) that you will make your own independent decision with respect to any course of action in connection herewith, as to whether such course of action is appropriate or proper based on your own judgment and your specific circumstances and objectives, (iii) that you are capable of understanding and assessing the merits of a course of action and evaluating investment risks independently, and (iv) to the extent you are acting with respect to an ERISA plan, you are deemed to represent to NISA that you qualify and shall be treated as an independent fiduciary for purposes of applicable regulation. NISA does not purport to and does not, in any fashion, provide tax, accounting, actuarial, recordkeeping, legal, broker/dealer or any related services. You should consult your advisors with respect to these areas and the material presented herein. You may not rely on the material contained herein. NISA shall not have any liability for any damages of any kind whatsoever relating to this material. No part of this document may be reproduced in any manner, in whole or in part, without the written permission of NISA except for your internal use. This material is being provided to you at no cost and any fees paid by you to NISA are solely for the provision of investment management services pursuant to a written agreement. All of the foregoing statements apply regardless of (i) whether you now currently or may in the future become a client of NISA and (ii) the terms contained in any applicable investment management agreement or similar contract between you and NISA.