

U.S. FOMC Review

- FOMC: a dovish pause amid risks to both sides of the dual mandate
- Two dissents in favor of easier policy
- Reserve management purchases: likely to continue at current size through April

Lawrence Werther
 lawrence.werther@us.daiwacm.com
 +1-212-612-6393

Brendan Stuart
 brendan.stuart@us.daiwacm.com
 +1-212-612-6172

The January FOMC Meeting

Many (probably most) market participants were looking for the Federal Open Market Committee to leave unchanged the target range for the federal funds rate at 3-1/2 to 3-3/4 percent, a move ratified by officials at today's meeting after previously reducing the policy rate by a cumulative 75 basis points in the final three gatherings of 2025. The pause was signaled in the December 2025 policy statement with the reinsertion of previous language noting that the "the extent and timing of additional adjustments" (if any) would be determined by incoming data and the evolving outlook – verbiage previously deployed a year prior which preceded the Committee holding the policy rate steady for nine consecutive months (and maintained in the current statement). Moreover, the high bar for future easing was suggested in the minutes for the December meeting, as "a few of those who supported lowering the policy rate...indicated that the decision was finely balanced or that they could have supported keeping the target range unchanged," and that "it would likely be appropriate to keep the target range unchanged for some time" – likely consequential views with the Committee divided over the future path of monetary policy. Nonetheless, the minutes indicated that "many" participants viewed the current policy setting as leaving them "well positioned" to make further adjustments as required.

Prevailing sentiments today appeared to largely echo those in December, although the assessment of the economy was upgraded and views on the labor market seemed to improve somewhat versus the previous iteration. On the point, the first paragraph of the January statement noted that economic activity "has been expanding at a solid pace" versus "moderate" previously (Powell also described the economy in his press conference as on "firm footing"). Additionally, it conceded that "job gains have remained low," although "the unemployment rate has shown some signs of stabilization" (versus indicating that the rate "edged up" in the previous statement). Also, the latest statement omitted from the second paragraph verbiage assessing that "downside risks to employment rose in recent months." Finally, turning to inflation, the current statement repeated language noting that inflation "remains somewhat elevated," although it deleted language noting that "it has moved up since earlier in the year" (see statement comparison on p. 3). On balance, views on the economy appeared to improve slightly, as did those on the labor market, while that on inflation now suggests stability with little additional progress versus hints of deterioration as of December 2025.

Beyond the text of the statement, the composition of dissents shifted, although they still indicate a wide range of views within the Committee rather than a coalescence behind a clear path of action. Whereas two officials dissented in December in favor of no change in policy, accompanying Governor Miran's dissent in favor of a 50-basis-point reduction, at the current meeting Governors Waller and Miran indicated preferences for a 25-basis-point reduction in the target range for the federal funds rate.

Turning to the press conference, further clarification was provided with respect to the changes in the statement. Chair Powell began by again indicating that the federal funds rate was within the "plausible estimates of neutral" and that monetary policy remained "well positioned" to deal with upside risks to inflation and downside risks to the labor market, which he suggested in follow-up were less in tension than they were in recent months (although he demurred from acknowledging that they were in balance). With respect to inflation, he referred to an ongoing disinflationary process in broad services inflation while also stating that "a lot" of the impact on goods inflation from tariffs had already transmitted through to the economy. In other words, inflation remains elevated, but no new concerns have emerged. Regarding the economy, he sounded decidedly more upbeat, noting that the data had come in better and that those numbers contributed to an overall "stronger forecast." Moreover, he speculated that a firmer economic performance would have positive implications for labor demand. All this said, Powell seemingly raised the bar for future potential cuts but did not suggest a pivot toward the possibility of a tightening in monetary policy. With respect to ongoing tensions with the Trump administration, the possibility of remaining on the Board of Governors after the expiration of his term as Chair, and comments by Treasury Secretary Bessent, Chair Powell provided cursory non-responses. The Chair also refrained from providing an assessment of recent softening in the foreign exchange value of the dollar.

With respect to the Fed's balance sheet, the Committee also left unaltered the previous directive for the managers of the System Open Market Account (at the Federal Reserve Bank of New York) to purchase \$40 billion Treasury bills per month (or Treasury securities with a remaining maturity of three years or less) in the form of reserve management purchases (RMPs) and to reinvest via secondary market proceeds from the Fed's holdings of agency securities, with the actions aimed at maintaining an ample-reserves operating framework. The current round of purchases, which will slow after the April tax filing season, was necessary in late 2025. In that regard, an ongoing reserve drain from the tail-end of QT (Treasury redemptions of \$5 billion per month at the time) coalescing with a surge in T-bill issuance related to a replenishment of the Treasury's cash balance after an increase in the debt ceiling exacerbated the reserve drain and contributed to hints of upward pressure in short-term funding markets. That development, in turn, indicated to policymakers that reserves had perhaps grown too scarce (or at least were highly concentrated). Thus, the latest program was implemented, and has subsequently appeared to quell nascent pressure on interest rates.

All told, the outcome of today's FOMC meeting was as close to a non-event as possible with the respect to the FOMC standing pat today – although the statement carried a more positive tone than that in December and implied that further rate cuts were unlikely at upcoming meetings, all else equal. Market participants expected no change in policy, as that preference was widely telegraphed ahead of the meeting. With that said, decisions henceforth could prove more challenging. Employment conditions appear stable for now, reflected in upgraded assessments in today's statement, although benchmark revisions scheduled to be released in early February are expected to reveal far more sluggish job creation than previously believed. Additionally, while further improvement in inflation is expected in coming months, the price index for personal consumption expenditures, the Fed's preferred inflation gauge, has been sticky in the upper-two-percent area and commodity prices have shown recent indication of picking up (which was again acknowledged in the January policy statement). These developments, in context, do not yet deter us from projecting two additional cuts of 25 basis points this year to shift policy further into neutral territory, although we view as increasingly likely that, absent discernable near-term deterioration in the employment data, the first cut in 2026 could come later than our current projection of March. Furthermore, adding to current considerations, the Trump administration has proved relentless in its efforts lobbying for lower interest rates, all while the president appears poised to announce his choice to succeed Chair Powell when his term at the helm of the Fed expires in May.

FOMC Statement Comparison*

January 28, 2026 FOMC 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.

December 10, 2025 FOMC Statement

Available indicators suggest that economic activity has been expanding at a **moderate** pace. Job gains have **slowed this year**, and the unemployment rate has **edged up through September**. **More recent indicators are consistent with these developments**. Inflation has **moved up since earlier in the year and** 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 **and judges that downside risks to employment rose in recent months**.

In support of its goals **and in light of the shift in the balance of risks**, the Committee decided to **lower** the target range for the federal funds rate by 1/4 percentage point **to** 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.

The Committee judges that reserve balances have declined to ample levels and will initiate purchases of shorter-term Treasury securities as needed to maintain an ample supply of reserves on an ongoing basis.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; **Susan M. Collins**; Lisa D. Cook; Philip N. Jefferson; **Alberto G. Musalem**; 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 **1/2 percentage point** at this meeting; and **Austan D. Goolsbee** and **Jeffrey R. Schmid**, who preferred no change to the target range for the federal funds rate at this meeting.

* Changes from statement to statement shown in bold.

Sources: Federal Open Market Committee; Daiwa Capital Markets America