

U.S. FOMC Review

- FOMC policy action: no change in the target range for the federal funds rate amid heightened uncertainty
- Committee statement: modest changes outside of insertion of language highlighting developments in the Middle East; Miran dissents, again, in favor of ¼ point reduction
- Summary of Economic Projections: favorable adjustments to expectations for growth, but inflation outlook also revised higher on account of jump in energy prices

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The March FOMC Meeting

The FOMC left unchanged the target range for the federal funds rate at 3-1/2 to 3-3/4 percent for the second consecutive meeting, results that followed an increasingly divided Committee reducing the policy rate by 75 basis points over the final three meetings of 2025. The latest move, which ratified near unanimous market expectations, occurred during a period of heightened risks – one wherein the labor market has lacked vigor, but inflation measured by the Fed's preferred metric is tracking close to 3 percent (the headline price index for personal consumption expenditures increased 2.8 percent year-over-year in January, while the core index increased 3.1 percent). Moreover, the recent surge in energy prices resulting from military action against Iran has only served to intensify the aforementioned upside risks to the price stability side of the central bank's dual mandate. Against that backdrop, Chair Powell indicated in this post-meeting remarks that policy remains on the "borderline" between restrictive and non-restrictive -- a status which seemingly affords the Committee optionality to address potential deterioration on either side of the mandate.

Turning back to the latest policy action, divisions on the Committee were again on display, although they seem to have subsided to a degree. Currently, seven of 19 officials project no cuts in the target range for the federal funds rate this year and five anticipate more than the SEP median of one reduction; notably, the mean projections for 2026 through 2028 have increased slightly, giving credence to the view that the Committee in the aggregate is more aligned with a wait-and-see approach with a few officials curtailing previous expectations for rate reductions (see dot plots, next page).

The Statement

In our view, the latest statement incorporated only modest changes from that in January, while keeping intact a bias toward further downward adjustments to the policy rate -- which also was signaled in the latest Summary of Economic Projections (see below). On the point, Chair Powell acknowledged in response to a question that policymakers entertained the idea that the next move could be a rate hike, but he quickly added that the "vast majority" did not see it as their base case. Moreover, the statement retained clear verbiage indicating that potential future adjustments remain contingent on the economic data evolving in a manner consistent with the Committee's forecasts (which faced additional risks given unknowns stemming from the Iran conflict). Thus, despite emergent challenges, the following language was again utilized: "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."

Other elements of the statement in the first and second paragraphs were adjusted to reflect refreshed assessments of the current economic situation and risks stemming from the Iran conflict (see statement comparison, p. 4). Turning first to paragraph one, the latest statement maintained an assessment that economic activity "has been expanding at a solid pace" (which coincided with upward adjustments to expectations for growth across the forecast horizon; see below), while also continuing to indicate that "inflation remains somewhat elevated (which also occurred alongside expectations for somewhat faster inflation this year and next). Turning to the labor market, the new statement indicated that "Job gains have remained low, and the unemployment rate has been little changed in recent months" versus the prior statement suggesting that "the unemployment rate has shown some signs of stabilization" – although we view the messaging as broadly consistent given Chair Powell's indication in his briefing that the labor market is currently in a low growth equilibrium. (He did, however, acknowledge that the current equilibrium is an uncomfortable one that could ultimately beget further undesirable weakening.)

Regarding the Iran conflict and effects on energy markets, the new statement included a sentence in the second paragraph directly following previous language indicating that “Uncertainty about the economic outlook remains elevated.” It emphasized, “The implications of developments in the Middle East for the U.S. economy are uncertain.” Underscoring challenges in formulating a forecast in the current environment, Chair Powell conceded that colleagues had “no conviction” in forecasts in the current circumstance, adding that if policymakers were going to skip publishing an SEP, the current one would be convenient given current unknowns.

With respect to dissents, Governor Miran recorded one in favor a of 25-basis-point cut (consistent with his view in January, and likely the current low projection for 2026 of 2.625 percent). Contrastingly, Governor Waller voted with the majority after dissenting in January in favor of easier policy.

The Summary of Economic Projections

The March 2026 iteration of the Summary of Economic Projections left intact the median expectation for the path of interest rates for 2026 through 2028, which included reductions of 25 basis points in 2026 (year-end median of 3.375 percent) and 2027 (3.125 percent) and no change from the year-end median in 2028 (see table & dot plots). Notably, Chair Powell indicated that views on the path of rates coalesced a bit more at this meeting, with the range of projections narrowing over the forecast horizon and mean forecasts increasing. Additionally, the longer-term median rose to 3.125 percent from 3.000 percent previously.

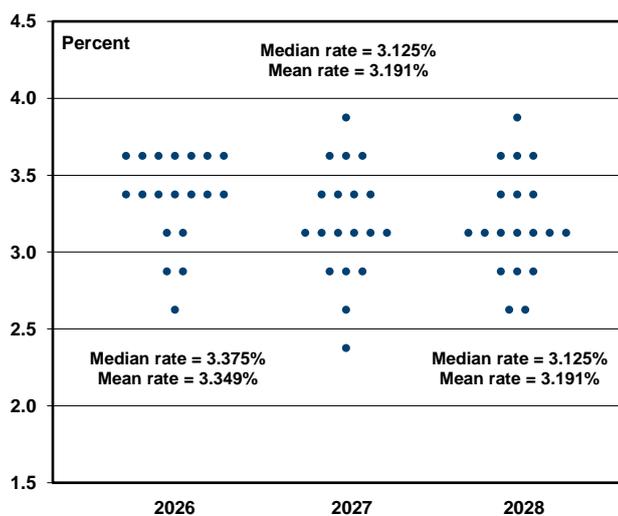
Economic Projections of the FOMC, March 2026*

	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>Longer Run</u>
Change in Real GDP	2.4	2.3	2.1	2.0
Dec. projection	2.3	2.0	1.9	1.8
Unemployment Rate	4.4	4.3	4.2	4.2
Dec. projection	4.4	4.2	4.2	4.2
PCE Inflation	2.7	2.2	2.0	2.0
Dec. projection	2.4	2.1	2.0	2.0
Core PCE Inflation	2.7	2.2	2.0	--
Dec. projection	2.5	2.1	2.0	--
Federal Funds Rate	3.4	3.1	3.1	3.1
Dec. projection	3.4	3.1	3.1	3.0

* Median projections

Source: Federal Open Market Committee, Summary of Economic Projections, March 2026

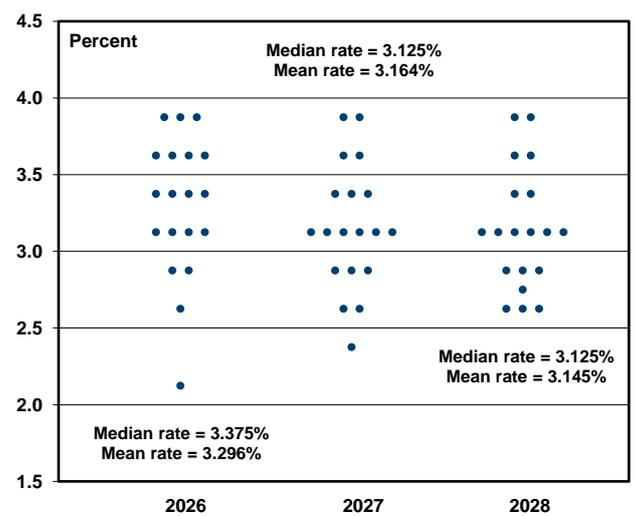
FOMC Rate View, March 2026*



* Each dot represents the expected federal funds rate of a Fed official at the end of the year.

Source: Federal Open Market Committee, Summary of Economic Projections, March 2026

FOMC Rate View, December 2025*



* Each dot represents the expected federal funds rate of a Fed official at the end of the year.

Source: Federal Open Market Committee, Summary of Economic Projections, December 2025

While interest-rate projections were close to what was submitted in December, those for corresponding economic variables were adjusted to reflect recent data and new risks to the outlook infused by the Middle East conflict. In that regard, expectations for GDP growth were revised higher over the three-year forecast horizon, and in the longer-term. The genesis of the adjustments, Powell indicated, was a prevailing view of an increase in trend productivity growth. Turning to the outlook for inflation, the median projections for the headline and core price index for personal consumption expenditures were adjusted higher by 0.3 and 0.2 percentage point, respectively, for 2026 and by 0.1 percentage point in 2027 (table, prior page). Regarding these variables, the Fed Chair noted that current forecasts reflect both risks stemming from energy prices as well as sticky current inflation. At the same time, outside of a marginal shift in 2027, views on the unemployment rate were little changed, reflecting assessment by policymakers that a low-hire, low-fire equilibrium persists currently.

Daiwa's View

Until recently, we had adopted the view that ongoing deterioration in underlying labor market conditions would motivate the FOMC to action in the first half of 2026 (as our end-of-2025 base case called for cuts of 25 basis points at the March and June 2026 gatherings). We maintain the view that a weakening labor market remains a significant risk to the outlook, but we also acknowledge that layoffs have been muted – with initial and continuing unemployment claims moving sideways at relatively low levels – despite stalled job creation. At the same time, actual inflation has hovered stubbornly above 2 percent, with Chair Powell in his press conference indicating that data from the CPI and PPI imply year-over-year growth of 2.8 in the headline and 3.0 percent in the core PCE price indexes for February (which are little changed from the previously noted firm advances in January). That projection, likely to be realized with the release of the data in early April, does not preclude further cuts this year, but rather it suggests that additional policy easing is conditional on several developments expounded upon in the press conference: full realization of tariff-related pressure on core goods prices and subsequent signs of normalization in core goods inflation thereafter; further progress in housing services; some additional cooling in core services inflation excluding housing; and anchored longer-term inflation expectations. Those conditions can be achieved, although the timing is uncertain and risks are elevated in light of recent developments. Thus, assimilating this new information into our assessment suggests that the earliest timeline for the next cut is the summer (possibly June, but more likely July). We also hold out for a second reduction of 25 basis points – possibly in the fall – although we now view the probability of a second move this year as having fallen significantly. The policy rate is already within the range of neutral, and Fed officials appear reticent to ease further absent de-escalation in the Middle East and measurable ongoing improvement in inflation.

FOMC Statement Comparison*

March 18, 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 **been little changed in recent months**. 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 implications of developments in the Middle East for the U.S. economy are uncertain**. 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; Anna Paulson; **and Christopher J. Waller**. Voting against this action **was** Stephen I. Miran, who preferred to lower the target range for the federal funds rate by 1/4 percentage point at this meeting.

** Changes from statement to statement shown in bold.*

Sources: Federal Open Market Committee; Daiwa Capital Markets America

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.

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