

US FOMC

'Wait-and-watch' mode till trade deals finalise

In a well telegraphed move, the Fed maintained status quo on policy rates even amidst the wave of criticism from the Trump administration. Powell's commentary indicated the extent of uncertainty which even the Fed is facing with respect to the tariff policy. The summary of economic projection is painting a sluggish growth environment even as GDP nowcast is hinting at robust growth for Q2, inflation is expected to remain elevated at 3% however rates remain unchanged – building 2 more rate cuts in 2025. Responding to a specific question on the conflict between Iran and Israel, Powell indicated that such events are unlikely to have a lasting impact on inflation through energy prices. We believe that the tariff deadline (9th Jul) would be key monitorable event, any postponement would be Dollar negative. While the combination of robust growth and elevated inflation would push policy easing towards the end of 2025.

- **Maintains status quo amidst uncertainty:** On widely anticipated lines, the Fed maintained status quo on policy rates (4.25%-4.5%). Fed Chairman indicated of strong support and broad-based agreement within the committee for the policy decision, despite criticism from the Trump administration. Powell's response circled around tariffs, its pass-through and mainly the uncertainty on the exact size of the actual tariff policy. Confusing statements like "inflationary impact of tariffs can be one-time or it may persist depending on the size of tariffs" moreover "uncertainty regarding tariffs have diminished but still at elevated levels" indicate the extent of uncertainty on the tariff policy even within the Fed. It was conveyed that policy stance has been 'modestly restrictive' and is best placed to respond to any unexpected inflationary impact of the tariffs.
- **SEP: Growth lowered; Inflation elevated:** The summary of economic projections (SEP) is painting a sluggish growth environment while anticipating a transitory impact of tariffs on inflation. Powell however refrained from using the word 'transitory' after the FOMC meet in Mar-25. Significant hit (-30bps, 1.4%) is expected on the GDP growth in 2025 vs Mar-25 projection, the impact is even severe (-110bps) when compared to the projection in Dec-24. Inflation is expected to remain elevated at 3% (+30bps) in 2025, however the exact pass through of tariffs in the inflation print is difficult to ascertain at this stage, considering the number of players in the supply chain (manufacturers, importers, retailers and consumers) and their capacity to absorb those price pressures. Unemployment rate is expected to peak at 4.5% (+10bps) in 2025, Powell expressed comfort on the state of the labour market as it remains broadly in balance. The unchanged expectation on the policy rate at 3.9%, hints that the Fed is in a tough spot as policy easing in anticipation of economic slowdown could turn out to be inflationary. While a 'wait-n-watch' mode would allow the Fed to respond in an effective manner.
- **Fed in a 'wait-and-watch' mode:** The main focus of Powell was on the uncertainty around the impact of the tariffs on growth and inflation, however his commentary lacked clarity. This indicates the extent on uncertainty which even the US central bank is facing on the tariff policy. The Dot plots signalled two more rate cuts in 2025, which is in our base case and to which even the market has now aligned. As this policy move was widely anticipated, market reactions were muted in the equity segment while the benchmark yields moved 10bps to close broadly flat, Dollar index however strengthened to 98.9. GDP nowcast indicates a rebound in economic growth to 3.4% in Q2 2025, hence growth is not a concern. We believe that robust growth combined with elevated inflation would push the rate cut expectation closer towards the year end, we would wait for the tariff policy to finalise. Key monitorable going forward would be whether the tariff deadline (9th Jul) is met or is it postponed further. Former would ease global uncertainty and hence would be positive for Dollar while latter would heightened uncertainty further.



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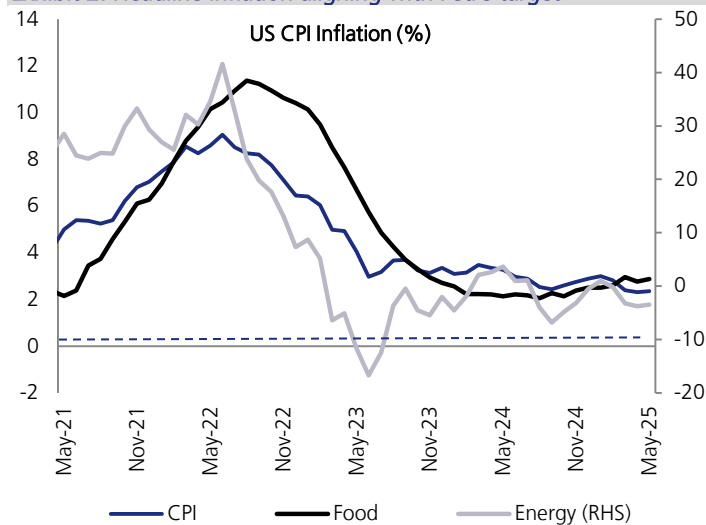
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Exhibit 1. Growth lowered; uptick in Inflation expectation; rates unchanged in 2025

	2025	2026	2027	Long run
Fed Funds Rate	3.9	3.6	3.4	3.0
March estimate	3.9	3.4	3.1	3.0
GDP Growth	1.4	1.6	1.8	1.8
March estimate	1.7	1.8	1.8	1.8
Unemployment Rate	4.5	4.5	4.4	4.2
March estimate	4.4	4.3	4.3	4.2
PCE Inflation	3.0	2.4	2.1	2.0
March estimate	2.7	2.2	2.0	2.0
Core PCE Inflation	3.1	2.4	2.1	
March estimate	2.8	2.2	2.0	

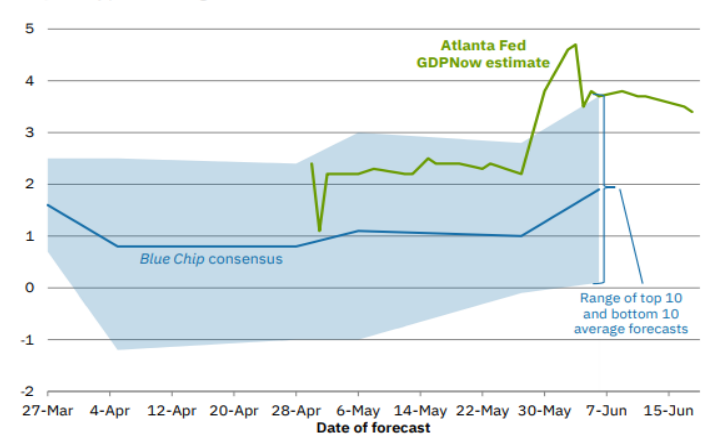
Source: US Federal Reserve, JM Financial

Exhibit 2. Headline inflation aligning with Fed's target

Source: US BLS, JM Financial

Exhibit 3. GDP growth expected at 3.4% in Q2 CY25

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q2
Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source: Fed Atlanta, JM Financial

Exhibit 4. Markets continue to factor in 2 rate cuts till Dec-25

FOMC Meet	300-325	325-350	350-375	375-400	400-425	425-450
Jul'25	0.0%	0.0%	0.0%	0.0%	10.6%	89.4%
Sep'25	0.0%	0.0%	0.0%	6.8%	61.6%	31.6%
Oct'25	0.0%	0.0%	3.5%	34.9%	46.2%	15.4%
Dec'25	0.0%	2.3%	24.4%	42.4%	25.7%	5.1%
Jan'25	0.8%	10.2%	30.8%	36.5%	18.4%	3.3%
Mar'25	5.4%	20.3%	33.6%	27.6%	11.0%	1.7%

Source: CME, JM Financial

APPENDIX I

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