

Fed Stays on Hold While Uncertainty Persists

With ongoing tariff uncertainty and U.S. employment still strong, the Fed kept its key interest rate at 4.25–4.50%.

Authors	Date	Topic
Matthias Scheiber, Ph.D., CFA	6/18/2025	Market Events

Key takeaways

- In our view, the next likely window for the Fed to lower rates will be September.
- While inflation has been trending down, a tight labor market and the potential for increased tariffs could bring short-term higher inflation.
- Although uncertainty has prevailed in recent months, we think this environment offers potential opportunities for investors in areas of the equity and fixed income markets.

The Fed today—and our outlook

Today, the Federal Open Market Committee announced another pause in its key interest rate, the federal funds rate, keeping it at 4.25–4.50%. With the ongoing uncertainty around tariffs and a still-robust U.S. labor market, the Federal Reserve (Fed) is taking a widely expected “**wait and see**” approach on rates. From our perspective, the next likely window for the Fed to lower rates will be September. We expect the Fed to potentially cut interest rates twice this year should inflation continue to drop toward its 2.0% target.

Inflation

U.S. inflation continued trending downward over the past month as the Fed’s preferred consumption-based core inflation measure, the [Personal Consumption Expenditures Index](#), dropped to 2.5% year over year. Consumer and corporate price expectations have both remained elevated, though, as tariff uncertainty persists. Underlying price trends for core inflation—including stickier, slower-moving items like rents—have been positive although a tight labor market and the potential for increased tariffs could lead to short-term higher inflation.

Growth

U.S. labor market data remained fairly robust in May, and real wages continue to support the U.S. consumer. However, elevated interest rates and a slowing U.S. economy have led to some spending fatigue. Despite some recovery in consumer sentiment, personal spending and retail sales trended lower in May. On the corporate side, the [Institute for Supply Management® Services Purchasing Managers' Index](#) indicated weakening below the level of 50, which reflects a reduction in activity, and new orders continued to fall. The services sector had generally been the bright spot of the U.S. economy while the manufacturing sector had struggled. With ongoing tariff uncertainty and declining trade flows between the U.S. and China, further slowing in the U.S. economy can’t be ruled out.

Rates

The interest rate market currently expects the Fed will **cut rates to around 3.8%** by the end of 2025. A lot will depend on how the inflation-versus-growth trade-off develops. In our view,

growth will likely continue weakening and the Fed would ideally want to cut rates to support growth—over the shorter term, though, higher prices could make that tricky.

Market outlook

We expect **equity market performance to remain volatile** and continue to favor cheaper parts of the U.S. equity market, international equities, and emerging market equities given better valuations, more fiscal and monetary stimulus likely to come, and higher valuations of a number of U.S. large-cap equities. Our outlook for **higher-quality bonds remains favorable** given still-attractive overall yields.

ALL-06162025-z04rvnvx

This material is provided for informational purposes only and is for professional/institutional and qualified clients/investors only. Not for retail use outside the U.S. Recipients who do not wish to be treated as professional/institutional or qualified clients/investors should notify their Allspring contact immediately.

THIS CONTENT AND THE INFORMATION WITHIN DO NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY JURISDICTION WHERE OR TO ANY PERSON TO WHOM IT WOULD BE UNAUTHORIZED OR UNLAWFUL TO DO SO AND SHOULD NOT BE CONSIDERED INVESTMENT ADVICE, AN INVESTMENT RECOMMENDATION, OR INVESTMENT RESEARCH IN ANY JURISDICTION.

INVESTMENT RISKS: All investments contain risk. Your capital may be at risk. The value, price, or income of investments or financial instruments can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Past performance is not a guarantee or reliable indicator of future results.

Allspring Global InvestmentsTM (Allspring) is the trade name for the asset management firms of Allspring Global Investments Holdings, LLC, a holding company indirectly owned by certain private funds of GTCR LLC and Reverence Capital Partners, L.P. These firms include but are not limited to Allspring Global Investments Luxembourg, S.A.; Allspring Funds Management, LLC; Allspring Global Investments, LLC; Allspring Global Investments (UK) Ltd.; Allspring Global Investments (Singapore) Pte. Ltd.; Allspring Global Investments (Hong Kong) Ltd.; and Allspring Global Investments (Japan) Ltd.

Unless otherwise stated, Allspring is the source of all data (which is current or as of the date stated). Content is provided for informational purposes only. Views, opinions, assumptions, or estimates are not necessarily those of Allspring or their affiliates and there is no representation regarding their adequacy, accuracy, or completeness. They should not be relied upon and may be subject to change without notice.

© 2026 Allspring Global Investments Holdings, LLC. All rights reserved.