

The Fed Stays Patient Amid Tariffs Concerns

At its March meeting today, the Fed kept the federal funds rate at 4.25–4.50% amid concerns around tariffs and their potential impact on U.S. growth and inflation.

| Authors | Date | Topic |
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Key takeaways

- The Fed kept the federal funds rate at 4.25–4.50%, taking a “wait and see” approach given growing concerns around tariffs.
- The Fed’s next likely window for lowering rates will be May or later.
- We expect equity performance to continue broadening, and our outlook for higher-quality bonds remain favorable.

Today, the Federal Open Market Committee announced a pause in lowering its key interest rate, the federal funds rate, keeping it at 4.25–4.50%. Given growing worries around tariffs and how they could affect U.S. growth and inflation, the Federal Reserve (Fed) took a widely expected “wait and see” approach on rates. We believe the next likely window for the Fed to lower rates will be May or later, and market analysts expect two cuts in 2025.

U.S. inflation remains slightly elevated and sticky. Core inflation fell from 3.2% to 3.1% in February—still above the target rate. Services prices have kept inflation higher, particularly food prices. However, some prices—such as rents—have been dropping on a year-over-year basis, offsetting the impact of higher prices for food.

Labor market data remain fairly robust despite recent actions by the Department of Government Efficiency to reduce the federal workforce. Increases in real wages have stayed above 4%, and the unemployment rate sits close to historical lows. Forward-looking U.S. growth indicators point to weaker economic growth—as does recent weakening of the U.S. equity market. The probability of a recession has increased.

For 2025, the interest rate market currently expects the Fed will cut rates to around 3.75% by year-end. A lot will depend on how the inflation-versus-growth trade-off develops—growth may continue weakening, and the Fed may need to cut rates more forcefully than expected.

We expect equity market performance to continue broadening into U.S. small-/mid-cap, international, and emerging market equities given their cheaper valuations, more fiscal and monetary stimulus to come, and the higher valuations of a number of U.S. large caps. Our outlook for higher-quality bonds remains favorable given still-attractive overall yields.

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