At the June meeting, the U.S. Federal Reserve Open Market Committee voted to keep the Fed funds rate unchanged at the range of 4.25-4.50%, for the fourth straight time. There were no dissents.

The formal statement was minimally changed. In terms of the unemployment rate, "stabilized at a low level in recent months" was replaced by "remains low." Language about uncertainty in the economic outlook was revised from "increased further" to "diminished but remains elevated." Balance was again noted in the dual mandate priorities, with a prior portion about "risks of higher unemployment and higher inflation have risen" being removed.

The quarterly Summary of Economic Projections (SEP, known as the 'dot plot,' with input from all FOMC members), showed an assumed median year-end 2025 Fed funds rate of 3.9% (unchanged from March), 3.6% for 2026 (up from 3.4%), 3.4% for 2027 (up from 3.1%), and an unchanged long-term rate estimate of 3.0%.

CME Fed funds futures showed a minimal possibility of a rate change before the meeting and really for the past month. Chances rise after summer, with the highest odds showing one cut in September, and one more by December, putting year-end rates at 3.75-4.00%. Markets are predicting two more cuts in 2026, with rates falling to 3.25-3.50% by the end of the year. Odds remain tilted towards fewer cuts rather than more, as recession odds have fallen, along with the current pause in the implementation of the highest quoted tariffs first announced. Though, if that were to change and recession odds rose, expectations for more cuts could ramp up.

Economy. In the Fed's SEP, estimated median 2025 GDP growth was downgraded to 1.4% (from 1.7% in March), 1.6% for 2026 (from 1.8%), and an unchanged 1.8% for 2027 and the longer run. The Atlanta Fed GDPNow growth estimate for Q2 has stabilized at a high 3.4% in this morning's release, with the Blue Chip economist consensus growth rate recently improving from 1% to 2% as well. The robust Q2 estimate was driven by a strong gain in net exports, reversing Q1's weakness in the same category when front-loaded imports of goods (including unique things like precious metals) overwhelmed typical export activity. More normal positive contributions are expected for consumer spending, government, and non-residential fixed investment. Due to the noisy and offsetting exports, the Q1+Q2 reports might be considered a wash, averaging a 2% trend-like number. So far, 'soft' consumer sentiment data hasn't translated into worsened 'hard' actual results, as decent personal spending remains a positive looking ahead, but some estimates show that fiscal, trade, and immigration policies could trim as much as a percent from overall growth this year.

Inflation. Headline CPI rose 2.4% over the trailing 12 months ending in May, while core CPI ex-food and energy held steady at 2.8%. Core PCE for April continued to run above-target at 2.5%. However, the 20% spike in oil prices so far in June in response to the Israel-Iran conflict puts upward pressure on future inflation reports. The Fed's June SEP for core PCE assumed 3.1% for year-end 2025 (up from 2.8% in March), 2.4% for 2026 (up from 2.2%) and 2.1% for 2027 (up from 2.0%), with a stable 2.0% assumed for the longer run, in line with their policy objectives. As has been the case for several years, many of the stickier price impacts have come from structural inflation in services, and especially housing. That predicament has been widely discussed, and, unfortunately, further improvement could require more patience. Tariff impacts on inflation have not come through in a big way so far, but all eyes remain on the status of the pause and a hinted-at extension of the pause this summer. The Fed is uniquely attuned to inflation readings from a variety of sources, and while overall inflation remains above target, they still appear confident in the downward trend, but not confident enough to remove the higher-rate bias quite yet.

Employment. Labor markets have been slowing but haven't yet reached a point of further deterioration. The unemployment rate has been at a rounded 4.2% for a few months in a row, with nonfarm payrolls continuing to grow, as have job openings to a lesser degree. The SEP showed an expected unemployment rate of 4.5% for year-end 2025 (up from March's 4.4% estimate), 4.5% for 2026 (up from 4.3%), 4.4% for 2027 (up from 4.3%), and an unchanged 4.2% over the longer run. Initial jobless claims have been contained, but continuing claims have certainly ticked up—but without featuring dramatic spikes. As one of the Fed's two primary mandates, a deterioration in labor could push them toward rate cuts, but that time also doesn't appear to be here yet.

The Fed is in a difficult position in that it hasn't seen enough evidence to change course; at the same time, it has been criticized in some circles for being either too early or too late—a natural predicament due to the lag in economic data. Despite continued underlying trade policy uncertainty and volatile financial market reactions to some policy adjustments, the lack of Fed action has also been driven by their acknowledgment of opposing risks to their dual mandates (inflation staying above target that pushes for higher rates vs. recession/labor not worsening dramatically that doesn't push for lower rates). In fact, the uncertainty that's caused recession risks to vacillate has further widened that divergence between the two objectives, running the risk of a philosophical dilemma at the Fed. The neutral stance is in contrast with Europe, where the ECB has continued to cut rates because of weaker economic growth; it's also in contrast with Japan, where policymakers are moving away from their zero-rate policy by raising rates.

Longer-term U.S. Treasury interest rates are another matter, with the yield curve now looking like a bowl shape of sorts—higher on the short end, lower in the 1-5 year, and higher in the 10-30 year maturities. The curve shape can be based on inflation estimates, future expectations for Fed actions, a term premium of some sort (higher in periods of uncertainty), patterns of debt issuance, and specific demand dynamics for various maturities. Long-term rates have been on an upward trajectory, with concerns over the proposed Congressional tax bill expanding the budget deficit and further adding to the federal debt load. However, more optimistic views of the bill see it as a jumpstart to economic growth, fueled by lower tax rates and corporate incentives. Also, the uncertainty surrounding tariffs has prompted questions by some foreign buyers, perhaps affecting capital flows and driving some substitutions to other fixed income sectors and regions. Such movements can create a technical dilemma of lower demand and higher supply, which results in prices down and yields up at the margin. How long such sentiment persists remains an important question for the rest of 2025.

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Sources: CME Group, Federal Reserve Bank, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, FocusPoint Solutions calculations.