

Fed remains on hold as easing bias faces growing dissent

Javier Amador, Iván Fernández

With the Fed's independence "at risk," Powell said he will remain on the Board as Governor after his term as Chair ends next month

As widely expected, the Fed left rates unchanged at 3.50-3.75% and paved the way for a potential removal of its easing bias should higher energy prices persist. The policy statement continued to describe activity as expanding at a "solid" pace, while noting that job gains have remained low "on average," likely reflecting recent volatility in employment data. The upward pressure from the global energy shock—following two months of elevated oil prices, largely reflected in US gasoline prices—led the Committee to characterize inflation as "elevated," compared with "somewhat elevated" in the previous statement. The Fed noted that "developments in the Middle East are contributing to a high level of uncertainty," reflecting the unclear prospects for the timing of both a definitive ceasefire and the normalization of oil flows through the Strait of Hormuz. Forward guidance was left unchanged, maintaining an easing bias: "in considering the extent and timing of additional [rate] adjustments [...] the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks." However, three FOMC members—all regional Fed presidents (Beth Hammack, Neel Kashkari, and Lorie Logan)—while supporting the decision to hold rates steady today, did not back the inclusion of such easing bias in the statement at this time, signaling a growing view within the Committee that the scope to resume rate cuts this year is becoming increasingly limited. Miran again dissented from the rate decision and voted in favor of a 25bp cut.

The focus of Powell's press conference was on his decision to remain on the Board as Governor after his term as Chair ends next month. In both his prepared remarks and the Q&A, he outlined two conditions for his eventual departure, stating that he "will not leave the board until [the DOJ's] investigation is well and truly over with transparency and finality" and that he would step down "when [he] think[s] it's appropriate to do so." On his motivations around this decision, Powell sought to dismiss the idea that he intends to act as a "shadow Chair," noting instead that he plans "to keep a low profile as a governor" and that his "intention is not to interfere" with the incoming Chair's efforts to build consensus within the Committee. Instead, he framed his decision around concerns about recent and potential future "attacks on the Fed which threaten [its] ability to conduct monetary policy without considering political factors." Taken together, Powell's decision to remain on the Board points to a subtle hawkish shift in the internal balance of the Committee since Warsh's appointment as Chair implies a rotation that would see Governor Miran step aside.

On the policy outlook, Powell reiterated that the current stance remains well positioned, although that assessment could shift as soon as the next meeting. He suggested that the prevailing view within the Committee is that the policy stance remains “at the high end of neutral or perhaps mildly restrictive.” He also expressed confidence in the initially stated “Fed hypothesis that tariffs would lead to a one-time price increase that would go away over time” and that “[they] really do expect that to be happening in the next two quarters.” However, he stressed that the Committee would need to see that progress materialize “before [thinking] about reducing rates.” The recent energy shock has further complicated the outlook. While the Fed has previously indicated that such a shock could be treated as one-off, Powell noted that the question of looking through it “is not in front of us right now [since] it hasn't even peaked yet.” Despite the notable dissent from three members regarding the easing bias in the statement, Powell remains aligned with a broader majority in the FOMC that sees no urgency in signaling a shift toward a more neutral or tightening bias in forward guidance, noting that “there doesn't need to be any rush to make that decision now.” He emphasized that the highly volatile outlook for the conflict in Iran could materially alter the policy backdrop in the near term, “because what happens in the next 30-60 days, even by the next meeting, could really change the picture around that language.”

Historically unusual dissents and Powell's remarks on his future at the Fed suggest that the FOMC will remain firmly on pause, with increasing odds of no rate cuts this year.

While Powell continues to favor a wait-and-see approach with an easing bias, he noted that “at a certain point [the Fed] would move and that conceivably could come as soon as the next meeting.” He added that the Fed would aim to signal that transition smoothly: “of course we will move to a hiking bias if we want to hike and we'll move to a neutral bias before that.” Against this backdrop, the key signal is that, absent a definitive ceasefire between the U.S., Israel, and Iran—alongside a normalization of oil flows through the Strait of Hormuz that leads to a sustained decline in energy prices—and in an effort to safeguard the anchoring of medium- and long-term inflation expectations, the most likely outcome is that the Fed removes the easing bias at the next meeting, signaling a neutral forward guidance and balanced probabilities of cutting or hiking rates in the near future. Such a shift would be consistent with an economy that continues to expand at a solid pace—supported by resilient consumption and AI-driven investment—while the labor market, although fragile, remains broadly stable. While our baseline still assumes a relatively prompt de-escalation of the conflict, leaving the door open for potential rate cuts later this year, risks have clearly shifted. We now see an upside bias to our 3.00-3.25% year-end rate forecast, as the pause is likely to extend beyond our previous expectations.

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