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# MARKET SIGHT LINES


## Economic and Market Insights From the March Federal Reserve Meeting

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Investors, business leaders, and consumers are closely watching the transition in Washington, with a particular focus on how the rapid and substantive policy changes may impact the economy going forward. Post-election optimism around deregulation and a business-friendly administration has given way to worries about potential negative economic impacts, especially around how uncertainty may cause business leaders and consumers to reduce spending. Amid talk of recession, the S&P 500 hit correction territory, falling at one point over 10% from its high in February. Yesterday the Federal Reserve (Fed) kept its monetary policy unchanged. But we learned much about the Fed's thinking from its Summary of Economic Projections (SEP) and Chairman Jerome Powell's post-meeting press conference. In this week's Sight|Lines, we unpack the results of the Fed meeting and look to discern their thinking on the potential impacts of policy change in Washington.

### THE TAKEAWAY: THE FED SIGNALS SOME CONCERN BUT FOCUSES ON POSITIVES

The Fed left monetary policy unchanged but signaled rate cuts and still positive economic growth through next year and beyond. In summary:

- The Fed kept its monetary policy unchanged, an indication there is no worry about an imminent recession.
- Its Summary of Economic Projections (SEP) showed officials expect positive economic growth through next year and beyond.
- Importantly, the SEP signals that the labor market should remain solid, with just a modest increase in unemployment.
- The SEP also indicates officials see inflation improving, but getting back to the 2% target will take a little more time.
- The SEP also signals that the Fed expects to cut interest rates later this year and into next year, getting to its long-run neutral rate likely beyond 2027.
- In the post-meeting press conference, Chair Powell reiterated this thinking, indicating the increased uncertainty in the current environment.
- These modestly positive forward-looking views align with the current consensus expectations.

**IN-DEPTH: THE FED SIGNALS SOME CONCERN BUT SHARES A GENERALLY POSITIVE VIEW ABOUT THE ECONOMY THROUGH NEXT YEAR, INCLUDING A SOLID LABOR MARKET AND IMPROVING INFLATION**

The Fed left monetary policy unchanged at its March meeting, but through various venues, officials signaled rate cuts and still positive economic growth through next year and beyond. Going deeper:

- In a sign that officials aren't worried about an imminent recession, the Fed kept its policy unchanged:
    - Officials decided to maintain the target range for the federal funds rate at 4.25%-4.50%.
    - Its program to reduce balance sheet holdings will continue, but at a modestly slower pace.
- The SEP showed officials expect positive economic growth:
    - The 2025 GDP median projection is 1.7%, with the 2026 median projection at 1.8%.
- The SEP also signals a solid labor market:
    - Unemployment is expected to be 4.4% at year-end, moving to 4.3% at year-end 2026.
- The SEP shows officials see inflation improving:
    - Personal Consumption Expedintures inflation has a median forecast of 2.7% at the end of the year, then 2.2% at the end of 2026.
    - Inflation is expected to reach the Fed's 2% target in 2027, based on the median forecast.
- The SEP also signals the Fed expects to cut interest rates:
    - The median forecast is for two 0.25% cuts this year and two 0.25% cuts next year.
    - The median long-term neutral rate is 3%, which officials expect to reach beyond 2027.
- In the post-meeting press conference, Chair Powell offered these views:
    - "Uncertainty around the changes [trade policy] and their effects on the economic outlook is high." "Sentiment has fallen off pretty sharply, but economic activity has not yet…the economy seems to be healthy."
- These modestly positive forward-looking views are a little muted compared to consensus expectations:
    - Consensus GDP growth forecasts sit at 2.2% for 2025 and 2.0% for 2026, and we expect these to come closer into alignment with the Fed forecasts over the next few months.
    - Fed fund futures are pricing in two 0.25% cuts this year and two 0.25% cuts next year.

**CONCLUSION**

People are watching the Washington transition closely given the rapid and widespread policy changes. While many were optimistic right after the election about deregulation and a business-friendly administration, there are increased worries about the potential negative economic implications of these policy changes. While the Fed's primary focus is monetary policy designed to balance toward stable prices and a strong labor market, its Summary of Economic Projections and Chair Powell's post meeting comments give us insight into its thinking about the economy given these broader policy changes. The Fed sees positive economic growth going forward, with a softening but strong job market and improving inflation.

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