

Macro Insights
20 June 2025

**TATA CAPITAL
WEALTH** 

U.S. FED HOLDS KEY RATES **STEADY AT 4.25%- 4.50%,** **SEES 50 BPS RATE CUT IN 2025**

Key Highlights:

- The U.S. Federal Reserve (Fed) **kept interest rates unchanged at 4.25%-4.50%**, as it awaits further information **on the impact of tariffs and other possible disruptions on the economy in the current year.**
- The Fed stated that they continue to anticipate two rate cuts this year, despite their projections that US President Donald Trump's tariffs will lead to an increase in inflation.
- **This marks a significant decision as it's the fourth time in a row that the Fed has chosen to keep rates steady, even under direct political pressure from President Trump, who has called for cuts to stimulate the economy.**



Current Update:

- ❖ Fed kept the policy rates unchanged 4.25- 4.50% amid persistent economic uncertainty from recent tariff escalations, geopolitical tensions and mixed economic indicators.
- ❖ The Fed stated the the updated projections reflect higher inflation, weaker GDP and a higher unemployment forecast, indicating the central bank isn't yet convinced the time is right for rate cuts.
- ❖ The committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities.
- ❖ The Fed's assessments will consider a wide range of information, including **readings on labour market conditions, inflation pressures and expectations along with financial and international developments.**

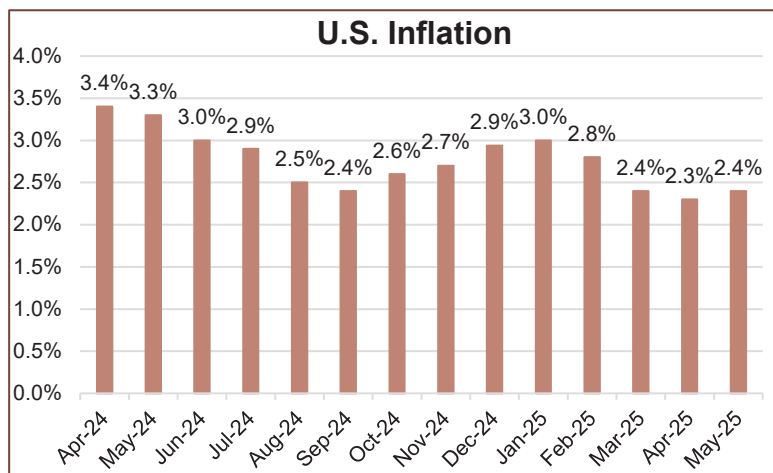
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U.S. Inflation:

- ❖ In May, inflation rose slightly to 2.4%, up from 2.3% in April.
- ❖ Core Inflation, which excludes volatile food and energy prices, remains elevated at 2.5%. The “pause” that President Trump put in place on many of the tariffs is set to end on 9th July, pending any deals the administration strikes with its trading partners. This will be a key factor in determining impact on inflation.



Source: Trading Economics



The Fed's Policy Shift: From Aggressive Tightening to Gradual Easing (2022–2025)

Since March 2022, the U.S. Federal Reserve has led one of the most aggressive rate hike cycles in modern history in an effort to tame surging inflation, which had reached four-decade highs. Over the course of 18 months, the Fed raised interest rates by 525 basis points, taking the federal funds rate from near zero to a peak range of 5.25%–5.50% by July 2023.

The Fed initiated its first rate cut in September 2024. Since then,

- The Fed has cut rates by a cumulative 100 basis points, bringing the current policy rate to 4.25%–4.50% as of Jun'25.
- The Fed has been on hold since its last cut in December as it waits to evaluate the tariff impact..

FOMC Meeting Date	Rate Change (bps)	Interest Rate
19-Jun-25	-	4.25% to 4.50%
07-May-25	-	4.25% to 4.50%
07-Mar-25	-	4.25% to 4.50%
20-Mar-25	-	4.25% to 4.50%
29-Jan-25	-	4.25% to 4.50%
19-Dec-24	-25	4.25% to 4.50%
07-Nov-24	-25	4.50% to 4.75%
19-Sept-24	-50	4.75% to 5.00%
31-July-24	No change	5.25% to 5.50%
12-June-24		
01-May-24		
20-Mar-24		
31-Jan-24		
13-Dec-23		
01-Nov-23		
20-Sep-23		

Source: US Federal Reserve Website

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To Conclude:

“Powell's comments highlight the Fed's growing concern about the economic impact of President Trump's tariff policies. The current unemployment rate in May stands at 4.2%. The Fed's statement did not mention the sudden outbreak of hostilities between Israel and Iran and the risk that conflict posed to global oil or other markets. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will assess incoming data, the evolving outlook, and the balance of risks. In assessing the appropriate stance of the monetary policy, the committee will continue to monitor implications of incoming information for the economic outlook. The committee would be prepared to adjust the stance of the monetary policy as appropriate if risks emerge that could impede the attainment of the committee's goals.

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