

## U.S. Fed rate status quo marks 'wait and watch' as Trump 2.0 begins

### Key Highlights:

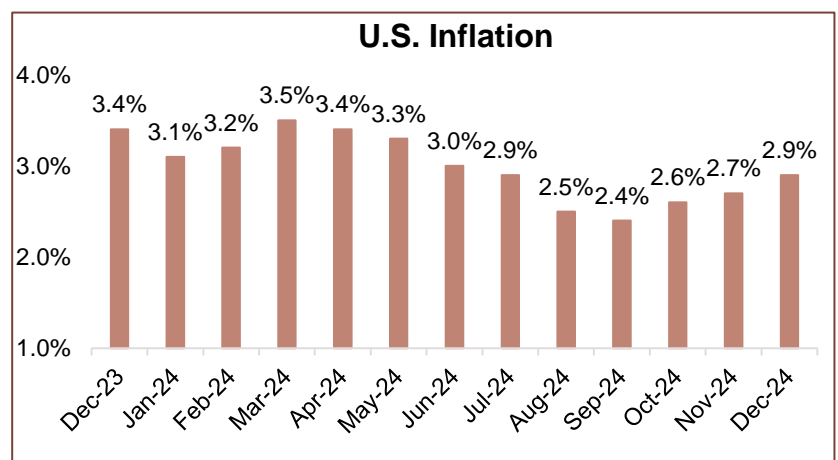
- The U.S. Federal Reserve (Fed) **decided to maintain the rates at 4.25%- 4.50% in the first decision of Trump's presidency after reducing the rates for three straight meetings in 2024.**
- **FOMC remains cautious** about Trump 2.0 actions.
- Projections point to only two rate cuts in 2025.
- Uncertainty around inflation has increased.

### Current Update:

- ❖ Fed **kept the policy rates unchanged 4.25- 4.50% range, noting that inflation remains somehow elevated and economic outlook is uncertain.**
- ❖ By keeping rates unchanged, the **Fed could be preparing for a lengthy wait-and-see strategy**, closely watching inflation trends and awaiting more clarity on Trump's trade and immigration policies.
- ❖ The **unemployment rate has stabilised at a low level in recent months**, while labor market conditions remain solid.
- ❖ The committee will **continue reducing its holdings of Treasury securities and agency debt and agency mortgage- backed securities.**
- ❖ Powell noted that the economy continues to expand at a solid pace, with consumer spending remaining resilient. However, **investment in equipment and housing has shown signs of slowing, particularly in the fourth quarter of 2024.**
- ❖ 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.**

### U.S. Inflation:

- ❖ The Fed's decision to keep rates steady reflects stubborn U.S. inflation, which remains close to 3% on an annual basis.
- ❖ **In December, inflation rose to 2.9%, higher than 2.7% in November.**
- ❖ Total Personal Consumption expenditure (PCE) rose 2.4% over the 12 months ending November; excluding volatile food and energy categories, core PCE prices rose to 2.8%.



Source: Trading Economics

### Fed Rate Hikes 2022-2024: Taming Inflation

The central bank trimmed rates three times starting in September 2024, which has pushed down the federal funds rate — the rate banks charge each other for short-term loans — by one percentage point.

FOMC Meeting Date	Rate Change (bps)	Interest Rate
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		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		
26-Jul-23	+25	5.25% to 5.50%
14-Jun-23	-	5.00% to 5.25%
03-May-23	+25	5.00% to 5.25%
22-Mar-23	+25	4.75% to 5.00%
01-Feb-23	+25	4.50% to 4.75%
14-Dec-22	+50	4.25% to 4.50%
02-Nov-22	+75	3.75% to 4.00%
21-Sep-22	+75	3.00% to 3.25%
27-Jul-22	+75	2.25% to 2.50%
16-Jun-22	+75	1.50% to 1.75%
05-May-22	+50	0.75% to 1.00%
17-Mar-22	+25	0.25% to 0.50%

Source: US Federal Reserve Website

### To Conclude:

Economic activities have continued to expand at a faster pace. The GDP rose at an annual rate of 3.1% in the third quarter, compared to 3.0% in the second quarter. The unemployment rate stands at 4.1% in Dec' 2024, down from 4.20% in Nov' 2024. The Fed's actions are guided by dual mandate to promote price stability and maximum employment. 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.

**The Fed has adopted a cautious approach, factoring in concerns over trade wars and new immigration policies and their potential impact on inflation. While US 10-year bond yields are rising, India is seeing significant FII outflows, causing a correction in Indian equities. This market dip has created an opportunity for Indian investors to reassess their portfolios and capitalize on the attractive valuations now available.**

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