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Fed still projecting three cuts

The Federal Reserve left rates unchanged at 5.25-5.5% in its Federal Open Market Committee (FOMC) meeting last week. That was expected, so the real story came with the updated dot plot in its Summary of Economic Projection (SEP). It indicated policymakers still expect to cut rates three times this year, despite the recent bump in inflation. That wasn't surprising, per se, but it is intriguing that the Fed might be comfortable with easing even if inflation is stubborn. After all, Chair Jerome Powell has said a million times he doesn't want to repeat the policy mistake of the 1970s/80s when the Fed eased too early and inflation shot back up. To that point, policymakers collectively increased their rate projections for 2025, 2026 and the long run, the first time the latter has shifted since 2019.

To us, the SEP suggests the first cut will come either at the June or July FOMC meetings, not in May, especially as Powell hinted the Fed might slow the pace of the monthly reduction of its balance sheet. It is unlikely the Fed would change both in the same meeting. But there's plenty of data between here and there, so anything can happen.

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