

## Fed holds rates steady, maintains median projection for one cut later this year

### Key takeaways

- The U.S. Federal Reserve (Fed) kept its policy interest rate at a range of 3.50%-3.75% as it navigates heightened inflation uncertainty and a slow labor market.
- The median Fed official forecast projects one rate cut in 2026 despite increasing inflation expectations.
- Markets price in the likelihood that the Fed cuts once in 2026, but they shifted in recent weeks to potential hikes from other major central banks to stem inflation.

The Federal Reserve (Fed) held its target federal funds interest rate in the 3.50%-3.75% range at the March meeting, a widely anticipated outcome. Nearly all Fed voting members supported the decision, with one favoring a 0.25% rate cut. The Fed kept policy unchanged, balancing expectations for a pickup in inflation due to higher energy prices with a soft but stable labor market, while noting elevated uncertainty. Chairman Jerome Powell said, “We have an energy shock of some size and duration. We don’t know what that will be.” On the impact of higher oil prices, Powell said, “The economic effects could be smaller or bigger. We just don’t know.”

The Fed made a slight change to its statement, recognizing the uncertain implications of developments in the Middle East for the U.S. economy. The statement also described unemployment as “little changed in recent months.”

Powell, whose term as Chair expires in May, emphasized that future policy decisions will be data dependent. Bond yields reflect investor expectations the Fed will hold rates steady through the rest of Powell’s term. Investors expect the Fed will likely cut once in the second half of 2026 after nominee Kevin Warsh is expected to take over as Fed Chair. Warsh expressed support for rate cuts in 2025 but has not commented on Fed policy since oil prices increased.

The Fed’s Summary of Economic Projections (SEP) showed some impact of higher oil prices on officials’ forecasts. Officials increased their median projection for headline personal consumption expenditure (PCE) inflation, which directly incorporates energy costs, from 2.4% to 2.7% for 2026. Core PCE (excludes volatile food and energy costs), which Fed members have emphasized as a better indicator of underlying inflation pressures, increased from 2.5% to 2.7%, reflecting some passthrough of higher energy costs into goods and service prices. Despite the uncertain impacts of higher energy costs, officials increased their 2026 economic growth projection from 2.3% to 2.4%. The Fed maintained its 4.4% unemployment projection for this year while cutting interest rates 0.25% in 2026 and 0.25% in 2027. Although officials maintain a wide range of views on policy depending on the evolution of growth, inflation, and the labor market, the median policy rate projection aligns with recent market prices.

Earlier tightening helped mitigate inflation over the past four years, but higher oil costs risk elevating prices. Aggressive rate hikes from early 2022 to mid-2023 helped temper Core PCE inflation from a peak above 5.5% year-over-year in 2022 to 3.0% in January 2026. The Fed shifted as inflation slowed, cutting its target interest rate by 1.75% through 2024 and 2025. The Fed held rates steady at its January and March meetings, with Powell emphasizing that data would guide the Fed’s next steps. Oil prices have increased more than 40% in March, entrenching the Fed in wait-and-see mode as it balances its mandates of maximum employment while ensuring price stability.

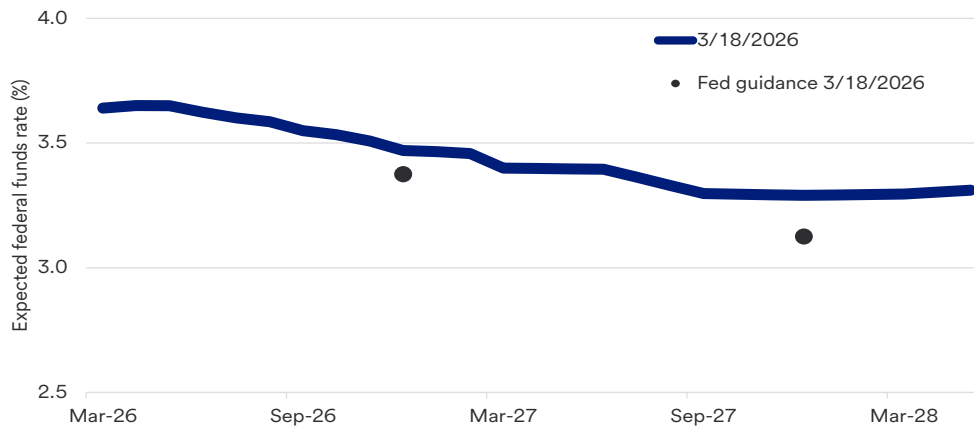
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On the balance sheet, the Fed stopped shrinking its bond holdings in December. Those holdings stand near \$6.6 trillion today after peaking at \$8.5 trillion in 2022. The Fed began buying short-term Treasury bills in December 2025 to ensure ample banking system reserves and keep short-term interest rates near its intended policy rate. By expanding the balance via announced Treasury bill purchases, the Fed improves market liquidity because investors do not have to absorb incremental supply. Liquidity — the money readily available to purchase goods, services and financial assets — can also cushion markets against unforeseen financial market shocks. Currently, liquidity measures remain constructive.

**Market pricing of the expected path of the federal funds rate**

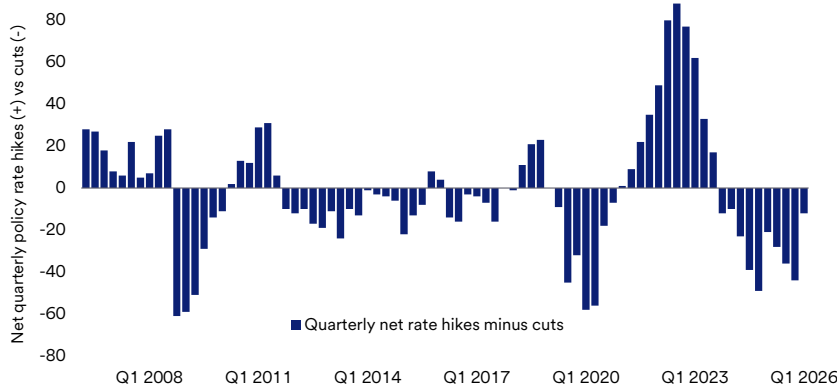


Sources: U.S. Bank Asset Management Group Research, Federal Reserve, Bloomberg; 3/18/2026.

Two-year Treasury yields rose 0.06% after the meeting as investors digested the risk that inflation may cause the Fed to put policy changes on hold. The uncertain outlook weighed on large stocks, represented by the S&P 500, which fell 0.6% after the meeting. Small stocks, represented by the Russell 2000 Index, can be more sensitive to interest rates and fell 1.1%.

Globally, central banks eased policy in 2025. The European Central Bank, Bank of England and Bank of Canada each cut rates by 1.00%, and the Reserve Bank of Australia cut by 0.75%. Bond yields now price the possibility that foreign central banks may hike in 2026 to counter inflationary pressures from rising energy costs.

**Global net central bank rate hikes (net hikes minus cuts), quarterly**



Sources: U.S. Bank Asset Management Group Research, FactSet; 4/1/2006-3/18/2026.

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