Situation analysis

January 28, 2026

Fed holds interest rates steady after three cuts in 2025

Key takeaways

- The U.S. Federal Reserve (Fed) kept its policy interest rate at a range of 3.50%-3.75%, signaling patience as inflation stays elevated and labor markets soften but stabilize.
- Markets still price in roughly two quarter-point cuts later in 2026, but Chairman Jerome Powell reiterated that each decision will depend on incoming data.
- With Treasury bill purchases underway, liquidity remains supportive, reinforcing a constructive backdrop for diversified portfolios.

The Federal Reserve held its target federal funds interest rate in the 3.50%-3.75% range at the January meeting, matching investor expectations. Most Fed voting members supported the decision, while two dissented and preferred a 0.25% rate cut. The Fed kept policy unchanged to balance still-elevated inflation, a soft but stable labor market and the cumulative effects of rate reductions delivered across the prior three meetings. Chairman Powell summarized the backdrop by noting, “The risks to both (inflation and labor markets) are a little less (than they were).” Bond yields, shaped by investor expectations and capital flows, continue to imply a high likelihood of two 0.25% rate cuts later in 2026.

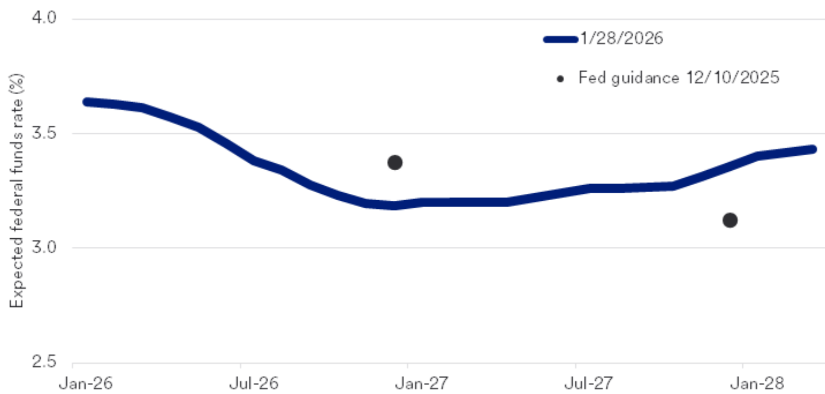
With his term expiring in May 2026, Powell emphasized that the Fed will let the data guide next steps, reinforcing the message that the policy path forward remains conditional on how the economy evolves. He pointed to signs of labor market stabilization and argued that the economic activity outlook has “clearly improved since the last meeting.” On tariffs, he said the expectation is that their effects will peak and begin to fade, an outcome that would support the case for easier policy.

The Fed’s December Summary of Economic Projections (SEP) also leaned toward a constructive direction for 2026, with improved growth projections alongside lower inflation expectations. The Fed’s median policy rate projection aligns with market pricing for cuts this year. However, the range of views remains wide and continues to hinge on how growth, inflation and labor markets progress.

Earlier tightening did much of the heavy lifting in the inflation fight. Aggressive rate hikes from early 2022 to mid-2023 helped pull the core Personal Consumption Expenditure Index, the Fed’s preferred inflation measure, down from a peak above 5.5% year-over-year in 2022 to 2.8% by August. More recently, the Fed shifted to easing, cutting rates 1% in 2024’s second half and 0.75% over the last three meetings in 2025.

On the balance sheet, the Fed stopped shrinking its bond holdings in December. Those holdings stand near $6.2 trillion today after peaking at $8.5 trillion in 2022. Through November 2025, the Fed allowed some bonds to mature without replacement each month; it has now begun buying short-term Treasury bills to ensure ample banking system reserves and keep short-term interest rates near their 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, and liquidity measures remain constructive.

Market pricing of the expected path of the federal funds rate

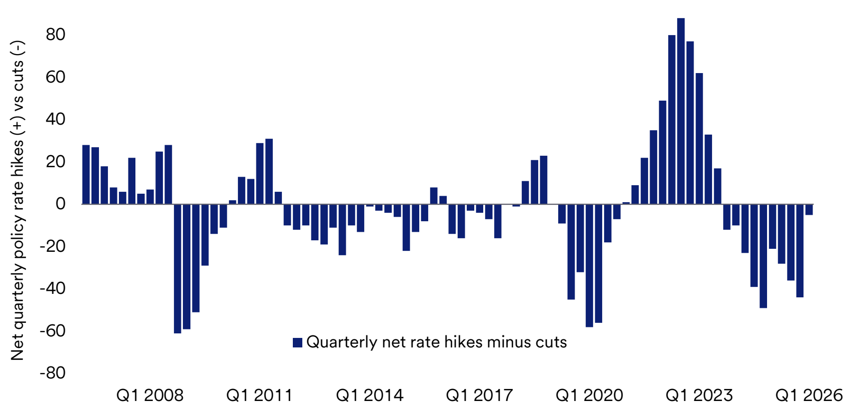


Sources: U.S. Bank Asset Management Group Research, Federal Reserve, Bloomberg, 1/28/2026.

Markets reacted calmly to the decision. Large stocks, represented by the S&P 500, fell 0.01%. Small stocks, which can be more sensitive to interest rates, fell 0.49%, represented by the Russell 2000 Index. Ten-year Treasury bond yields were unchanged at 4.25%, as were two-year Treasury yields at 3.58%.

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%.

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



Sources: U.S. Bank Asset Management Group Research, FactSet, 4/1/2006-1/28/2026.

We maintain a constructive outlook for diversified portfolios and see opportunities in growth-oriented allocations including globally diversified stocks, global infrastructure and structured credit. Consumer spending and corporate earnings growth remain resilient, aided by lower policy interest rates and fiscal support in the form of lower corporate and individual taxes. Tariff-related prices have remained modest, less than many economists anticipated, and labor markets have stabilized after softening in the second half of 2025. We will keep you informed as new data arrives and as we update our assessment of market conditions.

As always, we value your trust and are here to help in any way we can. Please do not hesitate to let us know if we can help address your unique financial situation or be of assistance.

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Past performance is no guarantee of future results. All performance data, while obtained from sources deemed to be reliable, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for direct investment. The **S&P 500 Index** consists of 500 widely traded stocks that are considered to represent the performance of the U.S. stock market in general. The **Russell 2000 Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index and is representative of the U.S. small capitalization securities market. The **Personal Consumption Expenditures (PCE) Price Index** is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. It is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

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