SITUATION ANALYSIS

April 29, 2026

Fed holds interest rates steady amid energy shock, with disagreements on messaging

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 Fed remains hesitant to provide clear forward guidance due to inflation uncertainty, with some members dissenting with messaging used in their statement.
- Markets price in waning odds of rate cuts later in 2026, a stark contrast to the one to two rate cuts expected earlier this year before energy prices rose.

The Federal Reserve held its target federal funds interest rate in the 3.50%-3.75% range at the April meeting, a widely anticipated outcome. Nearly all Fed voting members supported the decision, with one voter favoring a 0.25% rate cut. Three other members dissented to the easing bias in the statement rather than the rate policy itself. Elevated inflation stemming from higher energy prices have muddied the outlook for policy rates, in contrast to the gradually decelerating inflation prior to the conflict in Iran.

Today represented Jerome Powell's final press conference as Chairman, with Kevin Warsh on track to replace him after the Senate Banking Committee advanced his nomination to the Senate floor today. Powell stated during the press conference that he will remain on the Board of Governors until the Justice Department's investigation into him is "well and truly over," preventing President Trump from nominating a replacement on the Board until he steps down. The investigation into Powell centered on his testimony to Congress regarding cost overruns for renovating the Fed's headquarters. Warsh favors reforms, such as a smaller balance sheet and less forward guidance, viewing the Fed's activities in recent years as deviating from its core mandates of maximum employment and stable prices. He has also highlighted preference for lower interest rates in the current environment.

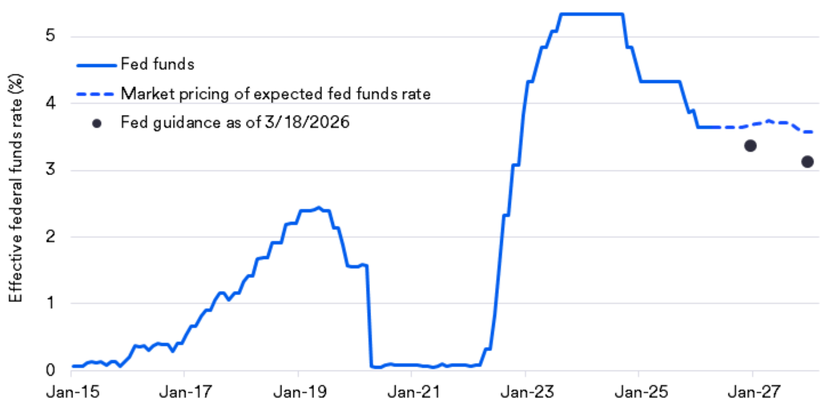
The Fed made modest edits to its official statement today, which noted, "Developments in the Middle East are contributing to a high level of uncertainty about the economic outlook. The Committee is attentive to the risks to both sides of its dual mandate." Powell highlighted during the press conference that "no one at the FOMC (Federal Open Market Committee) was saying we need to hike now" and highlighted a growing economy and low unemployment rate despite challenges from higher energy prices and the spillover risk to broader inflation. The Fed's March Summary of Economic Projections (SEP) from six weeks ago showed some impact of higher oil prices on officials' forecasts. Median inflation projections ticked slightly higher, but growth expectations rose as well, reflecting strong consumer and corporate spending, and stable but slow hiring.

Earlier tightening helped mitigate inflation over the past four years, but higher oil costs are elevating near-term prices. Aggressive rate hikes from early 2022 to mid-2023 helped temper the Core Personal Consumption Expenditures (PCE) Price Index from a peak above 5.5% year-over-year in 2022 to 3.0% in February 2026. The Fed shifted as inflation slowed, cutting its target interest rate by 1.75% through 2024 and 2025. Oil prices have increased more than 60% since the end of February, entrenching the Fed in a wait-and-see mode as it balances its mandates of maximum employment and price stability.

Federal Reserve balance sheet and market liquidity

On the balance sheet, the Fed stopped shrinking its bond holdings in December. Those holdings stand near $6.6 trillion today after peaking near $9 trillion in 2022. The Fed began buying short-term Treasury bills in December 2025 to ensure ample banking system reserves and to keep short-term interest rates near their intended policy rate. The Fed recently announced it would reduce regular purchases. Expanding the balance sheet by purchasing Treasury bills results in improved market liquidity by absorbing a portion of 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

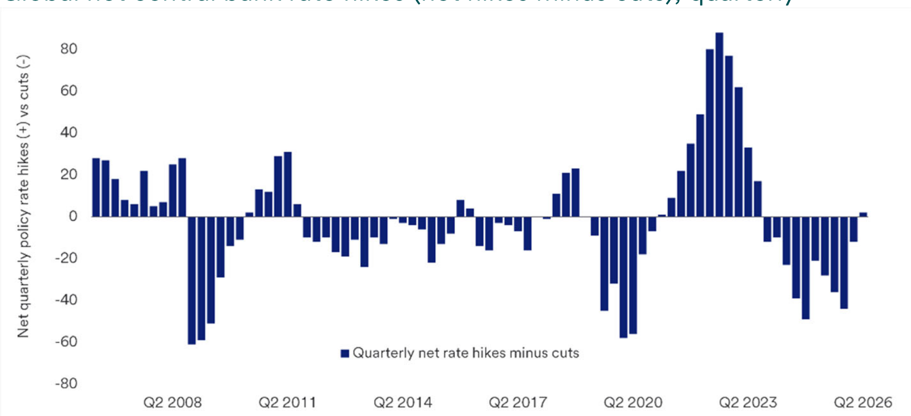


Sources: U.S. Bank Asset Management Group Research, Federal Reserve, Bloomberg; 1/1/2015-4/29/2026.

Treasury yields rose alongside other global sovereign bond yields today. Two-year Treasury yields rose 0.10% and 10-year Treasury yields rose 0.08% as investors digested the risk that inflation may cause the Fed to refrain from rate cuts. Large stocks, represented by the S&P 500, were flat, while small stocks, which can be more sensitive to interest rates, fell 0.6%, represented by the Russell 2000.

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 in 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; 4/1/2006-4/29/2026.

Maintaining a constructive outlook amid market uncertainty

We maintain a constructive outlook for diversified portfolios and see opportunities in growth-oriented allocations including globally diversified stocks, global infrastructure and structured credit. While higher energy costs risk increasing inflation and dampening economic activity, consumer spending and corporate earnings growth remain resilient with fiscal support in the form of lower corporate and individual taxes. Diversified portfolios spanning a variety of allocations can help limit the impact of price swings on individual assets. 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.

This information represents the opinion of U.S. Bank. The views are subject to change at any time based on market or other conditions and are current as of the date indicated on the materials. This is not intended to be a forecast of future events or guarantee of future results. It is not intended to provide specific advice or to be construed as an offering of securities or recommendation to invest. Not for use as a primary basis of investment decisions. Not to be construed to meet the needs of any particular investor. Not a representation or solicitation or an offer to sell/buy any security. Investors should consult with their investment professional for advice concerning their particular situation. The factual information provided has been obtained from sources believed to be reliable but is not guaranteed as to accuracy or completeness. U.S. Bank is not affiliated or associated with any organizations mentioned.

Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio. Diversification and asset allocation do not guarantee returns or protect against losses.

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.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. **International investing** involves special risks, including foreign taxation, currency risks, risks associated with possible differences in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in **fixed income securities** are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Investment in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in **high yield bonds** offer the potential for high current income and attractive total return but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments. The **municipal bond market** is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issues of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with investments in **real assets** such as commodities and real estate securities. For commodities, risks may include market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults).

U.S. Bank and its representatives do not provide tax or legal advice. Your tax and financial situation is unique. You should consult your tax and/or legal advisor for advice and information concerning your particular situation.