

Federal Reserve holds interest rates steady; investors still anticipate rate cuts this year

Key takeaways

- The U.S. Federal Reserve (Fed) maintained its policy interest rate range of 4.25%-4.50% as expected, intending to bring inflation closer to its 2% target.
- Lingering tariff uncertainty and inflationary pressure remain primary barriers to rate cuts to date, according to Fed Chairman Jerome Powell.
- Investors slightly reduced rate cut odds after Powell remained steadfast in his preference to await additional data before lowering interest rates.

The Federal Reserve held its target federal funds interest rate in a range of 4.25%-4.50% following its regularly scheduled two-day meeting, a widely anticipated outcome. Two of the 11 Fed voters dissented for the first time since September 2020, with both favoring a 0.25% rate cut. However, during Chairman Jerome Powell's press conference, he refrained from indicating a likely September rate cut and reiterated a wait-and-see approach. This prompted investors to slightly reduce odds of rate cuts by year-end, with expectations now centering on around 1.5 cuts across the remaining three meetings in 2025. The updated official statement noted, "uncertainty about the economic outlook remains elevated," while acknowledging moderating (but still growing) economic activity in the first half of the year. The Fed held rates steady so far this year due primarily to tariff uncertainty and above-target inflation, with economic activity continuing to show modest expansion, and previously cut rates by a total of 1% in 2024's second half.

Consensus economist and Fed projections downgraded the 2025 economic growth outlook since the Trump Administration's April 2 "Liberation Day" tariff announcement, while increasing inflation expectations. However, Powell repeated prior comments that the Fed remains well-positioned to respond to economic developments before changing policy rates and acknowledged current policy rates remain "modestly restrictive."

Powell highlighted that while he does "not see weakening in the labor market," there is some slowing in job creation and downside risks to the labor market. However, Powell's resistance to questions about whether rate cuts were imminent and what information he needed to see prior to advocating for rate cuts was a recurring press conference theme. Among other points, he said surveys indicate businesses have absorbed a high proportion of recent tariff costs but are likely to begin passing those costs through to consumers. Christopher Waller, one of the members that dissented today in favor of lower rates, previously made his case in a July 17 interview, stating, "With inflation near target and upside risks to inflation limited, we should not wait until the labor market deteriorates before we cut the policy rate." The Fed's next regularly scheduled meeting concludes September 17 following two additional labor market and two additional inflation reports, providing significant additional information to drive its decision.

Aggressive policy tightening in the form of rate hikes between early 2022 to mid-2023 helped drive the Core Personal Consumption Expenditures Price Index (Core PCE), the Fed's preferred inflation gauge, from a peak above 5.5% year-over-year in 2022 to 2.7% in May. The Fed targets inflation near 2%.

The Fed slowed the monthly reduction in its \$6.3 trillion bond holdings earlier this year. Its bond holdings peaked at \$8.5 trillion in 2022 before the Fed allowed bonds to mature without replacement up to \$60 billion per month, then shrank the pace of bond "runoff" in April to \$40 billion per month. Slower or no balance sheet runoff improves market liquidity

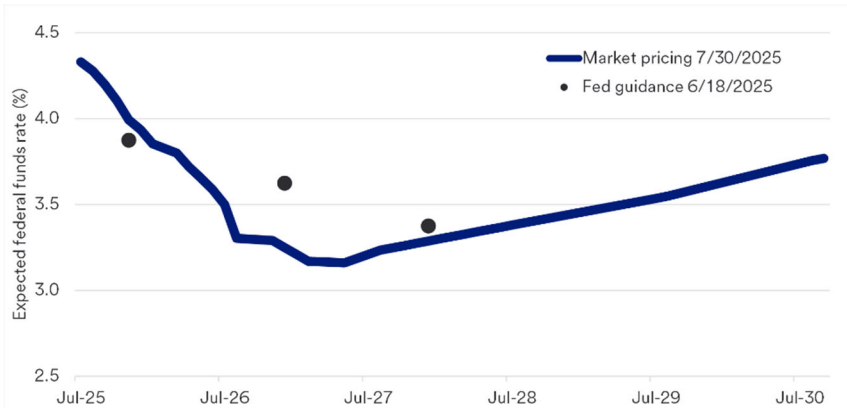
Investment products and services are:

NOT A DEPOSIT • NOT FDIC INSURED • MAY LOSE VALUE • NOT BANK GUARANTEED • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

Important disclosures provided on last page

relative to faster runoff. Liquidity refers to the amount of money readily available to buy goods, services and financial assets in an economy. Strong liquidity can also provide cushion against unforeseen financial market shocks, and liquidity measures remain constructive for now.

Market pricing of the expected path of the federal funds rate

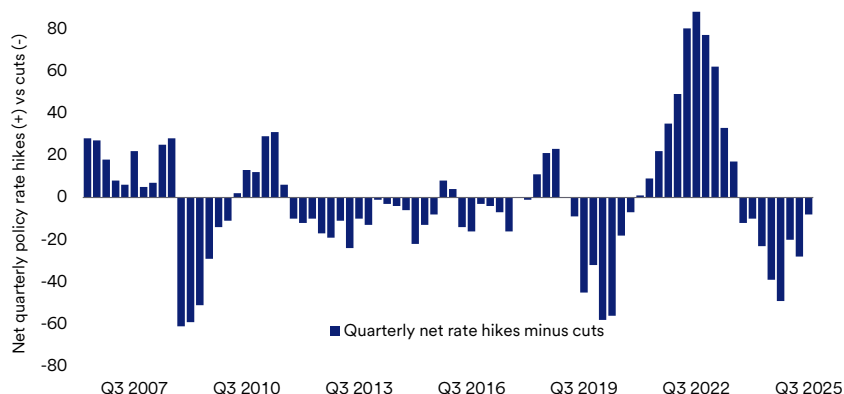


Source: U.S. Bank Asset Management Group Research, Federal Reserve, Bloomberg; 7/30/2025

Stocks fell during the press conference as Powell reiterated his wait-and-see approach. Large stocks, represented by the S&P 500, fell 0.1% while small stocks represented by the Russell 2000 Index fell 0.5%. Treasury bond yields rose. Ten-year Treasury bond yields increased 0.05% to 4.37% while two-year Treasury yields increased 0.07% to 3.94%.

Monetary policy, defined as central bank target interest rates, remains restrictive in most geographies around the globe. However, policy is easier overall, with central bank rate cuts exceeding hikes starting in the fourth quarter of 2023 and continuing through the current quarter. The Fed remains an outlier; several other major central banks have cut rates multiple times this year, including the Bank of England, European Central Bank, Bank of Canada, and the Reserve Bank of Australia.

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



Source: U.S. Bank Asset Management Group Research, FactSet; 4/1/2006-7/30/2025

We retain a constructive outlook for diversified portfolios, acknowledging the contrast between solid recent economic data versus potential negative impacts from tariffs. We see opportunities leaning into globally diversified stocks and assets somewhat more sensitive to inflation such as global infrastructure and Treasury inflation-protected securities. Consumer spending and corporate earnings growth remain resilient. Some early signs have emerged that tariff-related price increases may be in the pipeline, despite not having a significant impact on headline inflation readings yet. We will keep you informed of our views as new data becomes available 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 **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. 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.

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** is 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.

