



While the Fed is in no rush to cut interest rates further in the near term, CIO believes the central bank will find itself in a place to do so later in the year as inflation moderates despite selective tariffs. (UBS)

Why inflation should ease further over the course of the year

20 February 2025, 1:47 pm EST, written by US Editorial Team UBS Editorial Team

US President Donald Trump's proposed policies raised concerns at the Federal Reserve about higher inflation, with businesses looking to pass on the cost of import tariffs to consumers, according to the minutes from the central bank's meeting at the end of last month. Released Wednesday, it also noted that policymakers "generally pointed to the upside risks to the inflation outlook," rather than risks to the job market.

Trump has in recent days reiterated plans to levy tariffs on a range of products including cars, semiconductors, pharmaceuticals, and lumber "over the next month or sooner," with 2 April a key date to watch after his cabinet is due to devise specific import taxes. This followed his order to impose 25% tariffs on steel, aluminum, and a number of downstream metal products, as well as the temporarily delayed tariffs on Canadian and Mexican goods.

However, we continue to believe that eventual US tariffs are likely targeted measures rather than blanket levies, and the broad disinflation trend in the US should continue to advance, allowing the Fed to resume cutting interest rates.

Maintaining healthy growth and bringing down inflation are high on Trump's agenda. Given the high political costs of elevated inflation, we continue to believe that the Trump administration will not want to jeopardize US economic growth or risk higher inflation through broad and sustained tariffs. A highly aggressive trade policy could lead markets to sell off amid lower growth forecasts and higher inflation expectations. With the President often looking to financial markets as an indication of his performance, we think certain tariff threats are utilized as a negotiation approach to get the US's trading partners to lower import taxes on American goods or reach other agreements.

Broad-based reciprocal tariffs can be procedurally challenging. It's important to note that members of Trump's cabinet are not fully in place yet. Howard Lutnick was only confirmed as Commerce secretary by the Senate earlier this week, while the vote for Trump's trade representative pick Jamieson Greer has yet to be held. We think the White House is likely to come out with a set of tariffs that are more carefully deliberated once Trump's economic team is in full force. In addition, some proposed tariffs would be procedurally complicated to implement, with additional administrative steps that may require extra workforce at the US Customs and Border Protection agency.

Inflation should ease further over the course of the year. January's consumer inflation rose more than expected, but shelter inflation has continued to moderate. With rising housing supply and slower rent growth in real-time data, we expect overall inflation to trend lower in the months ahead. Additionally, Fed officials noted the difficulty in fully removing seasonal distortions from inflation data at the start of the year, according to the minutes, and that the current monetary policy stance remains restrictive.

So, while the Fed is in no rush to cut interest rates further in the near term, we think the central bank will find itself in a place to do so later in the year as inflation moderates over time despite selective tariffs. We favor US equities and high-quality fixed income against such a backdrop, including five-year Treasuries and investment grade corporate bonds.

Original report: [Fed easing still in store despite inflation concerns, 20 February 2025.](#)

Disclaimer

This document is prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland), its subsidiaries or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. In the USA, UBS Financial Services Inc. is a subsidiary of UBS AG and a member of FINRA/SIPC. Additional Disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.

This document and the information contained herein are provided solely for your information and UBS marketing purposes. Nothing in this document constitutes investment research, investment advice, a sales prospectus, or an offer or solicitation to engage in any investment activities. This document is not a recommendation to buy or sell any security, investment instrument, or product, and does not recommend any specific investment program or service.

Information contained in this document has not been tailored to the specific investment objectives, personal and financial circumstances, or particular needs of any individual client. Certain investments referred to in this document may not be suitable or appropriate for all investors. In addition, certain services and products referred to in the document may be subject to legal restrictions and/or license or permission requirements and cannot therefore be offered worldwide on an unrestricted basis. No offer of any product will be made in any jurisdiction in which the offer, solicitation, or sale is not permitted, or to any person to whom it is unlawful to make such offer, solicitation, or sale.

Although all information and opinions expressed in this document were obtained in good faith from sources believed to be reliable, no representation or warranty, express or implied, is made as to the document's accuracy, sufficiency, completeness or reliability. All information and opinions expressed in this document are subject to change without notice and may differ from opinions expressed by other business areas or divisions of UBS Group. UBS is under no obligation to update or keep current the information contained herein. **The views and opinions expressed in this material by third parties are not those of UBS.** Accordingly, UBS does not accept any liability over the content shared by third parties or any claims, losses or damages arising from the use or reliance of all or any part thereof.

All pictures or images ("images") herein are for illustrative, informative or documentary purposes only and may depict objects or elements which are protected by third party copyright, trademarks and other intellectual property rights. Unless expressly stated, no relationship, association, sponsorship or endorsement is suggested or implied between UBS and these third parties.

Any charts and scenarios contained in the document are for illustrative purposes only. Some charts and/or performance figures may not be based on complete 12-month periods which may reduce their comparability and significance. Historical performance is no guarantee for, and is not an indication of future performance.

Nothing in this document constitutes legal or tax advice. UBS and its employees do not provide legal or tax advice. This document may not be redistributed or reproduced in whole or in part without the prior written permission of UBS. To the extent permitted by the law, neither UBS, nor any of its directors, officers, employees or agents accepts or assumes any liability, responsibility or duty of care for any consequences, including any loss or damage, of you or anyone else acting, or refraining to act, in reliance on the information contained in this document or for any decision based on it.

Additional Disclaimer relevant to Credit Suisse Wealth Management: Except as otherwise specified herein and/or depending on the local entity from which you are receiving this document, this document is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). Your personal data will be processed

in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website <https://www.credit-suisse.com>. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Please visit <https://www.ubs.com/global/en/wealth-management/insights/chief-investment-office/marketing-material-disclaimer.html> to read the full legal disclaimer applicable to this document.

© UBS 2025. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.