



(UBS)

Fed continues to exercise caution on rate cuts amid inflation risks

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Minutes from the Federal Reserve's January meeting indicate that officials remain hesitant to cut rates without further progress on inflation.

The Fed pointed to risks from trade policy changes, immigration restrictions, and geopolitical developments. Officials noted that the current stance is less restrictive after last year's three rate cuts, giving them time to assess conditions further.

A key concern is the inflationary impact of Trump's proposed tariffs, which could push firms to pass higher costs onto consumers. While some policymakers expressed optimism about these trade policy changes, most viewed them as an obstacle to bringing inflation back to the 2% target. Fed fund futures markets are pricing around 40 basis points (bps) of rate cuts in 2025.

But with inflation still above target and new tariffs posing potential upside risks to prices, the Fed is likely to remain patient before resuming rate cuts. However, shelter inflation should continue to moderate, bringing down inflation in the coming months. And while job growth has moderated, we believe it remains solid enough to support consumer spending without reigniting inflation concerns.

Additionally, maintaining growth while bringing down inflation remains a priority for Trump. Given the political risks of elevated inflation, the administration is unlikely to pursue sustained, aggressive tariffs that could rekindle price pressures, dampen growth, and unsettle markets.

Takeaway: Considering the Fed still views its monetary policy as restrictive—implying rate cuts will be needed at some point—we continue to expect two rate cuts in 2025. We favor US equities and high-quality fixed income, including five-year Treasuries and investment grade corporate bonds.

For more, see the [Weekly Global: Equity rally has further to go despite near-term uncertainty](#), 24 February, 2025.

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