(UBS)

Why the Fed is likely to hold rates steady until later this year

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The Federal Reserve is likely to hold rates steady in the near term amid geopolitical uncertainty and resilient US economic growth data, but we believe the central bank remains on track to ease further.

The Fed is likely to hold rates steady until later this year.

- February payrolls fell unexpectedly, but the most likely interpretation is that January overstated underlying strength, with February representing payback and some weather-linked drag rather than a trend shift.
- The Fed will likely want to monitor the ongoing US-Iran conflict and the potential impact of higher energy prices.

But we believe the Fed has scope to ease further this year.

- While the Fed is likely to stress vigilance over inflation risks, we do not expect the central bank to make knee-jerk policy moves, especially when its policy remains in the restrictive territory.
- A more dovish personnel profile at the Fed Board later this year should support rate cuts.
- The path for rate cuts should also become easier later this year as 2H GDP growth slows and goods inflation eases. We expect additional rate cuts to bring the policy rate range to 3.00-3.25%.

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Lower interest rates strengthen the case for investors to put excess cash to work.

- Investors should consider phasing excess liquidity into diversified portfolios.
- To achieve alternative sources of portfolio income to cash, we see medium-duration quality bonds and equity income strategies as appealing.

Did you know?

- Former Fed Governor Warsh's comments suggest a preference for a lower rate policy. He has said he favors looking beyond tariff inflation and thinks current productivity trends will be disinflationary. These comments are consistent with our view that the easing cycle is intact.
- Moreover, the seven permanent FOMC board voters, both current and prospective, tend to be moderately more dovish than the median forecast and generally view neutral as closer to 3% or below.
- Cash tends to underperform other assets over time: Stocks have outperformed cash in 86%of all 10-year periods and 100% of all 20-year periods since 1926.

Investment view

Lower interest rates reduce potential returns on cash. Investors can consider phasing excess liquidity into diversified portfolios. We also like quality bonds, which can offer a more durable source of income.

Original report: **What does Fed policy mean for investors?, 16 March 2026.**

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