



The Fed will view price rises resulting from higher tariffs as a one-off development, allowing it to ease policy starting in September as growth moderates. (UBS)

Fed remains patient as it waits for tariffs to hit

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The Federal Reserve refrained from easing policy again last week, marking its fourth consecutive meeting without a change, with policymakers waiting for greater clarity on the impact of higher US tariffs.

Chair Jerome Powell said it remained to be seen how much of the bill for higher trade levies would “fall on the shoulders of consumers.” With so much uncertainty, he said, the central bank wanted to avoid making “judgments prematurely.” Since recent data suggested the US economy remained resilient, the Fed was “well positioned to wait” before easing further.

But our view remains that rate cuts have been postponed rather than canceled. The Fed did scale back its forecasts for economic growth this year to 1.4%, from 1.7% in its last set of projections in March. It also expects unemployment to rise to 4.5% from 4.4%. While the Fed also sees higher inflation, these projections reinforce our view that US rates will start coming down later, most likely starting in September.

This was also reflected in the dot plot, which charts the rate forecasts of top officials. The median dot remained at 3.9%, compatible with two 25bps reductions by the end of the year, though more officials expected rates to remain on hold than before. We also see other signs of economic cooling in the US. Retail sales in May fell 0.9% month over month, the largest decrease in four months, suggesting caution in consumer spending.

Takeaway: Our base case is that the Fed will view price rises resulting from higher tariffs as a one-off development, allowing them to ease policy starting in September as growth moderates. But with a recession unlikely, in our view, greater certainty on tariffs, along with Fed cuts, should support stocks. We expect the S&P 500 to reach 6,400 by next June versus 6,000 at present.

Original report: [Middle East conflict escalates with US attack on Iran, 23 June 2025.](#)

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