Analysis of Fed decision and press conference on 18.6.2025

Reto Cueni, PhD
Chief Economist

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As anticipated by both our CIO Research team and the broader market, the Federal Reserve maintained its key rate steady at 4.25-4.5%.

This seems appropriate when analysing the latest US economic data. Price pressure still looks elevated and could face significant upward pressure depending on the size and impact of the widely anticipated import tariff increases the US and its trading partner are currently negotiating. As the FED chair also emphasised several times during the press conference, labour markets are still solid and balanced. Consumption seems robust and consumer sentiment has been improving recently. Powell also noted that, while uncertainty around trade disputes has eased somewhat, ongoing tensions in the Middle East could still temporarily drive energy prices higher. However, Powell somewhat downplayed the potential fiscal impact of the upcoming "Big Beautiful Bill" as being not so relevant for the FOMC members' projection given the size of the US economy. He also called the current key rate level as "modestly restrictive" given the health of the US-economy.

Interestingly and more forward looking, in its statement, the FOMC did delete the sentence that it "... judges that the risks of higher unemployment and inflation have risen" – in other words, the FED sees the risks in these two areas as being similar to their assessment in May. No other meaningful changes have been made to the statement.

The most important sign of yesterday's FOMC decision, however, was made in the Summary of Economic Projects (SEP). In the March projections, the median expectation pointed to two rate cuts, though with a hawkish tilt, as four FOMC members anticipated no cuts for the year. This hawkish stance has since strengthened: seven members now expect no rate cuts in 2025, only two (down from four) foresee one cut, and just eight (compared to nine in March) anticipate two cuts (see picture below). This seems a remarkable shift among the more hawkish FOMC participants' assessment of the future key rate path – although the median number of the total FOMC key rate projections was not changed by this move (i.e. still is at a Federal Funds Rate of 3.9% for 2025).

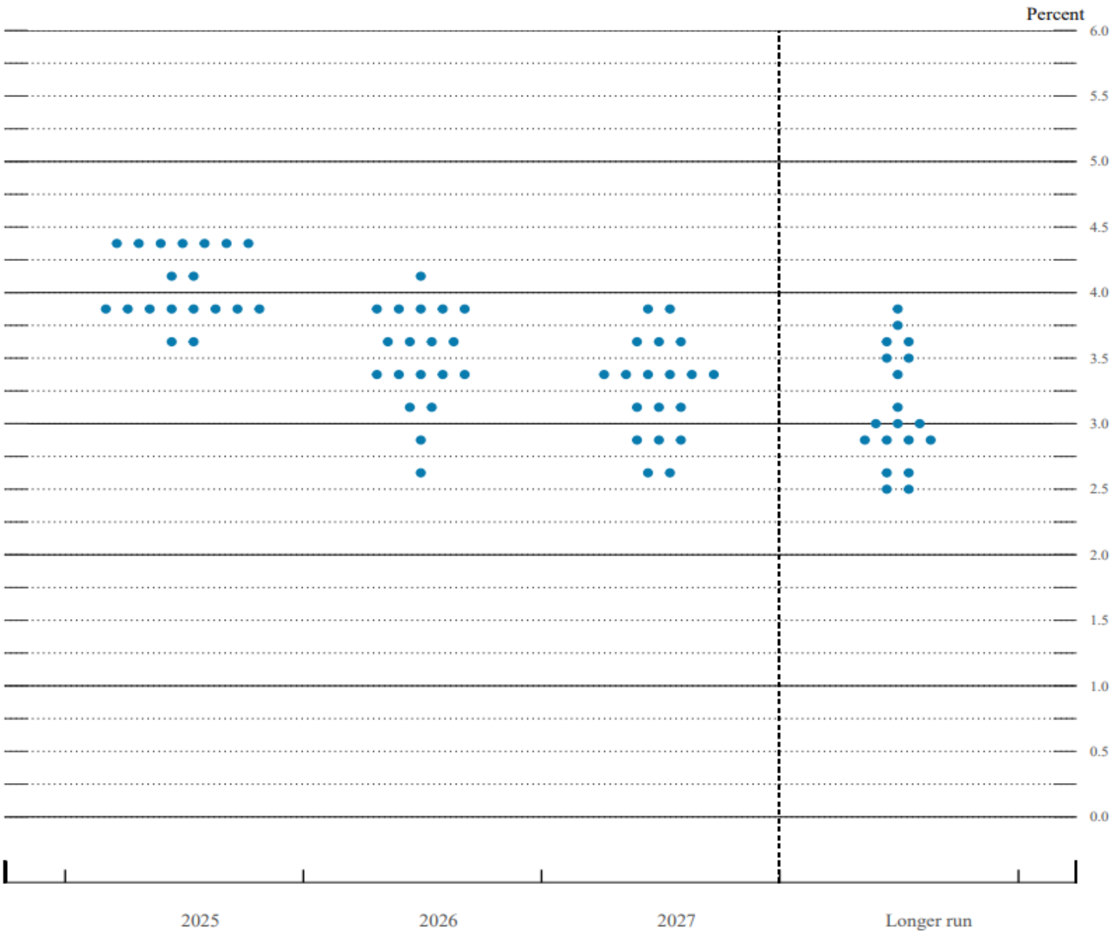
What also changed in the median numbers, was that the FOMC members now only anticipate one rate reduction in 2026 and one more in 2027, a revision from the two cuts previously forecasted for both 2026 and 2027. The projections on the GDP growth rate in 2025 and 2026 were revised somewhat lower and the PCE (inflation) outlook higher for 2025 – which seems inline with the moves in the FOMC's expectations for their future key rate path.

Investors were reassured to hear and read, even "between the lines," that the FOMC and the Fed appear to be operating independently and are trying hard to shield themselves from political pressure in the U.S. to lower interest rates.

Given that the market's expectations were matched by the FED decision, there were no substantial moves in asset prices after the FED decision at the time of writing, with US 10-year Treasuries posting a mildly higher yield and a somewhat stronger US-Dollar (DYX index) and the US market (SP500) edging modestly lower.

Our outlook: For the remainder of the year, we continue to anticipate at least one rate cut, with a reasonable probability of two cuts still on the table. However, following yesterday's meeting, we believe the risk of seeing no rate cut in 2025 has increased. It remains to be seen how the market will reassess its expectations—previously pricing in around two cuts over the next seven months, as reflected in the OIS curves prior to the Fed meeting.

FOMC participants' assessments of appropriate monetary policy: midpoint of target range or target level for the federal funds rate.



Source: Summary of Economic Projections, June 18, 2025

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Banque Syz SA

Quai des Bergues 1
CH-1201 Geneva
T. +41 58 799 10 00
syzgroup.com

Reto Cueni, PhD

Chief Economist
reto.cueni@syzgroup.com