Fed keeps rates unchanged, spotlight shifts to future power dynamics

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PRIVATE BANKING

- The Fed kept its policy rate at 3.50–3.75%, signalling a wait-and-see stance and no rush to cut further. We, along with the market, expect the next rate cut no earlier than June 2026, coinciding with the end of Powell's term, and a likely Trump-nominated successor.
- The FOMC made a more positive economic assessment this time and shifted risks to balance across its dual mandate, i.e. between unemployment and inflation. Two voters—Miran and Waller—preferred a 25 bp cut, while new regional bank voters aligned with the majority.
- Powell underscored Lisa Cook's Supreme Court case as "perhaps the most important legal case in the Fed's history," highlighting concerns about political interference. He declined to comment on political pressure or whether he'll remain on the Fed board after June.
- Whether Powell and Cook stay on the board could determine the 7-governor balance and a potential pro-Trump majority as their departure would allow new nominations for President Trump. The Fed's stance supports the USD, maintains the USD–CHF rate differential (~3.5%), reduces pressure on ECB and the SNB to follow suit and cut. According to Powell's statements, the FOMC continues to lean toward cutting interest rates as its next step.

The Federal Reserve held its policy rate at 3.50-3.75% as the vast majority of forecasters anticipated. The committee indicated that it remains in a wait and see mode and will not rush to cut interest rates further. This aligns with both market and our expectations that the next rate cut is unlikely before June 2026, when Jerome Powell's term as Fed Chair will have ended and a new Trump-appointed successor is likely to lead the US central bank.

Why did the Fed keep its key rate stable after 3 cuts in a row?

In its assessment of the economic growth outlook, the Fed became more positive, stating that economic growth is "expanding at a solid pace", the unemployment has "shown some signs of stabilisation" but also that inflation pressures remain "somewhat elevated". The FOMC statement also cancelled its prior view of a rising risk to employment and put risks on balancing "both sides of the mandate", implying a balanced risk outlook for inflation and the labour market. Hence, the committee concluded that there is no economic reason to lower interest rates. All four new voters from regional banks were in line with the majority, while two out of the 12 FOMC voting members dissented. Stephen Miran and Christopher Waller preferred a 25bp cut at that point, with Miran retreating from asking a full 50 bp cut versus the December meeting.

The most important legal case in the Fed's history

During the press conference, Powell emphasised that there is a growing risk of political interference at the Fed, and said he personally attended Lisa Cook's Supreme Court hearing because it was "perhaps the most important legal case in the Federal Reserve's history". Other than this statement, he refused to comment further on political pressure or whether he will remain as a Governor on the board after his term as Chairman ends in June.

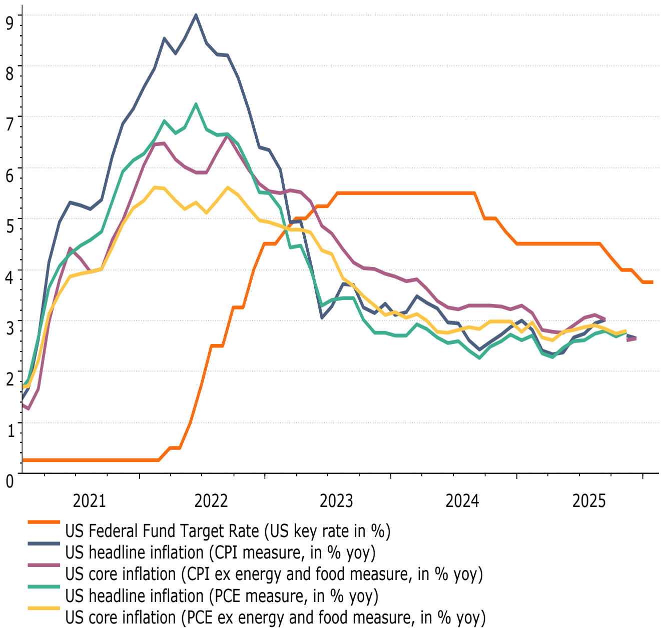
What is more important: the next Fed Chair or if Powell and Cook stay on the board?

While the market is obviously assessing the question of who will be the next Fed chair, we believe it is equally important to consider whether Jerome Powell will remain on the Federal Reserve Board, as he can do so until early 2028, and whether the US Supreme Court will protect Fed Governor Cook from dismissal by President Trump. These two points are key as only they could shift the power balance within the Board of Governors in favour of a pro-Trump majority. If Powell and Cook remain on the board, the balance of the seven governors would not move in President Trump's favour-. There would still be three Governors—Miran (or a new Chair), Waller, and Bowman—who are more inclined toward a dovish monetary stance and greater financial-sector deregulation. Four more traditional and balanced central bankers would offset this—Barr, Jefferson, Cook, and Powell—who are generally less supportive of deregulation. If Cook and or Powell would leave the board, President Trump could nominate one or two governors and shift the power balance. However, since the Fed's decision on key interest rates is made by the 12 members of the FOMC, which consists of the seven Fed governors and the five regional Fed voting members, the key interest rate decision cannot be fully influenced even with a majority of four or five voting members at the Board of Governors.

The Fed's wait and see mode is important for the US dollar, the Euro and the Swiss franc

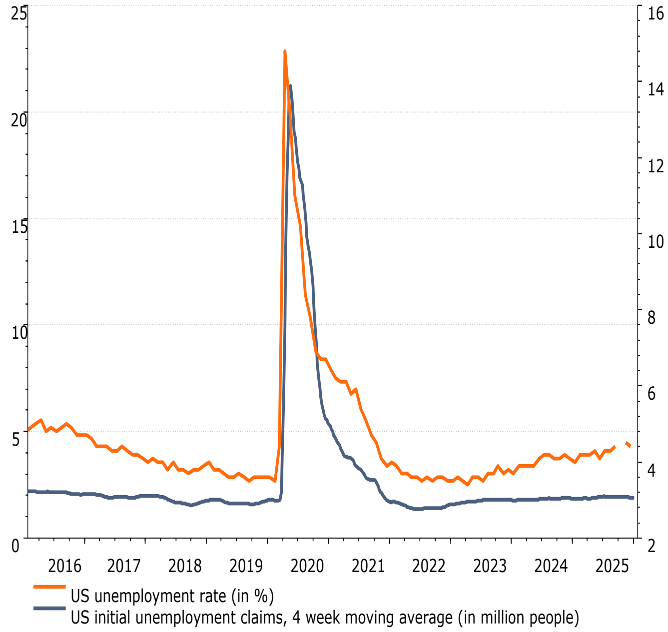
The future path of the US key rates is naturally important for the USD, and the current policy to remain stable supports the valuation of the dollar, which weakened tangibly over the last days. Likewise, the Fed's decision helps to keep the interest rate differential versus the Swiss franc, steadily slightly higher than 3.5%, making it more likely for the Swiss National Bank (SNB) to keep its policy rate at zero to avoid a step into negative territories. This is despite that for the Swiss economy and therefore for the SNB, the Euro area is of a much greater importance as it is by far the biggest trading partner for Switzerland. The ECB would also be less inclined to lower its key policy rate if the US Federal Reserve keeps its own rate unchanged. This would support the USD against the euro and would also reduce pressure on the SNB to lower its key rate. Nevertheless, Powell made clear during the press conference that the majority of the FOMC is more prone to a future rate cut than weighing any increase in policy rates, stating that "it isn't anybody's base case [at the FOMC] right now that the next move will be a rate hike", in line with all expectations of a next rate cut towards summer.

Chart 1: The Fed keeps the key rate unchanged as inflation remains above the 2% target and unemployment low at 4.4%



Source: LSEG Datastream, Syz

Chart 2: Unemployment rate declined back to 4.4% and initial unemployment claims monthly average also grinded lower in the last weeks



Source: LSEG Datastream, Syz

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