

Economic QuickView



FOMC Meeting: The Fed held rates unchanged while underscoring uncertainty

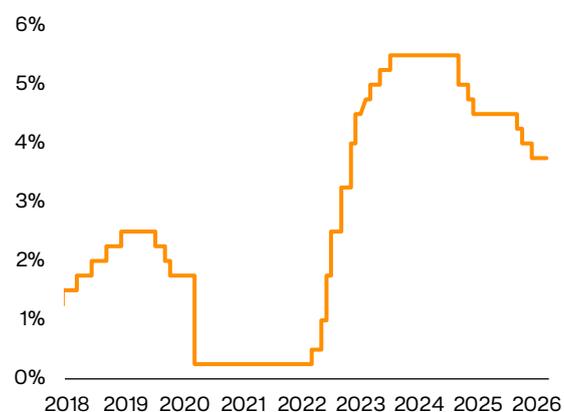
- The Fed voted 11:1 to hold the federal funds rate unchanged at 3.50-3.75% in March.
- Median forecast for the federal funds rate at the end of 2026 remained at 3.375%, implying one rate cut, though the updated dot plot revealed a wide range of views.
- Inflation outlook is increasingly clouded by the ongoing conflict in the Middle East.

The Fed voted 11:1 to keep interest rates unchanged. During its March meeting, the Federal Open Market Committee (FOMC) voted to hold the federal funds rate unchanged at a range of 3.50-3.75%, marking the second consecutive pause this year. Fed Governor Stephen Miran continued to be a dissenter as he preferred a 25-basis point (bp) cut. The decision was made against a backdrop of heightened uncertainty regarding the inflation outlook, driven by escalating geopolitical tensions in the Middle East and the ensuing surge in energy prices. Compared to January, the post-meeting statement featured two adjustments that reflected the Fed's difficult policy trade-off. First, the labour market assessment was downgraded from showing "signs of stabilization" to noting that the unemployment rate has been "little changed in recent months". Second, the statement added that "the implications of developments in the Middle East for the US economy are uncertain". These changes reflected the FOMC's efforts to balance the dynamics between a cooling labour market and a potential supply shock in energy markets.

March's dot plot revealed a wide range of views. According to March's Summary of Economic Projections (SEP), 7 FOMC members projected the federal funds rate to remain steady at 3.50-3.75% by the end of 2026, while 12 members anticipated rate cuts ranging from 25 to 100 basis points. For 2027, the disparity widened further, with projections ranging from a 25-basis-point rate hike to a total rate reduction of 125 basis points from current levels. Despite the wide dispersion of views, the median forecast of the federal funds rate at the end of 2026 and 2027 remained at 3.375% and 3.125%, respectively, implying one rate cut each year. Besides, the long run neutral rate projections were revised up to 3.125% from 3.0%, possibly reflecting increased uncertainty.

FOMC Projections (March 2026)	2026	2027	2028	Longer run
Real GDP growth (%)	2.4	2.3	2.1	2.0
[December 2025]	[2.3]	[2.0]	[1.9]	[1.8]
Unemployment rate (%)	4.4	4.3	4.2	4.2
[December 2025]	[4.4]	[4.2]	4.2	[4.2]
Core PCE inflation (%)	2.7	2.2	2.0	-
[December 2025]	[2.5]	[2.1]	2.0	-
Fed Funds rate (%)	3.4	3.1	3.1	3.1
[December 2025]	[3.4]	[3.1]	3.1	[3.0]

Source: The Fed

US Fed Funds Rate (Upper)


Source: Bloomberg

GDP growth and inflation forecasts were revised up. The median GDP growth projections for 2026, 2027, 2028, and the longer run were revised up to 2.4%, 2.3%, 2.1%, and 2.0% in March, from 2.3%, 2.0%, 1.9%, and 1.8% in December, respectively. Powell mentioned that these optimistic projections would be linked to "growing confidence" surrounding AI-related productivity gains. Similarly, the median projections for core PCE inflation were revised up for 2026 and 2027 to 2.7% and 2.2% from 2.5% and 2.1%, respectively. The conflict in the Middle East has driven up oil prices, implying higher upside risks to near-term inflation. Meanwhile, Powell mentioned that the pass-through effects of tariffs have pushed up prices on a one-time basis, which should subsequently dissipate, paving the way for a gradual moderation in goods inflation.

Powell signals heightened uncertainty during press conference. Powell emphasised that the Fed is facing notable tension between its two main goals, with upward risks to inflation and downward risks to employment. On one hand, inflation has been above target for around five years. On another hand, recent job gains have slowed. Notably, there is significant uncertainty regarding the impact of the war in the Middle East on the US economy, with Powell saying, "we just don't know" and "we're just going to have to wait and see". Additionally, Powell referred to the existing rate level as "in the high end of neutral" or "mildly restrictive", suggesting that there is room for the Fed to lower rates if inflation trends closer to 2% or if economic conditions deteriorate.

Powell to stay on the Fed board after his term as Chair ends. Powell stated that he would not leave the Fed board until the Department of Justice's investigation on his testimony on the new Fed building renovations are over. Additionally, the ongoing confirmation process of Kevin Warsh as the next Fed Chair could face delays due to a blockade by a Republican senator, further complicating the interest rate outlook.

Rate cut path heavily dependent on the length and outcome of the Middle East conflict. After the meeting, markets have priced in less than one rate cut in 2026, along with significant selloffs in risk assets. While we maintain our baseline forecast for two rate cuts for 2026, if the conflict prolongs with a sustained rise in inflation, then we could see a scenario with only one rate cut in 2026. Though, the timing will depend on when the conflict ends and how soon oil prices normalise, as well as further developments in the labour market.

Disclaimer

This material is prepared by The Bank of East Asia, Limited ("BEA") for customers' reference only. The content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are expressed solely as general market commentary, and do not constitute an offer of securities or investment, nor a solicitation, suggestion, investment advice, or guaranteed return in respect of such an offer. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This material has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this material, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down, and may become valueless. Past performance is not indicative of future performance. The investments mentioned in this material may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this material. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

This material is the property of BEA and is protected by relevant intellectual property laws. Without the prior written consent of BEA, the information herein is not allowed to be copied, transferred, sold, distributed, published, broadcast, circulated, modified, or developed commercially, in either electronic or printed forms, nor through any media platforms that exist now or are developed later.

For more information, please visit our webpage at <https://www.hkbea.com/html/en/bea-about-bea-economic-research.html>. For any enquiries, please contact the Economic Research Department of BEA (email: lerd@hkbea.com/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).