

Preview: FOMC Rate Decision and SEPs due Wednesday 18th March at 18:00GMT/14:00EDT

- Fed to keep rates on hold
- Eyes on the vote split and SEPs
- Participants will watch for how the Fed expects the war to affect the economy

SUMMARY: The FOMC is expected to leave rates unchanged at 3.50-3.75% in March. Money markets do not expect a rate cut before Q4 2026, although pricing may have been influenced by a rise in short-term yields following the recent energy price surge linked to the Middle East conflict. Markets now fully price in one rate cut this year, compared with around two before the conflict. While some Fed officials have suggested they can look through one-off spikes, inflation is already well above the Fed's 2% target, which analysts say could constrain the Committee. The inflation upside comes amid renewed labour market pressure, even before the conflict. The February jobs report showed a -92k change in nonfarm payrolls, likely raising questions about stagnation at the post-meeting press conference. The Committee remains split between prioritising the labour market and inflation sides of the mandate. Governor Waller has been vocal about labour market concerns, which may guide his decision, while others remain focused on above-target inflation. Economists surveyed by Reuters expect the FOMC to cut rates in June, after Fed Chair Powell's term ends in May, despite disruption from the Middle East conflict, which has pushed up energy, metals and food crop prices. Senator Thom Tillis said the nomination of incoming Chair Kevin Warsh may remain before the Senate Banking Committee for some time due to his objections to advancing Fed nominees before the DoJ probe related to Powell concludes.

The Fed is widely expected to keep rates on hold at 3.50-3.75%, with the focus on the vote split, the Summary of Economic Projections, and the statement, including guidance and descriptions of the economy and risks related to the war.

VOTES: The January meeting saw two dissenters, Miran and Waller, both voting for a 25bps rate cut. Commentary from Fed's Bowman has recently been very dovish, raising the risk she joins those favouring a cut. Waller said he would vote for a cut if January job strength faded in February, which it did. Miran is calling for four 25bps rate cuts this year, sooner rather than later. Elsewhere, the board and 2026 voting members lean neutral or hawkish, aside from Paulson, who has appeared more concerned about the labour market and whose vote may be one to watch. No one is calling for rate hikes, but hawks suggest policy is at or near neutral and that the Fed should be cautious on further cuts. Goldman Sachs expects three dissents: Miran, Waller and Bowman.

SUMMARY OF ECONOMIC PROJECTIONS: Uncertainty around the SEPs is high, as forecasting during wartime is difficult and much of the economic impact depends on the duration of the conflict. US President Trump has suggested it will end soon or within a couple of weeks, though that is hard to verify. The main focus will be on the fed funds rate projections, or dot plot. The 2026 median dot is seen at 3.25-3.50%, while the 2027, 2028 and longer-run dots are seen at 3.00-3.25%. This implies one rate cut in 2026 followed by another in 2027, when rates reach the neutral level. That is broadly unchanged from the December SEP, although the neutral rate was 3.0%, not 3.125%. Inflation forecasts will be watched for clues on how policymakers expect the war to evolve, while unemployment projections will be monitored for signs of further labour market weakening (see below for a summary of expectations). Given two-way risks, some policymakers may push back rate cut expectations due to higher inflation risks linked to the war, while others may bring forward cuts after the weak NFP report.

GUIDANCE: The Fed's current guidance is based on how it will consider "the extent and timing" of further rate adjustments. This was updated in December from the previous wording, "in considering additional adjustments", to signal a pause in rate cuts. The Fed is not expected to resume cuts under Powell's leadership, while cuts under Warsh are expected to accelerate. Surveys indicate the Fed is expected to resume easing in June, despite higher energy prices from the U.S./Iran war. Around two thirds of economists surveyed by Reuters expect the Fed to lower rates by 25bps next quarter, most likely in June. Guidance is likely to remain unchanged in this statement, but any commentary on risks will be closely watched. Analyst expectations diverge from market pricing, largely reflecting the recent rise in yields.

ECONOMY: Recent data has been mixed, with concerns about stagnation rising. Expectations had been building for a more stable labour market, particularly after a strong January jobs report. However, the weak February report renewed concerns about labour market conditions. Some reassurance may come from stable jobless claims, while JOLTS data has pared recent weakness. Inflation remains above target at around 3%, with the latest Core PCE print, the Fed's preferred gauge, rising 0.4% M/M and 3.1% Y/Y, showing little progress in recent months. Rising labour market concerns and elevated inflation, with risks skewed to the upside due to the Iran war, leave the Fed in a difficult position. However, Waller suggested it is unlikely to generate sustained inflation and said this is something policymakers may have to look through for now. Although not part of the Fed's mandate, Q4 2025 GDP growth was weak, with the second estimate at 0.7%. The Atlanta Fed GDPNow tracker currently sees Q1 2026 growth at 2.7%. Any commentary on the war will be closely watched, alongside ongoing private credit risks, with funds limiting redemptions at the usual 5% rate as requests increase.

SUCCESSION: Fed Chair Powell's term as chair expires in May, making the March meeting his penultimate one in the role. He may remain on the Board of Governors until his governor term expires in 2028. He is likely to face questions on his plans during the press conference, though he typically declines to comment. Former Fed Governor Warsh has been nominated to replace him, but Senate confirmation is delayed as lawmakers await the conclusion of a DoJ investigation into the Fed and Powell. If confirmed, Warsh is expected to replace the dovish Miran on the Board of Governors. If Powell leaves the Fed entirely, it would create an additional vacancy on the board.

SEP EXPECTATIONS

Federal Funds Rate

- 2026: (exp. 3.375%, prev. 3.4%)
- 2027: (exp. 3.125%, prev. 3.1%)
- 2028: (exp. 3.125%, prev. 3.1%)
- Longer Run: (exp. 3.125%, prev. 3.0%)

Unemployment Rate

- 2026: (exp. 4.4%, prev. 4.4%)
- 2027: (exp. 4.2%, prev. 4.2%)
- 2028: (exp. 4.2%, prev. 4.2%)
- Longer Run: (exp. 4.2%, prev. 4.2%)

PCE

- 2026: (exp. 2.6%, prev. 2.4%)
- 2027: (exp. 2.2%, prev. 2.1%)
- 2028: (exp. 2.0%, prev. 2.0%)
- Longer Run: (exp. 2.0%, prev. 2.0%)

Core PCE

- 2026: (exp. 2.6%, prev. 2.5%)
- 2027: (exp. 2.2%, prev. 2.1%)
- 2028: (exp. 2.0%, prev. 2.0%)

GDP

- 2026: (exp. 2.2%, prev. 2.3%)
- 2027: (exp. 2.0%, prev. 2.0%)
- 2028: (exp. 1.9%, prev. 1.9%)
- Longer Run: (exp. 1.8%, prev. 1.8%)

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com