

FOMC KEEPS POLICY RATES UNCHANGED



KEY HIGHLIGHTS OF THE MEETING

- The Fed kept policy rates unchanged at 3.50%–3.75% with an 11–1 vote split, indicating broad consensus on holding.
- Inflation remains above the Fed’s 2% target and has been revised even higher than the December estimate to 2.7%, with pressures becoming more broad-based, driven by tariffs, geopolitical-led energy shocks (Middle East conflict) and sticky core inflation, with the Fed highlighting significant uncertainty around the persistence of these drivers.
- The Fed retained a data-dependent stance, with policy guided by incoming data, the evolving outlook and the balance of risks, while the latest dot plot continues to signal only one rate cut this year despite rising inflation risks.



IMPACT OF THE MEETING

- The policy signal is no longer simply “pause and wait for cuts.” It is now closer to “pause because both inflation and growth risks have risen.” The Fed still describes activity as expanding at a solid pace, but it also notes low job gains, elevated inflation and greater geopolitical uncertainty. That combination keeps the front end anchored by policy caution while leaving the long end vulnerable to energy-driven inflation repricing and fiscal supply pressures.
- An additional complication is the pending change in Fed leadership. That means markets are now pricing not only a difficult inflation-growth tradeoff, but also a period of uncertainty around policy continuity.
- Post the Fed meeting, the US yield curve steepened modestly, with the long end moving up more than the front end. This suggests markets are reassessing the pace of future rate cuts and demanding higher compensation for inflation and uncertainty at longer maturities.



OUR OUTLOOK

For India, while domestic growth continues to hold up and inflation within RBI’s tolerance band, FX dynamics, driven by higher crude oil prices amid geopolitical tensions and global spillovers are likely to keep long-end yields elevated. In this backdrop, the RBI is expected to remain cautious, focusing on liquidity and volatility management rather than front-loading rate cuts.

Positioning: Constructive on the 3 to 7-year segment, neutral on the 10-year and cautious on the ultra-long end, which offers term premium but remains sensitive to crude oil and currency volatility.