19/6/2025

Special Coverage:
US Fed on hold: Awaiting tariffs and fiscal policy

Key takeaways

- The Federal Reserve left interest rates unchanged at 4.25%–4.50%, marking the fourth consecutive meeting without a policy move. While the Fed remains on hold, the updated Summary of Economic Projections (SEP) reflects a shift in tone, with lower growth expectations and higher inflation forecasts across the board.
- Chair Powell struck a balanced tone during the press conference, acknowledging ongoing risks from tariffs and geopolitical tensions while pointing to areas of resilience in the economy. He emphasised that while the inflation impact has yet to fully materialise, it's expected to feed through to consumer prices in the coming months. He reiterated that the Committee is prepared to adjust policy as needed but prefers to wait for clearer inflation signals.
- We maintain a constructive outlook, particularly on US equities, where strong earnings growth, AI-driven productivity gains, and structural re-industrialisation trends remain supportive. In fixed income, we continue to take a selective, high-quality approach amid volatility, while the US dollar remains under pressure as markets focus more on trade policy and fiscal dynamics than near-term Fed moves. We continue to forecast three 0.25% rate cuts to be delivered in September, December and March 2026, bringing the Fed funds target range to 3.50-3.75% by the end of 2026.

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What happened?

- As expected, the Federal Reserve left interest rates unchanged in a range of 4.25%-4.50% for a fourth straight meeting. Both the committee's statement and Powell himself reiterated that policymakers want to wait and see how economic data evolve going forward. The June statement noted that uncertainty about the economic outlook had "diminished but remains elevated".
- Chair Powell explained that tariff uncertainty "really peaked in April" and has since come down but remains high. He shielded away from any attempts by reporters to get him to say anything definitive about interest rates going forward, adding that no one on the FOMC holds their rate path outlook with much conviction right now.
- As far as the "dots" are concerned, the median dot for the Fed funds policy rate end-2025 stayed at 3.9%, while the median dot for end-2026 rose to 3.6% from 3.4%. The latest median dots therefore imply 0.50% of rate cuts this year, followed by another 0.25% of rate cuts next year.

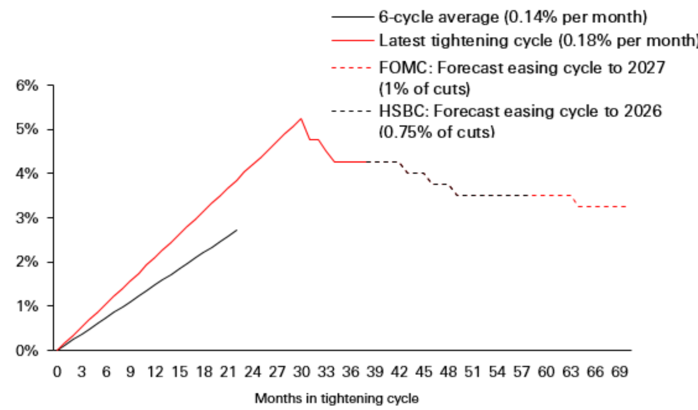
Median of the FOMC economic projections: June 2025

Variable %	Median			
	2025	2026	2027	Longer run
Change in real GDP	1.4	1.6	1.8	1.8
March projection	1.7	1.8	1.8	1.8
Unemployment rate	4.5	4.5	4.4	4.2
March projection	4.4	4.3	4.3	4.2
PCE inflation	3.0	2.4	2.1	2.0
March projection	2.7	2.2	2.0	2.0
Core PCE inflation	3.1	2.4	2.1	
March projection	2.8	2.2	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	3.9	3.6	3.4	3.0
March projection	3.9	3.4	3.1	3.0

Source: Federal Reserve, HSBC Private Bank and Premier Wealth as at 18 June 2025. Forecasts are subject to change.

- The SEP revealed a more cautious outlook, with GDP growth revised down to 1.4% for 2025 and inflation expectations moving higher. Core PCE inflation is now projected at 3.1% for year-end, up from 2.8% in March. The Fed's median policy rate projection for 2025 held steady at 3.9%, but the dots for 2026 and 2027 rose, signalling a potential slower pace of future rate cuts.
- FOMC policymakers still project a return to around 2.0% inflation by 2027 but clearly anticipate that tariffs will lead to at least some pick-up in inflation over the months ahead.
- The median forecast for the unemployment rate was revised up to 4.5% for 2025 (vs 4.4% in March), and to 4.5% in 2026 (vs 4.3% in March), and up to 4.4% in 2027 (vs 4.2% in March).

Will the most aggressive Fed tightening ever result in aggressive easing as well?



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 18 June 2025. Forecasts are subject to change.

- Wage growth has continued to moderate while still outpacing inflation, causing real disposable consumer incomes to continue rising. Overall, a wide set of indicators suggests that conditions in the labor market are broadly in balance and consistent with maximum employment.
- Tariffs were a central theme in both the projections and the press conference, with most policymakers expecting the tariff impact to be felt later this summer. Chair Powell reiterated that the Committee is prepared to adjust policy as needed but prefers to wait for clearer inflation signals.
- Neither employment nor inflation data have yet shown a substantial impact from tariffs. A measure of underlying consumer inflation rose in May by less than forecast, spurring President Trump to renew his call for lower rates. Powell said the Middle East conflict may not lead to much prolonged pressure on energy prices because the US is much less dependent on the region as a source of oil.

Investment implications

- In fixed income, we maintain a neutral stance overall, but strategically add high-quality bonds for income and stability with an active management approach. We expect continued volatility until the budget and debt ceiling issues are resolved. Therefore, investors should seek tactical opportunities to acquire high-yielding assets.
- We maintain our US equity overweight positioning, as the US should avoid recession, and the technology revolution should continue to drive productivity and profitability. Earnings growth remains strong, as FactSet forecasts that S&P 500 earnings are expected to rise 9.0% in 2025 and 13.7% in 2026.
- The current administration remains a source of volatility as trade negotiations, tariffs, the budget and debt ceiling issues, and fiscal policy remain uncertain. The third part of the Trump agenda focuses on deregulation, targeting sectors like Financials, Healthcare, Technology and Energy. This could provide further competition and disinflation, which could keep inflation in check. While implementation risks remain, these policy drivers could support further equity upside if realised.
- Long-term structural themes, including the technology and AI revolution, the re-industrialisation of the US economy, and onshoring of key industries reinforce our constructive outlook for US equities.
- The USD is little changed after the June FOMC where the outcome matched exepctations. With the Fed on pause, the FX market is justifiably more fixated on US trade policy, fiscal debates and geopolitics than the outlook for the Fed.

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