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TRENDMACRO LIVE!

On the May FOMC

Wednesday, May 7, 2025

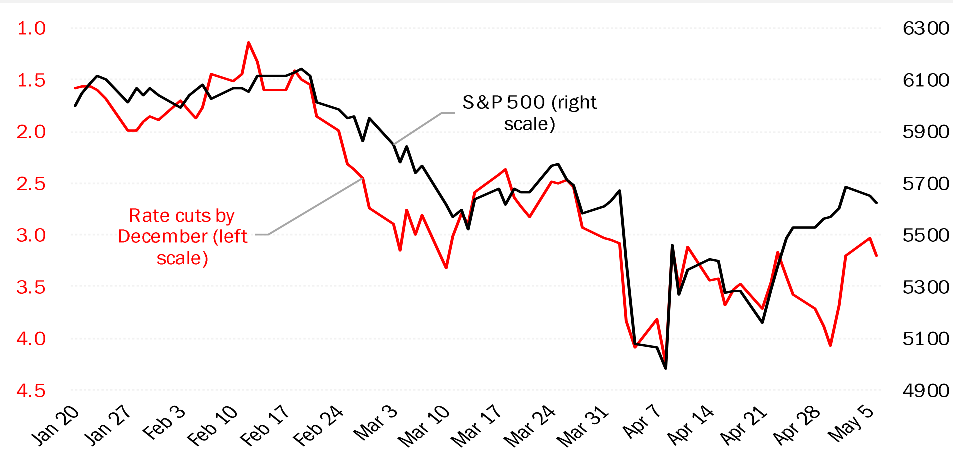
Donald Luskin

The Fed put has already been deployed, and upgraded uncertainty means it can be again.

Today's FOMC statement announced that uncertainty "has increased further," and that risks of both "higher unemployment and higher inflation have risen" (see "Data Insights: Federal Reserve" May 7, 2025). Oh, and some adult in the room changed "uncertainty *around* the outlook" from the March FOMC statement to "uncertainty *about* the outlook."

- That said, *the Committee is seemingly turning a blind eye to incipient signs of economic weakness*, such as the contraction in Q1-2024 real GDP (see "Data Insights: GDP" April 30, 2025), explaining it away as "swings in net exports" that have "affected the data," while "economic activity has continued to expand at a solid pace."
- And *they claim that "inflation remains somewhat elevated," without a nod to the Fed's preferred inflation measure, the Personal Consumption Expenditures Price Index, printed at just 2.29% year-on-year in March, and in downright deflation for the single month* (see "Data Insights: PCE Inflation" April 30, 2025).
- That's their hawkishly biased analysis of the data. And yet…
- …there's a dovish bias in the sense that *the upgrade of already heightened uncertainty lays the preconditions for rapid action if needed*.
- Markets must see it this way. Since the March FOMC, *the fed funds*

Futures-implied year-end 2025 rate cuts, responding to the stock market



Source: Bloomberg, TrendMacro calculations

Update to strategic view

FEDERAL RESERVE, US MACRO, US STOCKS: A big nothing. The message is wait and see in the face of rising uncertainty. The statement is hawkishly biased in the sense that incipient economic weakness is rationalized away, and inflation at-target is nevertheless called "elevated." But it is dovishly biased in the sense that the upgrade to uncertainty is a precondition for forceful action as needed. The Fed put has already been deployed when quantitative tightening was virtually eliminated at the March FOMC. The year-end futures-implied finds rate is perfectly correlated to the stock market – when equities point to growth risks, the number of expected cuts rises in lockstep. The Fed put has been deployed and is ready to be deployed further.

[Strategy dashboard]

futures have consistently displayed an iron-clad correlation between equity market declines – a proxy for growth risks – and the number of rate cuts expected by year-end (please see the chart on the previous page).

- Yes, Powell has warned repeatedly that he sees tariffs as *both* inflationary *and* anti-growth – and, if there is a conflict between the Fed's two mandates, inflation will win (see "Jay Powell: Alien Enemy" April 21, 2025). But *Fed easing already started at the March FOMC with the virtual elimination of quantitative tightening* (see "On the March FOMC: Dots in the Headlights" March 19, 2025).
- *Make no mistake about it. The Fed put has already been deployed, and will deploy further the instant it's needed. Both before and after today's meeting, even after substantial recovery from the equity markets' lows a month ago, the money-market curve expects more than three rate cuts by year-end* (please see the chart below).

AI podcast version

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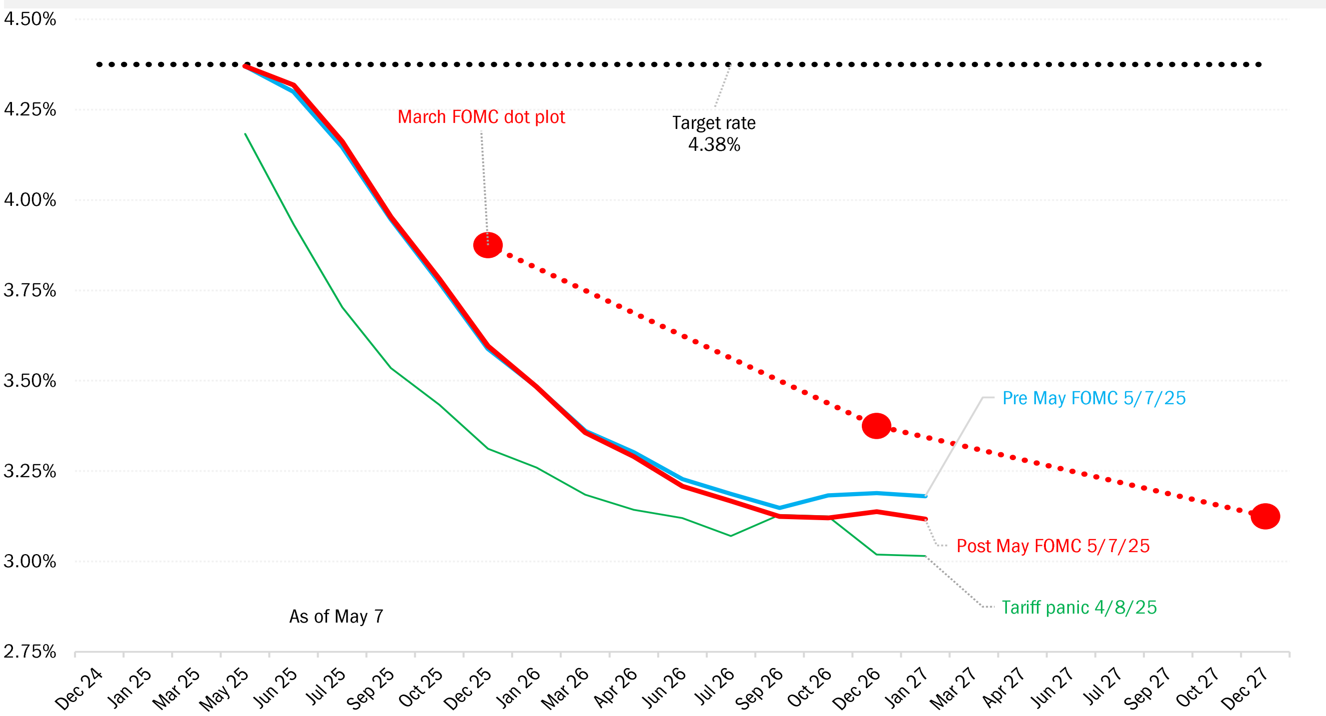
Bottom line

A big nothing. The message is wait and see in the face of rising uncertainty. The statement is hawkishly biased in the sense that incipient economic weakness is rationalized away, and inflation at-target is nevertheless called "elevated." But it is dovishly biased in the sense that the upgrade to uncertainty is a precondition for forceful action as needed. The Fed put has already been deployed when quantitative tightening was

Futures-implied effective funds rate versus "dot plots" of "appropriate policy path" (adjusted to target midpoint)



Source: FRB SEP, Bloomberg, TrendMacro calculations virtually eliminated at the March FOMC. The year-end futures-implied finds rate is perfectly correlated to the stock market – when equities point to growth risks, the number of expected cuts rises in lockstep. The Fed put has been deployed and is ready to be deployed further.