Financial Markets This Week

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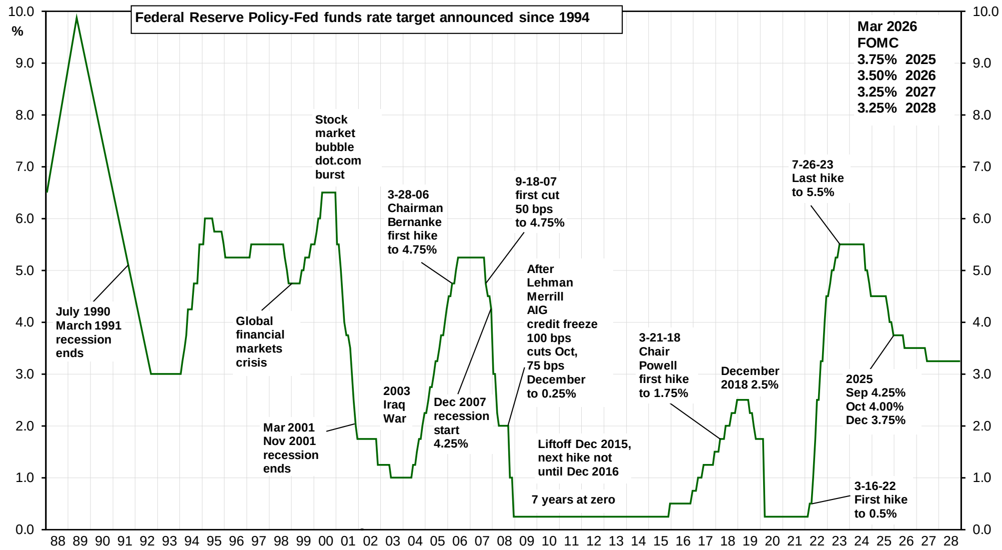
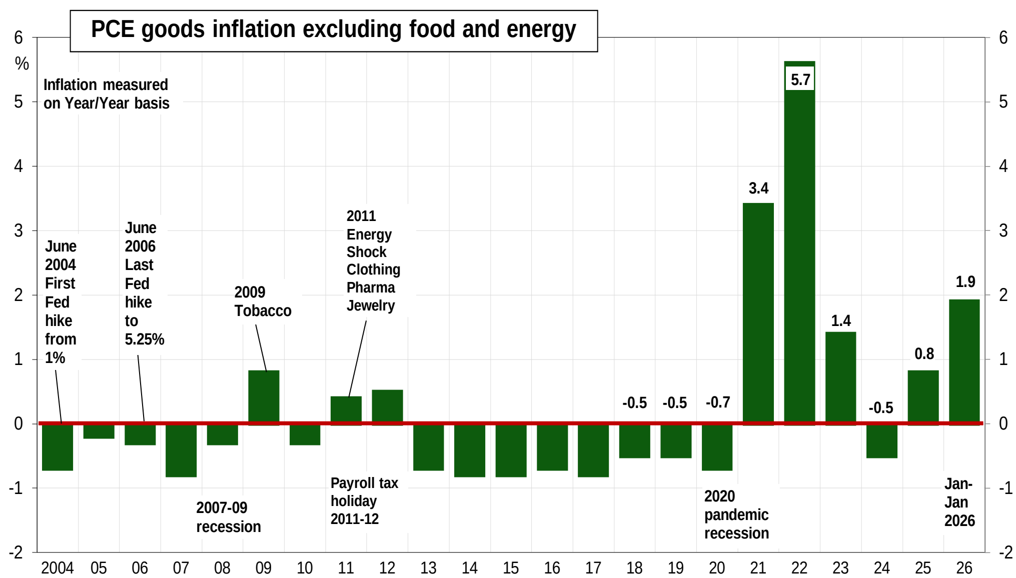
FED UNCERTAIN

At this week's meeting, the Federal Reserve faced considerable uncertainty about the economic outlook given the recent February 28 start of the war in Iran. Too early to know what the war impact will be on growth and inflation. The interest rate forecast in 2026 continues to see just one 25 bps rate cut this year to 3.5%, although given the uncertainty, there is a tendency for officials not to move the forecast too far from the forecast made just three months earlier at the December 2025 meeting. A lot of questions at the press conference were on inflation given the jump in crude oil and gasoline prices with the war in the Persian Gulf. Powell talked about core PCE goods prices being important for the inflation outlook as this is where you can see the direct effect of import tariffs. Core goods are rising, but nothing like the 3.4% in 2021 and 5.7% in 2022 after the pandemic. Core PCE goods were 0.8% in 2025, and are up 1.9% in 2026 (January/January).



Powell said core goods used to be flat and were even negative for many years before the pandemic. We always thought this was due to cheap imported goods. Based on the latest data the Fed has, Powell said, core PCE inflation year-on-year will come down a tenth to 3.0% in February (reported April 9) from 3.1% in January.

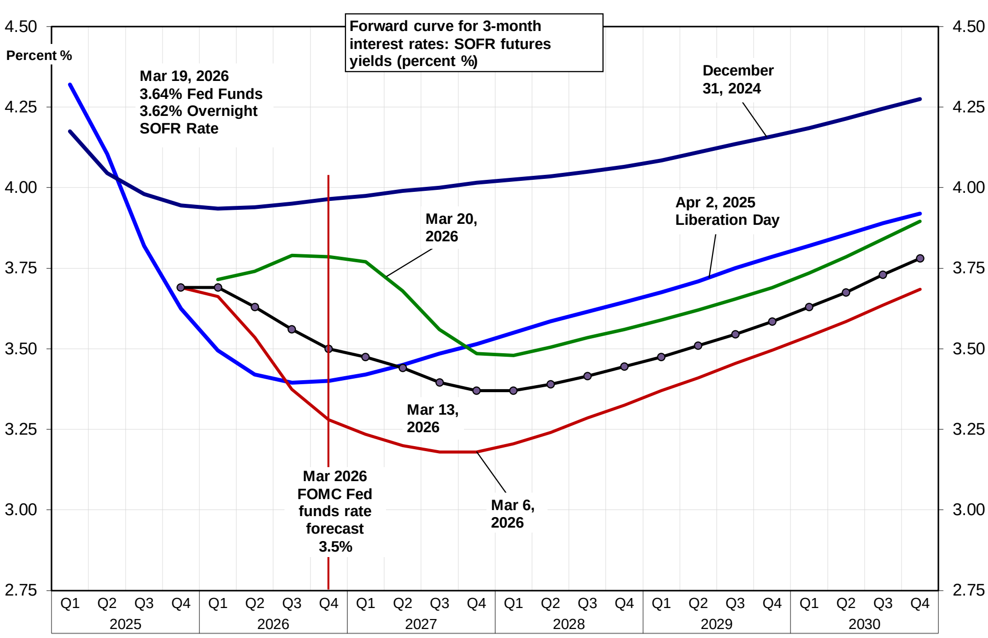


Too much inflation risk until core PCE goods inflation falls perhaps, is what Powell is thinking, before looking to cut interest rates which are roughly at neutral. The FOMC moved the neutral “longer run” rate up a little to 3.125% for the median. Normally the forecasts stick with the midpoint of the range, but the neutral forecasts get some 3.0 and 3.5 percent rounded figures from some Fed participants, and there are a lot of them with 19 forecasts to sum up. Powell said some of the forecast “votes” moved up or down from the extremes at the December meeting, as the Committee is uncertain. If the President wants lower rates, only 5 participants see rates lower than 3.5% this year.

Fed Individual Forecasts				
Fed funds rate at year-end				Longer
Votes	2026 End	2027 End	2028 End	run
1	2.625	2.375	2.625	2.625
2	2.875	2.625	2.625	2.625
3	2.875	2.875	2.875	2.875
4	3.125	2.875	2.875	2.875
5	3.125	2.875	2.875	3.000
6	3.375	3.125	3.125	3.000
7	3.375	3.125	3.125	3.000
8	3.375	3.125	3.125	3.000
9	3.375	3.125	3.125	3.000
10	3.375	3.125	3.125	3.125
11	3.375	3.125	3.125	3.125
12	3.375	3.375	3.125	3.125
13	3.625	3.375	3.375	3.250
14	3.625	3.375	3.375	3.375
15	3.625	3.375	3.375	3.375
16	3.625	3.625	3.625	3.500
17	3.625	3.625	3.625	3.625
18	3.625	3.625	3.625	3.750
19	3.625	3.875	3.875	3.875
Median	3.375	3.125	3.125	3.125
Meeting	Mar 26	Mar 26	Mar 26	Mar 26

Fed Individual Forecasts					
Fed funds rate at year-end					Longer
Votes	2025 End	2026 End	2027 End	2028 End	run
1	3.500	2.125	2.375	2.625	2.625
2	3.625	2.625	2.625	2.625	2.625
3	3.625	2.875	2.625	2.625	2.625
4	3.625	2.875	2.875	2.750	2.750
5	3.625	3.125	2.875	2.875	2.875
6	3.625	3.125	2.875	2.875	3.000
7	3.625	3.125	3.125	2.875	3.000
8	3.625	3.125	3.125	3.125	3.000
9	3.625	3.375	3.125	3.125	3.000
10	3.625	3.375	3.125	3.125	3.000
11	3.625	3.375	3.125	3.125	3.125
12	3.625	3.375	3.125	3.125	3.125
13	3.625	3.625	3.375	3.125	3.250
14	3.875	3.625	3.375	3.375	3.375
15	3.875	3.625	3.375	3.375	3.375
16	3.875	3.625	3.625	3.625	3.500
17	3.875	3.875	3.625	3.625	3.625
18	3.875	3.875	3.875	3.875	3.750
19	3.875	3.875	3.875	3.875	3.875
Median	3.625	3.375	3.125	3.125	3.000
Meeting	Dec 25	Dec 25	Dec 25	Dec 25	Dec 25

Meanwhile, the market does not see any interest rate cuts this year, and the 50 bps shift upward in the forward curve has been dramatic over the last two weeks. October Fed funds futures are pricing in 9 bps of a 25 bps rate hike by the September 2026 Fed meeting. The Fed is uncertain, but markets are not. No Fed rate cut in the immediate future as long as the war goes on.



Fed funds futures call Fed policy		
Current target: March 20 -- 3.75%		
Rate+0.11	Contract	Fed decision dates
3.815	Jul 2026	Apr 29, Jun 17*
3.840	Oct 2026	Adds Jul 29, Sep 16*
*July 2026 could be two days at a new rate		
*Oct 2026 could be 3 days at a new rate		

Fed Policy-key variables				Long
	2026	2027	2028	Term
Fed funds	3.4	3.1	3.1	3.1
PCE inflation	2.7	2.2	2.0	2.0
Core inflation	2.7	2.2	2.0	
Unemployed	4.4	4.3	4.2	4.2
GDP	2.4	2.3	2.1	2.0
March 2026 median Fed forecasts				

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