

# Special Coverage: Policy on hold as the Fed signals patience

## Key takeaways

- ◆ As expected, the FOMC decided to keep the federal funds target range steady at 3.50-3.75% in January, following a sequence of rate cuts at the September, October and December policy meetings last year.
- ◆ While the Fed didn't ease at this meeting, the 10-2 vote split, with two FOMC voters favouring a 0.25% rate cut, indicates a modest bias towards less restrictive rate policy within the Fed. Although the latest FOMC dot plot implies roughly one 0.25% cut in 2026 and another in 2027, we maintain our view that there will be no further rate cuts through 2026 and 2027, with double-sided risks to this outlook as the economy evolves. Chair Powell noted that the growth outlook has improved since the last FOMC meeting and reiterated that inflation remains above the Fed's target, with tariffs likely to result in a one-time price increase.
- ◆ We continue to overweight investment grade credit, where we still see opportunities for investors to capture solid yields. For equity investors, robust economic growth and strong corporate earnings continue to be supportive. Combined with the ongoing tech revolution led by AI, this backdrop underpins our bullish view on global equities, with an overweight stance on US stocks. We expect the USD to remain under selling pressure in the coming weeks, mostly on structural concerns.



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## What happened?

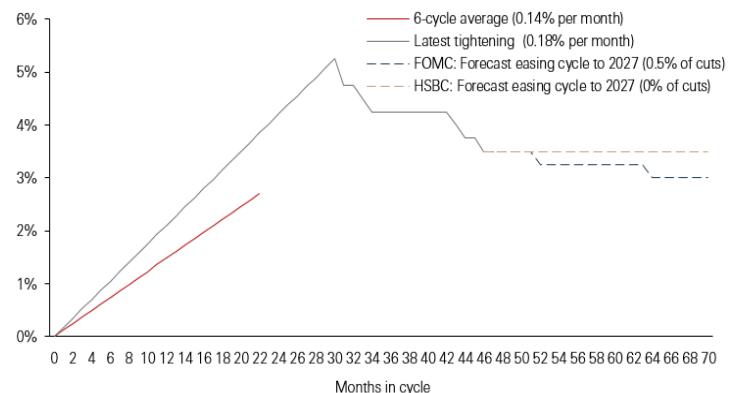
- The FOMC left the policy rate range unchanged at 3.50%-3.75% as widely expected. There were two dissenting votes. Governor Miran called for a 0.25% cut, a step back from his earlier support for a larger 0.50% move. Governor Waller called for a 0.25% cut, marking a return to the dovish stance he expressed in July 2025, ahead of the three subsequent 0.25% rate cuts.
- Changes to the January statement were minimal and focused on re-assessments of the labour market conditions and inflation dynamics.
- During Chair Powell's opening remarks, he noted that the US economy expanded at a solid pace last year and is coming into 2026 from a position of strength, supported by resilient consumer spending and continued growth in business fixed investment.
- Labour market conditions appear to be stabilising. Powell noted that weaker payroll growth over the past year reflects slower labour force growth, driven by lower immigration and labour force participation. We expect the unemployment rate to peak at around 4.7% (currently 4.4%) by the middle of this year. If the unemployment rate were to rise above this level, it would open the door to a resumption of rate cuts.

- Inflation has eased significantly from its mid-2022 peak but remains somewhat elevated relative to the Fed's 2% target. Recent price pressures are concentrated in goods, partly reflecting tariff effects, while services disinflation continues. He characterised tariffs as more likely a one-time price increase rather than a source of persistent information. Near-term inflation expectations have declined from last year's highs, and longer-term expectations remain consistent with the Fed's objective.
- Powell acknowledged that the recent federal government shutdown likely weighed on economic activity in the last quarter, but said those effects should unwind.
- After cutting rates by 0.75% since September, Powell said the policy rate is now within a range of plausible estimates of neutral, supporting labour market stability while allowing inflation to continue trending lower over time. He reiterated that monetary policy isn't on a preset course and future decisions will be made on a meeting-by-meeting basis, guided by incoming data, the evolving outlook, and the balance of risks.
- According to the latest FOMC dot plot, the median dots imply roughly one 0.25% rate cut in 2026 and an additional 0.25% rate cut in 2027.
- Our view is that the FOMC will keep the federal funds target range unchanged at 3.50-3.75% through 2026 and 2027. As always, there are double-sided risks to this outlook as the economy evolves.

## Investment implications

- We continue to overweight investment grade credit, where we still see opportunities for investors to acquire high-quality assets that offer a solid yield.
- For equity investors, robust economic growth and strong corporate earnings continue to be supportive. Combined with the ongoing tech revolution led by AI, this backdrop underpins our bullish view on global equities, with an overweight stance on US stocks.
- We expect the USD to remain under selling pressure in the coming weeks, mostly on structural concerns, such as the Fed independence and possible FX intervention to weaken the USD against the JPY, rather than factors related to the path for US monetary policy.

### The Fed projects two more rate cuts through 2027



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 28 January 2026. Forecasts are subject to change.

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