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Fed Thoughts: A Soundtrack to the Upcoming FOMC Meeting

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"She Works Hard for the Money" (Donna Summer)

Federal Reserve (Fed) officials will have to work very hard to do nothing at the upcoming meeting of the Federal Open Market Committee (FOMC) on July 29 to 30.

- The FOMC will likely keep the range for the policy rate unchanged at 4.25% to 4.5% because no signal of action was sent at the prior meeting or by senior officials since.

- They will likely let the remaining air out of the market balloon that currently prices a roughly 60% chance of a cut at the September meeting. In recent weeks, economic data mostly underscored that aggregate demand retains momentum and President Donald Trump reignited tariff threats that add to inflation risk. As a result, the statement drafters are in no position to put markers pointing to a flagging economy and diminished uncertainty to signal imminent ease.

- In addition to disappointing market participants, an FOMC statement reasonably aligned with reality will probably let down some members of the policy-setting group. Since the June meeting, two Fed officials, Vice Chair for Supervision Michelle Bowman and Governor Christopher Waller, have voiced concerns about weakness in the labor market and the belief that tariffs will not derail the path to low inflation. They dissented before and could do so again.

- At his press conference, Chair Jerome Powell will likely be pressed to square the circle of Fed guidance of a half point lower funds rate in the second half of the year with an unhurried current attitude about doing anything.

- That is, he will address those policy concerns when he is not defending his stewardship of the institution given attacks from the White House. Taking flak on rate setting is in the chair's job description, but this round is intense, and the attacks have extended to other aspects of his job, including managing staff levels and building costs.

This note unpacks the Fed's puzzle to background music.

"Chess" (Benny Andersson and Tim Rice)

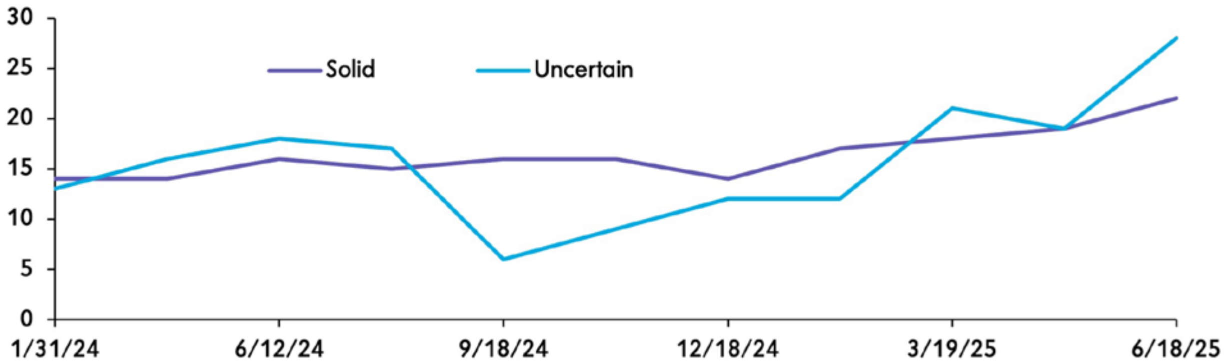
The June FOMC statement held that "uncertainty about the economic outlook has diminished."[1] What were they thinking? In the following week, the US intervened in Iran, NATO held a summit exposing fissures in the alliance, new threats were made about tariffs and Congress wrestled with a massive budget bill.

Policy uncertainty is not just high, it is historically elevated and everywhere. References to economic policy in major newspapers are more frequent now than during the pandemic and five times[2] the sample average. The "flood the zone" approach from the White House has put trade, fiscal, regulatory and border enforcement policies in play. Trade policy is off the charts in being discussed in the media at a rate ninety times[3] higher than the long-term norm.

Despite the policy noise, the US economy entered 2025 with momentum. Think of it as Newton's First Law applied to macroeconomics: a body in motion stays in motion unless acted upon by an outside force. For much of the past year, the forces pushing against the economy, including a higher real policy interest rate, tighter border enforcement and the threat of tariffs haven't been enough to knock the recovery off its axis.

Variations of "Solid" and "Uncertain" in FOMC Minutes

Word count



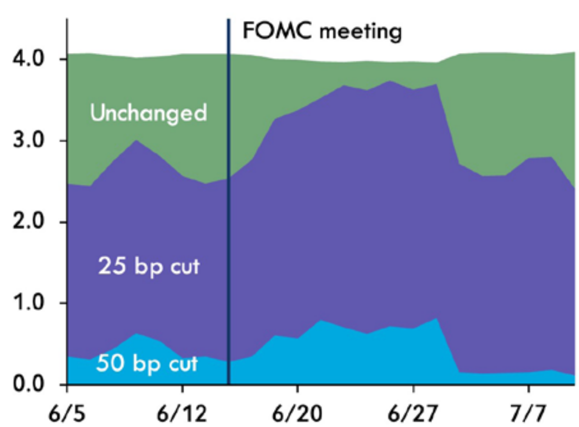
Source: Federal Reserve, Minutes of the Federal Open Market Committee meeting. Retrieved 7/9/25. The numbers in this chart show how many times any word starting with "solid" (such as "solid," "solidity," or "solidly") and any word starting with "uncertain" (such as "uncertain," "uncertainty," or "uncertainties") appear in each set of FOMC meeting minutes. Both singular and plural forms, as well as related endings, are included. The counts are case-insensitive and include every mention in the document. Firm analysis.

The tension is evident in counting two distinct word groups in the minutes of this year's FOMC meetings: "solid" and its variants that are usually used to describe economic performance as well as "uncertain" and its relatives that stand in for an inability to judge the outlook. As in the above chart, FOMC participants serially relied on "solid" more to describe the economy even as they found it harder to predict and resorted with increasing frequency to "uncertain." Note in the chart that they acted when they were more certain (as in September 2024 and two times thereafter), so the aspiration in the latest statement of diminishing uncertainty showed a tilt toward easing.

Market participants cracked this code. The assertion uncertainty had diminished, the retention of 50 basis-point (bp) easing in the Summary of Economic Projections, and the chair's leaning toward good news in his press conference led investors to price imminent ease (as in the chart to the right). That held until the President began promising letters to our major trading partners informing them of punitive tariffs, which appears to have put increased uncertainty back into the frame. Add to the mix that the budget bill passed sooner than expected, as usually the exercise is fraught and runs close to the wire. The legislation keeps fiscal impetus on its prior trend, avoiding a sudden dislocation to aggregate demand but leaving in place the adverse trajectory of government debt. Raising the debt ceiling keeps that legislative drama off stage, but for only about another year. Still, the avoidance of a bad outcome is a good one, except for anyone expecting the Fed to lean in with policy ease during market turmoil. Employment gains for June

Contributions to the Expected Policy Rate Set at the September 16-17 FOMC Meeting

As implied by futures prices, percentage points



Source: CME FedWatch Tool and firm analysis, retrieved 7/13/25. The shaded regions give the contributions to the expected policy rate to prevail after the September meeting for three outcomes: unchanged and cuts of 25 and 50 basis points. That is, they plot the probability times the outcome, which sums vertically to the expected policy rate.

printing better than expected and high Fed officialdom taking action off the table in July have squeezed out much of the lingering hope of imminent easing.

Our view is that concern about disappointing market participants does not pose much of a hurdle in setting the appropriate policy rate. Fed guidance about interest rates is not a contract but rather a conditional statement about the path of policy if events unfold as they expect. Events have not cut the way they thought when they leaned into easing at the June meeting with the publication of the Summary of Economic Projections (SEP). Demand retains momentum, and President Trump continues to toy with punitive tariffs in the attempt to achieve a long wish list of concessions from our trading partners. As long as both hold, the FOMC is not in position to ease. The July meeting will disappoint those investors who think otherwise.

As for the rest of the year, recognize the game being played. This is not chess. It is not even checkers. It is tic-tac-toe. We believe three things must line up for the Fed to cut the policy rate. There should be some concern about employment, a sense that inflation will return to goal, and enough certainty about the outlook to be confident about those first two judgments.

For now, we forecast a 25-bp reduction for the December meeting and a less than 50% probability of one between then and now, crediting them with correcting the policy path as the data disappoints and admitting the possibility that we may be wrong about the vigor of the expansion and the passthrough of tariffs to inflation.

We suspect that Chair Powell will show more inclination toward easing in his press conference after the FOMC meeting than our outlook supports. For one, he tends to be more optimistic about inflation, as shown by his temporary and regretted membership in "Team Transitory." For another, the chair does not want to draw more attention from the White House to the Fed right now. Instead, we think he will express a willingness, even an eagerness to ease, but add, *sotto voce*, as long as the data allow. He's not offering an unconditional promise, just a conditional forecast. If he chooses to be one-sided in describing those future conditions, that is the world we live in.

"Mean" (Taylor Swift)

We have some sympathy for Chair Powell not wanting to poke the bear with a stick by ruling out significant rate adjustment this year. But the criticism will likely continue, whatever he says, from the highest-level source in the land. President Trump, a self-described "low-interest-rate guy," blames the Fed for being unresponsive to economic risks and adding to the deficit by raising the cost of servicing the debt.

There are many elegant theories explaining why a government makes the central bank independent. They mostly revolve around politicians appreciating that their short-run incentives for an overheated economy jeopardize long-run price stability. That is, politicians recognize their short-sightedness and willingly limit their authority for the greater good. Perhaps, but if politicians were so self-aware, we would have more base-closing commissions and budget rules. An alternative from work on institutional design is that politicians create an independent central bank so that someone else has the responsibility for the performance of the economy. The Fed is insulation between the elected and the electorate, there to be blamed. By blaming Chair Powell, the president has written an option to exercise if the economy falters.

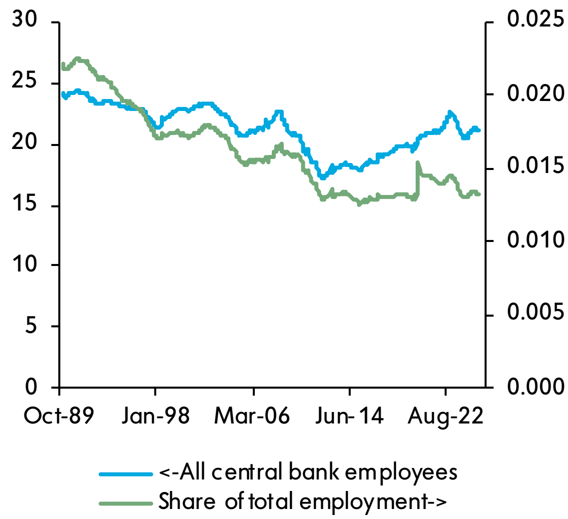
Chair Powell could find some solace if he rummaged through old Board memos to find the advice proffered by James Knipe: "An agency charged with recognizing the cyclical facts of life, and with attempting to maintain the integrity of the dollar, must be prepared to have its views and its actions challenged by many people and on many grounds." This was written in 1962.[4] The quote is especially pertinent for the last clause. Politicians will grab any stick left on the ground to use as a cudgel. In current circumstances, there are two others than the level of the overnight rate—staffing levels and building costs.

A sturdy plank of the President's platform when campaigning was downsizing the government. In office, his supporters are expecting the central bank to do its share, but they're frustrated that they have no direct control over the Fed's budget.[5] Some of the fight concerns who said what when, but it is useful to be reminded of scale. As shown in the chart, about 21,000 people work at the monetary authority, the industry classification of the Bureau of Labor Statistics (BLS) in the establishment survey for the Federal Reserve System, or about 0.013% of the workforce.[6] In the BLS data, staffing is up 23% from its low in 2012 but off 13% from the peak in 1991. Two trends worked with opposing force to explain this flattened V-shape. For one, evolving technologies and tastes make some of what the Fed does, processing checks and handling currency, less important. For another, the passage of Dodd-Frank in 2010 made supervision and regulation more complicated. As for the latter, the bottom panel scales the Fed's footprint to the industry it oversees. After a post-pandemic bump, per capita coverage of depositories has trended lower but mostly kept even with finance overall.

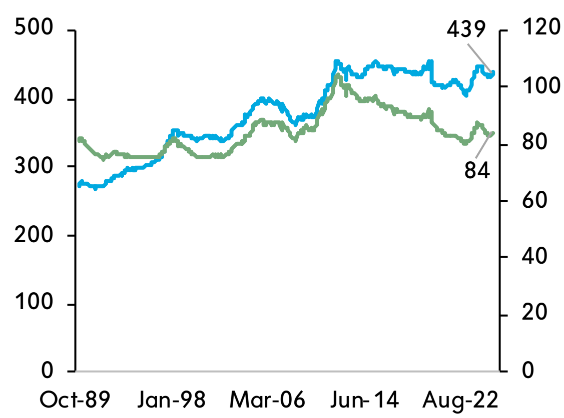
As for its building program, renovation of historic structures overseeing the National Mall is expensive, and the Fed has not gained any friends with the recent expansion of its campus. Spending $2.5 billion gets attention, especially when the sum doubled during the work in progress. By its own admission, the Fed has not been the best custodian of public resources in construction, as shown in a forensic review of its last try.[7] The political reality is that any time the Fed spends, it runs the risk Congress may notice. By way of example, the House Banking Committee in 1975 dug deeply enough into the Fed accounts to find:

Employees at the Monetary Authority (Central Bank)

Thousands of workers and share of total employment, percent



As a ratio to those in the financial industry



Source: Bureau of Labor Statistics, Establishment data, table B.1, retrieved from FRED, 7/13/25, and firm analysis.

- The New York Federal Reserve Bank spent more than $29,000 in 1974 for “refreshments” for officers and their guests at functions held at the officers’ dining room in that bank.

- The System turned over more than $185,000 in tax funds in 1974 to Federal-Reserve Clubs, employee organizations whose functions are primarily social.

- More than $750,000 was spent by the System in 1974 for elevator maintenance alone—largely paid to only two companies.[8]

These recurring dramatic vignettes usually produce an exchange of letters that are like ships passing in the night.

This time, the White House could raise the stakes considerably to accomplish what it has been unable to do otherwise—remove Chair Powell. The president has taken firmer control of agencies than any of his predecessors. The basis for doing so follows the explanation of Article II of the Constitution by Chief Justice John Roberts:

> The President is the only person who alone composes a branch of government. He is entrusted with the vast powers of the Executive Branch, and the Constitution vests in him the entire ‘executive Power.’ Art. II, §1. That structure is a unique one in our constitutional order, and it underscores the Framers’ intent to vest substantial authority in a single individual, accountable to the people.[9]

Essentially, within the silo of the Executive branch, the president likely has the power to fire any officer at will.[10] Except, the Fed does not reside exclusively in the Executive silo. When conducting monetary policy, Fed Chair Powell and the other governors are performing a Constitutional authority of Congress delegated to them, the power “to coin money.” By our reading, the limitation on removing any of them except for cause is not an infringement on the Executive but a Congressional quid pro quo for that delegation.[11] Hence, we think that the president can’t fire Powell for his conduct of monetary policy. The White House probably thinks so, too, because such talk has died down. However, the president might assert that there is cause to remove Powell for the failure to perform a purely executive function, using public resources wastefully on renovations or being misleading about the cost. It may be a stretch, but the intense criticism from administration officials points that way.

Following that path would be costly and risky for the White House. If pursued, we think:

- Investors may recoil at the patent infringement on Fed independence as evident in the pricing of longer-term Treasury yields and the foreign exchange value of the dollar.

- The successor chair would be handed a poisoned chalice, starting their tenure with the mistrust of markets and their colleagues on the FOMC.

- Chair Powell would be unlikely to exit willingly, setting up a potentially lengthy court battle.[12]

In addition to these risks, the calendar provides the most persuasive argument against the administration trying to remove the chair on any grounds. Powell’s term as chair ends next May, so there is likely no real return in hurrying him out of the building in a process that would be poorly received, set bad precedent, and may not work. “Should not” and “would not” are not synonyms, so White House encroachment on Fed independence is a risk that could roil markets in coming months.

"Stuck in the Middle With You" (Stealers Wheel)

The drama to play out at the upcoming FOMC meeting is not all about forces working from the outside. Two officials, Vice Chair Bowman and Governor Waller, broke from the pack by endorsing an immediate rate cut.[13] Their justification was not exclusively about a weakening labor market but also on the belief that tariffs were likely to be a once-off price shock that would not derail progress toward the 2% inflation goal. In doing so, they changed the framing from setting policy conditional on inflation outcomes to an unconditional forecast. The result complicates the chair's life. They have dissented within the last year (on the hawkish side of FOMC decisions) and one or both may do so again.[14]

Dissent hands the White House a useful comparison—reasonable people do not agree with the group's assessment. The chair has some scope to avoid this outcome by softening the statement and promising to be supportive of that direction of policy at his press conference and at future meetings.[15] The risk is that papering over the difference of opinion may misdirect markets about FOMC intent. The alternative, though, one or two dissents, would likely sow even more confusion.

"Truckin'" (Grateful Dead)

The only easy part of the upcoming FOMC meeting is the outcome for the policy rate. The funds rate target stays at 4.25% to 4.5% because we have not been warned that it may change, the outlook for employment hasn't materially softened and the potential imposition of punitive tariffs could significantly add to inflation. Getting the policy-setting group to agree unanimously will be a challenge that might not be met, and criticism will likely follow in any event. For the reasons we outlined, the tone and feel of FOMC communications may come across as accommodative. That is just the wrapping around the decision, not what is in the box. We've penciled in one quarter-point cut for the remainder of the year but admit we might be wrong about the outlook. Chair Powell will stay in the job, and perhaps longer on the Board, but we are not sure how much satisfaction he will get from it.

Vincent Reinhart
Chief Economist & Macro Strategist

Vincent is the firm's Chief Economist and Macro Strategist. In this role, he is responsible for developing views on the global economy and making relative value recommendations across global bond markets, currencies and sectors.

Previously, Vincent served as the Chief US Economist and a managing director at Morgan Stanley. For the prior four years, he was a resident scholar at the American Enterprise Institute (AEI). Vincent also spent 24 years at the Federal Reserve, holding several roles including Director of the Division of Monetary Affairs and Secretary and Economist of the Federal Open Market Committee (FOMC). His responsibilities at the Federal Reserve included directing research and analysis of monetary policy strategies and the conduct of policy through open market operations, discount window lending and reserve requirements. Prior to these roles, he was the principal liaison with the domestic desk at the Federal Reserve Bank of New York and was responsible for preparing a document outlining policy alternatives for each FOMC meeting. He was Deputy Director in the Division of International Finance and Associate Economist of the FOMC and spent five years at the Federal Reserve Bank of New York in both the domestic and international research departments.

His academic publications primarily concern the conduct of policy and issues related to the monetary transmission mechanism as well as an analysis of alternative auction techniques and Treasury debt management. After an undergraduate training at Fordham University, he received graduate degrees in economics at Columbia University.

Endnotes

[1] "Federal Reserve issues FOMC statement." Board of Governors of the Federal Reserve System. June 18, 2025. [2] "Measuring Economic Policy Uncertainty" by Scott Baker, Nicholas Bloom and Steven J. Davis at Economic Policy Uncertainty. Retrieved 6/28/25. [3] Ibid. [4] Knipe, James L. *A Summary of the Public Criticism of the Federal Reserve System, 1959–1961.* Board of Governors of the Federal Reserve System (U.S.), February 9, 1962. [5] The Fed is off the federal budget because it funds itself through its own operations, not congressional appropriations. This independence is hardwired to shield monetary policy from political influence. [6] The BLS data do not always line up with the Federal Reserve's reporting of full-time-equivalent staff in annual reports for a few technical reasons. [7] The Fed's Office of Inspector General found that the Federal Reserve Board's management of the Martin Building renovation project suffered from inadequate recordkeeping, flawed cost estimation practices, and insufficient cost controls, contributing to a conceptual construction cost estimate of $179.9 million within a total projected cost of $280.4 million. The report emphasized that scope changes, poor documentation, and inconsistent application of estimating standards undermined the project's financial oversight and transparency. See *Opportunities Exist for the Board to Improve Recordkeeping, Cost Estimation, and Cost Management Processes for the Martin Building Construction and Renovation Project.* Report No. 2014-AE-B-007, Board of Governors of the Federal Reserve System, March 31, 2014. [8] United States Congress, House Committee on Banking, Currency, and Housing, Audit of the Federal Reserve System: Report (To Accompany H.R. 7590), July 10, 1975. [9] Majority report in Trump v. US, 2024, page 7. [10] At least the White House likes to think so, notwithstanding the precedent of *Humphrey's Executor*, which has been circumscribed in recent rulings. Given the direction of travel of the court, many observers believe its days are numbered. [11] The closest parallel I can think of concerns the debt ceiling. The Secretary of Treasury, who is unquestionably in the Executive branch, can't be ordered by the president to issue debt beyond the limit set by Congress. Issuing debt with the full faith and credit of the US is an authority granted to Congress in the Constitution, which it has delegated to the Treasury. To retain that delegated authority, the Secretary must abide by the debt ceiling, irrespective of instructions from the president. [12] Indeed, we think it is possible that if Chair Powell were concerned about the precedent of political interference, he might choose to remain on the Board after his term as chair ends. Technically, the chair is a four-year designation among the seven governors, whose terms last fourteen years. Powell's chairmanship ends May 15, 2026, but his governorship runs until January 31, 2028. This creates three complications. First, the White House needs an open Board position to bring a new person in as chair. Governor Adriana Kugler's term ends January 31, 2026, so that is the spot a new entrant could be given if Powell were not to resign as governor. Second, this narrows the window for the White House to slide a new chair as a governor early to "shadow" Powell in the waning days of his leadership, no earlier than Kugler's term ends. Third, by remaining as governor after his term as chair ends, Powell would limit the White House's ability to reshape the Board. It has been done before by Chair Marriner Eccles, who stayed as a governor for about 3-1/2 years starting in 1948 and still got a building named after him (the one that is costly to renovate). One last complication: the position of chair of the FOMC is determined by a vote of the committee, not automatically conferred on the chair of the Fed Board. If Powell were still a governor and the new Board chair lacked credibility, the FOMC could, in theory, re-elect Powell. This would be unprecedented and politically explosive, potentially threatening the structure of the FOMC itself. [13] Bowman, Michelle. Speech - Unintended Policy Shifts and Unexpected Consequences, June 23, 2025. "Waller Says Fed Is Too Tight, Can Consider July Rate Cut." Bloomberg.com. July 10, 2025. [14] There's a difference between the preferred policy stances of the two. Governor Waller advocates for a faster run-off of the Fed's portfolio to allow quicker rate cuts. [15] Calendar arithmetic intrudes once again. Part of the soft power of the chair involves horse-trading with recalcitrant members over the current and future policy posture. That is, common ground might be found with hawkishness now in return for future dovishness. Chair Powell will be at the helm for, at most, seven more meetings after July, limiting his ability to make promises about the future.

Disclosure

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