MV CAPITAL MANAGEMENT

Weekly Market Flash

Trouble Ahead, Says the Fed

June 20, 2025

Relative to how these things can sometimes go, the Federal Open Market Committee's meeting this week was a bit of a nonevent for markets. The Fed was widely expected to keep interest rates where they have been since last September, with a Fed funds rate upper bound of 4.5 percent, and that is precisely what happened. The FOMC meeting concluded and the trading day ended with not much more than a shrug from the stock and bond markets. But below the headline takeaway of no change in rates, there was plenty to suggest that the central bankers are not particularly happy with what they see in the economy as the second half of the year gets underway.

Dot Plot Tea Leaves

The FOMC's Summary Economic Projections, colloquially known as the "dot plot," reflected a change from the previous reading back in March, and the change was essentially in one direction: worse. Inflation is projected to be higher, and so is unemployment, while real GDP growth estimates are lower (bear in mind that these are just estimates, subject to changes in actual conditions not to mention good old fashioned human error). The picture isn't exactly doom and gloom – the numbers don't spell out a likely recession – but the median outlook for GDP growth in 2025 is 1.4 percent, down from the March estimate of 1.7 percent. Inflation, as measured by the Core Personal Consumption Expenditure index, is expected to register at 3.1 percent by the end of the year, up from the prior forecast of 2.7 percent.

None of this is particularly surprising, given that the March FOMC meeting took place before the full tariff-related mayhem that kicked off on April 2. But it is a good reminder that, even if we avoid the worst possible outcomes in terms of the tariff policy's effect, economic conditions are likely to get worse before they improve. And it would not take much for exogenous events – be they another unwelcome tariff surprise, or a shutdown in the Strait of Hormuz that sends crude oil prices into triple digits, or something else entirely that isn't on anyone's radar screen today – to push weak economic growth into negative growth. The odds of a recession are lower today than they were on April 3, but they are not zero.

Two, One or None

The FOMC's median estimate for the Fed funds rate for 2025 reflected two rate cuts between now and the end of the year, the same as the median estimate in March. So, no change, right? Not so fast. The median is simply the number smack in the middle of nineteen individual guesses. In March, four of the nineteen FOMC members projected that there would be no further rate cuts this year. In the June SEP, though, the number of "no more cuts" estimates rose to seven. Which makes sense, given the Fed's commitment to bringing inflation back to the long-term two percent target, and given that it currently doesn't see that target being finally reached until 2028.

The Fed meets again in July, but there won't be another set of Summary Economic Projections until September. We expect the Committee members will have quite a bit of new data to digest between now and then, particularly with regard to inflation. As Fed chair Powell said during the post-meeting press conference on Wednesday (and as we noted in our commentary last week), the full effect of inflation from increased tariffs, which up to now has been relatively quiescent, is likely to come into view during the next several months. By the time the FOMC meets in September they may have a better sense of whether the higher inflation will be more transitory in nature or something to worry about for a longer time frame. If it looks transitory, then the focus will likely turn back to slower growth and higher unemployment, which in turn would give a higher likelihood of at least one, if not two of those rate cuts coming into effect. Either way, this is likely to be a very data-rich summer, with plenty of implications for portfolio positioning.

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