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## Comments from Lon Erickson, portfolio manager at Santa Fe, New Mexico-based Thornburg Investment Management.

- The FOMC left the target range for the federal funds rate unchanged, as expected. The ongoing tension between the Fed's inflation and employment mandates has become harder to assess amid the conflict in Iran and the resulting rise in oil prices. The only material change to the statement was to acknowledge this increased difficulty. Miran dissented in favor of a 25-basis-point cut, which we anticipated and reflects politics more than economics.
- The changes to the SEP compared to December were relatively minor. The median projected path for the fed funds rate for the next couple of years is unchanged, except for the long-run rate, which increased slightly to 3.125%. The long-run GDP growth forecast is a little higher, but the inflation forecast remains unchanged. The Fed appears comfortable with current economic conditions, higher oil prices, and geopolitical concerns notwithstanding.
- During the press conference, Chairman Powell emphasized heightened uncertainty stemming from the Iran conflict and higher prices, even remarking that Fed participants joked this might be the rare occasion when updating the Summary of Economic Projections was pointless. While he stressed that uncertainty applies to both inflation and employment, the near-term risk is clearly skewed toward inflation—a point reflected in both the questions and his responses. Powell attempted to project confidence that inflation would return to the 2% target once tariff effects pass through to goods prices, but this was undermined by his acknowledgment that higher energy costs could pose a headwind and his admission that he remains unsure why non-housing services inflation remains elevated despite a weaker labor market. Both comments were poorly received by markets. Compounding this, Powell repeatedly referenced inflation being “five years (or many years) above target,” language that further eroded confidence. Equities fell more than 1% and Treasury yields rose over 6 basis points. While it is too early to argue the Fed has lost credibility, Powell did not successfully thread the needle today.
- Inflation dominated the headlines during and immediately following the press conference, but the growth implications are equally important. The longer oil prices remain elevated and the conflict persists, the greater the uncertainty facing households and businesses. Elevated uncertainty tends to delay decision-making: consumers pull back, firms postpone investment, and, in more extreme cases, both reduce spending outright, raising the risk of recession. This dynamic interacts with the often-discussed K-shaped nature of the U.S. economy. Higher fuel costs disproportionately burden lower-income households, while falling asset prices, higher borrowing costs, and increased market volatility could weigh on higher-income consumers, whose spending has been a key support for recent economic growth.

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