



March 18, 2026

# THE PENULTIMATE POWELL

- The FOMC held interest rates unchanged at a range of 3.50-3.75% for the second meeting of 2026
- Only one Fed Governor dissented in favor of rate cuts, despite short-timer Powell holding little sway
- Higher energy prices threaten to push consumer inflation expectations higher and make the Fed’s job harder
- Dot plot rate projections continue to indicate 2x more rate cuts in 2026 and 1x more cut in 2027

Treas.	2.15PM	1.45PM	Chg.
3mo	3.69	3.69	-(0.00)
2yr	3.70	3.71	-(0.01)
5yr	3.81	3.82	-(0.01)
10yr	4.22	4.22	-(0.01)
30yr	4.85	4.86	-(0.01)
3m/2s	1	2	-(1)
2s/10s	52	51	+0
2s/30s	115	115	+1

Source: Bloomberg

If Fed Chair Jay Powell has a tear-off calendar (definitely *The Far Side* themed) it’s getting awfully thin—just 58 pages left on the wall until May 15. Today, at his penultimate FOMC meeting, Powell led the FOMC to leave overnight interest rates unchanged at a range of 3.50 – 3.75%, where they have been since December’s cut. With such a short time in office, we had anticipated that Powell’s colleagues at the Federal Reserve Board would begin straying from the consensus-driven views of their short-timer boss. Only one Fed Governor, the obstinate Miran, dissented in favor of a cut. Gov. Waller, who had dissented last time and expressed labor market worries, mysteriously advocated to hold rates unchanged.

Data since the Fed last met has been negative for labor markets and problematic for inflation. Although the data were overshadowed by the onset of the Iran conflict, the February jobs report noted a -92K contraction in jobs for the month. Inclusive of that month, 5 of the last 12 months have seen a decline in employment, a total seen three times in recent history (the 2007-2009 Great Recession, the 2003 near-recession, and the 1991 consumer recession). That’s not great company to join, granted the circumstances today are quite different. We do not view a recession as likely, but the point is moot for the Fed: they are charged with maximizing

employment, not maximizing growth. When it comes to prices pressures, the trend is moving the opposite way we and many others had expected. Core PCE prices, the Fed’s preferred measure of inflation, have upshifted to a 3.6% 3-month annualized run rate as of January, fully 1.0% faster than the run rate from late-2025. Those numbers meanwhile do not consider higher airfare and transportation costs that will likely emerge from the ongoing Iran conflict. This is the very definition of “two-sided risks” about which Fed statements have worried in recent years. When faced with these conflicting worries, the Fed has typically sided with the labor markets, preferring cuts, but the recency of the 2021-2023 inflation shock might change the calculus this time around.

Shifts in the FOMC statement language were limited. Despite February’s jobs report, “the unemployment rate has been little changed in recent months.” In reference to Iran conflict, the Fed noted that developments “for the US economy are uncertain.” True enough, if not particularly helpful. There is not much the Fed can do for higher oil prices in the first place. More valuable for the markets is a *lack* of reaction implied by the quarterly economic projections and dot plot. FOMC participants’ expectations for Core PCE inflation rose +0.3% to 2.7% for the current year, and yet the median expectations for overnight interest rates remained at 3.375%. The lack of change in the dot plot is an explicit willingness to tolerate higher inflation without policy response, a meaningfully dovish shift. Powell will almost certainly tell us not to take the dot plot too literally and to highlight uncertainty in these economic and rate forecasts, but the numbers are staring us market types right in the face.

Immediate market response to the FOMC statement release was modest, with yields falling slightly across the curve from pre-FOMC levels. Equities held in the lower end of the day’s range, where they have been since the aftermath of the morning’s warm PPI inflation report. The dollar was little change to slightly higher post-announcement, but well within the day’s trading range. The biggest financial variable is something the Fed can do little about: energy prices. Brent crude is still up almost \$3 on the day, which has been the major risk on/off switch for all obvious reasons. And no matter what Jay Powell says at his penultimate scheduled press conference, energy prices are not within his control.



- U-rate “little changed” in Fed view despite NFP contraction

Available indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained low, and the unemployment rate has been little changed in recent months. Inflation remains somewhat elevated.

- Iran conflict has “uncertain” effect on economy

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The implications of developments in the Middle East for the U.S. economy are uncertain. The Committee is attentive to the risks to both sides of its dual mandate.

- Risks to “both sides of the mandate” remain

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 3-1/2 to 3-3/4 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

- Miran dissents (surprise surprise) yet Waller does not (actual surprise)

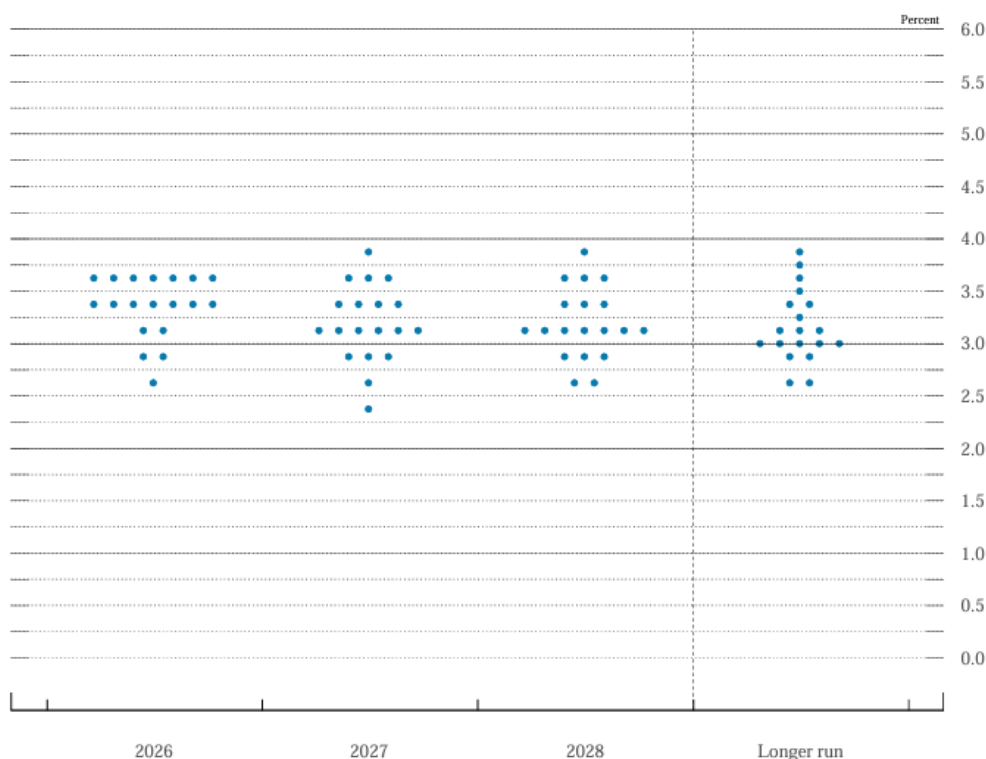
Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Lisa D. Cook; Beth M. Hammack; Philip N. Jefferson; Neel Kashkari; Lorie K. Logan; Anna Paulson; and Christopher J. Waller. Voting against this action was Stephen I. Miran, who preferred to lower the target range for the federal funds rate by 1/4 percentage point at this meeting.

- Consensus forecast for 2026 core PCE +0.3% and for 2027 +0.1%, yet no change in rate cut expectations

**Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, March 2026**

Variable	Percent				Percent				Percent			
	Median <sup>1</sup>				Central Tendency <sup>2</sup>				Range <sup>3</sup>			
	2026	2027	2028	Longer run	2026	2027	2028	Longer run	2026	2027	2028	Longer run
Change in real GDP	2.4	2.3	2.1	2.0	2.2-2.5	2.0-2.4	2.0-2.3	1.8-2.0	2.1-2.7	2.0-2.7	1.8-2.7	1.7-2.5
December projection	2.3	2.0	1.9	1.8	2.1-2.5	1.9-2.3	1.8-2.1	1.8-2.0	2.0-2.6	1.8-2.6	1.7-2.6	1.7-2.5
Unemployment rate	4.4	4.3	4.2	4.2	4.3-4.5	4.2-4.4	4.0-4.4	4.0-4.3	4.3-4.6	4.0-4.5	4.0-4.5	3.8-4.5
December projection	4.4	4.2	4.2	4.2	4.3-4.4	4.2-4.3	4.0-4.3	4.0-4.3	4.2-4.6	4.0-4.5	4.0-4.5	3.8-4.5
PCE inflation	2.7	2.2	2.0	2.0	2.6-3.1	2.0-2.3	2.0	2.0	2.3-3.3	1.8-2.4	1.9-2.2	2.0
December projection	2.4	2.1	2.0	2.0	2.3-2.5	2.0-2.2	2.0	2.0	2.2-2.7	2.0-2.3	2.0	2.0
Core PCE inflation <sup>4</sup>	2.7	2.2	2.0		2.5-2.8	2.0-2.4	2.0		2.2-3.0	2.0-2.5	2.0-2.2	
December projection	2.5	2.1	2.0		2.4-2.6	2.0-2.2	2.0		2.2-2.7	2.0-2.5	2.0	
Memo: Projected appropriate policy path												
Federal funds rate	3.4	3.1	3.1	3.1	3.1-3.6	2.9-3.6	2.9-3.6	2.9-3.5	2.6-3.6	2.4-3.9	2.6-3.9	2.6-3.9
December projection	3.4	3.1	3.1	3.0	2.9-3.6	2.9-3.6	2.8-3.6	2.8-3.5	2.1-3.9	2.4-3.9	2.6-3.9	2.6-3.9

**Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate**



- The 2026 dot remains at 3.375%, unchanged from Dec
- Same with 2027 dot at 3.125%
- Longer run rate expectations ticked slightly higher, but that's basically an imaginary number at this point

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