



January 28, 2026

FINAL COUNTDOWN

- Federal Reserve policymakers held their target for overnight interest rates to 3.50% – 3.75%, following 0.75% of cuts with a hold
- Economic data continues to drip in after the government shutdown, but noise in the data is overwhelming the signal
- The FOMC statement notably dropped a line focusing on labor market risks, suggesting balanced inflation and jobs worries
- Palace intrigue is the game of the day, as Fed Chair Jay Powell is down to his final three FOMC meetings and pressers

Treas.	2.15PM	1.45PM	Chg.
3mo	3.67	3.67	+0.00
2yr	3.58	3.58	+0.00
5yr	3.85	3.84	+0.00
10yr	4.26	4.26	+0.00
30yr	4.87	4.87	+0.01
3m/2s	(8)	(8)	+0
2s/10s	68	67	+0
2s/30s	129	128	+1

Source: Bloomberg

The Federal Reserve Open Market Committee (FOMC) maintained its target for overnight interest rates at a range of 3.50% - 3.75% for its first meeting of 2026. Today's no-change decision follows from a series of rate cuts begun in early-fall that totaled 0.75%, leaving overnight rates now down 1.75% from their cycle peak. [Political attacks on the Fed ratcheted up](#) in recent weeks, making it more difficult for policymakers to chart an independent course. Fed Chair Jay Powell is in the final countdown of his tenure, with only two more FOMC meetings left, and the parlor game of betting on his successor is in full swing. Now, not only do we have to chart a course through confusing economic data, but we also must navigate the shifting composition of the Fed's policymakers.

Data since the FOMC last met has been better than expected, if unusually noisy. Payroll growth continued in its meager 50K/month pace, but the unemployment rate dropped about two-tenths from recent highs. Response rates for the jobs surveys were unusually low. Consumer spending through the early part of the critical holiday season held up well, with "core" November retail sales rising +0.4% and overall consumer spending growing by a slightly smaller margin. From early indications, price pressure from tariffs has been manageable for consumer wallets,

despite recent studies indicating that consumers were bearing 90%+ of the cost. There is some limited evidence that consumers are absorbing the higher prices of goods by reducing spending on services, which fits with the idea that tariffs are a disinflationary tax. Speaking of disinflation, measures of price pressures eased with the core CPI running at just a +1.6% 3-month annualized pace. But—and here's where "noisy" comes into play—the BLS simply zeroed out some housing data during the government shutdown. Owing to the vagaries by which the BLS estimates rents, this zero month is going to compress the index through April. We think the underlying pace of inflation is indeed melting, but not nearly so fast as the recent prints would suggest. This balance between okay-not-great labor markets and melting inflation should permit more cuts as the year goes on, but the path from here to there is going to include a new Fed Chair.

The FOMC statement, which accompanied today's decision, included substantial changes and was notably shorter than recent statements. Participants upgraded their overall assessment of economic growth, which is now "solid" up from "moderate." More importantly, the statement dropped the line which expressed more concern over the labor markets. The FOMC now seems to believe that risks to inflation and employment are equally balanced. Governors Miran and Waller both dissented in favor of cuts, the latter perhaps as an effort to keep a Chairmanship bid alive.

Immediate market reaction to the announcement was muted. Yields chopped around without evident direction though the yield curve steepened slightly. Risk markets were slightly lower—presumably the Fed's reduced concern over labor markets and implied fewer cuts is the culprit there. Finally, the dollar was slightly stronger than pre-announcement levels, but comments from both President Trump and Treasury Secretary Bessent seem to be a bigger driver of the dollar than is monetary policy.

FEDERAL RESERVE press release



- Fed upgraded growth to “solid” from “moderate”

Available indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained low, and the unemployment rate has shown some signs of stabilization. Inflation remains somewhat elevated.

- Risks now balanced; gone is the line about labor markets potentially deteriorating

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 Committee is attentive to the risks to both sides of its dual mandate.

- FOMC directed NY desk to continue buying short-term bonds to support reserves; now out to 3-yr maturities

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.

- A new year brings new regional voters incl. Hammack, Kashkari, Logan, and Paulson; Miran and Waller dissent for a cut

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; and Anna Paulson. Voting against this action were Stephen I. Miran and Christopher J. Waller, who preferred to lower the target range for the federal funds rate by 1/4 percentage point at this meeting.

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GUY LEBAS, CHIEF FIXED INCOME STRATEGIST | GLEBAS@JANNEY.COM | 215.665.6034