

BULL & BEAR *Bulletin*

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Rate Cuts or a Pause

The Federal Reserve's target range for the federal funds rate is 4.25 % to 4.50 %. Futures markets are pricing in two cuts by year-end, while both the President and the Treasury Secretary have repeatedly called for lower interest rates—a level of political pressure that some argue could blur the line between the Fed's independence and political influence.

One of the Fed's dual mandates is to maintain stable prices. Its preferred inflation gauge, the Core Personal Consumption Expenditures (PCE) Price Index, has been trending lower, reaching 2.5% year-over-year in April—bringing it closer to the Fed's 2% target. The last time the year-over-year change was lower was in March 2021, at 2.2%.

Although the Consumer Price Index (CPI) covers a narrower assortment of items and a smaller percentage of the U.S. population, it also supports the softening trend. Core CPI rose 0.13% month-over-month in May and has been gradually declining since its peak of 0.80% in April 2021 (see Chart 1). The Treasury Secretary has also pointed to the bond market as a signal for lower rates. The two-year Treasury yield, currently at 3.96%, suggests that one to two cuts may be warranted. Supporters of rate cuts argue that easing inflation data as well as the two-year Treasury yield level both support a more accommodative policy stance.

However, arguments remain for holding rates steady. One key concern is the inflationary effect of tariffs, which could complicate the Fed's ability to ensure price stability. Fed officials have signaled a wait-and-see approach as they assess the potential impact of these trade measures while inflation remains modestly above their target. The Fed's second mandate is maximum employment. The unemployment rate held steady at 4.2% in May, unchanged since March 2025. Those favoring keeping rates steady may point to a stable labor market and tariff-related uncertainty as reasons to maintain current policy levels for now.

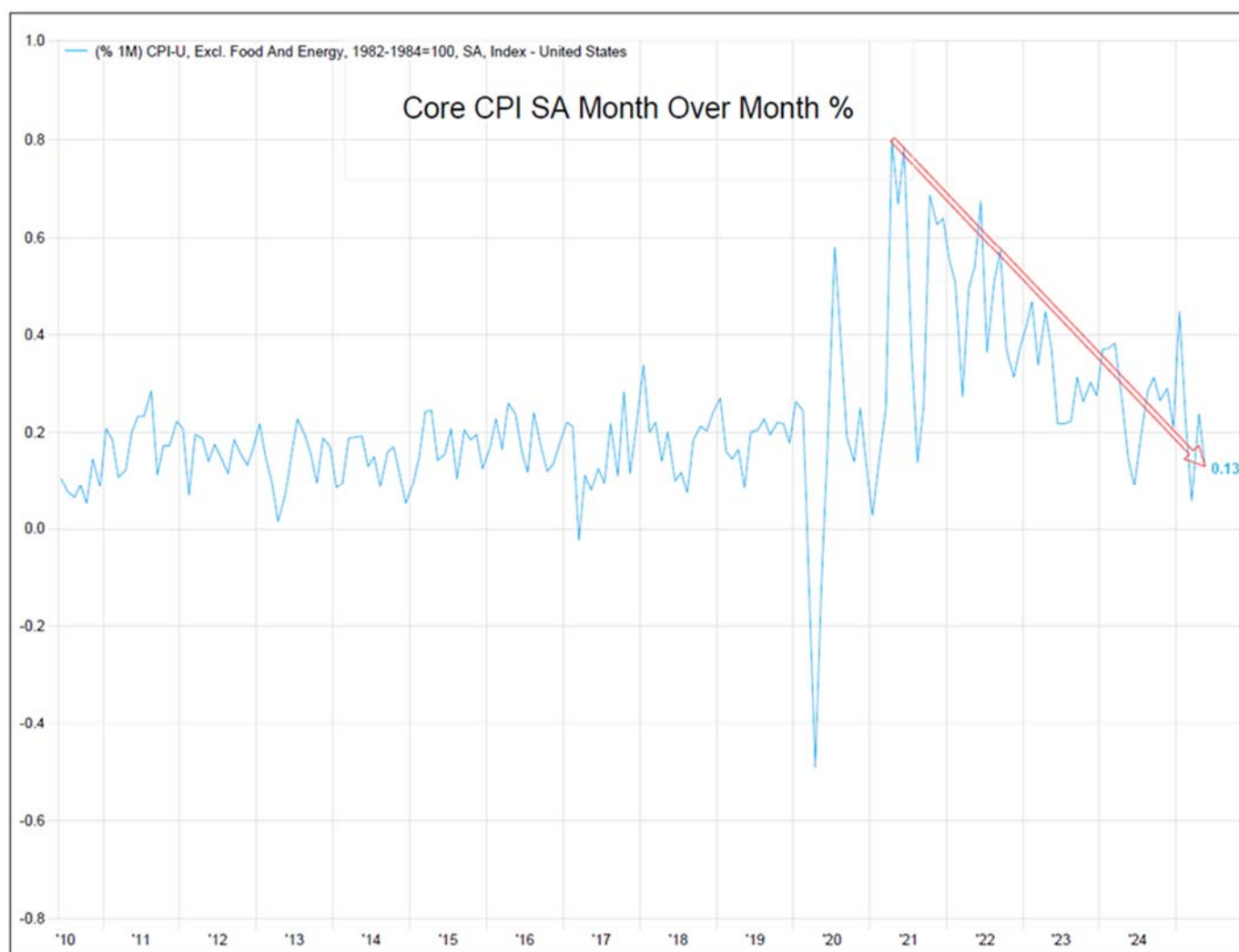


Chart 1 Source: FactSet

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