

Commentary Week of Feb 01, 2026

The Federal Reserve kept its benchmark federal funds rate at 3.5 - 3.75% during its most recent meeting in late January. The Fed explained that economic activity has been expanding at a solid pace, the unemployment rate has shown signs of stabilization, but that inflation remains somewhat elevated.

We remain in a neutral zone with inflation at 2.6% + 1% real policy rate to get us to 3.6% (smack dab in the middle of the benchmark rate). The Fed seems to be in a good place to wait and see before the next data points are released and Chairman Powell isn't going to stick his neck out too much in these last few months of his term.

As such, the market isn't pricing changes until the summer (see chart below with an 83% chance the Fed holds rates steady at their next meeting), when new chair Kevin Warsh takes over in May. Warsh has suggested he sees room for the Fed to cut rates even while Powell cites inflation as the reason to keep rates steady. The Fed chair is one of 12 votes on the FOMC and while the position holds significant influence in shaping policy, it does not have extra voting power or a tie-breaking vote.

