

## Fed likely to hold rates until 2HCY26

The FOMC held rates as expected, but upgraded its language around the outlook and indicated that cuts could now depend on incoming data, having reached the upper bound of neutral, Chair Powell noted that unemployment/inflation tensions were now lower, though this is not yet seen in analyst forecasts. With effects of a likely second shutdown this weekend and political dynamics shaping Fed leadership, decent growth prints are likely to see rates held until June, after which 50 bps cuts can be seen. Leadership shifts can bring faster cuts, with current 2028 hike pricing a source of volatility.

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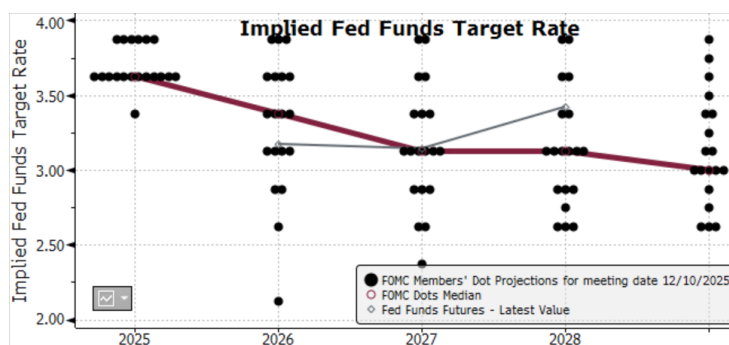
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**Exhibit 1 - Markets price in faster cuts in 2026 (mostly 2H), but hikes in 2028**



Source: Bloomberg, Axis Bank Research

### Fed holds rates, upgrades growth/inflation language

The FOMC held rates as expected, with a dissent from FRB governors Miran and Waller in favour of a 25 bps cut – the second dissent is a surprise and might come in the context of leadership shifts. Language was upgraded, with growth now seen as solid (earlier moderate), and the unemployment rate stabilising. In addition, the line from the Dec statement on downside risks to employment rising was removed. Chair Powell indicated that the language shift was in line with data across indicators (market projections are also higher, Fig 2), with tension between unemployment (market expectations are higher with actuals, Figs 3-4) and inflation (market expectations higher, Fig 5) now more diminished, with tariff impacts likely to top out midyear and services already cooling.

### Future cuts to be based on data, risks from second shutdown and leadership shift

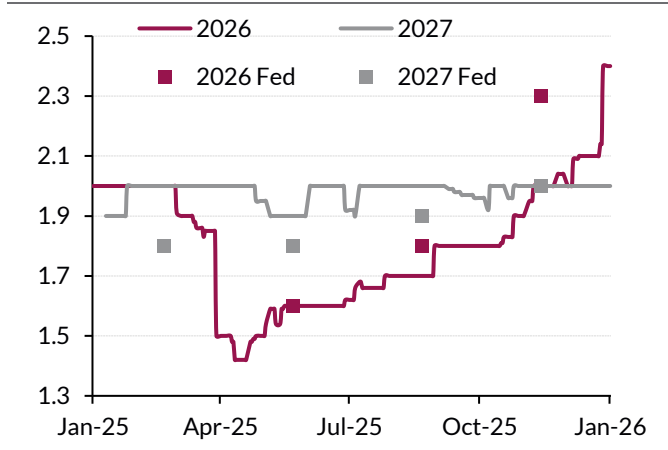
We [noted](#) after the Dec FOMC that insurance cuts were now over and rates were effectively at neutral – echoed by comments from chair Powell on now letting the data speak after 175 bps normalisation so far. There are risks to data from some scarring with a second shutdown seen likely this weekend (Fig 6), albeit a short one (Fig 7). The choice of the next Fed chair might also guide rates lower, with Blackrock senior MD Rieder now seen as the favourite (Fig 8). However, Senator Tillis of the Senate Banking Committee has threatened to block all appointments to the FRB required for this until the Powell probe, potentially opening room for a nomination of governor Waller who is already on the FRB.

### Dynamics likely indicate a hold until midyear, with 50 bps cuts thereafter

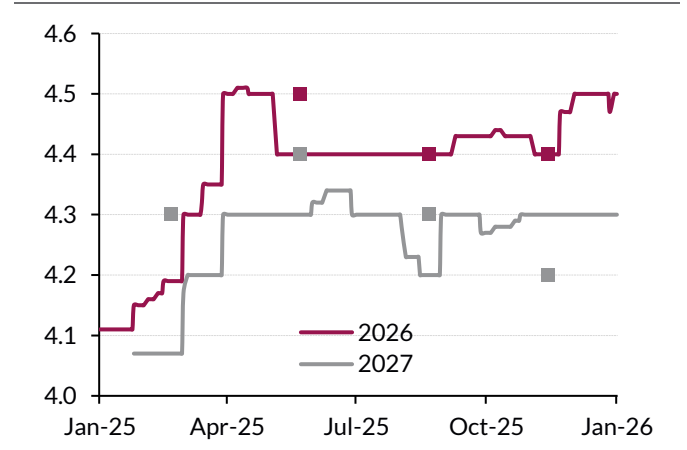
With uncertainty on leadership, future tariffs, impact of any near-term shutdown, and with decent growth data, the makeup of the FOMC (4 out of 5 regional presidents indicating caution) indicate a hold until the Jun-Jul meetings. If a new FOMC chair is not appointed by the end of Mr. Powell's term, NY Fed president Williams, one of the cautious regional governors, also becomes FOMC chair. However, room for cuts opens up in 2H. Against the dotplot, market expectations are of hikes in 2028 (Fig 9), where pricing will next be in play.

**January 29, 2026**

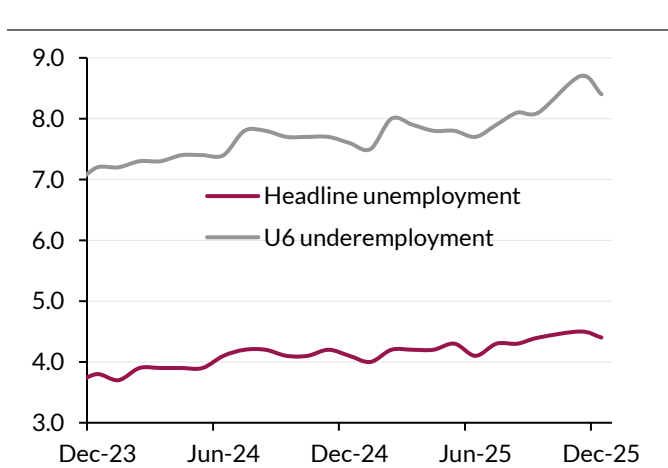
FOMC review

**Exhibit 2 - Market GDP growth projections have surpassed those of the Fed in the Dec FOMC**


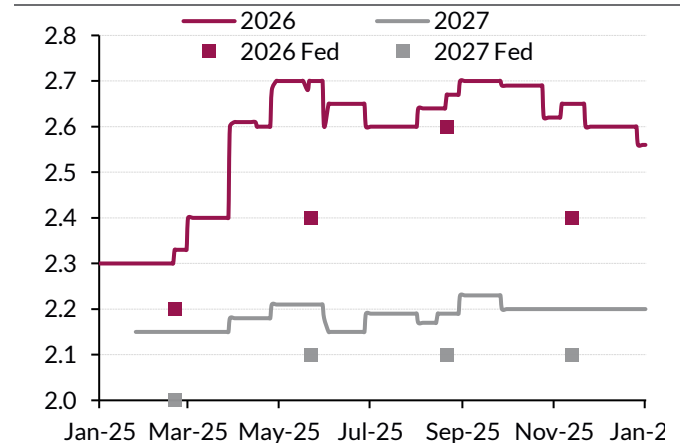
Source: Bloomberg, Axis Bank Research

**Exhibit 3 - Market unemployment projections are worse than that of the Fed, potentially explaining cut pricing**


Source: Bloomberg, Axis Bank Research

**Exhibit 4 - Headline and 'core' unemployment are rising**


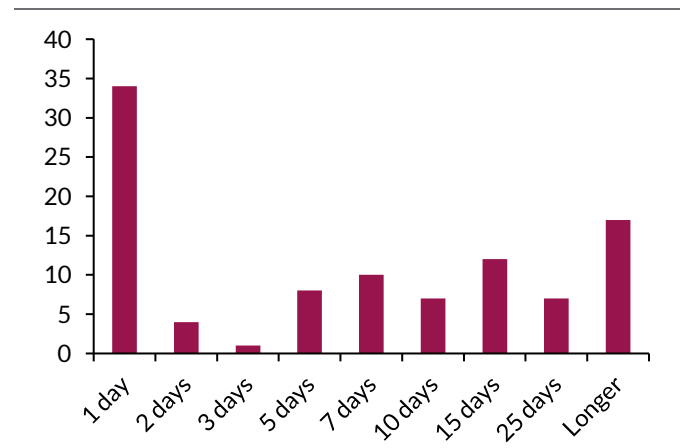
Source: Bloomberg, Axis Bank Research

**Exhibit 5 - Markets price higher PCE inflation than Fed forecasts, with unemployment-inflation tension remaining**


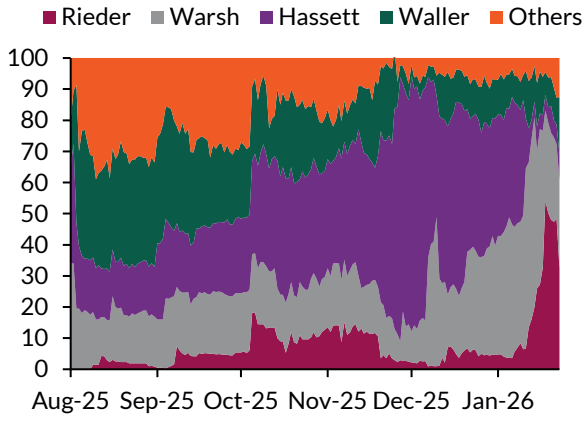
Source: Bloomberg, Axis Bank Research

**Exhibit 6 - Prediction market probability of a shutdown this weekend**

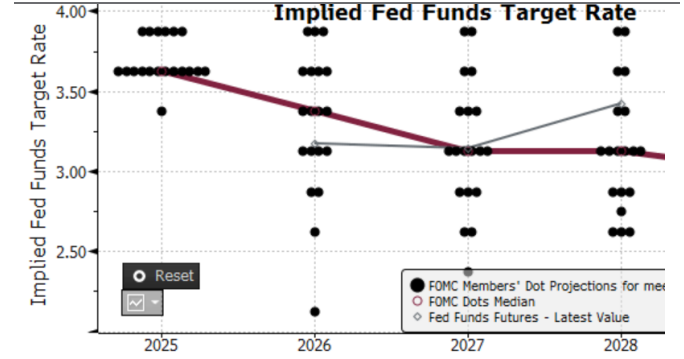

Source: Bloomberg, Axis Bank Research

**Exhibit 7 - Prediction market shutdown length pricing - a short shutdown seen (this was also seen last time)**


Source: Bloomberg, Axis Bank Research

**Exhibit 8 - Prediction market probability the next Fed chair nomination – Rieder leads, but Waller might emerge**


Source: Bloomberg, Axis Bank Research

**Exhibit 9 - Markets see around 50 bps cuts this year, hikes in 2028**


Source: Bloomberg, Axis Bank Research

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