

Special Commentary — January 28, 2026

January FOMC: The Window To Cut Is Closing

Summary

- As was widely expected, the FOMC held the fed funds rate steady at its January meeting. The statement and Chair Powell's press conference suggested that the Committee is finely balanced between worries about a gradually deteriorating labor market and still above-target inflation. Our main takeaway from today's meeting is that the hurdle to additional cuts has been raised under Chair Powell's watch.
- Governors Miran and Waller dissented in favor of a 25 bps cut. Interestingly, Michelle Bowman voted in favor of holding rates unchanged, and Miran's dissent was for 25 bps, not 50 bps. Even the Committee's doves appear to have become relatively less dovish recently.
- January's hold follows 25 bps cuts at each of the FOMC's three previous meetings that have left the policy rate modestly above most participants' estimates of neutral ([chart](#)). The post-meeting statement struck us as slightly hawkish. References to downside risks to the labor market were removed, with new language saying that the unemployment rate has "shown some signs of stabilization."
- Like the labor market characterization, the language around inflation was cautiously more optimistic. While the statement maintained that "inflation remains somewhat elevated," it removed the reference to inflation moving up since early last year.
- The more balanced risks to the Fed's dual mandate came through in Chair Powell's press conference. According to Powell, "We still have some tension between employment and inflation, but it's less than it was. I think the upside risks to inflation and the down risks [to employment] are probably both diminished a bit."
- Powell also seemed more upbeat on the economic outlook, saying that it's "overall a stronger forecast" compared to the December meeting. That said, he was not ready to sound the all clear: he stressed that the Committee has not made any decisions about future meetings, and on the labor market he stated that "we saw data coming in which suggests some signs of stabilization. I wouldn't go too far with that, but some signs of stabilization."
- Against this backdrop, Powell stressed that the current policy rate is well-positioned after the three cuts to "let the data speak to us."
- Powell refrained from commenting on the [Department of Justice investigation](#) into the Federal Reserve as well as his plans to leave or stay on the Board of Governors after his term as Chair expires. When asked about his attendance of Lisa Cook's case at the Supreme Court, he noted that the case is "perhaps the most important legal case in the Fed's 113-year history. And as I thought about it, I thought it might be hard to explain why I didn't attend."
- While the statement and Chair Powell's press conference suggested the Committee is not in a hurry to resume policy easing, both were careful to preserve flexibility for the months ahead, including keeping the door cracked to another rate cut in March should the labor market weaken and/or inflation slow further. Our forecast remains for two additional 25 bps cuts at the March and June meeting this year. Yet, as we have [stressed](#) recently, the risks to this call look increasingly skewed toward later and less easing as our expectations for solid GDP growth and a stabilizing labor market later this year leave a narrow window to cut.

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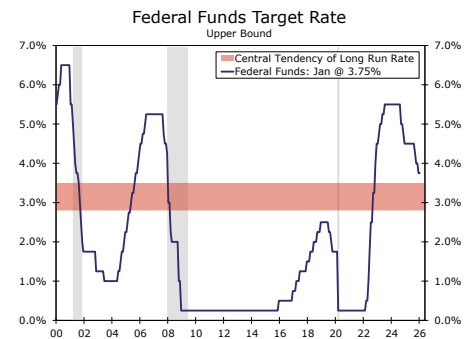
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