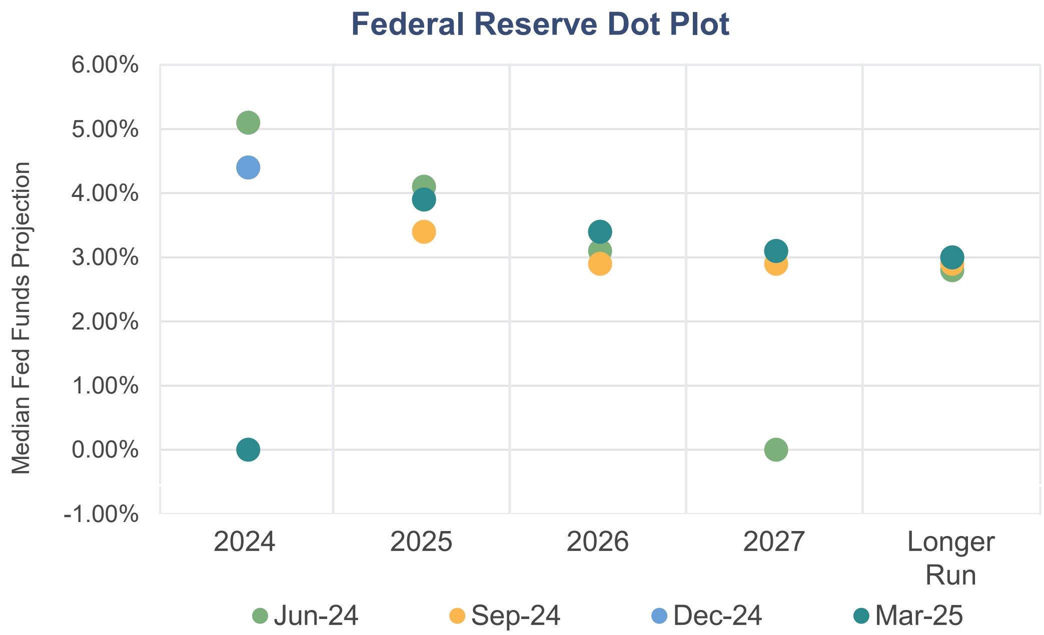
Fed Lowers Growth Outlook But Raises Inflation Expectations

March 20, 2025

Federal Reserve (Fed) Funds rate policy remained unchanged today, but the notable impact was felt in the updated Summary of Economic Projections (SEP) dot plot. The mean estimate for Economic growth full year 2025 fell to 1.70% from a December mean of 2.10%. Conversely, inflation and unemployment expectations rose with 2025 Core Personal Consumption Expenditure (PCE) up to 2.80% and full year unemployment at 4.40%. The Fed also decided to slow their pace of balance sheet reduction by $25 billion and are only reinvesting $5 billion per month of U.S. Treasury maturities beginning in April mentioning that uncertainty around the economic outlook has increased. The Fed median outlook still calls for two 25 basis point (bps) cuts to Fed Funds by the end of 2025.



The Fed's acknowledgement of sticky inflation and slowing growth was welcomed by the markets as U.S. Treasury rates, which were rising, initially rallied on this news. The U.S. 10-Year Treasury Note's yield fell to 4.25%. However, the Fed now finds itself in the unenviable position of having to grapple with an economy that may be downshifting while inflation is accelerating, even before any effects of potential tariff policy. This is an environment that has been labeled as "Slugflation." Still positive, but reduced growth, with persistent inflation. The Fed alluded to this as they removed the language from their previous statement referencing risks to achieving its employment and inflation goals are roughly in balance. This now seemingly imbalance will weigh on the Fed as they make future monetary decisions.

Chart above: Data is as of 03.19.2025. Source: Federal Reserve. The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees that these methods will be successful.

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Our View

Like the Fed, we too are focused on developing economic uncertainty and are maintaining a neutral duration bias as investors grapple with changing fiscal and monetary policy. We bias our risk allocation to higher quality assets as we await further information around monetary and fiscal policy and how the economy performs amidst a shifting policy landscape, and recently reduced exposure to corporate credit as spreads, despite recent weakness, remain near all time tights.

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Andrew Richman, CTFA, Managing Director, joined SunTrust in 2001 and SCM in 2020 as part of an integration following the merger of equals between SunTrust Banks and BB&T Corporation. Andy has investment experience since 1988 and is a Fixed Income Portfolio Manager and Senior Fixed Income Client Strategist. Prior to his 20 years in SunTrust's portfolio management division, Andy ran a trust and investment department in Florida as the trust department senior manager and worked as an equity portfolio manager with Sanford Bernstein. He received his B.A. from the State University of New York at Albany and his M.B.A. with a concentration in International Business from the University of Miami. He is also a graduate of the ABA National Trust School at Northwestern University and holds the Certified Trust & Financial Advisor designation.

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