

POLICY RATE VIEWS

Divided Fed kept rates unchanged for now

Fed maintains policy rate

The US Federal Reserve (Fed) maintained the Federal Funds Target Rate (FFR) at 3.50%-3.75% at the first Federal Open Market Committee (FOMC) meeting this year on January 27-28 with a 10-2 vote, as widely expected by financial market observers. This is the first time that the Fed held rates steady after three consecutive rate cuts in 2025.

The committee's assessment of the US economy improved relative to the previous meeting. Fed Chair Jerome Powell highlighted that economic activity has been expanding at a solid pace, a shift from the committee's earlier assessment of "moderate growth." He mentioned resilience in consumer spending and continued growth in business investment, although the growth in the housing sector remained weak.

Powell acknowledged that inflation remained elevated, driven largely by higher goods prices stemming from higher tariffs. However, short-term inflation expectations have already declined, and long-term expectations remain aligned with the Fed's 2% target. He continues to expect the impact of tariffs to be short-lived and that it would eventually come down from its peak, barring new major tariffs are implemented.

Powell also noted that the Fed's current policy rate stance is "within range of plausible estimates of neutral," suggesting that the current policy rate should help the Fed balance current risks to its dual mandate of maximum employment and stable prices. Nonetheless, Powell said the current policy stance is close to the upper end of the neutral range, leaving room for possible Fed rate cuts.

The committee said the Fed remains data driven and will continue to assess incoming data, the evolving economic outlook, and the balance of risks.

Related article: [Fed Preview: The inflation breather](#)

**Fed Funds Target Rate
as of January 29, 2026**

3.50% to
3.75%

US Economic Data

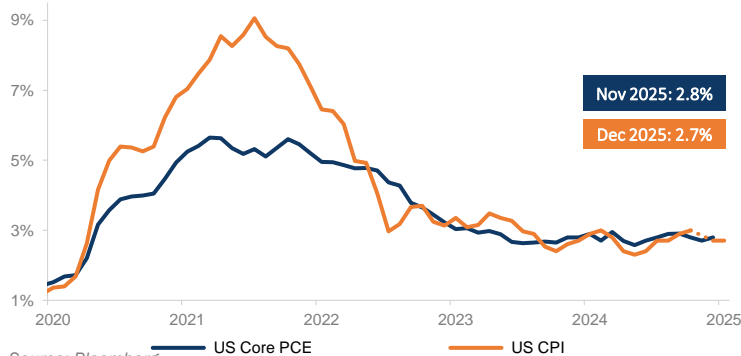
The Fed's preferred inflation measure, the US Core Personal Consumption Expenditure (Core PCE) Price Index, rose 2.8% year-on-year (YoY) in November from October's 2.7%. In the first 11 months of 2025, Core PCE rose by 2.8%, well-above the Fed's 2.0% target. Meanwhile, the headline Consumer Price Index (CPI), rose 2.7% YoY in December, as food costs increased and shelter costs remained sticky. Tariff-related pressure also lifted prices for medical services and household furnishings.

The unemployment rate improved to 4.4% in December from 4.5% in November. Nonetheless, economic conditions point to October's figure, which is unavailable due to the US government shutdown, being unlikely to be lower than November's.

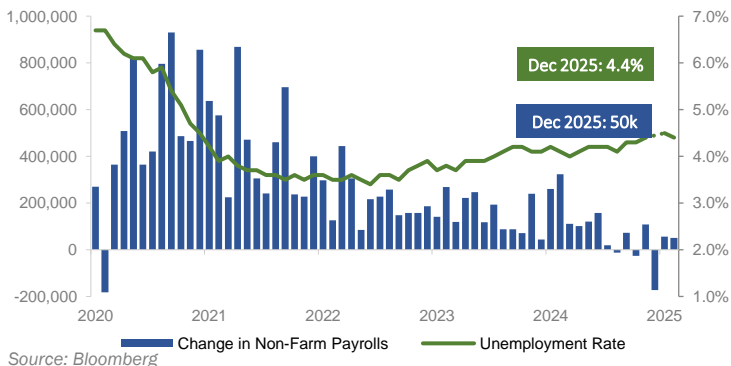
Meanwhile, preliminary data showed that nonfarm payroll jobs (NFPs) increased by 50,000 in December. Together with the preceding month's downwardly revised 56,000 increase, these signal a potential labor-market recovery after the 173,000 decline in October due to the shutdown. Only 584,000 jobs were added in 2025, a steep drop from the 2.3 million added in the year prior.

Overall, inflation remains elevated even as the labor market cools, requiring a balancing act by the Fed.

US Inflation



US Labor Market



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METROBANK'S TAKE

Weak jobs market spills into broader economy

The most recent Fed decision aligns with Metrobank's expectations. Current risks on the economy, including shifting policies, continue to stall complete recovery of the labor market, with its weakness now spilling over across the broader economy. Moreover, although consumer sentiment has improved, it remains subdued, particularly among lower-income households who still feel constrained by the elevated prices. This presents a challenge for the Fed to carefully assess incoming data and find the right balance on addressing concerns on its dual mandate.

While a cooling labor market strengthens the case for the Fed to further cut policy rates, stubborn inflation argues the need for maintaining a less accommodative policy rate setting for now and pacing the timing of further rate cuts. Nonetheless, as current labor market weakness starts to translate into softer consumer demand, Metrobank expects the Fed to slowly shift its focus toward labor market stability moving forward.

Dovish Fed chair to tilt the scale

Trump appointees Stephen Miran and Christopher Waller dissented at the last FOMC meeting, each voting for a 25-bp rate cut. Waller, along with National Economic Council Director Kevin Hassett and some others, has been cited by central bank watchers as a leading contender for the chairmanship position. Given his current dovish stance, Waller would likely be inclined to support further policy rate cuts should he be appointment as Powell's successor. Upcoming changes in the FOMC's composition around mid-year could shift the scale toward a more dovish tilt.

The easing continues

Metrobank maintains its forecast that the Fed will reduce its policy rate by a cumulative 100 basis points (bps) this year, bringing the FFR to 2.75% (upper bound) and concluding the current easing cycle.

In the local space, while inflation is expected to accelerate this year due to last year's low base, it is expected to remain well-within the BSP's 2.0-4.0% target range. This, alongside soft consumer demand and investments, provides room for the Bangko Sentral ng Pilipinas (BSP) to continue with its easing cycle. Metrobank forecasts that the BSP will cut by another cumulative 50 bps this year, bringing the target Reverse Repurchase (RRP) rate to 4.00% by year-end.