NATIONAL BANK OF CANADA FINANCIAL MARKETS

June 18, 2025

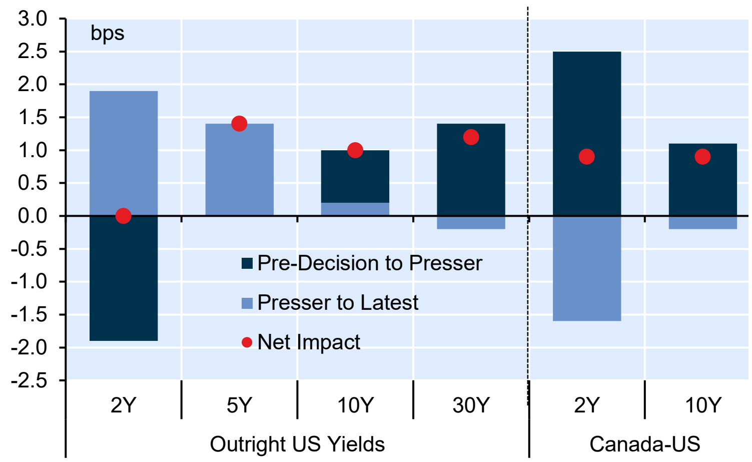
Dots keep 2025 rate outlook intact (barely)

By Taylor Schleich & Ethan Currie

Decision Details & Rate Statement

- The FOMC kept the target policy range unchanged at **4.25-4.50%,** in line with market pricing and a unanimous consensus. Balance sheet policy was left unchanged.
  - There were no dissents on the rate decision.
  - This is the 4th consecutive 'hold', leaving the policy rate 100 bps below last year's peak.
- The statement suggests that uncertainty about the economic outlook has "diminished but remains elevated". Given the de-escalation of trade tensions since last meeting, they naturally removed the reference to growing risks of higher unemployment and inflation. The statement's economic assessment was little changed other than some language clean-up.
- There were no changes to the forward-looking segment of the rate statement: "In considering the extent and timing of additional adjustments to the [policy rate], the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks.

Yield reaction function mixed on June decision
Change in yields/differentials: Pre-decision to presser



Sources: NBF, Bloomberg | Note: Latest as at 3:30pm EST

Summary of Economic Projections

- **GDP growth:** Real GDP projections took another hit in the near-term. The committee now sees 2025 growth at 1.4% (down from 1.7% in March), while 2026 was revised down by two ticks to 1.6%. 2027 and the longer-run forecast remained unchanged from the last SEP. Downside risks to the GDP outlook were deemed less prominent at the time of this meeting, as uncertainty came down slightly from March, but remained elevated.
- **Labour market:** The committee now sees the jobless rate moving higher in 2025, 2026, and 2027 relative to the March projections. The 2025 figure was revised up one tick to 4.5%, while the 2026 forecast was 4.5% as well (up from 4.3% previously). The long-run projection remained at 4.2%. Risks were more balanced at the time of these projections, relative to prior guidance.
- **Inflation:** For the third straight SEP, the inflation outlook shifted materially higher. Headline PCE is seen at 3.0% in 2025 vs. 2.7% as guided in March, while core PCE is expected to be 3.1% (from 2.8%). Both inflation measures were revised higher in 2026 and 2027, while headline remained unchanged at 2.0% in the long-run forecast.
- **Dot plot:** Markets had their eyes peeled on updates to the dot plot, though the median dot for 2025 remained, implying 50bps of rate relief by year-end. Still, there was some upward drift to prior guidance (as there was in March), as 9 of 19 members called for 1 or no rate cuts, and 10 members saw two or more. The median projection for the policy rate moved slightly higher in 2026 and 2027, though the longer-run projection (a good proxy for the Fed's thinking on a neutral rate) remained at 3.0%.

FOMC Summary of Economic Projections
Latest vs March SEP (median projections)

	Latest	March Projections
Change in real GDP (%)		
2025	**1.4**	1.7
2026	**1.6**	1.8
2027	**1.8**	1.8
Long run	**1.8**	1.8
Unemployment Rate (%)		
2025	**4.5**	4.4
2026	**4.5**	4.3
2027	**4.4**	4.3
Long run	**4.2**	4.2
PCE Inflation (%)		
2025	**3.0**	2.7
2026	**2.4**	2.2
2027	**2.1**	2.0
Long run	**2.0**	2.0
Core PCE inflation (%)		
2025	**3.1**	2.8
2026	**2.4**	2.2
2027	**2.1**	2.0

Source: NBC, FOMC

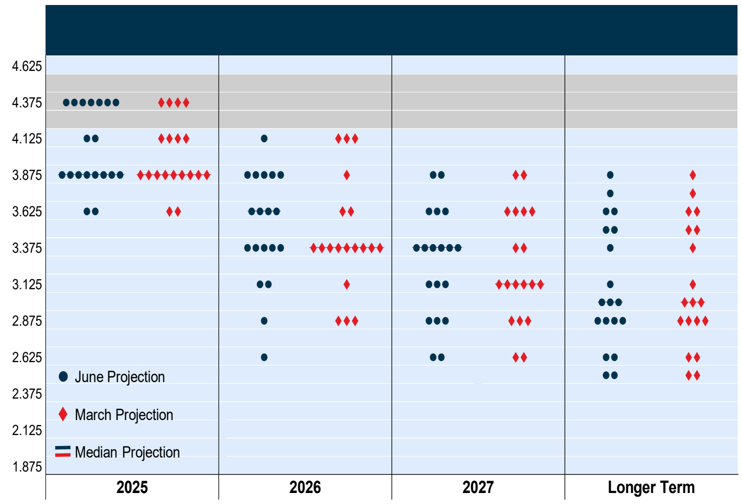
Press Conference

Below, we outline some of the highlights from the Q&A segment of the press conference.

- Once again, the Fed thinks they are "well positioned to wait to learn more about the likely course of the economy before adjusting policy".
- When asked on inflation, Powell highlighted that services inflation has been grinding down while goods inflation has moved up a bit. They expect to see more pressure on goods prices but it "takes time" for tariffs to make their way through the economy. While the exact timing and magnitude of tariff inflation is highly uncertain, they expect it to show up more "over coming months". There's some confidence in that outlook based on communicated corporate plans to pass on some or all of the tariffs. Moreover, Powell stressed that the tariffs have to show up *somewhere*.
- As outlined in the SEP, the collective expectation is for inflation to move up and then come back down (in 2026). But "we can't just assume that". The Fed has to ensure a one-time increase doesn't turn into an ongoing inflation problem.

Dots drift higher, 2025 median hangs on (just barely)

FOMC 'dot plot' – current & prior (March)



Sources: NBC, FOMC

- Discussing the labour market, Powell cited healthy levels of participation, job creation and wage growth. "You don't see increased slack really". He did concede that "you can see perhaps a very, very slow continued cooling but nothing that's troubling at this time".
- Regarding the near-term rate path, Powell explained it's "hard to say" when cuts will come. As long as the economy is solid, they feel the right thing to do is leave policy unchanged and gather more information. Powell said that they should learn a lot more over the summer. He stressed that they didn't expect to see much tariff impact by this point, so the coming months will be informative. The Fed Chair was also pressed on the dot plot's gradual upward shift in outer years over time (i.e., 2027). Powell said we shouldn't be focusing on these later years given minimal economic clarity that far out.
- The dot plot divergence (i.e., between those who see no cuts and those who see multiple cuts) is attributable to a very foggy economic outlook. Moreover, different people can look at the same data and have different risk assessments. At the same time, "nobody holds these rate paths with a lot of conviction".
- Overall, Powell judges that policy is "modestly" *not* "moderately" restrictive. To him, the economy is not performing as though it were under very restrictive monetary policy.

Bottom Line

The FOMC held its policy rate steady as widely expected but the headline rate decision was never going to draw the most attention. Rather, updated qualitative guidance via the rate statement/press conference and quantitative guidance via the dot plot were markets' main focus. Ultimately, the full suite of communications leans *slightly* less hawkish than feared as policymakers continued guiding towards 50 basis points of easing this year. Clearly, the slower growth profile and higher unemployment rate acts as a counterweight to the additional inflation that's now expected. But while the median dot remained unchanged, we'd note there was still *some* upward dot drift. 9 of 19 FOMC participants expect fewer than 2 cuts (up from 8) while 7 participants are now in the 'no cut' camp (up from 4). Overall, it's a razor thin margin that leaves the 2025 rate outlook unchanged but still sees the balance of risks skewed to less easing rather than more. That's basically where the market was already positioned and helps explain the relatively muted rate reaction. The press conference certainly didn't build confidence in a 2-rate-cut outlook. Powell maintained a very patient stance and was adamant that they'd be seeing some tariff impacts in the coming months. We'd generally agree that there's a path to two cuts this year but perhaps starting a bit later than markets are currently discounting (i.e., September). Late this year, we see the economy emerging from modest inflation pressures with some degree of economic slack. That could lead to a relatively quick pace of cuts at the very end of 2025 and into 2026. See our recently released ***Fixed Income Monitor*** for more details.

The Fed's next decision will take place on July 30th. The minutes for this meeting will be published on July 9th.

Here is the interest rate statement:

Federal Reserve issues FOMC statement

Although swings in net exports have affected the data, recent indicators suggest that economic activity has continued to expand at a solid pace. The unemployment rate remains low, and labor market conditions remain solid. Inflation remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook has diminished but remains elevated. The Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Susan M. Collins; Lisa D. Cook; Austan D. Goolsbee; Philip N. Jefferson; Adriana D. Kugler; Alberto G. Musalem; Jeffrey R. Schmid; and Christopher J. Waller.

Subscribe to our publications: NBC.EconomicsStrategy@nbc.ca – To contact us: 514-879-2529

General

This Report was prepared by National Bank Financial, Inc. (NBF), (a Canadian investment dealer, member of CIRO), an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that NBF is permitted to provide this Report to you under relevant legislation and regulations.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial and National Bank of Canada Financial Inc.

Canadian Residents

NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent or underwriter for certain issuers mentioned herein and may receive remuneration for its services. As well NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

This Report is not considered a research product under Canadian law and regulation, and consequently is not governed by Canadian rules applicable to the publication and distribution of research Reports, including relevant restrictions or disclosures required to be included in research Reports.

UK Residents

This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorised and regulated by the Financial Conduct Authority and has its registered office at 70 St. Mary Axe, London, EC3A 8BE.

NBF is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

EU Residents

With respect to the distribution of this report in the member states of the European Union ("EU") and the European Economic Area ("EEA") by NBC Paris, the contents of this report are for information purposes only and do not constitute investment advice, investment research, financial analysis or other forms of general recommendation relating to transactions in financial instruments within the meaning of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 ("MiFID 2"). This report is intended only for professional investors and eligible counterparties within the meaning of MiFID 2 and its contents have not been reviewed or approved by any EU/EEA authority. NBC Paris is an investment firm authorised by the French Prudential Control and Resolution Authority ("ACPR") to provide investment services in France and has passported its investment services throughout the EU/EEA under the freedom to provide services and has its registered office at 8 avenue Percier, 75008 Paris, France. "NBC Financial Markets, a subsidiary of National Bank of Canada" is a trade name used by NBC Paris S.A.

NBF is not authorised to provide investment services in the EU/EEA.

U.S. Residents

With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. ("NBCFI") which is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, accepts responsibility for its contents, subject to any terms set out above. To make further inquiry related to this report, or to effect any transaction, United States residents should contact their NBCFI registered representative.

This report is not a research report and is intended for Major U.S. Institutional Investors only.

This report is not subject to U.S. independence and disclosure standards applicable to research reports.

HK Residents

With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc, is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.