


# Fed Holds Rates Flat, Wary Of Iran War's Impact On Inflation

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**Federal Reserve** governors voted to hold **interest rates** flat in a widely expected decision that was **signaled at January's meeting** but later complicated by the outbreak of war in the Middle East.

It was the second time in two meetings that central bankers opted for no action after **shaving 75 basis points** off the Fed's benchmark rate across the last three **Federal Open Market Committee** meetings of 2025.

The vote is a signal that the central bank is holding on to a wait-and-see policy articulated by Federal Reserve Chairman **Jerome Powell** in January as **whipsawing tariffs** and **an immigration crackdown** rippled through the economy but before the U.S. began an intense bombing campaign in Iran.



*Flickr/Federalreserve*  
Jerome Powell

Fed governors voted 11-1 for the rate cut. Stephen Miran, the most recent appointee to the FOMC who has consistently backed rate cuts, voted for a 25-basis-point rate reduction.

Dissents have become common from the FOMC, which historically tries to present a united front but has more recently split over how to prioritize the two sides of the central bank's dual mandate of maximum employment and price stability.

Wednesday's result was more unified than the January meeting where two governors voted in the minority for a rate cut. The Fed decision is likely to antagonize President **Donald Trump** and his allies, who have publicly and frequently derided Powell.

The **scathing commentary**, coupled with recent criminal investigations into Powell and another Fed governor, have raised critical questions about the independence of the central bank in the lead-up to the end of Powell's term as chairman in May.

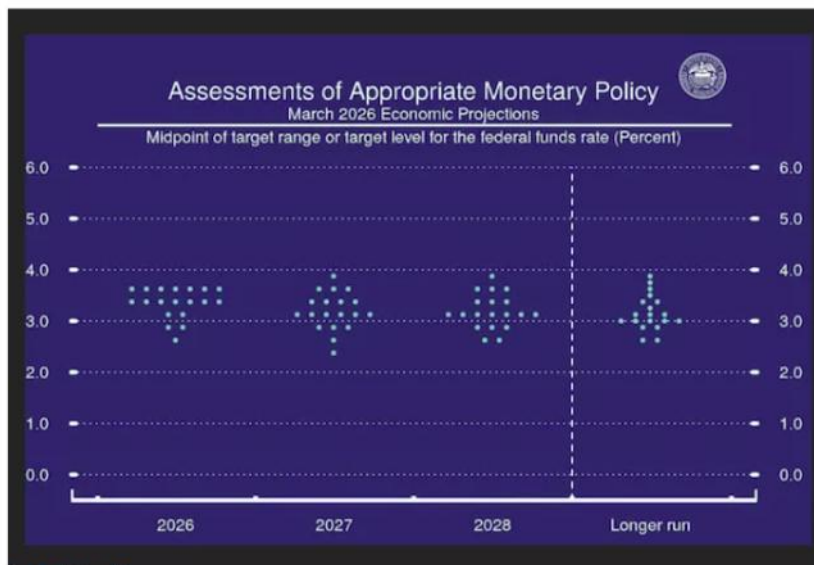
As the political fight simmers, the growing war in the Middle East has ensnared Gulf countries and **effectively halted shipping** through the Strait of Hormuz, a critical chokepoint for **roughly 20% of the world's oil**.

Analysts say a protracted fight is **likely to lead to higher inflation** — draining hopes that the Fed would move quickly to loosen **monetary policy** — while markets could snap back to prewar trends if there is a quick end to hostilities with limited overall damage to energy infrastructure.

“We are not anticipating a rate cut until at least June, while also recognizing there is now a growing and non-zero chance that the next rate move may actually be up, and not down if new inflationary pressures persist,” Trent Scott, president at **First Capital Property Group**/Corfac International, said in an email this week.

Fed governors are also expecting inflation to run hotter in 2026 than they had projected in December, according to updated forecasts released with Wednesday's vote results.

The median forecast for price growth on the Core Personal Consumption Expenditures Price Index, the Fed's preferred inflation metric, rose 20 basis points from the December forecast to 2.7% for 2026. Central bankers don't expect core PCE inflation to reach their long-held 2% target until 2028.



YouTube/Federal Reserve

The March 2026 dot plot shifted toward higher rates than Federal Open Market Committee members expected in December.

The dot plot, an anonymized graph of where each FOMC member thinks is the appropriate midpoint target federal funds rate, has narrowed and tilted more heavily towards higher rates compared to the December reading.

Seven governors place the midpoint at 3.625%, another seven estimate 3.375%, and the remaining five members place the midpoint target lower, with one pegging it at 2.75%.

Wednesday's decision to leave the federal funds rate unchanged at between 3.5% and 3.75% and the results of the dot plot suggest that many members of the Fed believe they've reached a neutral policy position and that further changes to rates will be on the margins.

Hawks on the FOMC have resisted calls to cut the central bank's benchmark rate over fears that cheaper debt could fuel inflation. Advocates for looser monetary policy argue that inflation has moderated, that the impact of tariffs on prices is transitory and that the labor market is softening as companies hold back on hiring.

Artificial intelligence and its potential to upend corporate structures and how people work adds another variable for Fed officials to consider as AI-related layoffs begin to percolate through the economy.

"A resilient job market and cooling inflationary numbers initially provided optimism at the start of the year for a few rate reductions from the Federal Reserve in 2026. Now there are varied and significant complications," Noel Liston, a managing broker at Core Industrial Realty in Chicago, wrote in an email.

As the Fed sets a course through frothy macroeconomic seas, two criminal investigations into governors threaten to undermine the institution's political independence, a defining feature of the central bank that underpins the global financial marketplace.

A judge has largely blocked the investigation into Powell from proceeding, but the Trump administration **was in court this week** fighting to push the inquiry forward. Powell could stay on the Fed board through 2027 after his term as chair ends in May.

Trump selected **Kevin Warsh**, a former Fed official who is now at **Stanford University**, as Powell's replacement. Warsh has been a vocal critic of the Fed's post-pandemic strategy, and analysts in Washington and on Wall Street **are anxiously forecasting** how his appointment will shape the cadence of rate cuts. The Senate **has yet to schedule** a confirmation hearing for Warsh.

Fed Governor **Lisa Cook**, who became the first Black woman to sit on the FOMC after being nominated by **Joe Biden** in 2022, is also **the target of a criminal probe** that was launched last year after **weeks of attacks** from administration officials and allies. Trump attempted to fire Cook in August, but she **challenged his authority** to oust her in court and has continued voting on Fed policy.

The Supreme Court **heard oral arguments** for Cook's case in January, and a decision is expected by the end of June.

*This is a developing story.*

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