

The Federal Reserve: What's Next

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The Federal Reserve

Inside The Fed

Looking Forward

Economic Indicators



The Federal Reserve

Why the Federal Reserve Matters:

Cutting Through the Headlines



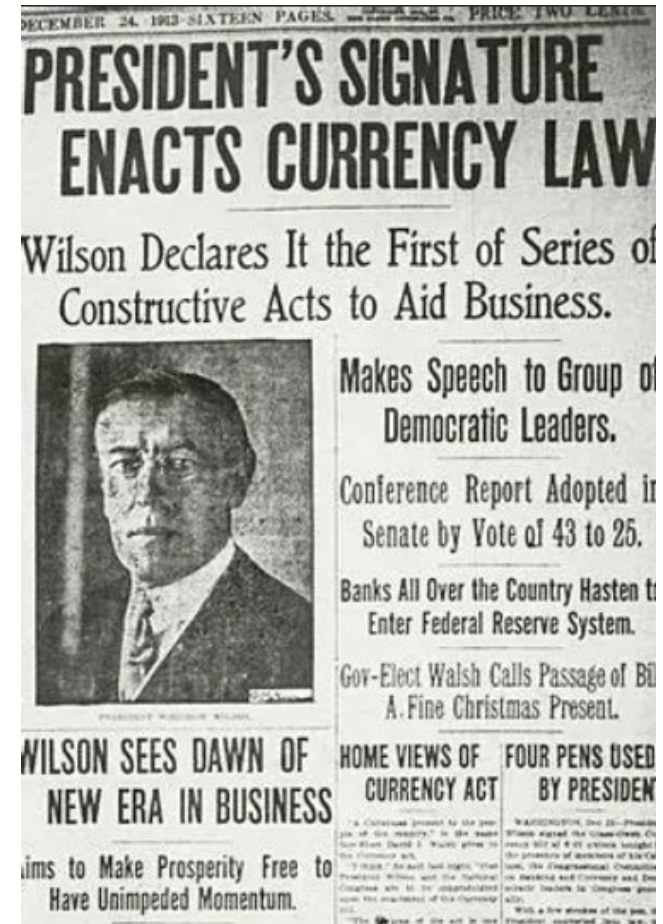
As the primary determinant of short-term interest rates, the Federal Reserve's policy actions directly impact the performance of your fixed income portfolios.



The short-term interest rate set by the Federal Reserve directly impacts your Local Government Investment Pools (LGIPs) and Money Market Funds.

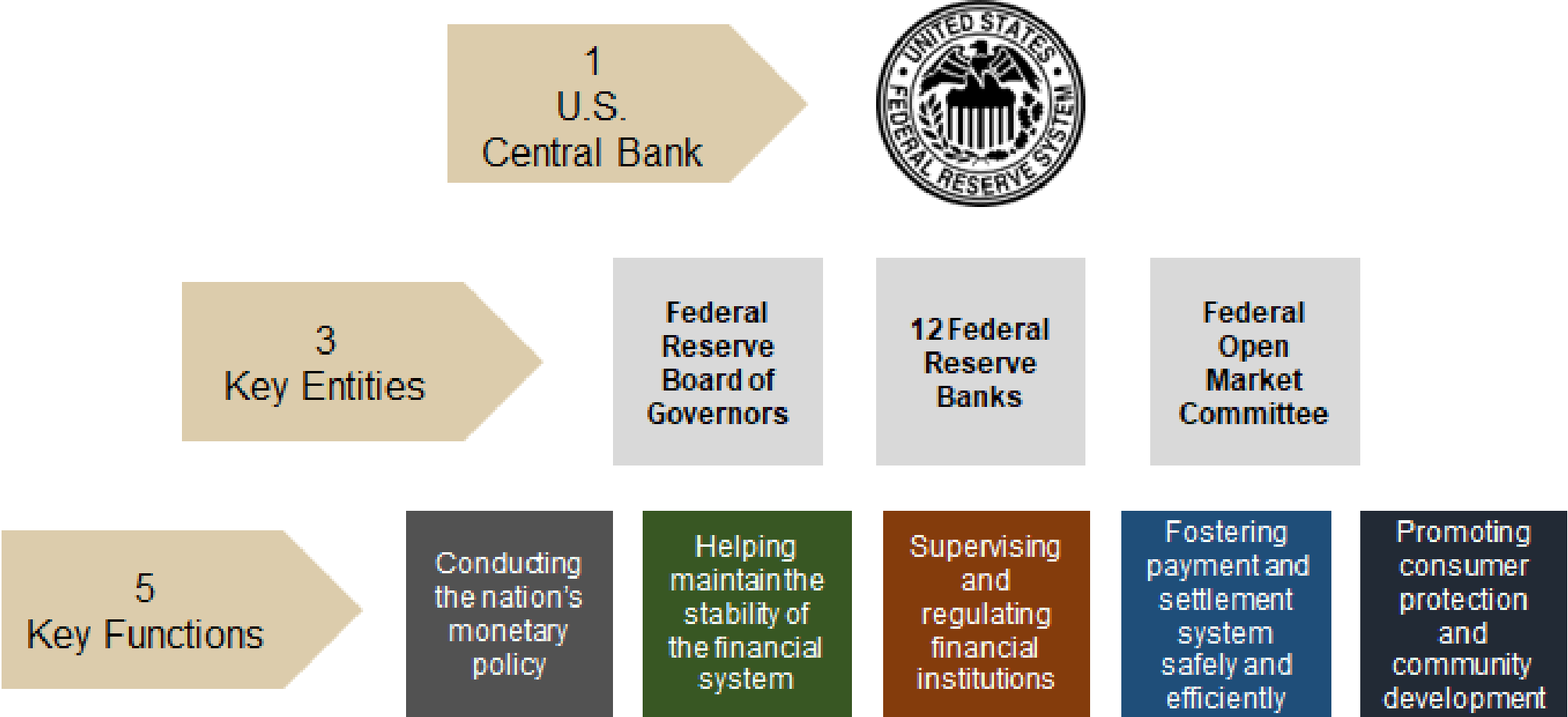
A Brief History

- The U.S. Congress created the Federal Reserve System in 1913 with the signing of the Federal Reserve Act by then President Woodrow Wilson.
- The objective was to provide the nation with a safer, more flexible, and more stable monetary and financial system.
- Some might say things haven't changed: planning for such a system was kept secret by a small group of elite bankers, businessmen and politicians who met in 1910 at a secluded resort on Jekyll Island in Georgia.*



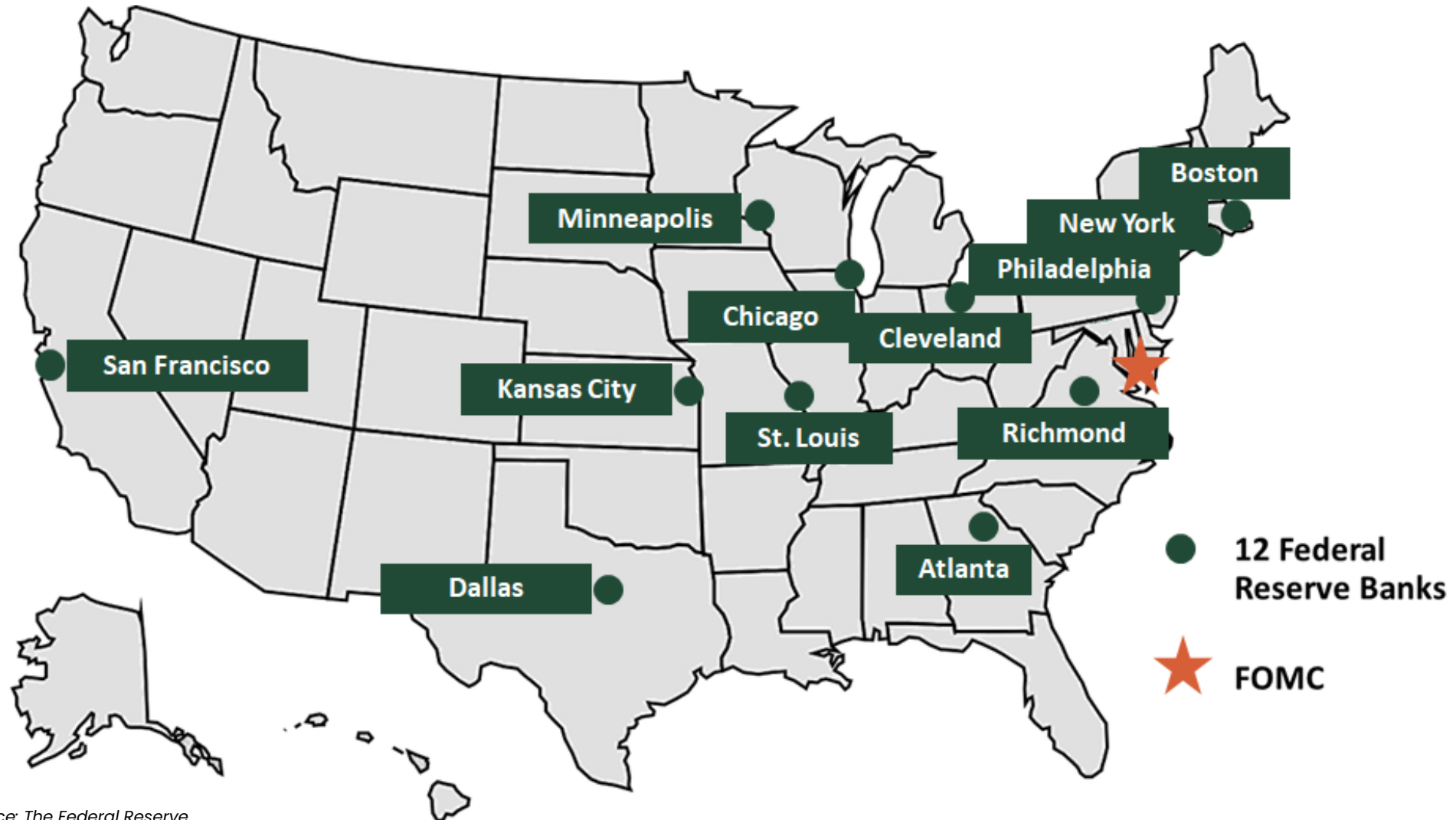
*According to the Federal Reserve Bank of Atlanta, the 1910 Jekyll Island meeting resulted in draft legislation for the creation of what is now the U.S. Central Bank.

Structure of the Federal Reserve System



Source: The Federal Reserve

The Federal Reserve Banks



Source: The Federal Reserve

The Dual Mandate



Federal Open Market Committee 101

2026 FOMC

Board of Governors

Jerome Powell
Chair FOMC
N

Philip Jefferson
Vice Chair Board of Governors
N

Michelle Bowman
Vice Chair for Supervision
D

Michael Barr
N

Lisa Cook
D

Christopher Waller
D

Stephen Miran
D

Policy inclination designated by Bloomberg as of March 16, 2026

H = Hawk
N = Neutral
D = Dove

Voting Members

John Williams
Vice Chair FOMC (New York)
N

Beth Hammack
(Cleveland)
H

Anna Paulson
(Philadelphia)
D

Lorie Logan
(Dallas)
H

Neel Kashkari
(Minneapolis)
N

Non-Voting Members

Sushmita Shukla**
(New York)

Austan Goolsbee*
(Chicago)
N

Thomas Barkin*
(Richmond)
N

Jeffrey Schmid
(Kansas City)
H

Mary Daly*
(San Francisco)
D

Alberto Musalem
(St. Louis)
H

Susan Collins
(Boston)
N

Cheryl Venable*
(Atlanta)
H

Federal Reserve Voting Districts Rotation:
* = Alternates; Districts are alternates year before they vote
** = First Vice President of the NY Fed is the alternate voter

Source: Wells Fargo Economics, Bloomberg, Federal Reserve

Policy Tools



Discount Rate – The interest rate Reserve Banks charge commercial banks for short-term loans



Reserve Requirements – The portion of deposits that banks must hold in cash either in their vaults or on deposit at a Reserve Bank

A decrease in the reserve requirement is expansionary

An increase in the reserve requirement is contractionary



Open Market Operations – The buying and selling of US government securities. This tool is directed by the FOMC and carried out by the Federal Reserve Bank of New York

How the Rates Affect Consumers

FEDERAL FUNDS RATE

Bank-to-Bank Lending Rate: The interest rate charged by one bank lending federal funds to another, highly influenced by Fed actions.



DISCOUNT RATE

- **Lending Rate to Member Banks:** The interest rate charged by Federal Reserve Banks for short-term loans to member banks.
- Higher rates discourage borrowing; Lower rates encourage it.



PRIME RATE

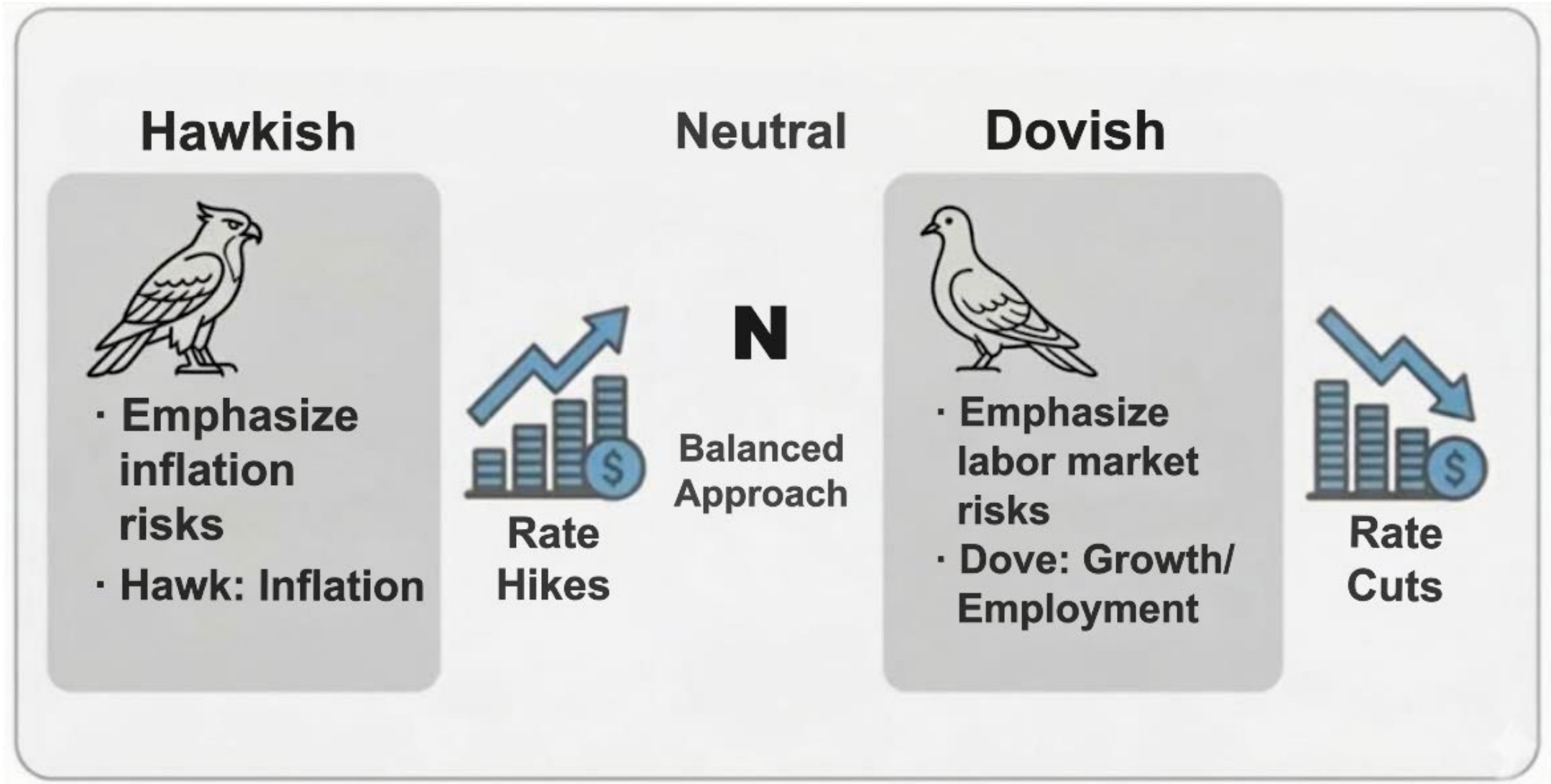
- **Rate for Top Customers:** The interest rate charged by commercial banks to their most creditworthy customers.
- Each bank sets its own rate based on their cost of funds (like the Fed Funds Rate).





Inside The Fed

Understanding the FOMC: Hawks vs. Doves



Current FOMC Voting Member Makeup

Slightly Dovish?

Dove	Dovish	Neutral	Hawkish	Hawk
Michelle Bowman (Vice Chair for Supervision)	Anna Paulson (President, Philadelphia Fed)	Jerome Powell (Chair)	Neel Kashkari (President, Minneapolis Fed)	Beth Hammack (President, Cleveland Fed)
Christopher Waller (Governor)		Philip Jefferson (Vice Chair)		Lorie Logan (President, Dallas Fed)
Stephen Miran (Governor)		Michael Barr (Governor)		
		Lisa Cook (Governor)		
		John Williams (President, New York Fed)		

Flying like a Dove or Diving like a Hawk

U.S. LABOR MARKET & ECONOMIC OPPORTUNITIES



"There is no denying it is a challenging time to enter the labor market, but the economy will provide great opportunities." **Jerome Powell**, Fed Chair

GLOBAL ECONOMIC SHOCKS



"I felt like policy was in a pretty good place. Now we need to see what this new shock, potentially new shock hitting the global economy – how long is the effect, and how big is the effect," **Neel Kashkari**, Minneapolis Fed President

MONETARY POLICY & INFLATION PROGRESS



"We face an unusual set of circumstances given the temporary stall in inflation progress and geopolitical challenges, but the current stance of monetary policy is well positioned to balance the risks." **John Williams**, New York Fed President

Fed Chair Nominee: Kevin Warsh



- ❖ Youngest-ever Fed Governor at age 35, helped navigate the 2008 financial crisis.
- ❖ Blends Wall Street experience at Morgan Stanley with government leadership as a former White House economic advisor.
- ❖ Educated at Stanford and Harvard. Currently teaches economics at Stanford University.
- ❖ **Historically considered a strict inflation hawk, his tone has recently shifted dovish to prioritize economic growth while actively advocating to shrink the Fed's balance sheet.**

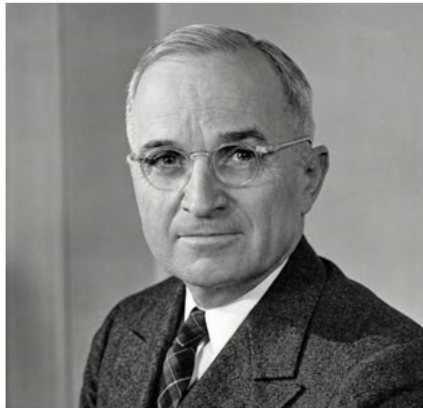
“[The Fed’s] bloated balance sheet, designed to support the biggest firms in a bygone crisis era, can be reduced significantly.” – Kevin Warsh

Source: CNBC

Federal Reserve Independence

- ❖ Senate Banking Committee is withholding confirmation votes until outstanding legal actions are fully resolved.
- ❖ Powell will maintain leadership in an interim "pro tem" capacity to ensure operational continuity.
- ❖ The post-Warsh board leans slightly dovish, but policy remains consensus-driven as the Chair holds only one vote.
- ❖ Powell could serve out his Governor term until 2028, mirroring the Marriner Eccles precedent to signal strong central bank independence.

The legacy of former Chairman Marriner S. Eccles



The "Eccles Scenario"

- In 1948, President Truman declined to reappoint Marriner Eccles as Fed Chair, preferring the more compliant Thomas McCabe.
- **Eccles remained as a Governor to defend his policy stance.**
- He often dissented from Chair McCabe. Eccles maintained his powerful influence at the Fed.
- Key figure in the **1951 Treasury-Fed Accord**, which established the Fed's independence.

Poll Question #1

Will We See Jerome Powell Stay
On As A Governor Through 2026



Polymarket Odds

Jerome Powell out of Fed Board by December 31

63% chance ▼ 2%

Polymarket



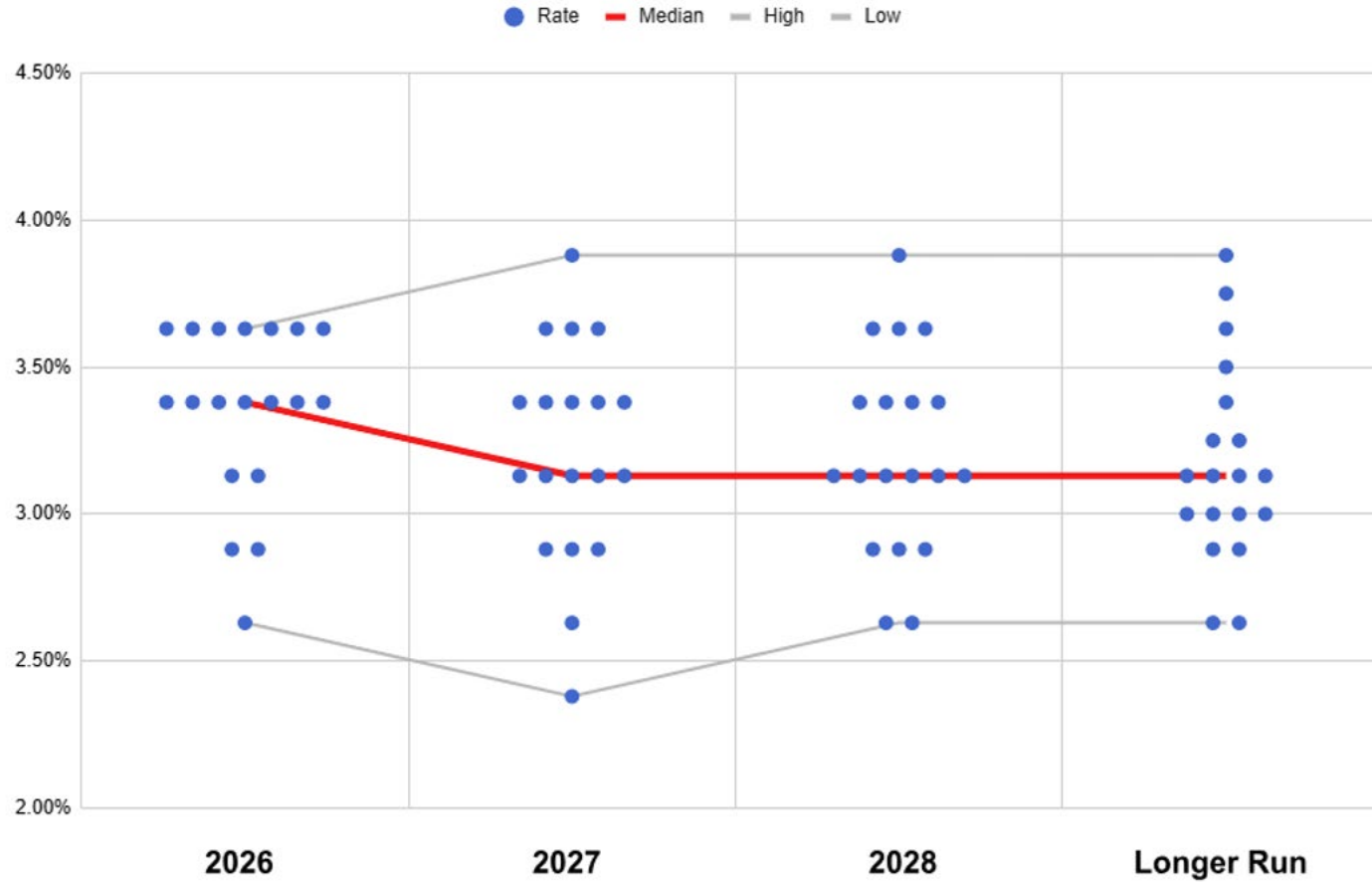


Looking Forward

Dot Plot

(March 2026)

FOMC Participants



Source: The Federal Reserve

Key Features

- **Individual Projections:** Each dot represents an anonymous official's view on where the federal funds rate should be at the end of the next few calendar years and in the "longer run."
- **Market Signal:** Investors use the "median dot" to gauge the Fed's future policy direction and potential for rate hikes or cuts.
- **Non-Binding:** It is a collection of individual forecasts, not an official consensus or a committed plan of action.

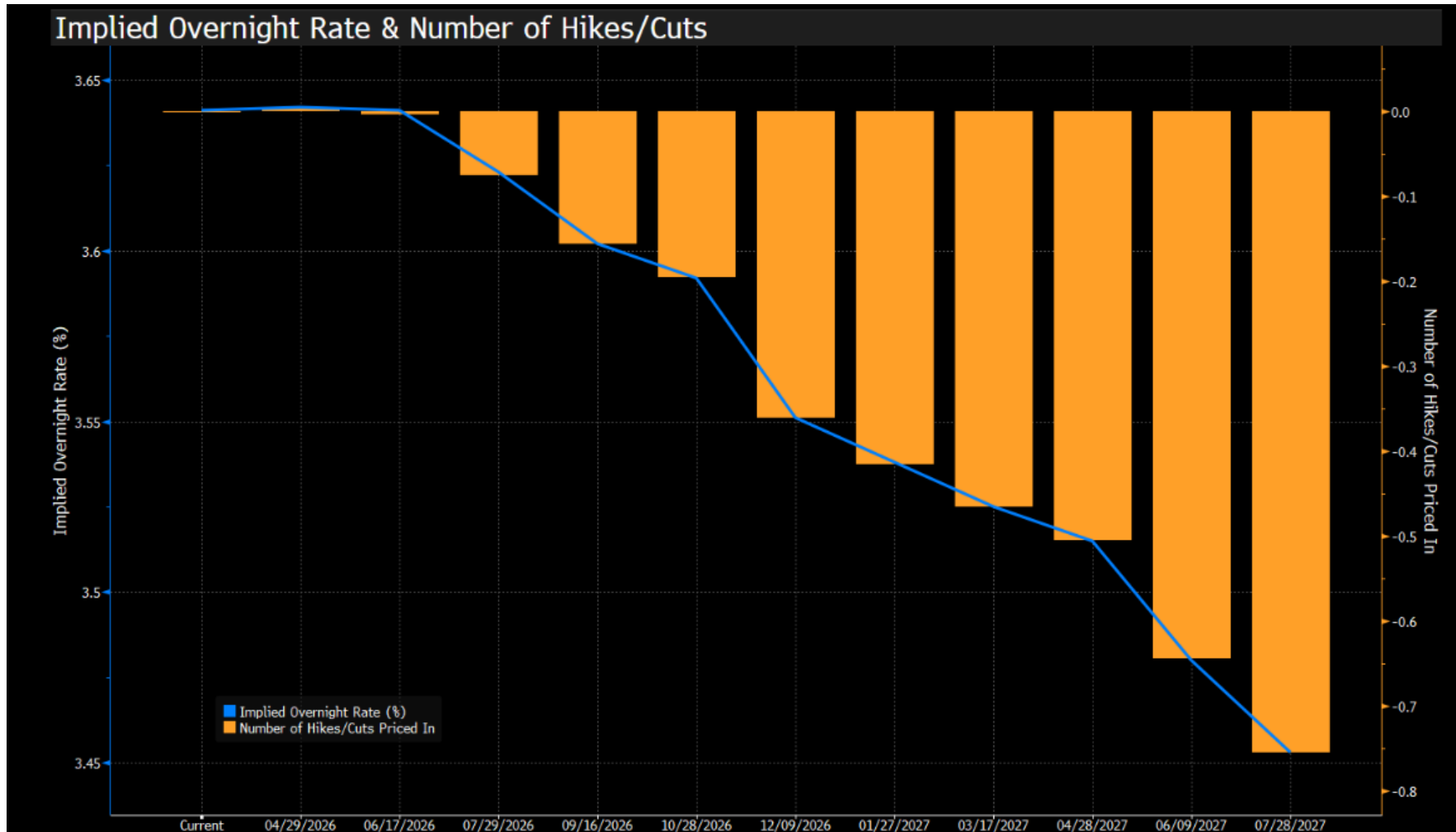
Federal Reserve Projections

Summary of Economic Projections as of March 2026

Variable	Percent			
	Median			
	2026	2027	2028	Longer Run
Change in real GDP	2.4	2.3	2.1	2.0
December projection	2.3	2.0	1.9	1.8
Unemployment rate	4.4	4.3	4.2	4.2
December projection	4.4	4.2	4.2	4.2
PCE inflation	2.7	2.2	2.0	2.0
December projection	2.4	2.1	2.0	2.0
Core PCE inflation	2.7	2.2	2.0	
December projection	2.5	2.1	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	3.4	3.1	3.1	3.1
December projection	3.4	3.1	3.1	3.0

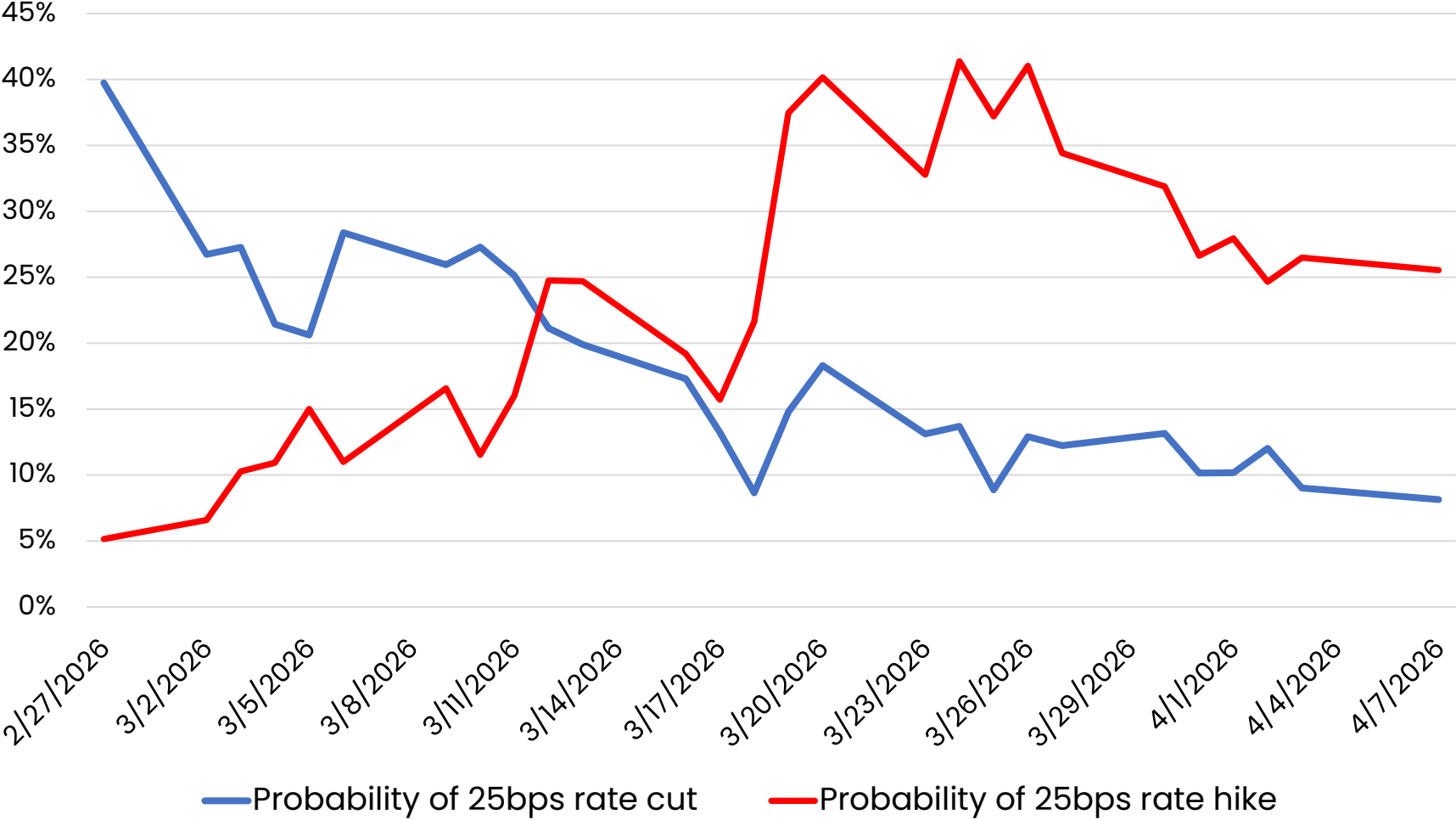
Source: Federal Reserve.

Fed Funds Rate Probability



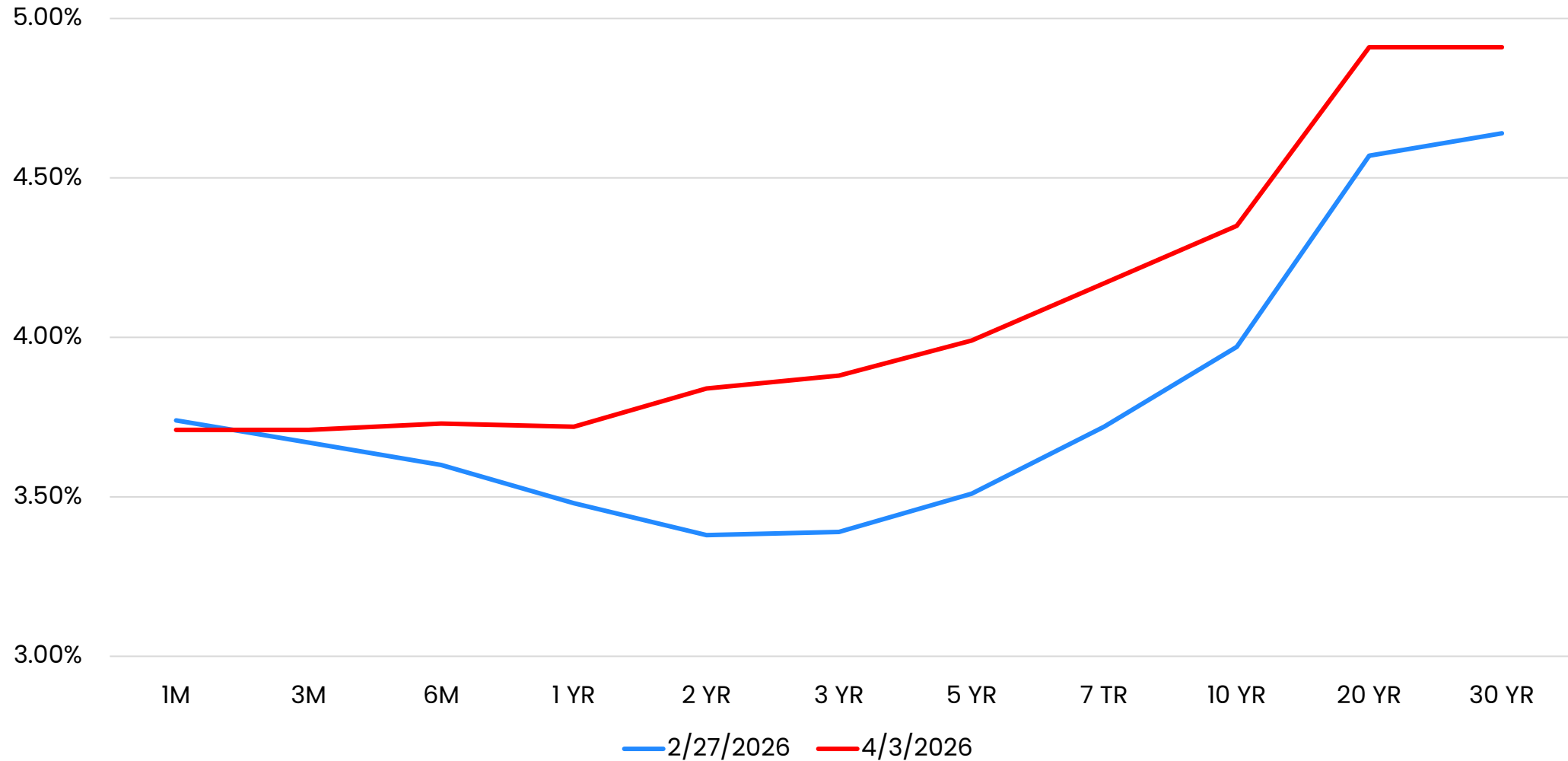
Source: Bloomberg, as of 4/13/26

Probability of Rate Hike or Cut by June FOMC Meeting



Source: Federal Reserve Bank of Atlanta, CME

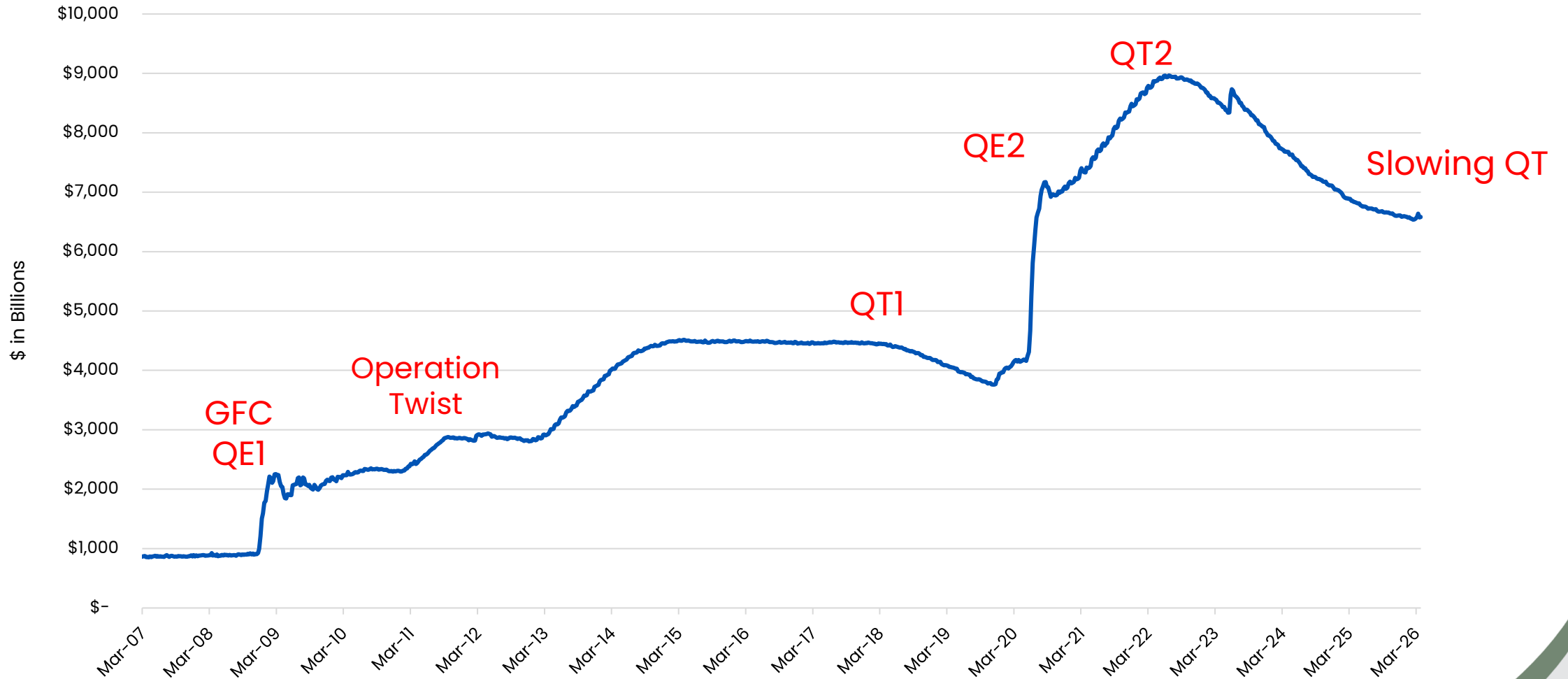
US Treasury Yield Curve – Pre and Post Conflict



Source: Federal Reserve H15 report

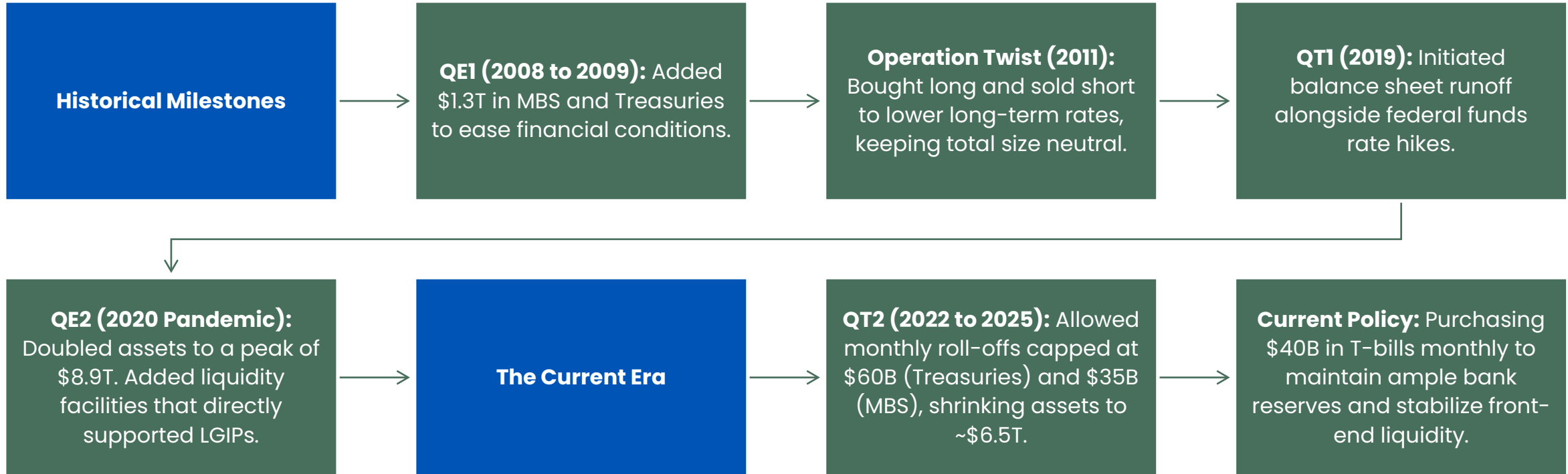
Quantitative Easing & Quantitative Tightening

Total Assets of the Federal Reserve



Source: Federal Reserve

Balance Sheet as a Policy Lever

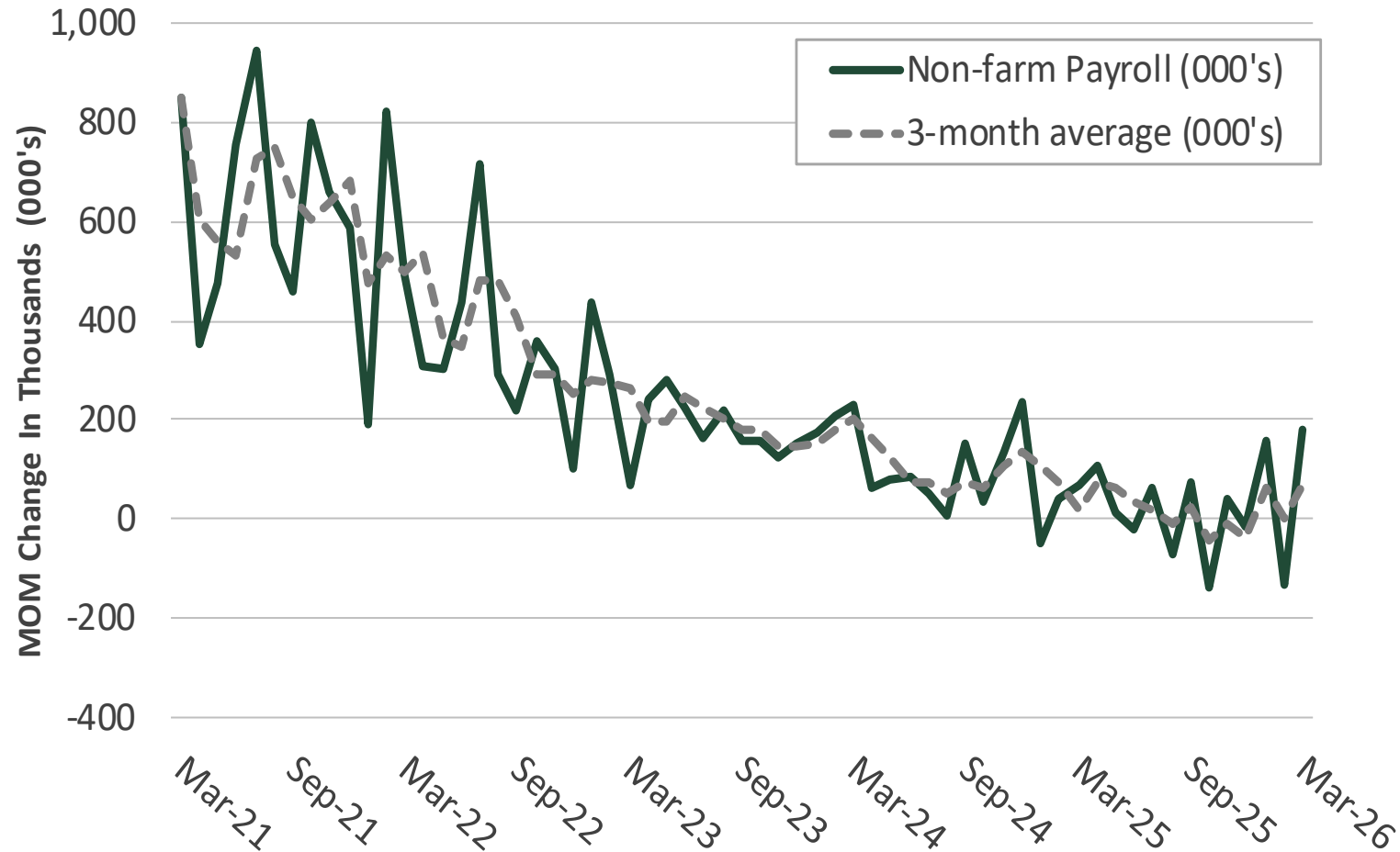




Economic Indicators

Labor Market

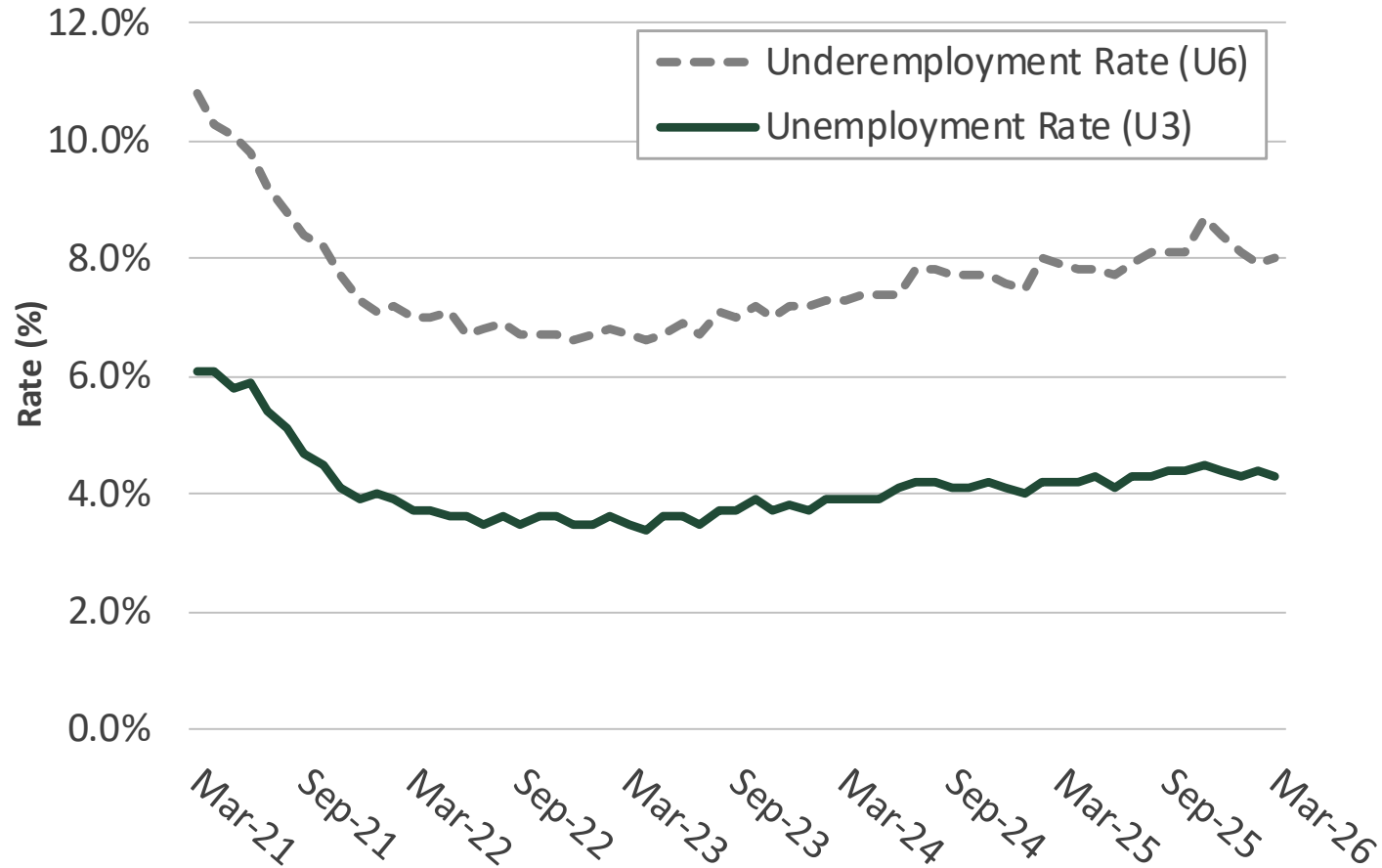
Nonfarm Payroll (000's)



Source: US Department of Labor

Labor Market

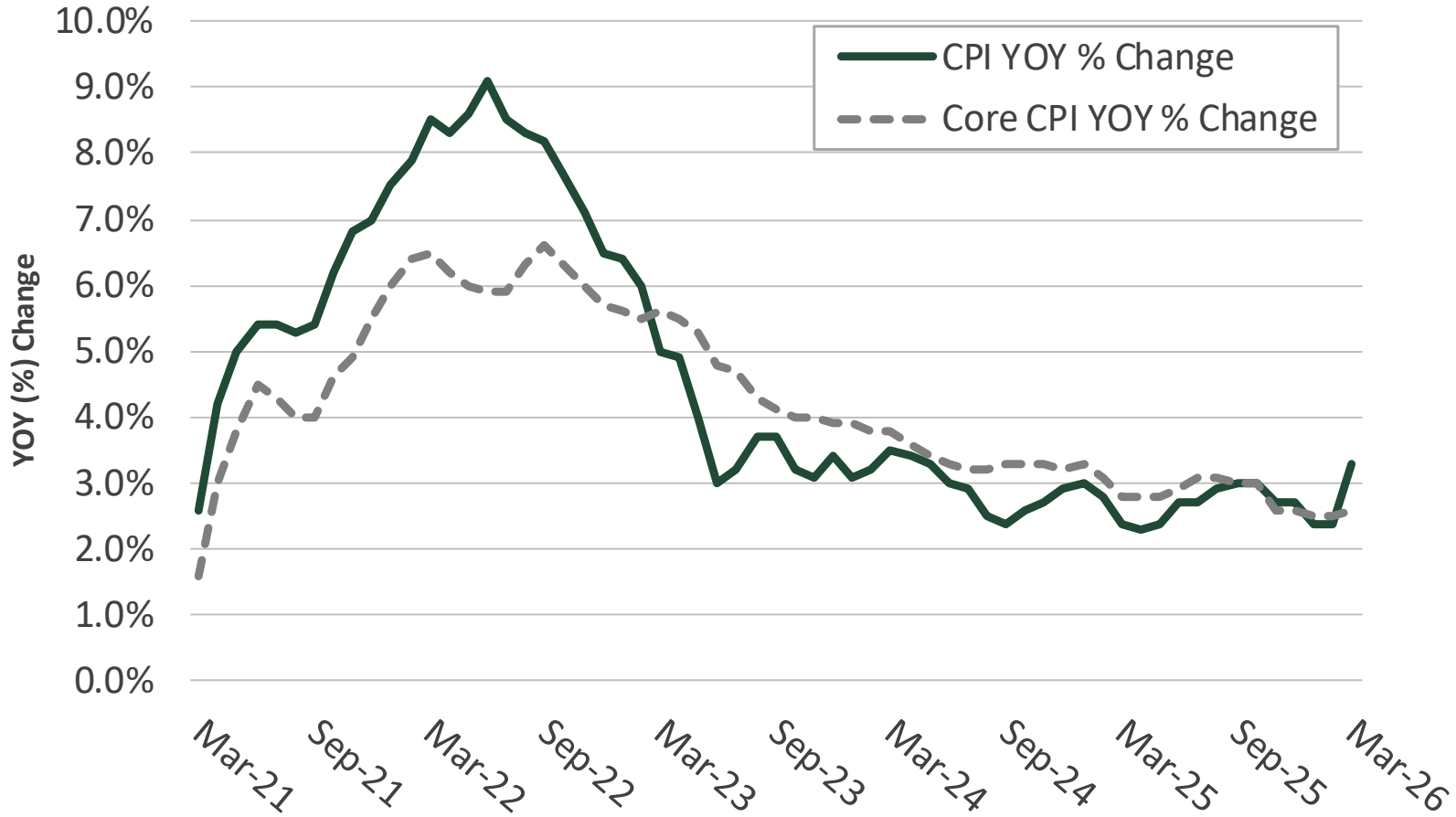
Unemployment Rate



Source: US Department of Labor

Inflation

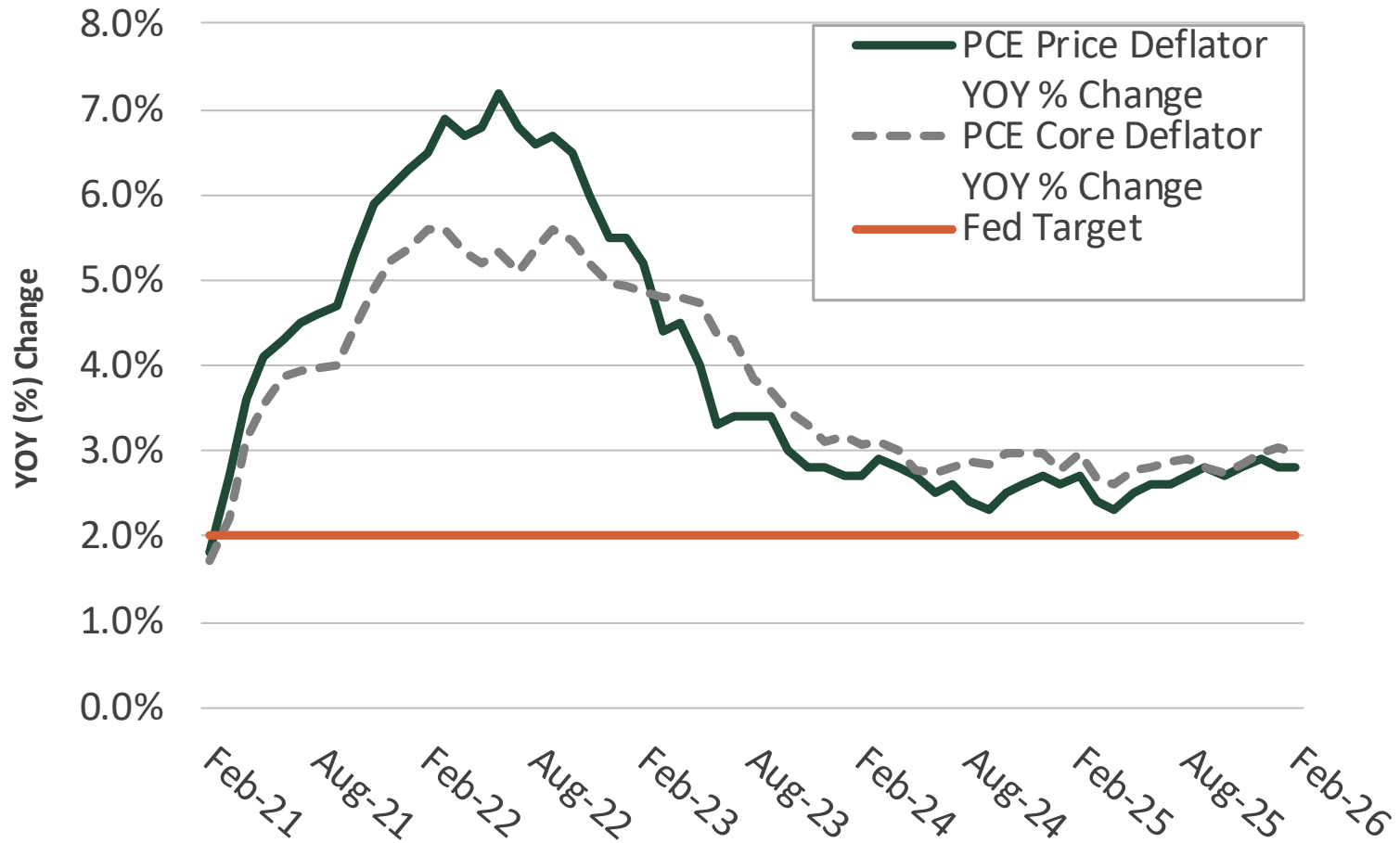
Consumer Price Index (CPI)



Source: US Department of Labor

Inflation

Personal Consumption Expenditures (PCE)



Source: US Department of Commerce

Oil Prices

West Texas Intermediate Oil Price Per Barrel (WTI Spot)
April 10, 2021 - April 10, 2026



Source: Bloomberg

Gross Domestic Product (GDP)

Components of GDP	1Q 25	2Q 25	3Q 25	4Q 25
Personal Consumption Expenditures	0.4%	1.7%	2.3%	1.3%
Gross Private Domestic Investment	3.8%	-2.7%	0.0%	0.4%
Net Exports and Imports	-4.7%	4.8%	1.6%	-0.2%
Federal Government Expenditures	-0.4%	-0.4%	0.2%	-1.2%
State and Local (Consumption and Gross Investment)	0.2%	0.3%	0.2%	0.2%
Total	-0.6%	3.8%	4.4%	0.5%

Potential Scenarios



- **Stagflation:** persistent inflation combined with stagnant growth forces the Fed to hold rates higher for longer despite rising unemployment. This scenario flattens or inverts the yield curve and pressures credit spreads as corporate margins shrink.
- The last true U.S. stagflation episode occurred from roughly 1973 to 1982, marked by double-digit inflation, unemployment approaching 9%, repeated recessions, and oil-price shocks. It was ultimately resolved only by extreme monetary tightening that induced a deep recession.
- The experience directly led to:
 - Central bank independence
 - Inflation targeting
 - Credibility-based monetary policy frameworks used today

Potential Scenarios



- **A soft landing:** an economic outcome in which the Federal Reserve successfully reduces inflation back toward its target without triggering a recession, meaning economic growth slows but remains positive and the labor market cools without a sharp rise in unemployment.
- In today's environment, inflation is now trending above 3% (compared to the Fed's target of 2%). Restraining inflation with monetary policy is a difficult task because the inflation problem is caused by an external event (rising oil prices).
- The labor market continues to demonstrate weakness as reflected by job losses in February. Typically, the Fed would reduce interest rates to help the job market, but in the context of the current inflation issues, the Fed is in a difficult position.

Potential Scenarios



- **Recession:** a sharp economic contraction that impacts the labor markets and GDP output.
- Most recessions in the United States are marked by two consecutive quarters of negative economic growth.
- During recessions, large layoffs start to occur, and the unemployment rate moves up sharply. The unemployment peaked as follows in the last three recessions:
 - Covid Recession: 2020, 14.7%
 - Great Financial Crisis: 2010, 10.0%
 - DotCom recession: 2003, 6.3%
- The Fed typically responds with aggressive rate cuts to stimulate growth and rescue the labor market. The front end of the yield curve rallies and the yield curve steepens.

Poll Question #2

Will There Be A Recession In The
Next 12 Months?



Recession Risk

US - Recession by end of 2026 (Polymarket Betting Odds)

2026-04-02

31.50 % ▲ 1.00



Source: Polymarket

Stagflation

Costs Surge While Revenue Stalls

Sales and Use Tax

- Dollar collections may tick up short-term, but only because prices are higher. Eventually spend less on goods and services.
- Residents cut spending on discretionary items such as restaurants, retail, and recreation first. These discretionary categories drive the bulk of municipal sales tax in Colorado cities. Some cities are buffered because they tax groceries.
- For transit and utility agencies, revenue stalls as high interest rates and inflated material costs may delay major capital investments and construction projects.

Property Tax

- When the Fed raises rates to fight inflation, mortgage rates may also spike, home sales freeze, and assessed value growth stalls with them.
- Colorado reassesses property on a biennial cycle. Values set during a hot market provide 1 to 2 budget cycles of cushion, but that buffer disappears at the next reassessment.
- Operating costs (labor, materials, contracts) rise with inflation while mill levy revenues plateau. This is a slow-motion budget squeeze.

Source: Colorado Fiscal Institute, September 2025 Forecast; Colorado Legislative Council, December 2025 Forecast; Colorado General Assembly

The Window to Plan, Build Reserves, and Invest

Sales and Use Tax

- Stable employment means residents keep spending. Retail, dining, and services sustain the sales tax base that funds daily operations for Colorado cities and counties.
- A stable economy encourages consistent capital investment and construction, providing reliable use tax revenue for transportation and utility districts to fund long-term infrastructure.
- Colorado's diverse economy (tourism, energy, technology, agriculture, defense) provides resilience across different municipality types during stable periods.

Property Tax

- Normalized home sales and modest appreciation support consistent assessed value growth, with no valuation surprises at reassessment.
- Counties can set mill levy rates with confidence. Special districts can plan debt service coverage without fear of sudden value drops.
- Colorado's biennial assessment cycle works in favor of local governments in a stable market. Values grow predictably, giving finance officers a reliable baseline.

Source: Colorado Public Radio, December 2025; Government Finance Officers Association (GFOA); Colorado General Assembly

Recession

Sales Tax Drops Fast, Property Tax Drops Later. Both Hit Hard.

Sales and Use Tax

- Unemployment spikes hit collections within weeks. When residents lose jobs, restaurant, retail, and recreation spending stops immediately.
- Use tax is highly volatile during downturns. When businesses halt capital investments and construction slows, utility and transit agencies see declines in revenues.
- Colorado's General Fund fell 13% during the last two recessions. Local general funds face similar or steeper exposure depending on revenue mix.

Property Tax

- Property tax does not drop immediately. Colorado's biennial cycle creates a 1 to 3 year lag between market contraction and mill levy revenue impact.
- When values reset, the impact persists. Colorado total assessed values fell 5.3% in 2010, and local government revenues hit bottom roughly 3 years after the Great Recession officially ended.
- Stable property tax in Year 1 of a recession is not a signal of safety. Plan for the delayed drop, not just the immediate one.

Source: Colorado Fiscal Institute, March 2020; Colorado Legislative Council, December 2010 Forecast; Colorado General Assembly

Q&A



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