



Investor Sentiment Sours After Fed Leaves Rates Unchanged, Flags Slower Growth and Sticky Inflation.

June 18, 2025

by Francisco Rodríguez-Castro
frc@birlingcapital.com

The U.S. and European Stock Markets closed with mixed results following the Federal Reserve's decision to hold interest rates steady, as expected. Investors showed concern over the central bank's cautious stance and updated outlook, which suggests two rate cuts later this year, despite a backdrop of slowing growth and persistent inflation pressures.

European stocks closed mostly lower after the eurozone's CPI inflation for May came in slightly below expectations at 1.9% year-over-year, and Asian markets closed mixed.

The U.S. dollar is down against major global currencies, while crude oil prices are retreating as markets assess the risk posed by escalating Israeli-Iranian tensions and their implications for energy supply.

Fed Holds Rates Steady, Confirms Dovish Tilt Despite Stagflation Risk

The Federal Reserve concluded its June meeting by holding the federal funds rate in the 4.25%–4.50% range for the seventh consecutive time, maintaining its steady policy approach in the face of an evolving economic landscape. While the decision was widely anticipated, investor attention centered on the Fed's updated projections and dot plot, which reflect nuanced shifts in the central bank's outlook.

The Fed reaffirmed its base case for two interest rate cuts before year-end, signaling its intent to ease policy as inflation stabilizes gradually. However, the long-run rate path was revised downward: the central bank now anticipates only four total cuts through 2027, trimming one cut each from 2026 and 2027 projections. The median estimate for the Fed funds rate in 2027 is now 3.4%, underscoring continued uncertainty among policymakers.

The dot plot also revealed growing divergence within the committee. Seven of the 19 members now project no cuts in 2025, up from four in March. Despite these internal differences, the decision and accompanying policy statement were adopted unanimously.

Updated economic forecasts reflect the Fed's increased caution. Real GDP growth is expected to slow to 1.4% in 2025, while inflation is projected to rise to 3.0%—a combination that raises stagflationary concerns. With core PCE inflation running at 2.1% through April and tariffs adding near-term price pressure, the Fed is navigating a complex environment that demands both vigilance and flexibility.

The Fed's posture reflects a commitment to data dependence, giving policymakers room to wait for clearer signals on inflation trends, labor market strength, and the broader economic impact of trade policies. A carefully calibrated path of easing could help reduce borrowing costs and sustain both consumer and business confidence into 2026.

The Labor Market Remains Resilient but Cools Gradually

Initial jobless claims ticked down to 245,000 last week, slightly below forecasts of 250,000, while continuing claims edged lower to 1.94 million. Although claims have trended higher in recent months, the labor market continues to demonstrate resilience.

The national unemployment rate remains low at 4.2%, and job openings—currently at 7.391 million—still exceed the number of unemployed individuals at 6.213 million. Importantly, wage growth continues to outpace inflation, translating into positive real income gains that help underpin consumer spending.

GDPNow:

- The GDPNow for the second quarter of 2025 was updated on June 18 to 3.40%, down from 3.50%, a 2.86% decrease.

Economic Update:

- **Target Federal Funds Rate Upper Limit:** is unchanged at 4.50%, compared to 4.50%.
- **U.S. Initial Claims for Unemployment Insurance:** fell to 245,000, down from 250,000 the previous week, representing a 2.00% decrease.
- **U.S. Building Permits:** fell to 1.393 million, down from 1.422 million last month, a change of -2.04%.
- **U.S. Housing Starts:** fell to 1.256 million, down from 1.392 million last month, a change of -9.77%.
- **30-Year Mortgage Rate:** fell to 6.84%, compared to 6.85% last week.
- **Eurozone Inflation Rate:** Excluding Energy, Food, Alcohol, and Tobacco: fell to 2.30%, compared to 2.70% last month.
- **UK Consumer Price Index YoY:** fell to 3.40%, compared to 3.50% last month.
- **UK Core Consumer Price Index YoY:** fell to 3.52%, compared to 3.85% last month.

Eurozone Summary:

- **Stoxx 600:** Closed at 540.33, down 1.93 points or 0.36%.
- **FTSE 100:** Closed at 8,843.47, up 9.44 or 0.11%.
- **DAX Index:** Closed at 23,317.81, down 116.84 or 0.50%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 42,171.66, down 44.14 points or 0.10%.
- **S&P 500:** closed at 5,980.87, down 1.85 points or 0.03%.
- **Nasdaq Composite:** closed at 19,546.27, up 25.18 points or 0.13%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,808.42, down 28.96 points or 0.75%.
- **Birling Capital U.S. Bank Index:** closed at 6,791.80, down 41.40 points or 0.61%.
- **U.S. Treasury 10-year note:** closed at 4.38%.
- **U.S. Treasury 2-year note:** closed at 3.94%.

Federal Reserve Bank Updated US Economy Projections 6/18/25

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, June 2025

Percent

Variable	Median ¹				Central Tendency ²				Range ³			
	2025	2026	2027	Longer run	2025	2026	2027	Longer run	2025	2026	2027	Longer run
Change in real GDP	1.4	1.6	1.8	1.8	1.2-1.5	1.5-1.8	1.7-2.0	1.7-2.0	1.1-2.1	0.6-2.5	0.6-2.5	1.5-2.5
March projection	1.7	1.8	1.8	1.8	1.5-1.9	1.6-1.9	1.6-2.0	1.7-2.0	1.0-2.4	0.6-2.5	0.6-2.5	1.5-2.5
Unemployment rate	4.5	4.5	4.4	4.2	4.4-4.5	4.3-4.6	4.2-4.6	4.0-4.3	4.3-4.6	4.3-4.7	4.0-4.7	3.5-4.5
March projection	4.4	4.3	4.3	4.2	4.3-4.4	4.2-4.5	4.1-4.4	3.9-4.3	4.1-4.6	4.1-4.7	3.9-4.7	3.5-4.5
PCE inflation	3.0	2.4	2.1	2.0	2.8-3.2	2.3-2.6	2.0-2.2	2.0	2.5-3.3	2.1-3.1	2.0-2.8	2.0
March projection	2.7	2.2	2.0	2.0	2.6-2.9	2.1-2.3	2.0-2.1	2.0	2.5-3.4	2.0-3.1	1.9-2.8	2.0
Core PCE inflation ⁴	3.1	2.4	2.1		2.9-3.4	2.3-2.7	2.0-2.2		2.5-3.5	2.1-3.2	2.0-2.9	
March projection	2.8	2.2	2.0		2.7-3.0	2.1-2.4	2.0-2.1		2.5-3.5	2.1-3.2	2.0-2.9	
Memo: Projected appropriate policy path												
Federal funds rate	3.9	3.6	3.4	3.0	3.9-4.4	3.1-3.9	2.9-3.6	2.6-3.6	3.6-4.4	2.6-4.1	2.6-3.9	2.5-3.9
March projection	3.9	3.4	3.1	3.0	3.9-4.4	3.1-3.9	2.9-3.6	2.6-3.6	3.6-4.4	2.9-4.1	2.6-3.9	2.5-3.9

Target Federal Funds Rate Upper Limit, US Building Permits, US Housing Starts & 30-Year Mortgage Rate



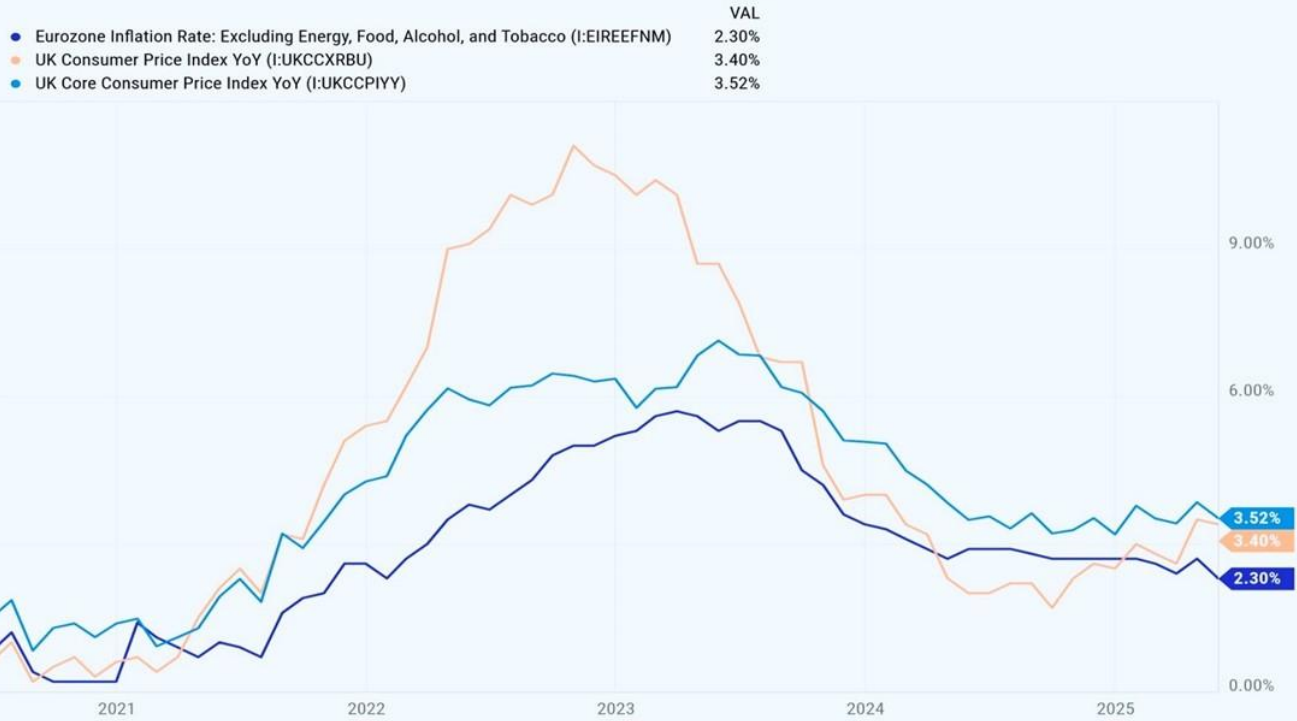
US Initial Claims for Unemployment, US Job Openings & US Job Seekers





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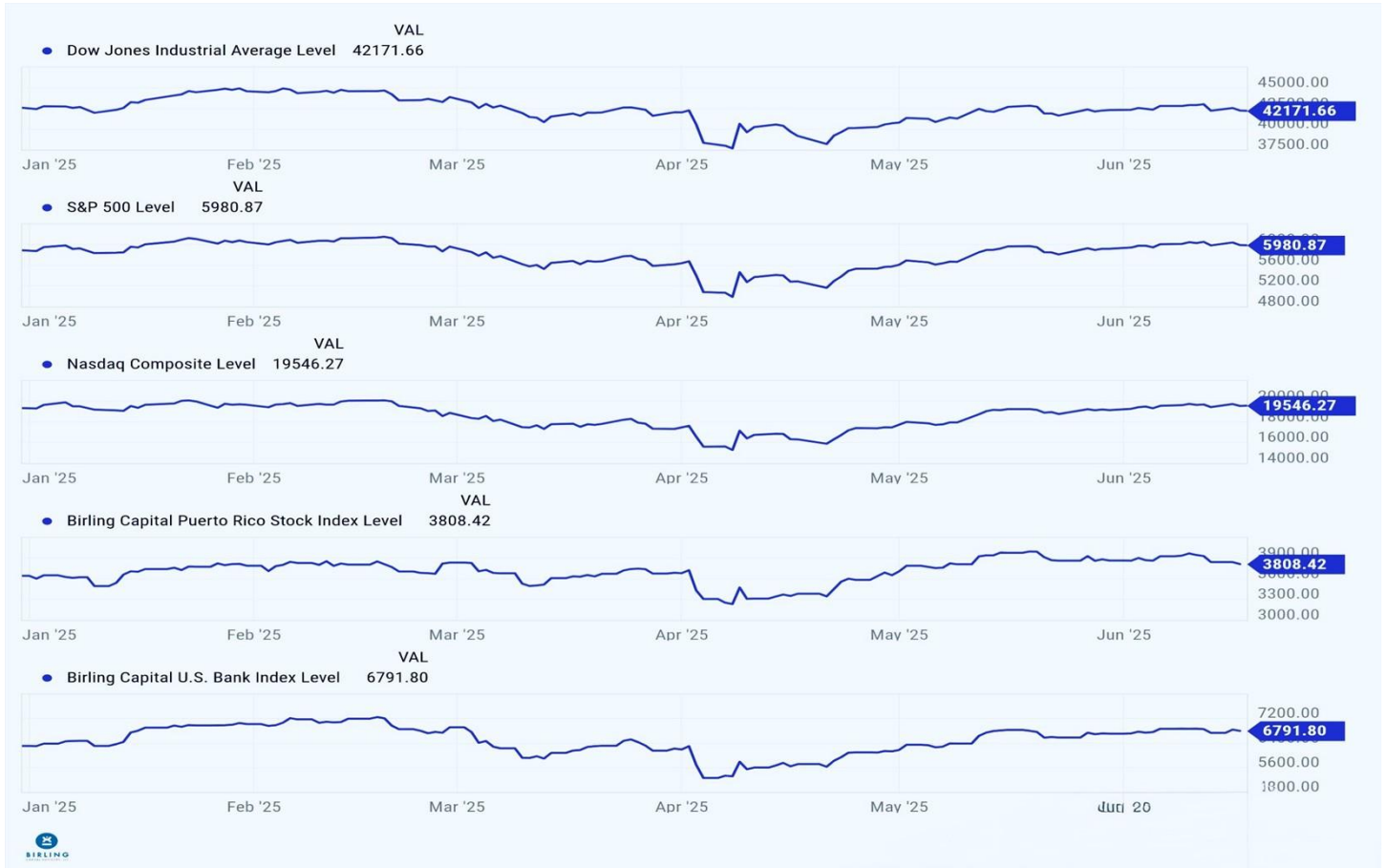
Eurozone Inflation Rate, UK CPI & UK Core CPI



Date Range: 06/30/2020 - 05/31/2025

Sources: Eurostat, Office for National Statistics





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