



Alarm at the Fed

June 03, 2025

If you have trouble getting to sleep at night, one of the surest cures is to read the minutes of the Federal Reserve Board's Open Market Committee, the summary of a group conversation among the economists who set policy every quarter, mostly to decide if fed funds rates should be raised or lowered. The prose is generally bland and somewhat technical and rarely offers a lot of insights that most of us wouldn't know already.

But the recently-released minutes of the May 6-7 meeting include a few of what might be called Zingers—or at least the Fed equivalent. When assessing whether to raise or lower rates to fight inflation or stimulate the economy, the economists noted the “significant market volatility over the intermeeting period” (meaning the spooky stock market in the two months since they last gathered together). They also pointed out that “the dollar depreciated,” and “recently announced trade policy” (meaning the on-again-off-again tariffs) have created a “supply shock that could restrain domestic activity relative to foreign activity.”

And what of those tariffs? “Tariff announcements led to a significant deterioration in global risk sentiment, which largely reversed following a subsequent pause of some of the tariffs,” the economists reported, basically telling us that investors don't like any of the tariff proposals. Later: “The staff projection for real GDP growth in 2025 and 2026 was weaker than the one prepared for the March meeting, as announced trade policies implied a larger drag on real activity... the labor market was expected to weaken substantially, with the unemployment rate forecast moving above the staff's estimate of its natural rate.” Meaning the economists expect more people to be laid off before long.

The notes pointed to the fact that a surveyed group of outside economists “had materially lowered their GDP forecasts and raised their inflation forecasts for this year, while significantly increasing the probability on a recession occurring within the next six months.” And the minutes said that “Measures of Treasury market liquidity deteriorated immediately after the announcements of higher-than-expected tariffs... commensurate with the historical relationship between measures of market volatility and liquidity.”

The situation was stable for now, the economists decided, but the minutes seem to be a warning that the investment markets, inflation, the unemployment rate and the value of the dollar are all dependent on an end to the tariff politics coming out of Washington. It's something to watch, and maybe it's also time to fasten our seat belts a bit tighter at this unpredictable part of the investment roller coaster.

Source:

<https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20250507.pdf>

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number [\(215\) 325-1595](tel:2153251595) or you can [click here to schedule a meeting](#).

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