

Why are policymakers divided on the Fed's next rate move?

We've received several questions regarding the Federal Reserve's latest policy decision. Expectations for the Fed have shifted as gasoline prices have moved higher—largely tied to the ongoing war in Iran—adding renewed inflation pressure. At the same time, investors are focused on how the Fed may respond amid an upcoming leadership transition.

At its April meeting, the Federal Reserve held the federal funds rate steady in a range of 3.5% to 3.75%, but the decision exposed meaningful internal disagreement. Four of the twelve voting members dissented—the most since 1992. Three officials supported the rate decision but objected to language suggesting future cuts, while one governor again pushed for an immediate cut. This divide highlights the Fed's challenge in balancing higher inflation pressures against signs of a softening labor market, where recent payroll growth has declined. As a result, market expectations are now split between the possibility of a rate cut or a rate hike later this year with the majority now trending towards a rate hike.

This meeting also marked Jerome Powell's final press conference ahead of a leadership change at the Federal Reserve. Kevin Warsh's nomination for Fed Chair was approved by the Senate Banking Committee. Chairman Powell stated he does not expect to leave the Board of Governors until outstanding legal matters are resolved, while emphasizing his intention to serve in a manner respectful of the incoming Chair.

The accompanying chart places today's federal funds rate in historical context. Despite continued headlines around interest rate policy, we view the current rate environment as relatively stable when viewed over a longer timeframe. As recently as 2022, rates were moving rapidly, requiring meaningful portfolio adjustments, including actively managing bond duration—changes we implemented at that time. By contrast, we do not believe today's environment calls for significant portfolio shifts based on interest rates alone.

Importantly, many of the necessary adjustments have already been made. As interest rates began rising, we shortened bond durations within portfolios and shifted our equity focus toward companies with stronger balance sheets. This repositioning followed a prolonged period of unusually low interest rates from 2008 to 2021—an environment that was not historically normal and required a different approach as rates moved higher.

We also believe true diversification remains critical, particularly after several years in which a narrow group of large technology companies has driven a significant portion of the S&P 500's returns. While we are not betting against these businesses and continue to view many of them as high-quality companies, valuations in several cases remain elevated. This reinforces our focus on owning high-quality, high-growth companies across a broad range of market sectors, company sizes, and geographic regions.

Overall, interest rates have moved closer to a more normalized range, and a return to the ultra-low interest rate environment of the past appears unlikely in the near term. Our focus

remains on disciplined portfolio construction and long-term diversification rather than reacting to short-term headlines or policy noise.

As always, we will continue to monitor conditions closely and make thoughtful adjustments when warranted.

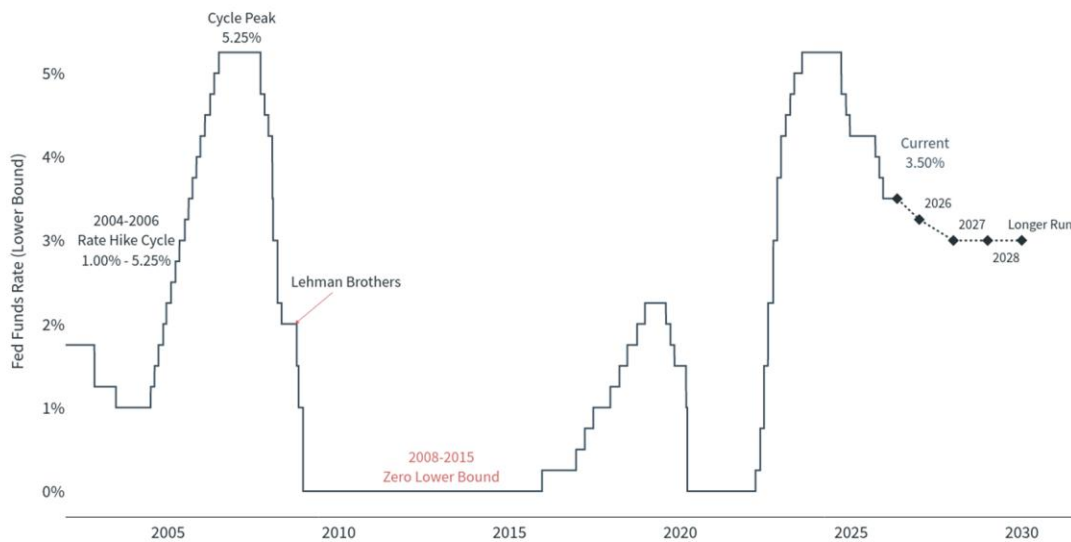
Matt and Greg

Market and Economic Chartbook | May 9, 2026



Federal Funds Rate

Target range lower limit



Latest data point is May 2026

Sources: Cleonomics,
Federal Reserve
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