

Post to May FOMC: Hold, Guidance, and the June Cut Window

Research Team

May 10, 2026

The Federal Open Market Committee met on May 6 to 7, 2026 and maintained the federal funds target range at 3.5% to 3.75%, extending the pause that began after late-2025 cuts. Chair Powell reiterated data-dependent guidance: further adjustments will reflect incoming inflation and employment data, the outlook, and the balance of risks. April CPI and payrolls, released between the March and May meetings, shifted market pricing for the June 17 to 18 gathering without yet producing a consensus for an immediate cut. For investors, the task is to compare the May statement and press conference to the March Summary of Economic Projections, measure the gap between OIS-implied paths and the SEP median, and position duration and equity beta for a live June decision.

Market-Implied Fed Funds vs SEP Median (Illustrative, May 2026)



Source: Illustrative; Federal Reserve SEP (March 18, 2026) vs futures/OIS snapshots

Key Takeaways:

- May held at 3.5 to 3.75%; guidance stayed data-dependent with no preset cutting timetable, June remains live.

- April inflation and labor data reframed the June cut window; headline CPI can diverge from core when oil moves on supply shocks.
- Market-implied year-end policy rates should be compared to the March SEP median (3.4% midpoint for 2026), gap risk persists.
- **Portfolio takeaway:** barbell Treasuries, quality equities with pricing power, and gold or energy hedges when geopolitics move headline inflation.

Executive Summary

May delivered continuity on rates with nuance on timing. The Committee acknowledged solid growth, cooling but still resilient labor markets, and inflation somewhat above target, with elevated uncertainty tied to energy and Middle East developments. Markets had partially priced a June cut after softer April labor data; stickier core services or firm oil can push that probability back out. The belly of the curve and rate-sensitive equities remain the primary expression of repricing. Until core inflation confirms deceleration on a sustained basis, the base case is patience with optionality for an insurance cut if employment deteriorates faster than the SEP assumes.

What Changed at the May Meeting

Relative to March, the May statement did not signal a imminent pivot. Language on inflation remained cautious; references to uncertainty and energy channels were consistent with a committee that will not chase headline CPI spikes driven by supply. The press conference emphasized that one or two soft prints are insufficient if the underlying trend in core services is sticky. Dissent patterns and the dot plot will refresh at the June meeting with an updated SEP, May was primarily about holding the line while data accumulated.

April Data: Inflation, Labor, and Financial Conditions

April CPI and PCE releases set the tone into May. Headline inflation can rise when gasoline moves sharply even if core ex food and energy moderates; the Fed's reaction function weights core and trimmed means more heavily but cannot ignore sustained energy pass-through into expectations. Payroll growth and unemployment, together with initial claims, inform whether the labor market is merely normalizing or slipping toward material weakness. Financial conditions, equity levels, credit spreads, and the dollar, matter for the effective stance; a sharp easing of conditions without inflation progress would argue for patience.

April 2026 Inflation Snapshot (Illustrative)



Source: Illustrative; BLS releases (April 2026)

June Cut Window: Scenarios

June cut (insurance): Two soft core inflation reports plus rising jobless claims could bring a 25 bp cut with neutral guidance, bull steepening, quality growth and duration benefit. June hold, dovish guidance: Hold with language opening the door to July, front end supported, equities range-bound, dispersion high. June hold, hawkish surprise: Core reacceleration or oil-driven headline pressure, bear flattening, defensives and gold outperform cyclicals.

Bonds and Duration

With June live, avoid extreme long-duration bets until core confirms. Prefer a barbell: carry in the front and belly, tactical long duration on dovish surprises. TIPS merit attention if realized inflation tracks the March SEP's higher 2026 medians.

Equities and Cross-Asset Hedging

Quality and balance-sheet strength remain central when the cut path is two-sided. Rate-sensitive growth can rally into June on soft data but remains vulnerable around CPI weeks. Gold and selective energy exposure hedge policy and geopolitical tails when oil and the Fed pull in opposite directions.

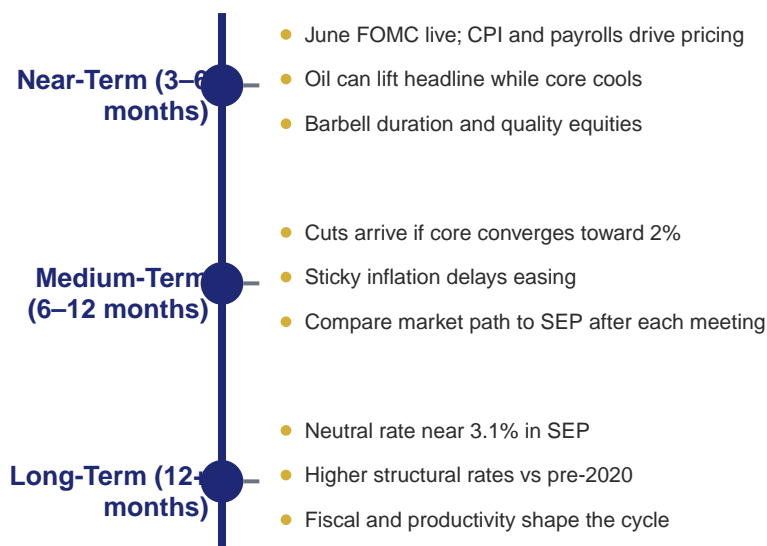
What to Watch Next

May CPI and PCE; payrolls and claims; June FOMC SEP and dots; oil and Middle East headlines; regional Fed surveys; QT pace and Treasury issuance.

Timeline and Outlook

Near-term (3 to 6 months): June decision and summer data drive volatility; hold versus one-cut scenarios both plausible. **Medium-term (6 to 12 months):** If core converges toward 2%, duration and growth align better; sticky inflation delays cuts, favor quality and shorter duration. **Long-term (12+ months):** Higher neutral rate near 3.1% in SEP implies structurally higher discount rates than pre-pandemic.

Timeline Overview



Source: AVANTAS Research Analysis

Risk Factors

Inflation persistence from energy and services; labor shock pulling cuts forward; geopolitical oil spikes; misalignment between market-implied cuts and SEP medians.


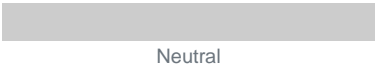



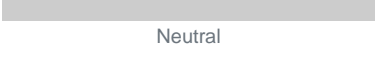
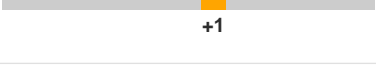
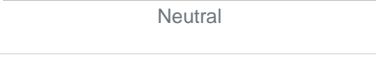
Conclusion

May confirmed patience with a live June window. Stay nimble: barbell duration, quality equities, and hedges where oil moves headline inflation faster than core. The next inflation and labor prints matter as much as the May hold itself.

Asset Class Impact

Rates: Neutral barbell; add duration tactically on dovish data. **Credit:** IG quality overweight; HY selective. **Equities:** Quality and pricing power favored. **Real assets:** Gold overweight as hedge. **FX:** Dollar data-dependent.

Asset Class Impact

| Asset | View | Commentary |
|---------------------------------|---|--|
| Short / Intermediate Treasuries |  +1 | Overweight. Barbell carry; tactical long duration on dovish surprises. |
| TIPS |  Neutral | Neutral. Add if realized inflation tracks SEP medians. |
| IG Credit |  +1 | Overweight quality. |
| HY Credit |  -1 | Underweight or selective. |
| Quality Equities |  +1 | Overweight. Pricing power favored into June. |
| Rate-Sensitive Growth |  Neutral | Neutral. Tactical around data weeks. |
| Gold / Real Assets |  +1 | Overweight hedge vs oil and policy risk. |
| USD |  Neutral | Neutral. Data surprises dominate. |

Source: AVANTAS Research Analysis