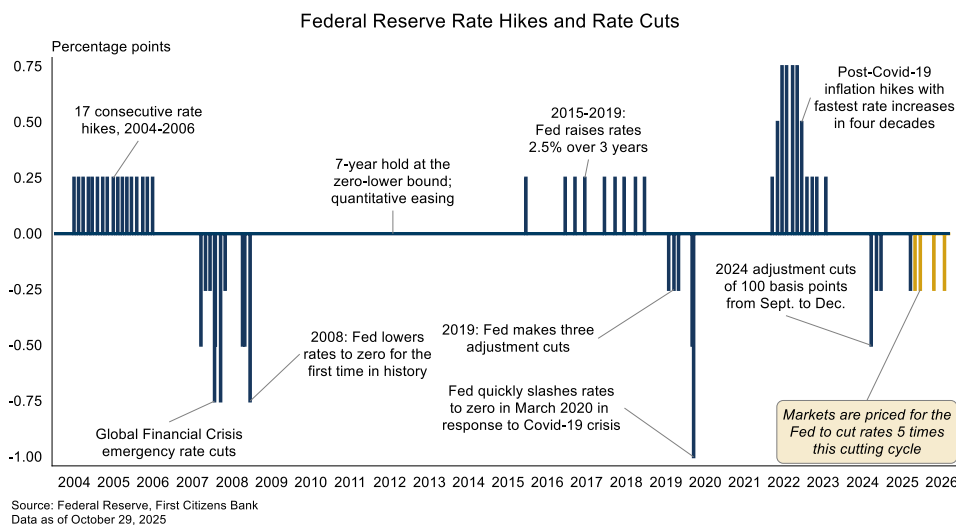




Federal Open Market Committee Meeting | October 29, 2025

Fed lowers rates amid a less certain outlook

The Federal Reserve lowered interest rates by another 0.25% in its second widely expected rate cut of this easing cycle. Policymakers acknowledged inflation remains elevated, but they see slower job growth as tilting the balance of risks and warranting easier monetary and financial conditions. Committee votes are typically unanimous, but two of the 12 voting members dissented in today's decision, with Fed Governor Miran preferring to lower rates by 0.50% and Kansas City Fed President Schmid opting to hold rates steady. **With the economic picture less clear and a weaker consensus on the appropriate monetary policy strategy, dissents may become a more common feature of these meetings.** The Fed also announced today it will end quantitative tightening on December 1. The decision to end balance sheet reduction is not a surprise, but it is another indication of the Fed's relatively dovish stance.



In addition to today's cut, markets have been priced for an additional cut in December and two more next year, a stance we have thought to be aggressively dovish given the current economic and market backdrop. The economy likely expanded at a 3% pace in the third quarter – above the estimated “potential” rate consistent with labor force and productivity growth. It is possible inflation may slow from here, but waiting on inflation to move as desired has been a losing strategy for years, and it is still possible that retailers could mark up prices after the holidays. But Fed Chair Powell played down inflation risks and expects any tariff-related prices effects to be “short lived.” As a result, the Fed still appears squarely focused on the labor market, which indeed appears quite a bit softer compared to the post-pandemic period with historically low unemployment, high wage growth, and elevated demand for workers. We still think this balance of risks would need to move further toward the labor market – that is, even softer employment conditions with inflation rates stable or falling – in order for more rate cuts to appear very likely.

Fed Chair Powell emphasized that December's rate cut is not a foregone conclusion, and this caused a slight repricing in markets. The market-implied probability of a rate cut in December

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moved from nearly 100% down to about 70%, and Treasury yields moved about 5 basis points higher. **With future rate cuts less certain, markets will be extremely attentive to the latest developments in the labor market and inflation, and once the government resumes the regular release of economic data, market volatility around these reports could be elevated.**

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