



Federal Open Market Committee Meeting | September 17, 2025

Fed Lowers Rates with a “Risk Management Cut”

The Federal Reserve announced it will decrease its overnight policy rate by 0.25%, as widely anticipated, and it signaled further rate cuts are likely in coming months. Unemployment has ticked up recently, and inflation is still running well above the Fed’s 2% target. With both of these trends moving in the wrong direction, the Fed has made clear it intends to support the labor market even if that means letting inflation run above target for longer. **We think the Fed is likely to lower rates further from here. But unless inflation cools off or layoffs rise markedly, we are skeptical the Fed will be able to cut as aggressively as policymakers project and financial markets expect.**

In the quarterly **Summary of Economic Projections**, Fed policymakers communicated they see two more rate cuts this year and one more next year for a total of 1.0% in easing this time around – just like last year. However, when the Fed initiated the rate-cutting cycle last September, policymakers downgraded their projections for GDP growth and employment while lowering their year-ahead inflation forecasts. This time, policymakers did the opposite: although they project lower rates, they also foresee stronger GDP growth, better employment, and higher inflation compared to their forecast three months ago.

What will happen from here? In his post-meeting press conference, Fed Chair Jerome Powell called today’s move a “risk management cut” in a perhaps more measured tone than financial markets expected, and he emphasized that the Fed would consider future rate changes on a meeting-by-meeting basis. It would be unusual for the Fed to cut rates only once by 0.25%, but it is the trends in upcoming inflation and economic data that will matter most for the path of the federal funds rate. Both of those variables have proven difficult for policymakers and investors to forecast.

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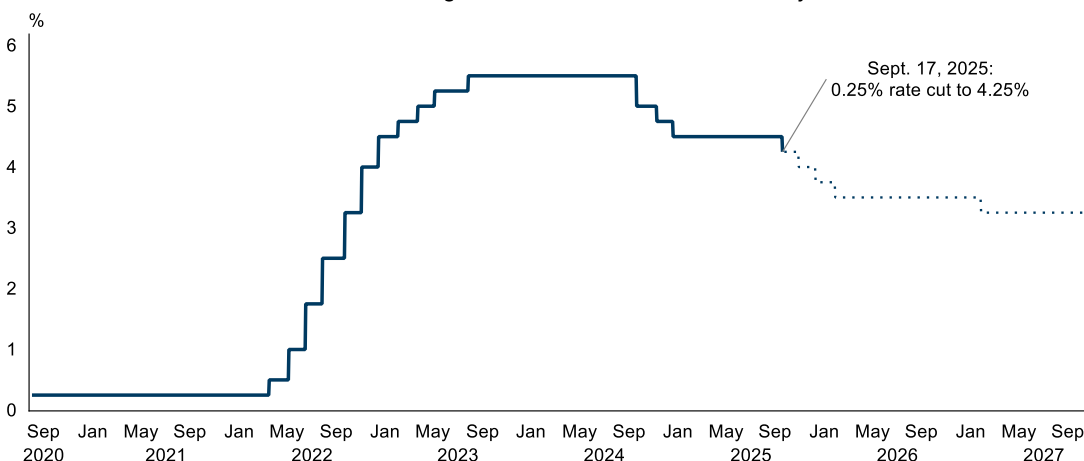
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Federal Funds Target Rate and Median FOMC Projection



Source: Federal Reserve, First Citizens Bank
Data as of September 17, 2025



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