

Special Update

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Expectations for the Next Federal Open Market Committee (FOMC) Meeting: September 16-17, 2025

Introduction

The Federal Open Market Committee (FOMC), the monetary policymaking body of the Federal Reserve System, is scheduled to convene its next meeting on September 16-17, 2025. This meeting follows a series of policy holds earlier in 2025 and comes amid evolving economic conditions, including signs of a softening labor market and persistent but moderating inflation pressures. The FOMC meetings are pivotal events in the U.S. financial calendar, as they determine the target range for the federal funds rate, which influences borrowing costs across the economy. Unlike some earlier 2025 sessions, this meeting will include a press conference by Federal Reserve Chair Jerome Powell, providing an opportunity for direct insights into the Committee's thinking. Expectations for this gathering center primarily on the potential for an interest rate cut, driven by recent weak jobs data and broader signals of economic deceleration.

Economic Context Leading into the Meeting

The U.S. economy has shown resilience in 2025, but recent indicators suggest increasing downside risks, particularly in the labor market. The July 2025 Nonfarm Payrolls (NFP) report revealed a cooling labor market, with job growth falling short of expectations and unemployment ticking higher, prompting heightened recession fears among investors. This weak jobs report, combined with subdued wage growth, has solidified the case for monetary easing to support employment without reigniting inflation.

Inflation remains a key concern, hovering above the Federal Reserve's 2% target. Core Personal Consumption Expenditures (PCE) inflation, the Fed's preferred gauge, has moderated but still stands at levels that warrant caution. Chair Powell has hinted at rate cuts in recent communications, emphasizing the need to balance dual mandates of maximum employment and price stability.

The minutes from the July 30, 2025, FOMC meeting indicated broad agreement among participants that risks to employment had increased, setting the stage for potential action in September.

Broader economic data, including GDP growth estimates for Q3 2025, point to a slowdown but not an imminent contraction. Consumer spending remains robust in some sectors, yet manufacturing and housing markets show strain from elevated borrowing costs. Geopolitical tensions and supply chain disruptions have added volatility to commodity prices, indirectly influencing inflation expectations.

Market Expectations

Financial markets are pricing in a high probability of a rate cut at the September meeting, reflecting bets on the Fed's response to labor market weakness. According to the CME Group's FedWatch Tool, which derives probabilities from fed funds futures contracts, there is a 97.3% chance of a 25 basis point (bps) reduction in the federal funds rate target range to 4.00%-4.25%, with only a 2.7% chance of rates remaining unchanged at 4.25%-4.50%. Alternative readings from the same tool earlier in the week pegged the odds of a cut at 85%-87%, underscoring a near-consensus view.

The probability of a more aggressive 50 bps cut has risen to around 10% following the latest jobs data, though it remains a minority outcome in futures pricing. Bond markets have reacted accordingly, with the 10-year Treasury yield dipping below 3.8% in anticipation of easier policy. Equity markets, particularly in rate-sensitive sectors like technology and real estate, have rallied on cut expectations, though volatility remains elevated ahead of the decision.

Analyst and Expert Predictions

Analysts largely align with market pricing but offer nuanced views on the magnitude and forward guidance. J.P. Morgan Research anticipates the first rate cut of 2025 at this meeting, citing shifts in the Fed's composition and data-dependent approach. Federal Reserve Governor Christopher Waller has explicitly advocated for initiating cuts in September, stating in a recent speech that "it's time to lower rates" to prevent unnecessary economic pain.

However, not all voices are unanimous. Morgan Stanley economists assess the odds of a September cut at closer to 50-50, pointing to solid consumer spending and services inflation that could give the Fed pause. A Forbes analysis echoes this caution, arguing that while Powell's hints suggest easing, persistent inflation above target might delay action until clearer downside risks emerge. Real estate-focused Norada Real Estate Investors predicts a 25 bps cut as the baseline scenario, with potential for more if incoming data deteriorates further.

The Peterson Institute for International Economics (PIIE) describes the meeting as potentially "one of the most contentious in years," highlighting debates over the pace of future cuts amid global uncertainties. Reuters reports that the Fed is on track for a series of cuts through year-end, but September's decision will set the tone for the remaining 2025 meetings.

Potential Outcomes and Forward Guidance

The most likely outcome is a 25 bps cut, aligning with the Fed's gradual approach to normalization after holding rates steady through much of 2025. Powell's press conference will be scrutinized for signals on the dot plot—the Committee's projections for rates, growth, inflation, and unemployment—which could be updated to reflect a more dovish stance.

A surprise hold, though improbable, could trigger market turbulence if attributed to hotter-than-expected inflation data. Conversely, a 50 bps cut might signal deeper concerns about recession risks, boosting risk assets but raising questions about financial stability. Guidance on the number of remaining cuts in 2025 (potentially two to three more) will be crucial for anchoring long-term rate expectations.

Implications for Markets and the Economy

A rate cut would lower borrowing costs for consumers and businesses, providing relief to the housing market and supporting stock valuations. However, it risks moral hazard if perceived as overly reactive to short-term data. For the broader economy, easing could avert a downturn but might prolong inflationary pressures if supply constraints persist. Investors should monitor post-meeting volatility, as dot plot revisions could shift yield curves significantly.

Conclusion

The September 16-17, 2025, FOMC meeting represents a potential turning point in the Federal Reserve's 2025 policy cycle, with markets and most analysts expecting a 25 bps rate cut amid labor market softening. While risks of a hold or larger cut exist, the consensus points to measured easing. The outcomes will shape economic trajectories through year-end and beyond, underscoring the Fed's delicate balancing act.

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