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Special Update

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Fed Meeting!
This Meeting Turned Out to be as Important as We Expected!

On September 17, 2025, the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve announced a 25 basis point reduction in the federal funds rate, lowering it to a target range of 4.00% to 4.25%. This marked the first rate cut since December 2024, reflecting a shift toward easing monetary policy amid signs of a cooling labor market and moderating economic growth, while inflation remains above the 2% target. The decision was nearly unanimous, with only one dissenting vote. In his subsequent press conference, Fed Chair Jerome Powell described the move as a proactive "risk management" step to balance dual mandates of maximum employment and price stability, emphasizing data-dependence and caution against more aggressive easing. Markets reacted with mixed results, with equities showing initial volatility but closing largely flat, while bond yields dipped slightly.

The FOMC Decision

The FOMC, in its September 16-17, 2025, meeting, voted to reduce the federal funds rate by 25 basis points (0.25%), adjusting the target range from 4.25%-4.50% to 4.00%-4.25%. This action reverses the tightening cycle that began in March 2022, during which the Fed raised rates by over 500 basis points to combat post-pandemic inflation. The decision was influenced by recent data showing a slowdown in job growth—August nonfarm payrolls added only 22,000 jobs, far below the expected 75,000—and a slight uptick in the unemployment rate to around 4.3%. The Committee noted that while inflation has eased, it remains "somewhat elevated," justifying a measured approach rather than a larger 50 basis point cut.

The vote was 11-1, with the sole dissent coming from newly appointed Governor Stephen Miran, a former economic adviser to President Trump, who reportedly favored holding rates steady due to persistent inflationary pressures. The Fed also reaffirmed its ongoing balance sheet reduction, continuing to unwind holdings of Treasury securities and agency mortgage-backed securities at a gradual pace.

Key Elements of the FOMC Statement

The official statement, released at 2:00 p.m. EDT on September 17, highlighted several core themes:

- Economic Activity: Recent indicators point to moderating growth, with GDP expanding at about 1.5% in the first half of 2025, down from 2.5% in 2024. Household spending has slowed, and business fixed investment has softened.
- Labor Market: Job gains have decelerated, and the unemployment rate has risen modestly but remains low. Downside risks to employment have increased, prompting the Committee to view the labor market as a key vulnerability.
- Inflation: Price pressures have eased over the past year but are still above the 2% target. Longer-term inflation expectations remain well-anchored.
- Risks and Outlook: The Committee assesses that risks to achieving both employment and inflation goals have moved toward better balance, but uncertainties persist. It remains prepared to adjust policy as needed based on incoming data.

The statement underscores the Fed's commitment to its dual mandate, signaling flexibility without committing to a predefined path for future cuts.

Updated Economic Projections (Summary of Economic Projections - SEP)

In conjunction with the meeting, FOMC participants released updated projections via the SEP, providing median forecasts for key indicators. These reflect a slightly more optimistic growth outlook but highlight divisions on the pace of future rate cuts.

Indicator	2025 Median Projection	Change from June 2025	2026 Median Projection	Longer-Run MedianD
Real GDP Growth	1.6%	+0.2 pp	1.8%	1.8%
Unemployment Rate	4.3%	+0.1 pp	4.2%	4.0%
PCE Inflation	2.5%	-0.1 pp	2.2%	2.0%
Core PCE Inflation	2.6%	Unchanged	2.1%	2.0%
Federal Funds Rate (End of Year)	3.75%	-0.25 pp	3.00%	2.50%

The "dot plot" shows broad dispersion among participants: Seven members project two additional 25 basis point cuts by year-end (totaling 75 basis points of easing in 2025), while four anticipate only one more cut, and two expect no further action this year. This scatter reflects internal debates on inflation persistence versus labor market fragility.

Chairman Powell's Press Conference Comments

Fed Chair Jerome Powell delivered opening remarks followed by a Q&A session starting at 2:30 p.m. EDT on September 17. His tone was measured and forward-looking, framing the rate cut as a strategic adjustment rather than a panic response. Key excerpts and themes include:

- Rationale for the Cut: Powell described the 25 basis point reduction as "risk management" to address emerging downside risks to employment without overreacting to current data. "We do not need the labor market to deteriorate further to justify this action, nor do we want it to," he stated, noting that recent revisions to employment data revealed weaker-than-expected job growth. He explicitly downplayed calls for a 50 basis point cut, saying there was "not widespread support" for it within the Committee, as the policy stance is "not significantly misaligned."
- Labor Market Focus: Powell highlighted structural factors contributing to labor softness, including slower immigration inflows and declining labor force participation. "Immigration has been weighing on the labor market," he remarked, linking it to reduced job creation despite overall economic resilience. Unemployment, while still low, is "edging higher," and the Fed views employment risks as a "material threat."
- Inflation Dynamics: Inflation risks have diminished but are not fully resolved. "Inflation remains above target, but the risks are easing," Powell said, emphasizing that the Fed's actions are not preemptive against recession but calibrated to prevent one. He reiterated that policy will remain data-dependent, with no presumption of further cuts.

- Broader Outlook and Independence: Powell raised the 2025 GDP forecast slightly, citing resilient consumer spending, but warned of a "challenging situation" with balanced risks. He addressed political pressures indirectly, affirming the Fed's independence: "Our decisions are based on the economy, not on government borrowing or mortgage costs." On future meetings, he signaled potential for additional easing—possibly another 50 basis points by year-end—if data evolves favorably, but stressed gradualism.

Powell's comments were live-streamed and transcribed, with the full video and PDF available on the Fed's website.

Market Reactions

Initial market responses were muted, as the 25 basis point cut was fully priced in by futures traders. U.S. equities closed mixed: the Dow Jones Industrial Average rose modestly, while the S&P 500 and Nasdaq dipped slightly amid profit-taking. Treasury yields fell across the curve, with the 10-year note dipping to around 4.00%. The U.S. dollar strengthened briefly post-announcement, reflecting perceptions of a hawkish tilt in Powell's remarks. Gold prices pulled back after an initial surge, forming a bearish engulfing candle, while Bitcoin and other cryptocurrencies saw short-term gains of 2-3% on improved liquidity expectations.

Social media on X (formerly Twitter) buzzed with analysis, with users noting the cut's bullish implications for risk assets like crypto, though cautioning on volatility from leverage and potential stagflation signals.

Conclusion

The September 17, 2025, FOMC decision represents a pivotal pivot toward monetary easing, acknowledging labor market vulnerabilities while maintaining vigilance on inflation. Powell's comments reinforced a pragmatic, data-driven approach, alleviating fears of aggressive cuts but introducing uncertainty through the divided dot plot. As the Fed navigates this "challenging situation," upcoming data on jobs, inflation, and GDP will be critical. Investors should monitor the October 28-29 meeting for clues on the next steps, with two more cuts still plausible by year-end.

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