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**Review: FOMC Cuts Rates In October,
And Signals That More Easing in December
is “Not a Foregone Conclusion”**

by

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29 October 2025

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Executive Summary

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- **Decision Made:** *The Fed cut US interest rates in October.* The FOMC its target Fed funds range by 25 bps to 3.75% - 4.00%. The Fed maintained its data-dependent approach, but signaled that a cut in December is not a “foregone conclusion”. The FOMC made its latest policy decision with limited economic data due to the ongoing five-week government shutdown. The Fed signaled a shift in managing its \$6.6 trillion balance sheet, announcing that it will halt its reduction on December 1 amid strains in short-term funding markets.
- **Policy Discussion:** *Fed Chair Jerome Powell acknowledged deep divisions within the FOMC over the next policy move, saying members held “strongly differing views” about December’s meeting.* He emphasized that another rate cut was “far from a foregone conclusion,” prompting markets to scale back expectations for further easing. Futures now show a 29% chance of rates staying at 3.75–4%, up from 9% a day earlier, while odds of another cut fell sharply. Powell added that several policymakers now favor “pausing” to assess the effects of previous reductions, noting the Fed is “150 basis points closer to neutral than a year ago.”

Addressing the data gap caused by the government shutdown, Powell said the Fed would rely on alternative indicators but warned that high uncertainty could argue for caution in December. He noted that while some inflation and activity data remain available, the Fed lacks a complete picture of the economy. “If uncertainty remains high,” he said, “that could be an argument for caution about moving.”

Powell also downplayed concerns that lower rates would overheat AI investment, noting that data-center construction is largely financed with cash by major tech firms. He added that excluding tariffs, inflation is close to the 2% target—around 2.3–2.4%—and that tariff-driven inflation should be temporary. Separately, the Fed announced it would halt balance-sheet reduction on December 1, keeping its \$6.6 trillion portfolio steady to avoid liquidity strains, while continuing to replace maturing mortgage-backed securities with short-term Treasuries as part of its normalization strategy.

Key Picture: US Federal Reserve Forecasts – 2025-2027

	2025f			2026f		2027f		2028f	Longer Run	
	Latest Reading	September Report	June Report	September Report	June Report	September Report	June Report	September Report	September Report	June Report
GDP (real growth, y-o-y)	2.1	1.6	1.4	1.8	1.6	1.9	1.8	1.8	1.8	1.8
Unemployment rate (% , y-o-y)	4.3	4.5	4.5	4.4	4.5	4.3	4.4	4.2	4.2	4.2
PCE Inflation (% , y-o-y)	2.7	3.0	3.0	2.6	2.4	2.1	2.1	2.0	2.0	2.0
Core PCE Inflat. (% , y-o-y)	2.9	3.1	3.1	2.6	2.4	2.1	2.1	2.0	-	-
Federal Funds Rate (%)	4.327	3.6	3.9	3.4	3.6	3.1	3.4	3.1	3.0	3.0

Source: Federal Reserve ‘Summary of Economic Projections’ [June](#) and [September](#) 2025. Note: 1. GDP reading for Q2-2025; 2. Unemployment rate as of August 2025; 3. PCE and core PCE inflation as of September 2025; 4. Projections reflect the median of FOMC projection

Analysis

- A DECISION MADE:** *On October 29, the US Federal Reserve's FOMC cut its Fed funds range by 25 bps to 3.75% - 4.00%.* FOMC was divided: Powell and 9 others voted for the policy; voting against the action were Stephen I. Miran, who favored a 50-basis-point rate cut, and Jeffrey R. Schmid, who preferred leaving the target range unchanged. The Fed made its latest policy decision with limited economic data due to the ongoing five-week government shutdown. Except for September's inflation report, no official figures were released this month, forcing policymakers to rely on less accurate private data sources.

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Regarding *forward guidance*, the Fed continues to be data-dependent with decisions being made meeting by meeting. In its post-meeting statement, the FOMC noted the uncertainty stemming from limited data and adjusted its assessment of overall economic conditions accordingly. Also, in its statement, the Fed noted a modest rise in unemployment and a "shift" in risk balance. The committee again described economic activity as "expanding at a moderate rate," while adding that "job gains have slowed" and inflation "has moved up and remains somewhat elevated." Weaker job growth alongside higher inflation underscores the tension between the Fed's dual goals of stable prices and maximum employment. The statement also states that uncertainty "remains elevated," a more cautious view than in June, when the committee noted it had "diminished but remains elevated."

Regarding *balance sheet policies*, the Fed signaled a shift in managing its \$6.6 trillion balance sheet, announcing that it will halt its reduction on December 1 amid strains in short-term funding markets. The balance sheet, which peaked near \$9 trillion in 2022 after pandemic-era asset purchases, will remain steady to prevent another reserve shortage like the 2019 cash crunch.

- ✳ **POLICY DISCUSSION:** *Chair Jerome Powell noted that FOMC members held "strongly differing views" about what action to take at the next meeting.* During the press conference, Powell acknowledged divisions within the FOMC over the next policy step, noting that members held "strongly differing views" about the December meeting. He emphasized that another rate cut was "far from a foregone conclusion," signaling that the path ahead remains highly uncertain. Risks to employment remain skewed to the downside and increasing, while risks to inflation to the upside and stabilising. However, markets trimmed expectations for a December rate cut after Powell said it was "not a foregone conclusion." Fed funds futures now show a 29% chance of rates staying at 3.75–4%, up from 9% a day earlier, while odds of another cut to 3.5–3.75% fell below 69% from over 90%. In the end of the press conference, Powell noted that a few members of the FOMC would be in favor of pausing rate cuts to assess the impact of earlier moves. "We've cut twice and are about 150 basis points closer to neutral than a year ago," he said, adding that there's a "growing chorus" suggesting the Fed should wait a cycle before acting again. Stocks slipped following Powell's remarks.

When asked how the government shutdown might affect December's rate decision, Powell admitted that a "high level of uncertainty" could be a reason for the Fed to proceed cautiously. Powell said the Fed will rely on alternative data sources during the shutdown but acknowledged that uncertainty could influence December's decision. While some inflation and activity data will still be available, he noted the Fed won't have a full picture of the economy. "If uncertainty remains high," he said, "that could be an argument for caution in December."

Regarding if lower rates might fuel more investment in artificial intelligence, Powell dismissed the idea, saying data center construction is mostly unaffected by interest rates since major tech firms finance it with cash. "They're making a lot of money building them," he said. Still, some of this spending is speculative, and firms with less cash flow, like OpenAI, are increasingly turning to debt to fund their expansion.

Regarding the inflation, Powell noted that excluding tariffs, inflation is close to the Fed's 2% target. He estimated tariffs add about 0.5–0.6 percentage points to core PCE inflation, meaning it would otherwise

be around 2.3–2.4%. Powell added that tariff-driven inflation is likely temporary, describing it as a “one-time increase.”

The Fed signaled a policy shift in managing its \$6.6 trillion balance sheet, announcing it will halt its reduction on December 1 amid stress in short-term funding markets. The balance sheet, which peaked near \$9 trillion in 2022 after pandemic-era asset purchases, will now remain steady to avoid another reserve shortage like in 2019. While ending balance sheet runoff, the Fed will continue letting mortgage-backed securities roll off, replacing them with short-term Treasury bills to gradually reduce mortgage holdings without shrinking total assets. The balance sheet of the Fed will gradually reduce its duration. As pointed out in the statement, recent market signals—such as higher repo rates, increased use of the Fed’s standing repo facility, and a rise in the effective federal funds rate—indicate tighter liquidity conditions, justifying the move.

Since balance sheet reduction began 3.5 years ago, the Fed’s securities holdings have fallen by \$2.2 trillion, from 35% to about 21% of GDP. The next phase will hold the balance sheet steady while allowing reserves to decline gradually as currency and other liabilities grow. The Fed will continue letting agency securities roll off and reinvest proceeds into Treasury bills, aligning its portfolio more closely with the broader Treasury market and advancing balance sheet normalization.

✦ **ECONOMIC ASSESSMENT:** *While the shutdown delayed some federal data, available public and private reports indicate little change in the outlook for jobs and inflation since September.* Except for September’s inflation report, no official figures were released this month, forcing policymakers to rely on less accurate private data sources. The labor market is gradually cooling, and inflation remains somewhat elevated, as Powell pointed out during the press conference.

Recent indicators point to “moderate” economic growth. GDP expanded by 1.6% in the first half of the year, down from 2.4% in 2024, though data before the shutdown suggest slightly stronger momentum driven by consumer spending. Business investment remains solid, but housing activity is still weak. The ongoing government shutdown is expected to temporarily weigh on growth, with a rebound likely afterward. Powell noted that the available data suggests the economy is performing better than anticipated, driven mainly by robust consumer spending. He said growth appears “somewhat firmer” than expected, though the Fed’s assessment has been constrained by the suspension of official data releases during the government shutdown.

Powell noted that, despite the lack of official data over the past four weeks, the available evidence points to a cooling labor market. Unemployment stayed low through August. Layoffs and hiring remain low, he said, but both workers and firms are reporting fewer job opportunities and greater hiring challenges. Overall, Powell acknowledged that downside risks to employment have increased in recent months. This is due to immigration policies, a lower labour force participation rate and a moderating economy amid slightly restrictive monetary policy conditions.

Inflation has fallen sharply since mid-2022 but remains above the 2% target, with total and core PCE inflation estimated at 2.8% over the past year. The lack of PPI data makes it harder to estimate the PCE/Core PCE data. Goods prices have risen slightly due to tariffs, while services inflation continues to ease, as housing services inflation has stabilised. Short-term inflation expectations have edged higher, though long-term expectations remain anchored.

Balancing these trends, the Fed lowered the policy rate by 25 basis points to 3.75–4%. Policymakers noted that higher tariffs are temporarily boosting prices but could pose a longer-lasting inflation risk. With inflation risks tilted upward and employment risks downward, the Fed opted for a cautious, balanced approach toward a more neutral policy stance.

The ongoing government shutdown — now the second-longest in U.S. history — as a drag on economic activity. He warned that it would continue to weigh on growth while it persists but stressed that the

effects should reverse once the government reopens. Congressional Budget Office estimate that the month-long shutdown has already cost the economy at least \$7 billion in GDP, a figure expected to rise the longer the closure continues.

- ✦ **OUR TAKE:** *At this point the December meeting becomes a very close call.* Powell wanted to pour some cold water on premature enthusiasm for yet another cut in December. It's also a way to put pressure on Trump to end the shutdown: if the Fed does not have official data, it's more likely to pause in December. At this point, the policy move in December becomes a very close call.
- ✦ **MARKET REACTION AND IMPLICATIONS:** *Yields spike on Powell's remarks. In the fixed-income space,* the Treasury yields inched higher after the Fed cuts. The rate implied in SOFR Futures jumped 6-11bps across the curve, consequently, the 2-year Treasury yield first fell to 3.52%, but then rose again and now trades around 3.58% (11bps above the opening). 10-year Treasury yield rose and now trades around 4.06% (10bps above the opening). *In the currency space,* dollar held firm after the Fed's rate cut and ahead of major tech earnings. The dollar index rose 0.18% to 98.85, while the euro slipped 0.07% to \$1.1642. *In the equity space,* shortly after the Fed decision, stocks were still trading higher. The Nasdaq Composite climbed 0.5%, and the S&P 500 traded up 0.1%. The Dow Jones Industrial Average advanced 96 points, or 0.2%. All three leading U.S. indexes scored new all-time intraday highs in the trading day.



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