Fed Cuts 25; Trims Forecast for 2025.

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As expected, the Federal Open Market Committee (FOMC) announced a 25 basis point rate cut this afternoon, bringing combined easing to 100 bps over the past three months. The new overnight funds target is 4.25% to 4.50%, still considered somewhat restrictive with core consumer inflation near +3.0%. The official statement, released at the conclusion of the meeting, was nearly identical to the November statement.

The committee's updated "dot plot," or median interest rate projection, showed a 2025 yearend forecast of 3.875%, up half a point from 3.375% in September. For the end of 2026, the median forecast is now 3.375%, implying another 50 bps. The expected long-term neutral rate continues to rise, up from 2.875% to 3.0%.

The summary of economic projections (SEP) supported the Fed's more gradual approach as the committee's median core consumer inflation rate for the end of 2025 climbed from +2.2% to +2.5%. *Stubborn price pressure makes a poor argument for lowering rates.*

The committee was more upbeat on the unemployment rate, lowering expectations from 4.4% to 4.3% by the end of next year. Given that it was perceived deterioration in the labor market that prompted the FOMC to ease by 50 bps back in September, that concern seems to have been extinguished, allowing patience.

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The vote was 11-1, with the only dissenter being the newly appointed Cleveland Fed President Beth Hammack. Hammack favored no change. Just five members expected more than two cuts next year. This is in contrast to the most recent *Bloomberg economist survey* (released yesterday) which indicated the nation's top economists expect three cuts in 2025.

Powell began the post-meeting press conference by repeating all the familiar notes. He said the labor market remains "solid," consumer spending has been "resilient," and inflation expectations are "well anchored." He emphasized that monetary policy is "well positioned" and the Fed can be more cautious going forward.

In the Q&A, the most obvious question was the first one asked: "*Why did the committee cut today if inflation remains elevated?*" Powell answered by saying "it was a closer call," and pointed to "a great deal of progress on inflation" in effort to validate the move. Additional reductions next year will depend on continued strength of the labor market and the inflation path, but the Fed is on track for future cuts.

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Powell justified the committee's more hawkish outlook by saying inflation has underperformed relative to expectations; in other words, prices are no longer trending lower. *Fed officials will be looking for further progress when considering additional policy reductions next year.*

When asked about the incoming president's tariff threats, Powell responded that the committee would "take our time, not rush and assess carefully." Powell stressed that "the outlook is pretty bright for our economy," suggesting that the healthy economy could minimize the impact of the tariffs.

Today's rate cut announcement wasn't a surprise. However, bond yields rose significantly along the maturity curve as investors considered the Fed's increased inflation forecast along with expectations for a more gradual pace of future rate cuts. The ten-year Treasury-note yield rose to a six-month high of 4.48% while Powell answered questions. This bond market reaction primarily reflects the higher inflation outlook. Stocks plunged after absorbing the less favorable interest rate outlook.

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The next FOMC meeting is at the end of January. Although Powell has indicated decisions will depend on the incoming data as well as policies implemented by the Trump administration, the committee will very likely move to the sidelines …at least through March.

Market Indications as of 3:00 P.M. Central Time

DOW	Down -1123 to 42,327 (HIGH: 45,014)
NASDAQ	Down -716 to 19,393 (HIGH: 20,174)
S&P 500	Down -179 to 5,872 (HIGH: 6,090)
1-Yr T-bill	current yield 4.29%; opening yield 4.23%
2-Yr T-note	current yield 4.35%; opening yield 4.24%
3-Yr T-note	current yield 4.35%; opening yield 4.22%
5-Yr T-note	current yield 4.40%; opening yield 4.25%
10-Yr T-note	current yield 4.50%; opening yield 4.39%
30-Yr T-bond	current yield 4.65%; opening yield 4.58%