TAKEAWAYS FROM THE FED'S FIRST CUT SINCE 2024

Aristotle Pacific's Jeff Klingelhofer weighs in on how he thinks the Fed's long-awaited 25-basis-point cut should be interpreted.

Key Takeaways

- The Federal Reserve's Federal Open Market Committee (FOMC) this week cut interest rates by 25 basis points, lowering the federal funds target rate range to 4.00% from 4.25%. Additionally, FOMC members signaled two more cuts were on the way this year (up from one cut they penciled in during their June meeting).
- The Fed now expects only one cut for 2026 and another for 2027, suggesting a faster easing cycle. The central bank also released its 2028 projections with no cuts, meaning that year would end with a federal funds target rate at 3% to 3.25%.
- Policymakers stated low unemployment figures had edged up, and downside risks to employment had risen. However, they also acknowledged the price-stability side of their mandate, which stated inflation had risen and remained somewhat elevated.
- The latest Summary of Economic Projections suggests to me the Fed believes growth will be slightly stronger than previously predicted, despite dropping the term "solid" from their policy statement this time around.
- The sole dissenter was newly appointed Fed Governor Stephen Miran, who advocated for a 50-basis-point cut. I—along with the market—had expected more dissenters wanting a deeper cut.

For me, the tone from Chair Jerome Powell at his post-meeting press conference was quite neutral, though the market had been pricing in a more dovish cut. In my view, it's important to keep in mind today's action was indeed a cut, and members now expect the number of cuts for the rest of the year to increase from one to two. On this note, I'm surprised the markets have largely ignored the Fed's sensitivity over continued inflationary pressures. Powell continues to suggest the impact of tariffs on inflation haven't been fully felt one way or the other, but they are currently bleeding into inflation—though he expects it may be a one-time price shift.

In today's highly politicized world, I think it's unsurprising the first question at Powell's presser was not about policy or the economy but about the political environment and its impact on the Fed. I continue to believe, much as Powell suggested, today's Fed will maintain its focus on the goals given to them by Congress and not be guided by politics.

	Median Projections from SEP				
	2025	2026	2027	2028	Longer Run
Change in real GDP	**1.6%**	**1.8%**	**1.9%**	**1.8%**	**1.8%**
June 2025	*1.4%*	*1.6%*	*1.8%*		*1.8%*
Unemployment Rate	**4.5%**	**4.4%**	**4.3%**	**4.2%**	**4.2%**
June 2025	*4.5%*	*4.5%*	*4.4%*		*4.2%*
Federal Funds Rate	**3.6%**	**3.4%**	**3.1%**	**3.1%**	**3.0%**
June 2025	*3.9%*	*3.6%*	*3.4%*		*3.0%*
Core PCE Inflation	**3.1%**	**2.6%**	**2.1%**	**2.0%**	
June 2025	*3.1%*	*2.4%*	*2.1%*		

Source: FOMC as of 9/17/25.

The Fed's most recent statement showed only small edits from July, with the changes mostly focused on unemployment and uncertainty.

FOMC Statement from July 30, 2025	FOMC Statement from September 17, 2025
Although swings in net exports continue to affect the data, recent indicators suggest that growth of economic activity moderated in the first half of the year. The unemployment rate remains low, and labor market conditions remain solid. Inflation remains somewhat elevated.	Recent indicators suggest that growth of economic activity moderated in the first half of the year. **Job gains have slowed, and the unemployment rate has edged up but remains low. Inflation has moved up and remains somewhat elevated.**
The Committee is attentive to the risks to both sides of its dual mandate.	The Committee is attentive to the risks to both sides of its dual mandate **and judges that downside risks to employment have risen.**
In considering the extent and timing of additional adjustments to the target rate for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will contine reducing its holdings of Treasury securities and agency debt and agency mortgage backed securities.	**In considering additional adjustments to the target range for the federal funds rate,** the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities.

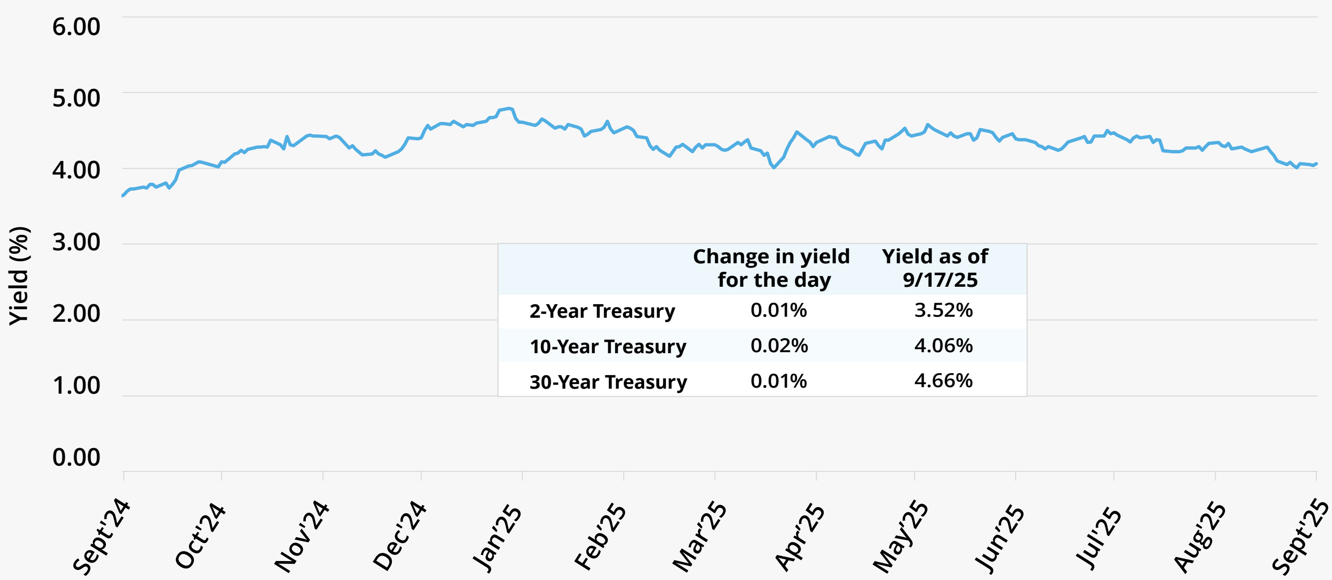
Source: FOMC as of 9/17/25. For statement changes, additions are indicated in bold.

After the Fed announcement, the 10-year Treasury ended the day lower and finished at 4.06%; short and long rates were unchanged. The Dow Jones Industrial Average and S&P 500 Index returned 0.06% and -0.01%, respectively, for the day.

	2-Year Treasury	10-Year and 2-Year Treasury Spread	10-Year Treasury	30-Year Treasury
End of Prior FOMC Meeting (7/30/25)	3.94%	0.44%	4.38%	4.89%
Start of FOMC Meeting Week	3.56%	0.50%	4.06%	4.68%
End of FOMC Meeting (9/17/25)	3.52%	0.54%	4.06%	4.66%

Source: U.S. Department of the Treasury as of 9/17/25.

10-Year Treasury Yield over the Past 12 Months



Source: FRED as of 9/17/25. U.S. Department of the Treasury as of 9/17/25.

In Conclusion

As I've said before, I think we should be paying attention to where the car headed more than where the car sits today. The Fed is right to cut today. Importantly, however, I'd argue there are emerging signs of firming growth, and there remains significant stimulus in the pipeline from rising incomes, higher asset valuations, the AI revolution, and a pickup in capex expectations stemming from the One Big Beautiful Bill. I'm in the camp that two cuts over the next three months might be one too many because I worry inflation may soon again become job No. 1 for the Fed.

Definitions

One **basis point** is equal to 0.01%.

Capital expenditures or **capex** refers to a company's capital expenditures.

The **Consumer Price Index (CPI)** measures the overall change in consumer prices based on a representative basket of goods and services over time. **Core CPI** is the change in prices of goods and services, except for those from the food and energy sectors.

The Core Personal Consumption Expenditure (PCE) Price Index provides a measure of the prices paid by people for domestic purchases of goods and services, excluding the prices of food and energy. The core PCE is the Fed's preferred inflation measure.

The **federal funds rate** is the target interest rate set by the Fed at which commercial banks borrow and lend their extra reserves to one another overnight.

The Federal Reserve's **Federal Open Market Committee (FOMC)** makes key decisions about interest rates and the growth of the United States money supply.

Dovish describes monetary policy or a person's outlook that favors low interest rates and looser monetary conditions to stimulate economic growth and reduce unemployment, even at the potential risk of higher inflation.

The **Dow Jones Industrial Average index (DJIA)** tracks the share price of the top 30 large, publicly owned U.S. companies which is often used as an indicator of the overall condition of the U.S. stock market.

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

Real GDP is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year.

The **S&P 500 Index** is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the U.S. stock market.

The **Summary of Economic Projections (SEP)**, known informally as the "**dot plot**," is a collection of forecasts for the economy, inflation, the labor market, and interest rates offered by the seven Fed governors and 12 regional Fed presidents.

U.S. Treasury notes are debt securities issued by the U.S. and are loans made by the investor to the government with varying lengths of maturity.

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