TATA CAPITAL WEALTH

Divided Fed approves third rate cut this year, sees slower pace ahead

Macro Insights
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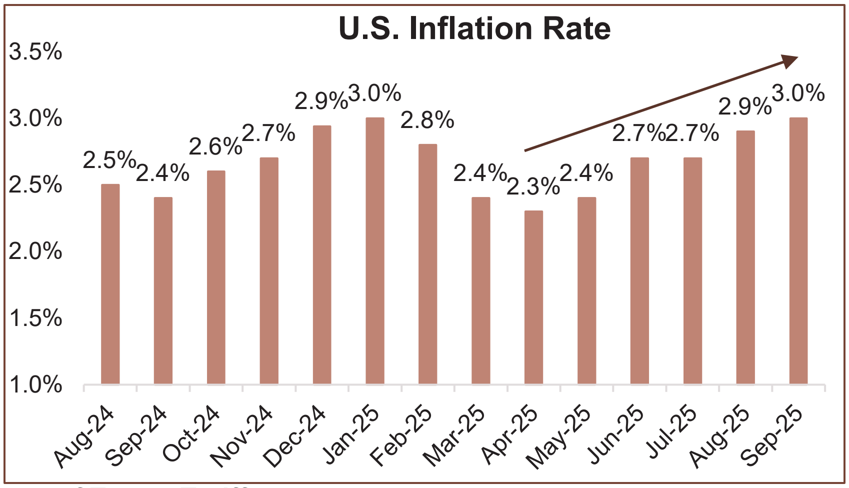
Key Highlights:

- The U.S. Federal Reserve (Fed) **cut interest rates by 25 bps to 3.50%-3.75%,** amid apparent split over US economy absorbing major shakeups.
- This is the **third consecutive rate cut by the central bank**, aiming to safeguard against increasing employment market uncertainties, amid evident disagreements within the committee.
- The rate reduction will strenghten the US economy, **which continues to adjust to President Trump's tariff policies, whilst providng the officials additional time to assess the government shutdown impact.**

Current Update:

- ❖ **In an 9-to-3 vote**, the Federal Open Market Committee (FOMC) lowered its benchmark overnight lending rate by a quarter percentage point, **setting the target range between 3.75% and 4%.**
- ❖ The split **highlights the overall uncertainty within the Fed as the US economy absorbs major economic shakeups, including tariffs, changes to the labour force from Trump's immigration crackdown and massive government cuts.**
- ❖ The Committee judges that **reserve balances have declined to ample levels and will initiate purchases of shorter-term Treasury securities** as needed to maintain an ample supply of reserves on an ongoing basis.
- ❖ The December decision explains a Fed increasingly mindful of conflicting economic signals.

U.S. Inflation:



- **In September, inflation rose to 3.0%,** up from 2.9% in August. The August inflation was its highest since February.
- **Core Inflation**, which excludes volatile food and energy prices, ticked down to 3% in September from 3.1% in each of the previous two months.
- **The elevated prices were partly on account of Trump Tariffs.**

The Fed's Policy Shift: From Aggressive Tightening to Gradual Easing (2022–2025)

Since **March 2022**, the U.S. Federal Reserve has led one of the **most aggressive rate hike cycles** in modern history in an effort to tame surging inflation, which had reached four-decade highs.

The Fed cut rates by 100 basis points between September and December 2024, followed by three additional 25 basis point cuts — two earlier this year and another this December — **taking the cumulative rate reduction to 175 basis points so far.**

FOMC Meeting Date	Rate Change (bps)	Interest Rate
11-Dec-25	-25	3.50% to 3.75%
30-Oct-25	-25	3.75% to 4.00%
17-Sep-25	-25	4.00% to 4.25%
31-Jul-25	No change	4.25% to 4.50%
19-Jun-25		
07-May-25		
07-Mar-25		
20-Mar-25		
29-Jan-25		
19-Dec-24	-25	4.25% to 4.50%
07-Nov-24	-25	4.50% to 4.75%
19-Sept-24	-50	4.75% to 5.00%
31-July-24	No change	5.25% to 5.50%
12-June-24		
01-May-24		
20-Mar-24		
31-Jan-24		
13-Dec-23		

Source: US Federal Reserve Website

To Conclude:

The US central bank cut interest rates by a quarter percentage point, as expected. That lowered the target for its key lending rate to a range of 3.5% to 3.75%, the lowest since 2022.

The Committee will continue to monitor the implications of incoming information for the economic outlook. **The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals.** The Committee's assessments will consider a wide range of information, including readings on labour market conditions, inflation pressures and inflation expectations, and financial and international developments.

The next move is unlikely to be immediate. **Powell said repeatedly he thought the bank was now "well positioned to wait" to see what happens to jobs and inflation.** While official forecasts for growth and inflation have improved, Powell said both areas face risks, warning that jobs data could be overestimating hiring. Conversely, he said he was optimistic that tariff-related inflation would not spread to the wider economy.

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