CUTTING CYCLE RECOMMENCES

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INVESTMENT VIEWS
FROM INSIGHT INVESTMENT

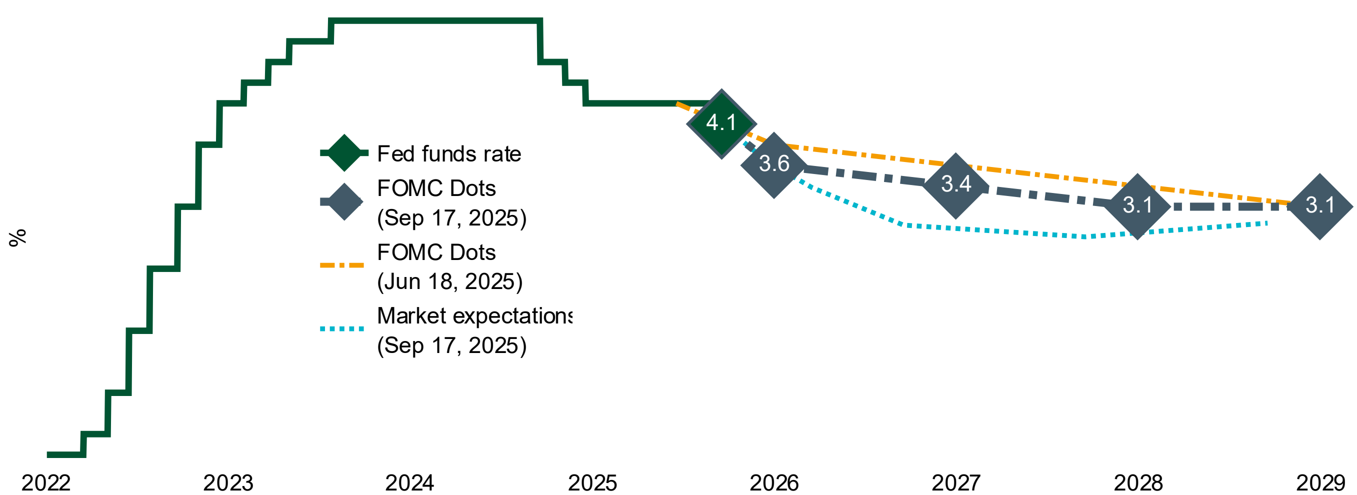
Sept.17, 2025

The Federal Open Market Committee (FOMC) delivered a 25 basis point (bp) cut to the Fed Funds rate, taking it to a target range of 4% to 4.25%. It marks the first rate cut since December 2024. The committee also projected a modestly steeper rate-cutting trajectory. We believe the resumption of rate cuts could bode well for fixed income investments.

The Committee voted almost unanimously, with the only dissenting vote from the newest member of the committee being from Stephen Miran (one of President Trump's economic advisors), who voted for a 50bp cut.

The Fed's updated "dot plot" projections reflected two further additional rate cuts by year-end, a slightly faster rate cutting profile than in June (Figure 1). Nonetheless, individual projections were bifurcated with six members projecting no further rate cuts this year.

Figure 1: The Fed projected a modestly steeper rate-cutting trajectory than it did in June



Federal Reserve, Bloomberg, Insight, September 2025. Charts are provided for illustrative purposes only. .

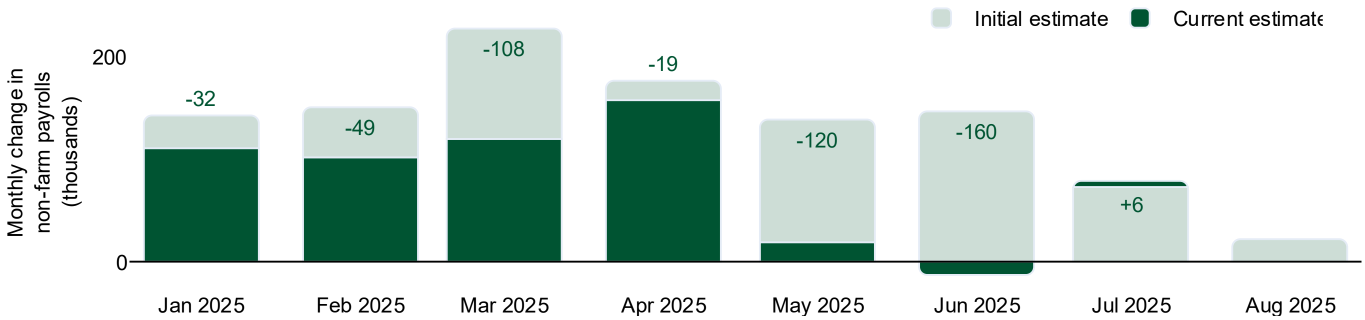
The rest of the FOMC's quarterly economic projections remained roughly consistent with its previous forecast in June. Most significantly, however, the committee's projections for PCE and Core PCE were both revised up from 2.4% to 2.6% for 2026, potentially reflective of tariff-related risks.

LABOR MARKET CONDITIONS FORCE THE FED'S HAND

The FOMC's official statement cited labor market conditions as the main driver of its decision to cut rates, noting that "job gains have slowed, and the unemployment rate has edged up." It also noted that "downside risks to employment have risen."

Chair Powell also referenced monthly non-farm payroll growth, which have been subject to significant downward revisions in recent months (Figure 2). The Fed appears concerned that the labor market could be close to tipping into a contraction, risking a cycle of job losses.

Figure 2: Downward revisions to non-farm payrolls were likely a key factor in prompting the Fed to act



Bureau of Labor Statistics, Macrobond, Insight, September 2025. Charts are provided for illustrative purposes only.

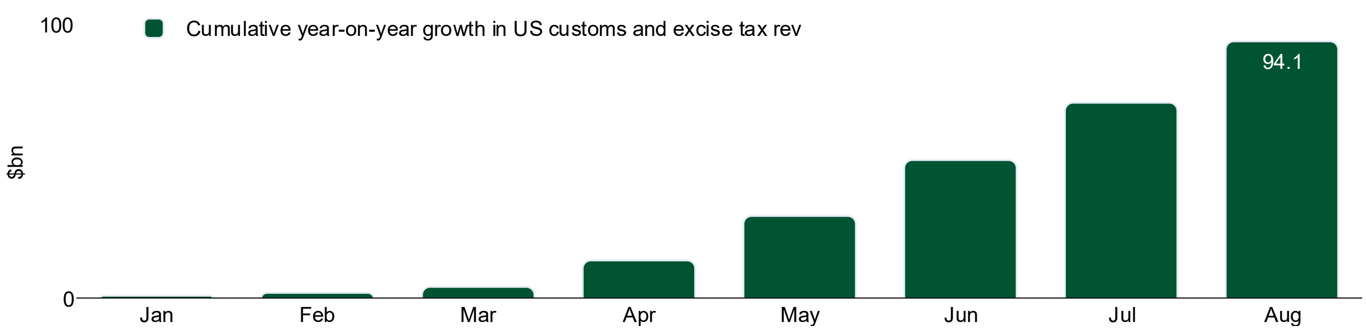
TARIFFS MAY COMPLICATE THE PACE OF THE CUTTING CYCLE

The committee's official statement continued to note that "Inflation has moved up and remains somewhat elevated", acknowledging that core PCE, the central bank's preferred inflation measure is currently at 2.9% and has consistently risen since April.

Chair Powell noted tariffs have begun to impact some goods inflation components, but their full effects "remain to be seen". He characterized risks to inflation as "on the upside". He noted that a "reasonable base case" will be that tariffs will cause a series of "one-time" price rises but noted the committee's job is to avoid tariffs leading to more persistent inflation.

This year, the administration's tariffs have generated close to $100bn of excess customs revenue this year versus last year (Figure 3), echoing to us the sentiment that their full effect on the economy has not yet become fully clear.

Figure 3: Rising tariff revenues indicate that the full effect of tariffs may not yet be fully clear



U. S. Treasury, Macrobond, Insight, September 2025. Charts are provided for illustrative purposes only.

RATE CUTS ARE BACK ON THE AGENDA

Although we suspect the Fed may take a cautious approach to further rate cuts, we continue to believe that, if needed, the committee will be biased to look through tariff-related inflation over the near term, and will be more focused on keeping the labor market above water. With rate cuts back on the agenda, we believe fixed income investors have the potential to benefit.

INVESTMENT VIEWS FROM INSIGHT INVESTMENT

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A **basis point** (bp) is one-hundredth of a percentage point (0.01%). The **Consumer Price Index (CPI)** measures the monthly change in prices paid by U.S. consumers. The Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending. **PCE inflation** is a measure of how prices for goods and services change over time, as tracked by the Personal Consumption Expenditures (PCE) Price Index. The PCE is a key indicator of inflation in the United States. **Headline CPI** is the raw inflation figure reported through the Consumer Price Index (CPI) monthly. **Core CPI** excludes the more volatile food and energy categories. **Sticky** inflation refers to a persistent economic scenario where prices for goods and services do not adjust quickly to changes in supply and demand dynamics. **Supercore** inflation equals the inflation of a basket of goods and services, minus the food and energy inflation, and minus the housing inflation.

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