

# FED MAY CUT RATES BY 25 BPS IN SEPTEMBER

August 2025

**Vincent Reinhart**

Chief Economist and Macro Strategist  
BNY Investments Dreyfus

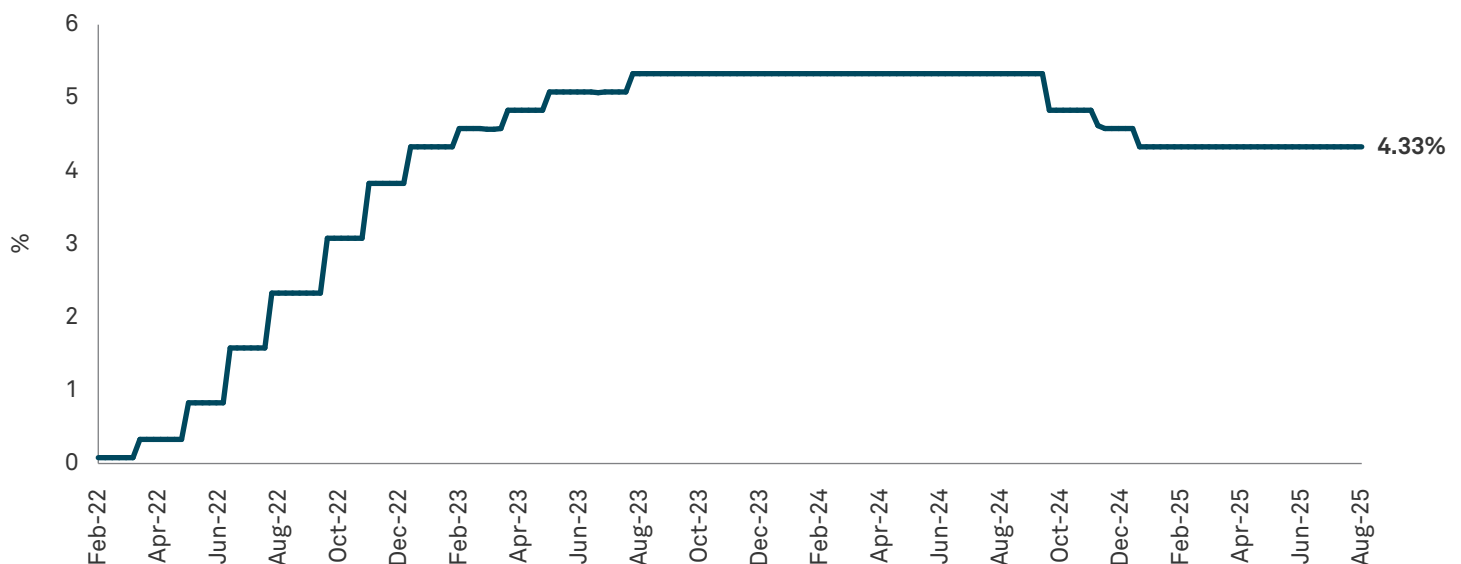
We expect the Federal Reserve to cut its policy rate by 25 basis points at the September Federal Open Market Committee (FOMC) meeting given shifts in both the balance of risks to its dual mandate and the composition of the group. The FOMC will also provide guidance at the September meeting about its expected rate path in the Summary of Economic Projections. For now, we expect the group to settle on one more rate cut in 2025 after the September action and no material tilt

in the trajectory thereafter. However, connecting the dots after 2025 is less meaningful than usual given the imminent Fed leadership change.

Over the prior year, the FOMC took advantage of the resilient momentum of economic activity to pick opportunities to cut the nominal policy rate to align it better with slowly declining inflation. The aim was to keep the real policy rate from firming as inflation fell but to keep it firm enough to foster disinflation until the 2%

goal was in sight. But those opportunities dried up in the first half of 2025 with the administration's "flood the zone" approach to economic policy. The combination of tighter border enforcement raising labor costs, deregulation encouraging investment, budget legislation preserving fiscal stimulus, and higher tariffs all added to inflation risks.

EFFECTIVE FEDERAL FUNDS RATE (%)



Source: Federal Reserve as of August 13, 2025. Charts are provided for illustrative purposes and are not indicative of the past or future performance of any BNY product.

Not FDIC-Insured. Not Bank-Guaranteed. May Lose Value.

## FED MAY CUT RATES BY 25 BPS IN SEPTEMBER

The Fed's response was an unhurried wait to see the effects of these policies pass through to inflation and inflation expectations, which thus far has been inconclusive. Disinflation has stalled out, with the consumer price measure by July erasing progress in the first half of the year, but the incidence of tariffs has been muted. In the interim, though, slowing aggregate demand and mounting concern about employment raised a counterpoint to trepidation about inflation. Payroll employment in July disappointed, and downward revisions to prior months significantly flattened the gains over the year. Meanwhile the average spell in unemployment lengthened, and claims for unemployment insurance crept up.

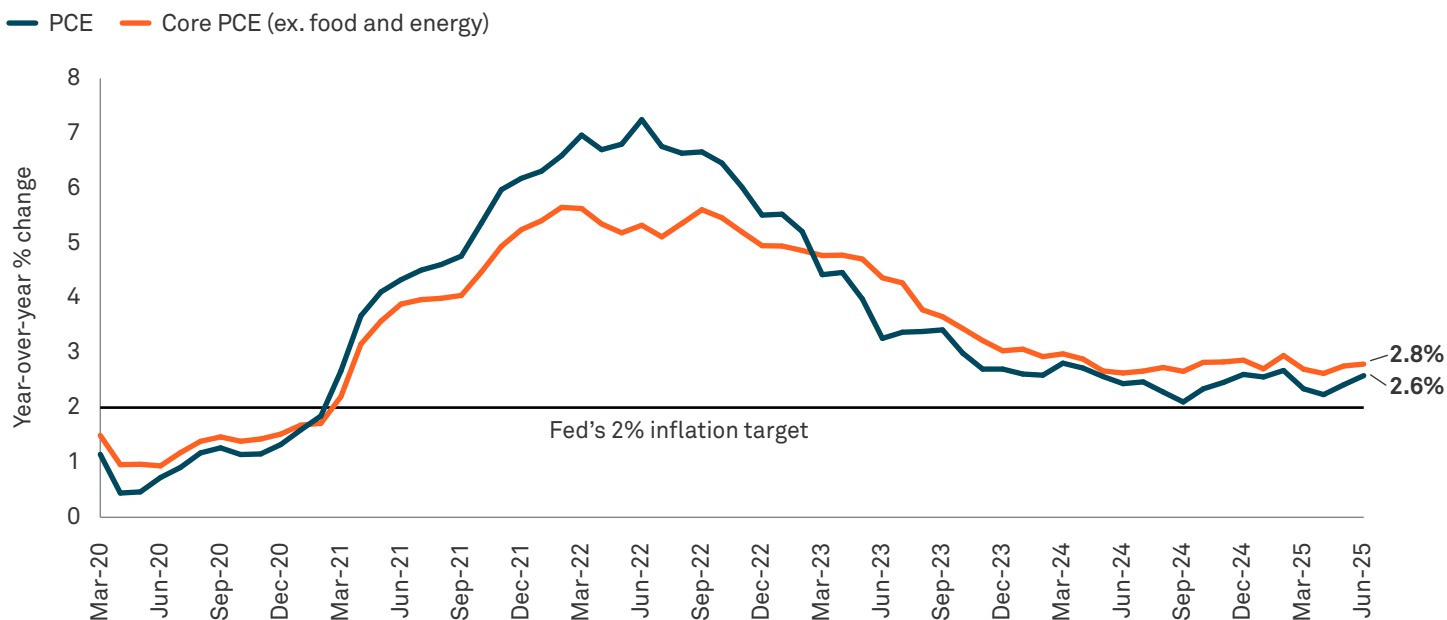
Over the past two decades when claims on the dual mandate of maximum employment and price stability came into conflict, the Fed tended to respond more quickly to the former than the latter. We don't think this time will be different, which is evident in the growing internal momentum for accommodation. Governors Bowman and Waller dissented in favor of ease at the July meeting. This creates a gravitation tug toward ease, perhaps made relatively stronger as the pull from Chair Powell wanes as his term winds up.

Contrary to its standard operating practice of signaling action one meeting in advance, the FOMC was silent about future policy in its statement in July.

Part of that was awaiting data but part was the understanding that Chair Powell would use the platform provided by the upcoming Jackson Hole Economic Policy Symposium to settle matters. Aside from guidance about the September action, the chair can frame the FOMC decision as either a bump in the road along the Fed's longer-run plan to renormalize rates or a shift to an entirely reactive mode, essentially leaning into the Summary of Economic Projections.

This marks Powell's last appearance at Jackson Hole as chair, so he may reflect on his legacy. He may be willing to confront the administration by stressing the importance of central bank independence to the room full of central bankers.

### U.S. INFLATION PERSONAL CONSUMPTION EXPENDITURES (PCE)



Source: Bureau of Economic Analysis as of August 13, 2025. Charts are provided for illustrative purposes and are not indicative of the past or future performance of any BNY product.

**BNY Investments Dreyfus** offers innovative liquidity solutions designed to help our clients align expected cash needs and time horizons with investment objectives.

**IN THE UNITED STATES: FOR GENERAL PUBLIC USE.**

**IN ALL OTHER JURISDICTIONS: FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS AND QUALIFIED CLIENTS.**

This material should not be considered as investment advice or a recommendation of any investment manager or account arrangement, and should not serve as a primary basis for investment decisions. Any statements and opinions expressed are those of the author as at the date of publication, are subject to change as economic and market conditions dictate, and do not necessarily represent the views of BNY. The information has been provided as a general market commentary only and does not constitute legal, tax, accounting, other professional counsel or investment advice, is not predictive of future performance, and should not be construed as an offer to sell or a solicitation to buy any security or make an offer where otherwise unlawful. The information has been provided without taking into account the investment objective, financial situation or needs of any particular person. BNY is not responsible for any subsequent investment advice given based on the information supplied. This is not investment research or a research recommendation for regulatory purposes as it does not constitute substantive research or analysis. This information may contain projections or other forward-looking statements regarding future events, targets or expectations, and is only current as of the date indicated. There is no assurance that such events or expectations will be achieved, and actual results may be significantly different from that shown here. The information is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be and should not be interpreted as recommendations. Charts are provided for illustrative purposes only and are not indicative of the past or future performance of any BNY product. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance is no guarantee of future results. Information and opinions presented have been obtained or derived from sources which BNY believed to be reliable, but BNY makes no representation to its accuracy and completeness. BNY accepts no liability for loss arising from use of this material.

**All investments involve risk including loss of principal.**

**Not for distribution to, or use by, any person or entity in any jurisdiction or country in which such distribution or use would be contrary to local law or regulation.** This information may not be distributed or used for the purpose of offers or solicitations in any jurisdiction or in any circumstances in which such offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements. Persons into whose possession this information comes are required to inform themselves about and to observe any restrictions that apply to the distribution of this information in their jurisdiction.

#### **Issuing entities**

**This material is only for distribution in those countries and to those recipients listed, subject to the noted conditions and limitations: For Institutional, Professional, Qualified Investors and Qualified Clients. For General Public Distribution in the U.S. Only.** • **United States:** by BNY Mellon Securities Corporation (BNYSC), 240 Greenwich Street, New York, NY 10286. BNYSC, a registered broker-dealer and FINRA member, has entered into agreements to offer securities in the U.S. on behalf of certain BNY Investments firms. • **Europe (excluding Switzerland):** BNY Mellon Fund Management (Luxembourg) S.A., 2-4 Rue Eugène Ruppert L-2453 Luxembourg. • **UK, Africa and Latin America (ex-Brazil):** BNY Mellon Investment Management EMEA Limited, BNY Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA. Registered in England No. 1118580. Authorised and regulated by the Financial Conduct Authority. • **South Africa:** BNY Mellon Investment Management EMEA Limited is an authorised financial services provider. • **Switzerland:** BNY Mellon Investments Switzerland GmbH, Bäregasse 29, CH-8001 Zürich, Switzerland. • **Middle East:** DIFC branch of The Bank of New York Mellon. Regulated by the Dubai Financial Services Authority. • **South East Asia and South Asia:** BNY Mellon Investment Management Singapore Pte. Limited Co. Reg. 201230427E. Regulated by the Monetary Authority of Singapore. • **Hong Kong:** BNY Mellon Investment Management Hong Kong Limited. Regulated by the Hong Kong Securities and Futures Commission. • **Japan:** BNY Mellon Investment Management Japan Limited. BNY Mellon Investment Management Japan Limited is a Financial Instruments Business Operator with license no 406 (Kinsho) at the Commissioner of Kanto Local Finance Bureau and is a Member of the Investment Trusts Association, Japan and Japan Investment Advisers Association and Type II Financial Instruments Firms Association. • **Brazil:** ARX Investimentos Ltda., Av. Borges de Medeiros, 633, 4th floor, Rio de Janeiro, RJ, Brazil, CEP 22430-041. Authorized and regulated by the Brazilian Securities and Exchange Commission (CVM). • **Canada:** BNY Mellon Asset Management Canada Ltd. is registered in all provinces and territories of Canada as a Portfolio Manager and Exempt Market Dealer, and as a Commodity Trading Manager in Ontario. All issuing entities are subsidiaries of The Bank of New York Mellon Corporation.

**IMPORTANT INFORMATION FOR ASIA PACIFIC AUDIENCE**

This document is provided to the recipient for information purposes only. This document may not be used for the purpose of an offer or solicitation, directly or indirectly, in any jurisdiction or in any circumstances in which such offer or solicitation is unlawful or not authorised. This document has not been reviewed or approved by any regulatory authorities and is only for “Eligible Recipients”. “Eligible Recipients” means professional clients (i.e. non-retail clients) and (in jurisdictions where there are restrictions on (i) the types of professional clients which can be provided with this document; and (ii) the purposes for which this document can be provided to such professional clients) such types of professional clients (e.g. eligible financial institutions or financial intermediaries) which shall only use this document for the specific purposes as permitted under applicable laws and regulations.

This document is for the exclusive use of the Eligible Recipient. This document may not be copied, duplicated in any form by any means, published, circulated or redistributed or caused to be done so, whether directly or indirectly, to any other persons without the prior written consent of BNY. It is not intended for onward distribution or dissemination to the retail public and is not to be relied upon by retail clients. This document is not for distribution to, or to be used by, any person or entity in any jurisdiction or country in which such distribution or use would be contrary to local law or regulation, or where there would be, by virtue of such distribution or use, new or additional registration or approval requirements. Persons into whose possession this document comes are required to inform themselves about and to observe any restrictions that apply to the distribution or use of this document in their jurisdictions.

Accordingly, this document and any other documents and materials, in connection therewith may only be circulated or distributed by an entity as permitted by applicable laws and regulations. BNY Investments do not have any intention to solicit Eligible Recipients for any investment or subscription in a fund or use of BNY Investments services and any such solicitation or marketing will only be made by an entity permitted by applicable laws and regulations. BNY Investments do not intend to conduct any offering activities, investment management business, investment advisory business, and/or any other securities business in any jurisdiction or in any circumstances in which such offer or solicitation is unlawful or not authorized.

Any views and opinions contained in this document are those of Investment Manager as at the date of issue; are subject to change and should not be taken as investment advice. BNY is not responsible for any subsequent investment advice given based on the information supplied.

BNY, BNY Mellon and Bank of New York Mellon are the corporate brands of The Bank of New York Mellon Corporation and may also be used to reference the corporation as a whole and/or its various subsidiaries generally. BNY Investments encompass BNY Mellon's affiliated investment management firms and global distribution companies. Any BNY entities mentioned are ultimately owned by The Bank of New York Mellon Corporation.

This document is not intended as investment advice. Investment involves risk. Past performance is not indicative of future performance. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. The value of investments and the income from them is not guaranteed and can fall as well as rise due to stock market and currency movements. When you sell your investment you may get back less than you originally invested.

No warranty is given as to the accuracy or completeness of this information and no liability is accepted for errors or omissions in such information. BNY accepts no liability for loss arising from use of this material.

The investment program contained in this presentation may not meet the objectives or suitability requirements of any specific investor. An investor should assess his/her own investment needs based on his/her own financial circumstances and investment objectives. You are advised to exercise caution when reading this document. If you are in any doubt about the contents of this document, you should obtain independent professional advice.

The information contained in this document should not be construed as a recommendation to buy or sell any security. It should not be assumed that a security has been or will be profitable. There is no assurance that a security will remain in the portfolio. Tax treatment will depend on the individual circumstances of clients and may be subject to change in the future.

If there is any inconsistency between this warning statement and the disclosure stated under this document, this warning statement shall prevail to the extent of the inconsistency.

**BNY COMPANY INFORMATION**

**BNY Investments** is the brand name for the investment management business of BNY and its investment firm affiliates worldwide. BNY is the corporate brand of The Bank of New York Mellon Corporation and may also be used to reference the corporation as a whole and/or its various subsidiaries generally. • **Mellon Investments Corporation** (MIC) is a registered investment advisor and subsidiary of The Bank of New York Mellon Corporation. MIC is composed of two divisions: BNY Investments Mellon (Mellon), which specializes in index management, and BNY Investments Dreyfus (Dreyfus), which specializes in cash management and short duration strategies. • **Insight Investment** — Investment advisory services in North America are provided through two different investment advisers registered with the Securities and Exchange Commission (SEC) using the brand Insight Investment: Insight North America LLC (INA) and Insight Investment International Limited (IIIL). The North American investment advisers are associated with other global investment managers that also (individually and collectively) use the corporate brand Insight. Insight is a subsidiary of The Bank of New York Mellon Corporation. • **Newton Investment Management** — “Newton” and/or “Newton Investment Management” is a corporate brand which refers to the following group of affiliated companies: Newton Investment Management Limited (NIM), Newton Investment Management North America LLC (NIMNA) and Newton Investment Management Japan Limited (NIMJ). NIMNA was established in 2021, NIMJ was established in March 2023. NIM and NIMNA are registered with the Securities and Exchange Commission (SEC) in the United States of America as an investment adviser under the Investment Advisers Act of 1940. Newton is a subsidiary of The Bank of New York Mellon Corporation. • **ARX** is the brand used to describe the Brazilian investment capabilities of BNY Mellon ARX Investimentos Ltda. ARX is a subsidiary of The Bank of New York Mellon Corporation. • **Walter Scott & Partners Limited** (Walter Scott) is an investment management firm authorized and regulated by the Financial Conduct Authority, and a subsidiary of The Bank of New York Mellon Corporation. • **Siguler Guff** — BNY owns a 20% interest in Siguler Guff & Company, LP and certain related entities (including Siguler Guff Advisers LLC). • **BNY Mellon Advisors, Inc. (BNY Advisors)** is an investment adviser registered as such with the U.S. Securities and Exchange Commission (“SEC”) pursuant to the Investment Advisers Act of 1940, as amended. BNY Advisors is a subsidiary of The Bank of New York Mellon Corporation.

No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. All information contained herein is proprietary and is protected under copyright law.

**NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE**

© 2025 THE BANK OF NEW YORK MELLON CORPORATION