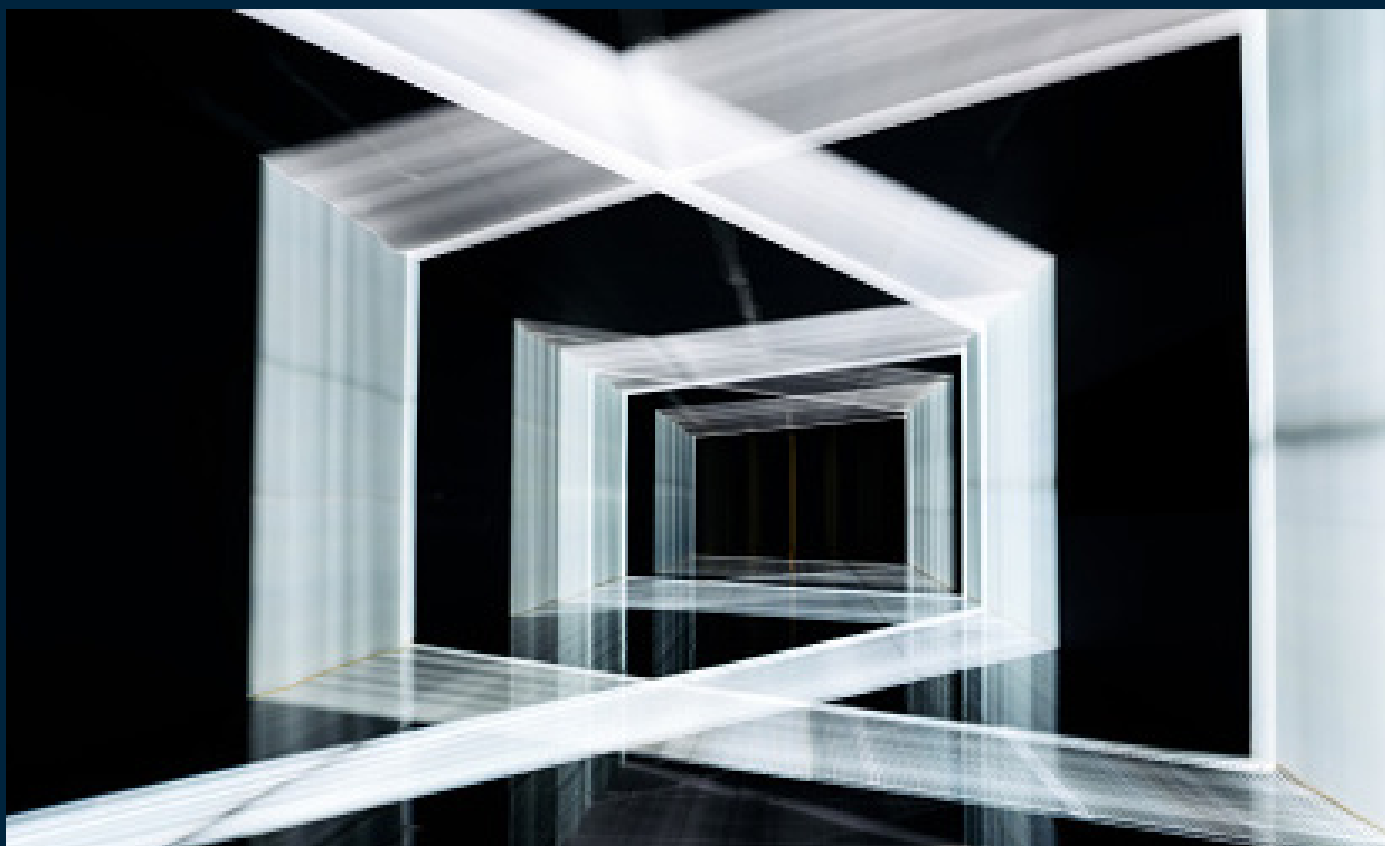




FED THOUGHTS: THE ONCE AND FUTURE FED

Vincent Reinhart | Chief Economist & Macro Strategist

October 2025

The federal government may have shut down, but the Federal Reserve (Fed) is open for business. Without official data releases, policymakers on the Federal Open Market Committee (FOMC) will be working more in the dark than usual at their upcoming meeting, but that is only one problem on a long list.

Their policy decision is difficult in the face of downside threats to employment and upside threats to inflation that imply, as Jay Powell related at the September meeting, “there’s no risk-free path.”¹ Their membership is changing, with the Senate confirming a new member of the Board of Governors, Stephen Miran, on the eve of the last meeting. Meanwhile, a court ruled another board member, Lisa Cook, could stay on despite being fired by the President. At the same time, the White House has been interviewing candidates for the successor to Chair Powell, whose term as chair expires in May 2026.

Need to Know

Despite the tumult, we think the FOMC’s decision at its October 28–29 meeting is clear. The FOMC is likely to cut the policy rate by a quarter point, bringing the target range to 3.75% to 4.00%, and lean into another cut in December, which is not as certain because it depends on economic performance for the remainder of the year. We also think that dramatic changes may be in the offing. The Administration intends to shift the weight of policy influence toward the Fed Board and away from the broader group of governors and Bank presidents comprising the FOMC. This new majority at the center will likely favor lowering interest rates substantially and quickly. Once personnel settle around midyear 2026, the transformed Fed may keep cutting policy rates until the economy and financial markets stop it, bringing the lower bound of the range to 2.5% percent in 2027.

We unpack these assertions by answering four questions.

1. Why was the September FOMC decision important?
2. How will the Fed cope without official data?
3. When does the center shift?
4. What matters for investors?

Why Was September Important?

The tracks for the policy route at the October meeting were laid in September, when the FOMC delivered as expected, cutting its policy rate a quarter percentage point to bring the target range to 4.00% to 4.25%.

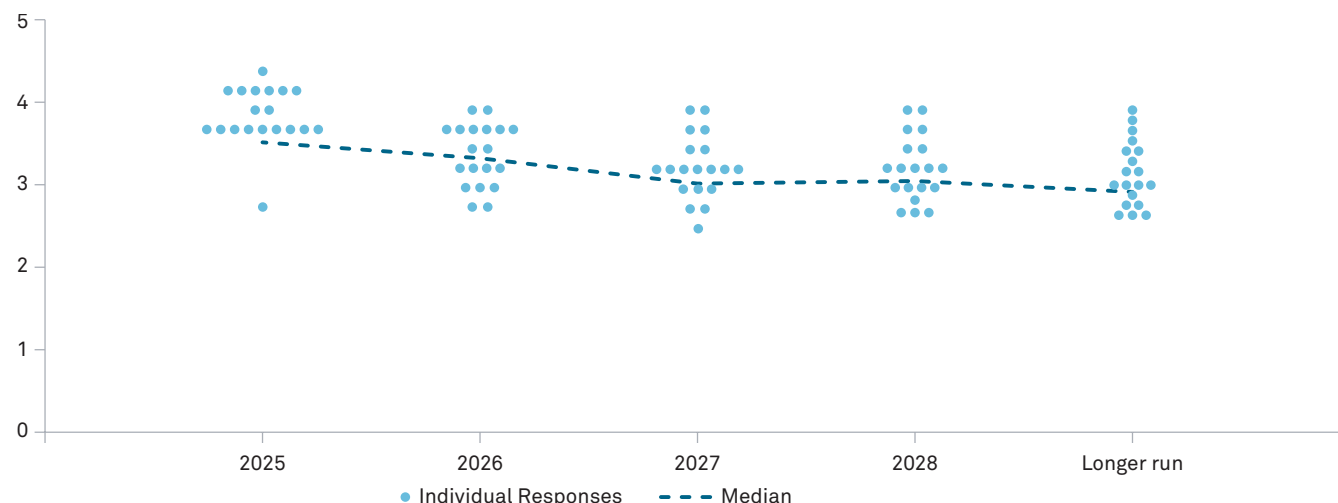
By our reading, the cut was a recalibration of the nominal funds rate to reduce policy restraint in real terms as insurance given that the slowing of employment gains might make the economy less resilient to adverse shocks. FOMC participants apparently deemed the cost of this unemployment insurance to be limited once they concluded, as Chair Powell related in his press conference, that “a reasonable base case is that the effects on inflation will be relatively short lived—a one-time shift in the price level” from the increase in tariffs.²

There were deeper currents under the smooth surface of their decision. Reluctant FOMC members were appeased by not sending a strong signal of future action and stressing data dependence in the statement and by conveying their differing policy preferences in the Summary of Economic Projections (SEP).

As for the statement, while the signal wasn’t explicit, the FOMC leaned toward additional rate cuts, and its data dependence was narrow and one-sided. The concern expressed is about employment’s resilience to potential adverse shocks, not current demand trends. And their operating assumption that tariffs will have a once-off effect on consumer prices sets a high hurdle: Price data well above expectations are required to disprove the base case.

FOMC Participants’ Assessments of Appropriate Monetary Policy

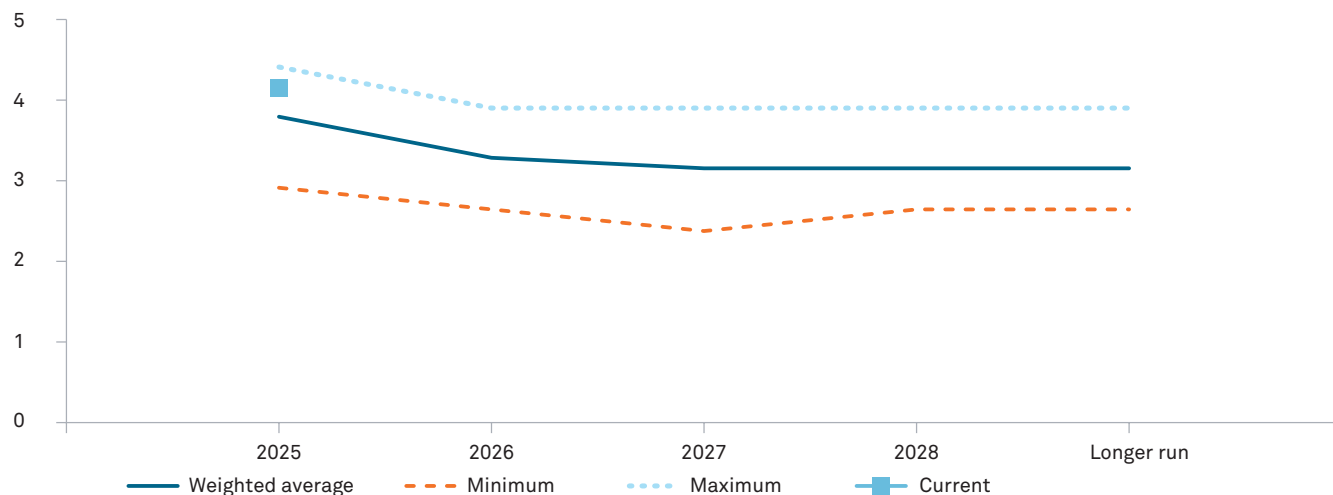
Midpoint of target range or target level for the federal funds rate, percent



Source: Federal Reserve, Summary of Economic Projections, retrieved 10/2/2025. Firm analysis.

FOMC Participants' Assessments of Appropriate Monetary Policy

Midpoint of target range or target level for the federal funds rate, percent



Source: Federal Reserve, Summary of Economic Projections, retrieved 10/2/2025. Firm Analysis.

As for their projections, (shown on the previous page), the median participant envisions the median participant envisions two quarter-point cuts over the remainder of the year, presumably one each at the two remaining 2025 meetings. The message was repeated in the minutes, “Most judged that it likely would be appropriate to ease policy further over the remainder of this year.” However, this was a close call, as seven participants didn’t think any more easing was appropriate this year, and two called for only one more quarter-point move.³

The chart above takes Jay Powell’s advice from his press conference to look at the SEP “through the lens of probability” and calculates a weighted-average of interest-rate submissions (the solid line). The average submission is consistent with only a bit more than one more quarter-point ease in 2025. The reluctance of some FOMC members to ease explains why we think action in December is less than a sure thing.

How to Cope Without Data?

With the federal government shut down, less data are available, which leads to our somewhat ironic conclusion: a data-dependent Fed is actually more likely to ease.

First, a few facts. Most data collectors are deemed nonessential, implying information degrades over time as surveys are not taken and automated reports are not checked. The Bureau of Labor Statistics may bring in some staff to publish consumer prices for September, which is essential for cost-of-living adjustments to entitlement programs. Other price information is likely to remain in limbo, including import prices, wages, and the Fed’s preferred inflation gauge based on the personal consumption price index produced by the Bureau of Economic Analysis. Required tax and regulatory filings continue.

As a result, the Fed may rely more on surveys, industry reports, Reserve Bank contacts, and “big” data pulled from scraping websites. These data are uneven and typically

don't have long histories. In our view, the private sector provides relatively more information on goods prices than on services prices and on employment at large firms than at small firms. Moreover, less of that information is likely to be publicly available, so we'll be operating more in the dark than the Fed.

Also, we believe there is more downside risk to the economy than in previous shutdowns. The administration has been unspecific about whether some furloughed workers will be paid when funding is restored and has threatened a reduction-in-force plan that would permanently eliminate positions.

We think the Fed is more likely to ease the longer the government remains closed. The absence of official employment data increases uncertainty about private sector conditions, making insurance cuts more attractive. Additionally, the administration's threats introduce new concerns about government payrolls. With the government publishing only limited inflation data, the Fed may have fewer facts to challenge its theory that tariffs will have a one-off effect on prices.

When Does the Center Shift?

If forced to reduce the agenda of the Trump Administration to one guiding principle, we would probably choose "personnel is policy." The people appointed to government roles determine how policy is interpreted, implemented, and enforced. The Fed has center stage now, partly as the calendar points to the end of Chair Powell's term and partly because its current people are implementing policy far differently than the President's desire. With Stephen Miran recently confirmed by the Senate, three Trump appointees sit on the seven-member Board of Governors by the September FOMC meeting. If Chair Powell follows the precedent of most of his predecessors, he'll also resign as governor, giving the Administration a working majority no later than May.

That evidently is not fast enough for the White House, as President Trump attempted to remove Fed Governor Lisa Cook, citing mortgage fraud allegations as "sufficient cause." We do not claim to have any edge on the inner workings of the Administration or the merits of the contest

in the courts. So, we stick to the facts as we know them. The Board of Governors remains neutral and is likely to follow any formal legal outcome. Cook is contesting the action in court alone, arguing the dismissal violates the Federal Reserve Act and her due process rights. As a result, she remains a sitting member of the Federal Reserve Board of Governors. On October 1, the Supreme Court declined to act immediately, allowing Cook to stay on the Board while it hears oral arguments in January 2026.

In whatever manner achieved, whether through the courts or by the passage of time, once Trump appointees hold four of the seven Board seats, all will be in place for the Fed to deliver on the White House's policy agenda. In the law, the Board has authority over the choice of Bank presidents, constitutes a majority on the FOMC and sets key administered rates.

As for personnel, the terms of all twelve Bank presidents are up in February 2026, and the Board of Governors must approve or reject any nominee with a simple majority.

As for policy setting, in today's "ample reserves" framework, the stance of policy is communicated by a target range for the federal funds rate, but actual control of short-term rates hinges on two administered levers: interest on reserve balances (IORB) and the Overnight Reverse Repo (ON RRP) facility. When reserves are abundant, arbitrage keeps the effective federal funds rate (EFFR) just below IORB; money funds won't lend below ON RRP, banks won't lend below IORB, and the policy corridor holds. However, the two administered anchors that pin money market rates are controlled by different bodies. The first (IORB) is set by the Board of Governors, and the second (ON RRP) is set by the FOMC. That split creates a governance seam that a determined Board majority could exploit. A politically aligned Board majority could vote to cut IORB, lowering the floor on the funds rate, regardless of an FOMC decision.

A determined Board majority can reshape the group relatively quickly with votes on the Bank presidents and reset policy immediately by changing interest on reserve balances.

The path may be bumpy because the Senate must confirm the administration's nominations for Fed positions, the

already-sitting Trump appointees must get on board with the new program, and the court will ultimately rule on unconventional attempts to open Board vacancies.

(1) The Senate may get restive at the erosion of the independence of the institution it vested to perform the Constitutional duty of making monetary policy, especially if the midterm elections go poorly for incumbents. Still, defense of Bank presidents may be hard to muster given bipartisan mistrust of private parties participating in decisions of public policy.

(2) The Board members appointed in Trump's first term, Governors Bowman and Waller, may be slow to embrace the change. But their ability to resist will depend in part on court decisions on the legal protection afforded sitting members.

(3) The court will be the ultimate arbiter of unconventional attempts to open Board vacancies.

Over time, Board positions will become available, and four-of-seven governors aligned with the White House will make an effective majority.

What Matters for Investors?

We think that, once formed, the new majority at the center may favor lowering interest rates substantially and quickly. President Trump, who posted on social media in July that the “Fed should cut Rates by 3 Points”⁴ sets the direction of travel. The transformed Fed may keep cutting policy rates next year until the economy and financial markets stop it, bringing the lower bound of the range to 2.5% percent.

We don't think that the policy rate in 2026 goes as low as the President's target because the economy and financial markets may not cooperate. If the momentum of aggregate demand in our baseline forecast is sustained, such policy accommodation may boost inflation and potentially lead to higher long-term Treasury yields and a much weaker dollar on foreign exchange markets. In our view, the only clear path to the rate the President wants is for economic activity to falter, perhaps from all the policy tumult, and launch the Fed into reactive mode. The irony here is that

the old Fed, which was very sensitive to employment shortfalls, would probably have delivered about as much easing as the new Fed in this case. In our base case, the President may, once again, have buyer's remorse about his Fed picks, suggesting that complaints about monetary policy may recur.⁵

The design principle of our outlook has always been to forecast economic activity and inflation and assume that the Fed will mostly get the alignment of the nominal funds rate right over time. Now, we must accept that the Administration wants more direct influence over monetary policy. While this overturns this century's norms about Fed independence, it seems mostly within the law and within the White House's grasp if it successfully appoints cooperative governors to the Fed Board. The political economy could matter increasingly for the path of interest rates.

We suspect we may see increasing company in our reassessment of the policy rate. Financial markets are currently accommodating to risk, but we don't expect that to continue as worries build about central bank independence. Money market rates may fall some as the expected path of the funds rate rotates down. Over time, private risk spreads may widen. Moreover, a Fed under closer political control may be an outlier in the community of central banks in advanced economies. As the Fed eases by more than others and doubts about the rationale mount, the dollar may come under renewed pressure on foreign exchange markets, and in our view, alternatives to dollar assets may look especially attractive.



Vincent Reinhart
Chief Economist & Macro Strategist

Vincent is the firm's Chief Economist and Macro Strategist. In this role, he is responsible for developing views on the global economy and making relative value recommendations across global bond markets, currencies and sectors.

Previously, Vincent served as the Chief US Economist and a managing director at Morgan Stanley. For the prior four years, he was a resident scholar at the American Enterprise Institute (AEI). Vincent also spent 24 years at the Federal Reserve, holding several roles including Director of the Division of Monetary Affairs and Secretary and Economist of the Federal Open Market Committee (FOMC). His responsibilities at the Federal Reserve included directing research and analysis of monetary policy strategies and the conduct of policy through open market operations, discount window lending and reserve requirements. Prior to these roles, he was the principal liaison with the domestic desk at the Federal Reserve Bank of New York and was responsible for preparing a document outlining policy alternatives for each FOMC meeting. He was Deputy Director in the Division of International Finance and Associate Economist of the FOMC and spent five years at the Federal Reserve Bank of New York in both the domestic and international research departments.

His academic publications primarily concern the conduct of policy and issues related to the monetary transmission mechanism as well as an analysis of alternative auction techniques and Treasury debt management. After an undergraduate training at Fordham University, he received graduate degrees in economics at Columbia University.

Endnotes

1. Transcript of Chair Powell's Press Conference, September 17, 2025. U.S. Federal Reserve website.
2. Transcript of Chair Powell's Press Conference, September 17, 2025. U.S. Federal Reserve website.
3. Minutes of the Federal Open Market Committee. September 16-17, 2025. The new low dot pulling the median one notch lower was evidently submitted by Governor Miran. A few days after the meeting, he delivered a speech arguing that changes in immigration policies, tariffs hikes, tax reform and deregulation had lowered the neutral real rate. He arrived at the conclusion that the Fed was offside by roughly 200 basis points using the Fed's own tools—a Taylor rule and inflation decompositions. This was also an implicit argument for his presence at the Board table—he is familiar with the policy discussion about those nonmonetary forces that insular central bankers ignored at the economy's peril.
4. Donald J. Trump. Truth Social. July 15, 2025.
5. Nonetheless, we think that the president likely wins the public relations derby in the near term (say up to the Congressional midterm elections in November 2026, which is how the political class views the calendar). Fierce criticism and attempts to change the composition of the Board signal the type of Fed the president may put in place when able. Financial conditions adjust to those expectations of the new Fed even as the old Fed still sits in place.

Important information

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, Bärensasse 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 (IIL). 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.

