

FOMC: HAWKISH CUT?

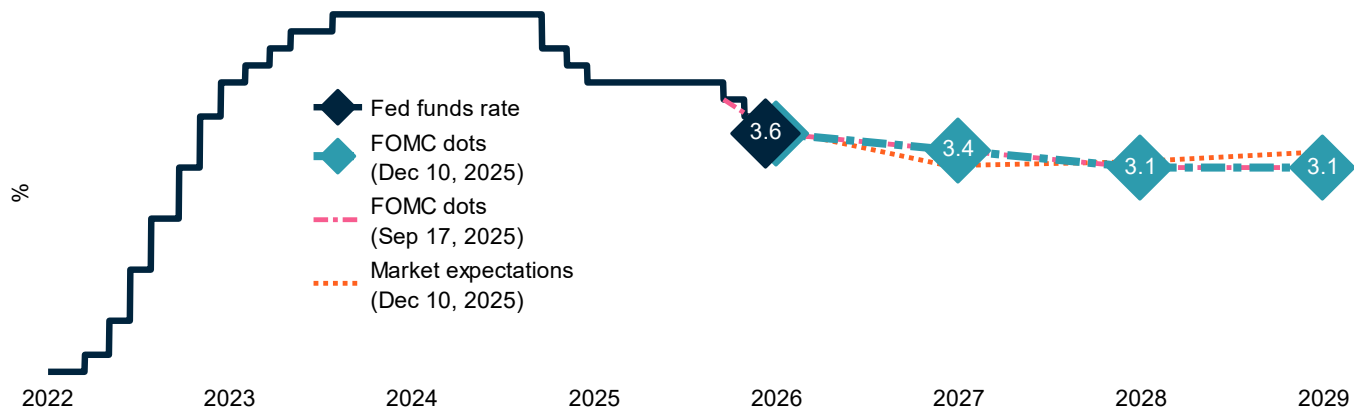
December 11, 2025

The Federal Reserve (Fed) delivers final rate cut of the year amid notable dissents

As expected, the FOMC (Federal Open Market Committee) delivered its third 25 basis point (bp) rate cut of the year, taking the federal funds rate between 3.5% and 3.75%.

Its updated “dot plot” was unchanged from the previous quarter, reflecting only one further rate cut in 2026, slightly less than market expectations.

FED KEEPS MEDIAN RATE CUT PROJECTIONS MODEST



Source: Federal Reserve, Bloomberg, Insight Investment, December 2025. Charts are for illustrative purposes only.

Notably, six members projected no cut at today’s meeting. Expectations for 2026 ranged from three members projecting one hike and one projecting over five. Further, three members dissented against today’s FOMC’s decision, the highest number of dissents since 1988. Two members voted for no change to rates and another voted for a 50bp cut.

This may reflect an increasing divergence within the committee as to the optimal policy path.

DISSENTING VOTES AMONG THE FOMC HAVE INCREASINGLY BECOME NOTABLE OVER THE LAST YEAR



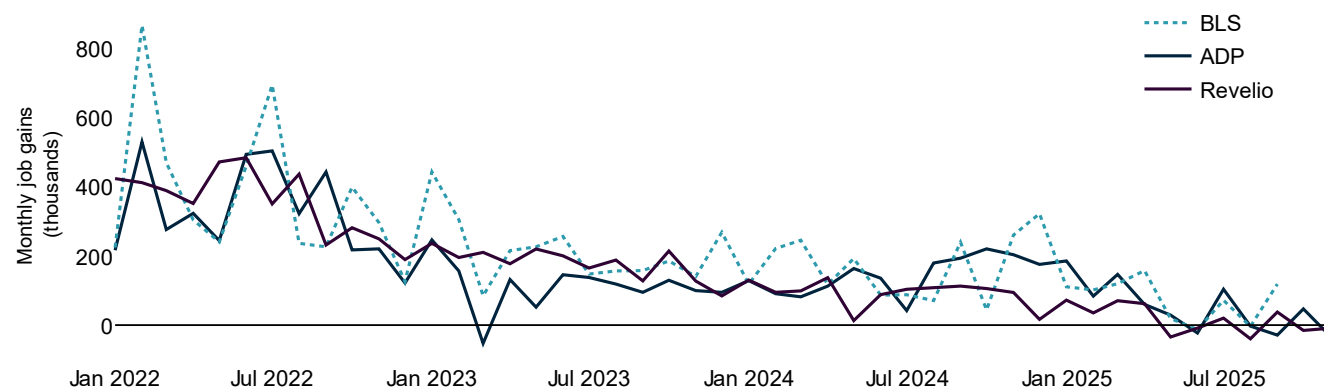
Source: Federal Reserve Bank of St. Louis, Macrobond, Insight Investment, December 2025. Charts are for illustrative purposes only.

“Stall speed” employment market continues to concern Fed

The FOMC’s quarterly Summary of Economic Projections (SEP) for 2026 showed a significant increase in the GDP forecast from 1.8% to 2.3%, which Chair Powell partly attributed to business investment relating to datacenters and AI. Its unemployment and inflation projections remained largely unchanged.

Over the near term, however, the labor market continued to be a concern for the Fed. Powell noted slowing job gains and cooling labor demand indicated a “softer and less dynamic” labor market. He stated, “The downside risks to employment appear to have risen in recent months.”

DOWNSIDE RISKS TO THE LABOR MARKET PROMPTED THE FED TO CUT RATES



Source: Bureau of Labor Statistics, Automatic Data Processing, Revelio, Macrobond, Insight Investment, December 2025. Charts are for illustrative purposes only.

Fed will keep markets guessing in 2026

Chair Powell noted the committee's challenge of balancing near-term upside risks to inflation (due to tariffs) and downside risks to employment. He acknowledged risks of tariff inflation may feed through as one-off adjustments and has been balanced by easing services inflation.

As such, we expect the labor market will continue to lead the Fed. If employment conditions show signs of resilience, we expect the Fed to be cautious about cutting rates. But any sign that the current "low hiring, low firing" regime will tip into "high firing," we expect the Fed to continue "looking through" above target inflation and be prepared to cut rates to prevent a vicious cycle of job losses.

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