PERSPECTIVES Memo

U.S. FOMC: Fed reassures with a hawkish cut

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Key takeaways

- At its last meeting of 2025, The Federal Open Market Committee (FOMC) delivered a rate cut of 25bps bringing down the Fed Funds rate to 3.50% - 3.75%.
- Alongside the rate decision, the FOMC released its updated Summary of Economic Projections (SEP), keeping Fed Funds rate forecasts for the next three years unchanged from September and maintaining the longer-run estimate at 3.0%.
- Markets rallied following the Fed's rate cut and updated projections, with major indices hitting record highs as investors priced in a more accommodative stance and anticipated further easing in 2026.

What happened?

With the decision to deliver a 25bps rate cut during the December FOMC meeting, the Fed released a statement that highlighted that the 'unemployment rate has edged up through September' and that 'inflation remains somewhat elevated'. The Fed also judges that reserve balances have decreased to acceptable levels and will initiate purchases of shorter-term Treasury securities to continue maintaining an 'ample supply of reserves' moving forward.

Looking at the Summary of Economic Projections (SEP), the median rate projections stayed at 3.6%, in-line with the projections from September 2025. Similarly, the median rate projection stayed at 3.4% for 2026. Central tendency expectations for 2025 and 2026 remain between 3.6%-3.9% and 2.9%-3.6% respectively. Revisions were also seen in some of the FOMC's 2025 median economic forecasts. The GDP growth rate for 2025 was revised up from 1.6% to 1.7%, while the unemployment rate stayed at 4.5%. Regarding 2025 inflation, PCE expectations came in at 2.9% with core PCE at 3.0%. The mid-term headline PCE for 2026 has been decreased from 2.6% to 2.4%, while the 2027 forecast remained at 2.1%.

Overall, the FOMC statement outlines that the committee is attentive to both sides of the dual mandate further noting that the downside risks to employment increased in recent months. The Fed remains committed to returning inflation to its 2 percent objective while being committed to supporting maximum employment.

What does it mean for investors?

The Federal Reserve delivered its third rate cut of the year, lowering the benchmark rate by 25 bps to a range of 3.5% - 3.75% in a split 9-3 vote. Chair Powell emphasized a "hawkish cut," noting inflation remains above target and tariffs have contributed to price pressures. While the economy shows resilience, Powell signaled a wait-and-see approach, stressing flexibility and caution on further moves. Markets view this as a step toward easing, but future cuts are far from assured.

Today's Summary of Economic Projections (SEP) reflects a cautiously optimistic shift in the outlook. While the Fed maintained its overall rate path, the tone suggests confidence in current policy as growth expectations for 2026 have been revised higher and inflation forecasts nudged lower. These adjustments indicate that price pressures may be moderating and that earlier concerns about persistent inflation are easing. The upward revision to GDP points to firmer momentum ahead, supported by signs of improving supply dynamics and potentially softer trade frictions compared to earlier in the year. Labor markets remain steady, though policymakers acknowledge that progress toward the 2% inflation goal is gradual and risks to employment are emerging. Overall, the projections convey resilience tempered by uncertainty: the Fed sees conditions as stable but shifting, warranting a measured approach to future policy moves while signaling that the balance of risks may now lean toward stronger growth and a softer inflation path.

At the time of writing, both the S&P 500 and the NASDAQ were trading in positive territory at +0.86% and +0.51% respectively. Within fixed income, the more interest rate sensitive 2-Year Treasury yield decreased to 3.54%. Further out on the yield curve, the 10-Year Treasury yield decreased to 4.14%. Within commodities, gold was trading in positive territory at +0.61%. For the January FOMC meeting, market expectations in terms of Fed rate hike/cut probabilities moved to 76% for rates to stay at the same level. Our longer-term expectation remains for two additional rate cuts of 25bps each by the end of 2026.

Overall, the Fed struck a hawkish tone following its December decision, stressing vigilance on inflation and readiness to act if needed, even as dovish signals in the updated projections hinted at a more accommodative path ahead.

Glossary

The **Consumer price index (CPI)** measures the price of a basket of products and services that is based on the typical consumption of a private household.

The **Federal Reserve (Fed)** is the central bank of the United States. Its Federal Open Market Committee (FOMC) meets to determine interest rate policy.

Personal Consumption Expenditure (PCE) is a price index for goods and services, particularly relevant in the context of U.S. GDP.

The **S&P 500** Index includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

Treasuries are bonds issued by the U.S. government.

USD is the currency code for the U.S. Dollar.

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Historical performance

Performance	12.10.2020 - 12.10.2021	12.10.2021 - 12.10.2022	12.10.2022 - 12.10.2023	12.10.2023 - 12.10.2024	12.10.2024- 12.10.2025
S&P 500	28.5%	-16.5%	17.0%	31.1%	13.3%
NASDAQ	26.8%	-29.0%	32.0%	37.7%	20.5%
10-Year U.S. Treasury	-2.7%	-15.2%	-1.5%	4.1%	5.1%
2-Year U.S. Treasury	-0.4%	-3.5%	2.9%	5.1%	4.7%
Gold	-2.7%	0.8%	11.4%	34.2%	56.9%

Source: Deutsche Bank AG, Bloomberg Finance L.P., LSEG Datastream; Data as of December 10, 2025.

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