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Fed Rate Cut Announced

What Drove the Decision
and What Comes Next

The Cut in Context

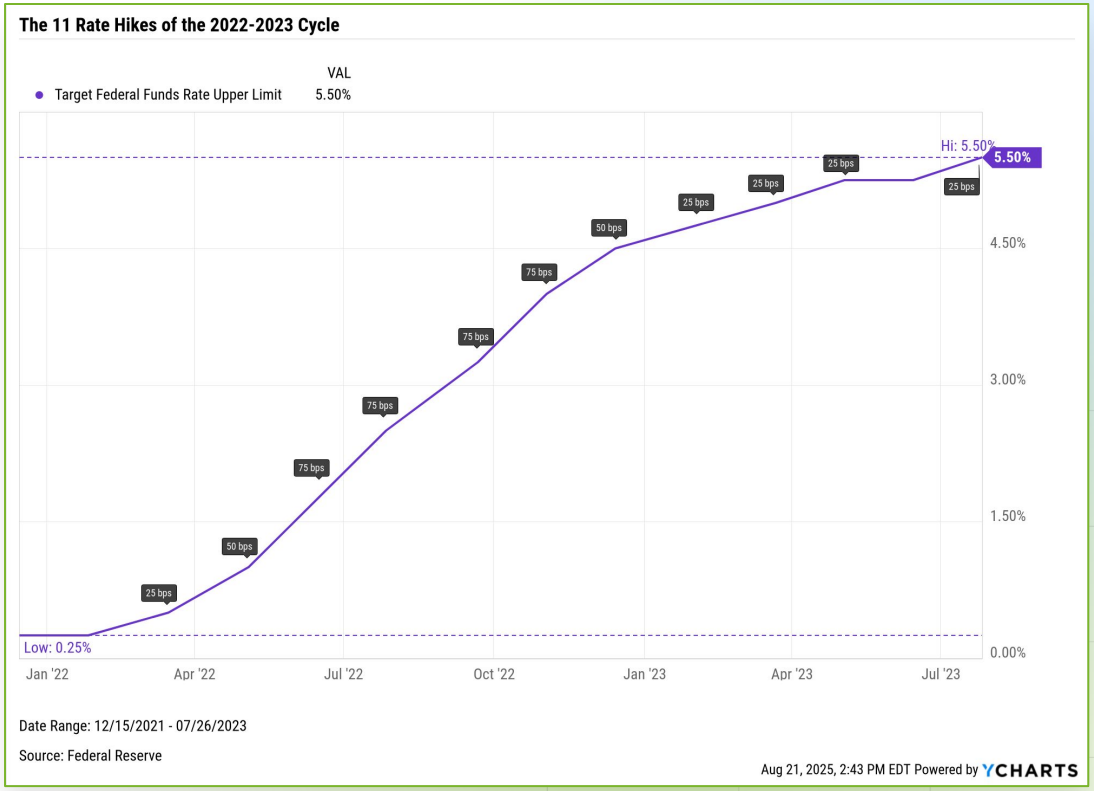
The Fastest Hiking Cycle in Decades

The Big Picture

Between March 2022 and July 2023, the Federal Reserve lifted interest rates from near-zero to 5.50%, the fastest tightening cycle in more than 40 years. This aggressive action was aimed at reining in inflation that had surged to multi-decade highs following the pandemic.

Key Takeaway

The Fed's rapid hiking campaign reshaped the financial landscape. Higher borrowing costs were intended to cool demand and bring inflation under control, and consumers felt the impact through elevated mortgage rates, auto loans, and credit card APRs.



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The Rate Cycle *As Framed by Chair Powell*

Near-Zero 2020 -2021

COVID pulls rates down to 0-0.25%

> *We are strongly committed to using our tools to support the economy."*

Transitory Effects April 2021

Tensions rise as Fed signals upward price pressures from the reopening economy

> *These one-time increases in prices are likely to have only transitory effects on inflation."*

Language Shift Late 2021

Persistent inflation challenged the Fed's "transitory" narrative

> *It's probably a good time to retire [transitory] and try to explain more clearly what we mean."*

Steep Climb March 2022 - July 2023

11 Rate Hikes, CPI peaks at 9.1% June '22

> *We are taking forceful and rapid steps to moderate demand and keep inflation expectations anchored."*

Rates Plateau July 2023 – Sept 2024

Fed holds rates at 5.50% for 14 months

> *Restoring price stability will likely require holding policy at a restrictive stance for some time."*

Cuts Begin September 2024

With inflation easing, Fed lowers rates in three consecutive meetings to 4.50%

> *Unemployment is now the Fed's biggest enemy, not inflation."*

Higher for Longer

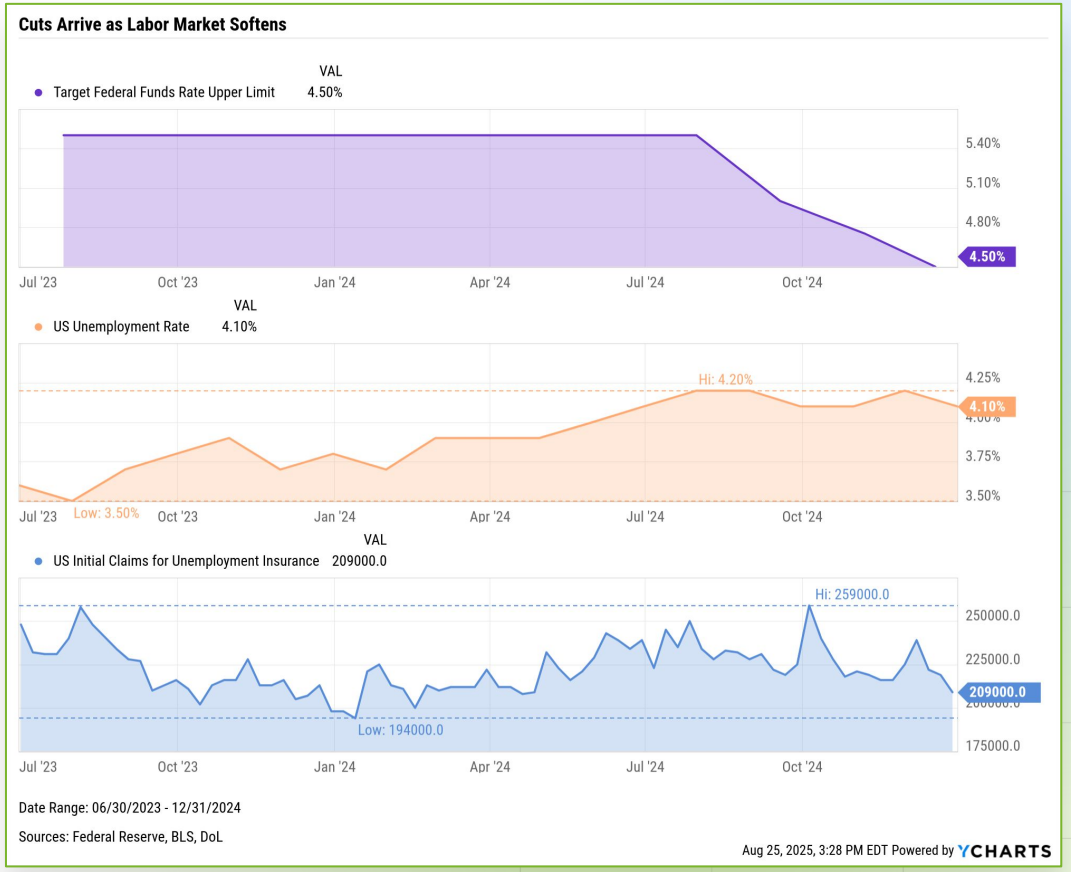
A Steady Fed Before Initial Cuts

The Big Picture

From July ‘23 through Sept ‘24, rates held at their highest level since 2001, while inflation began to retreat. Following three cuts at the end of 2024, the Fed has kept rates unchanged despite rising expectations for further action.

Key Takeaway

These holding periods reflect the Fed’s preference for caution and confirmation. By keeping rates high, policymakers sought to ensure inflation progress was durable before easing more broadly. For consumers, that has meant an extended stretch of elevated borrowing costs and historically high cash yields.



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“

With policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance”

Jerome Powell

Federal Reserve Chair

Jackson Hole, August 2025

The Policy Pivot

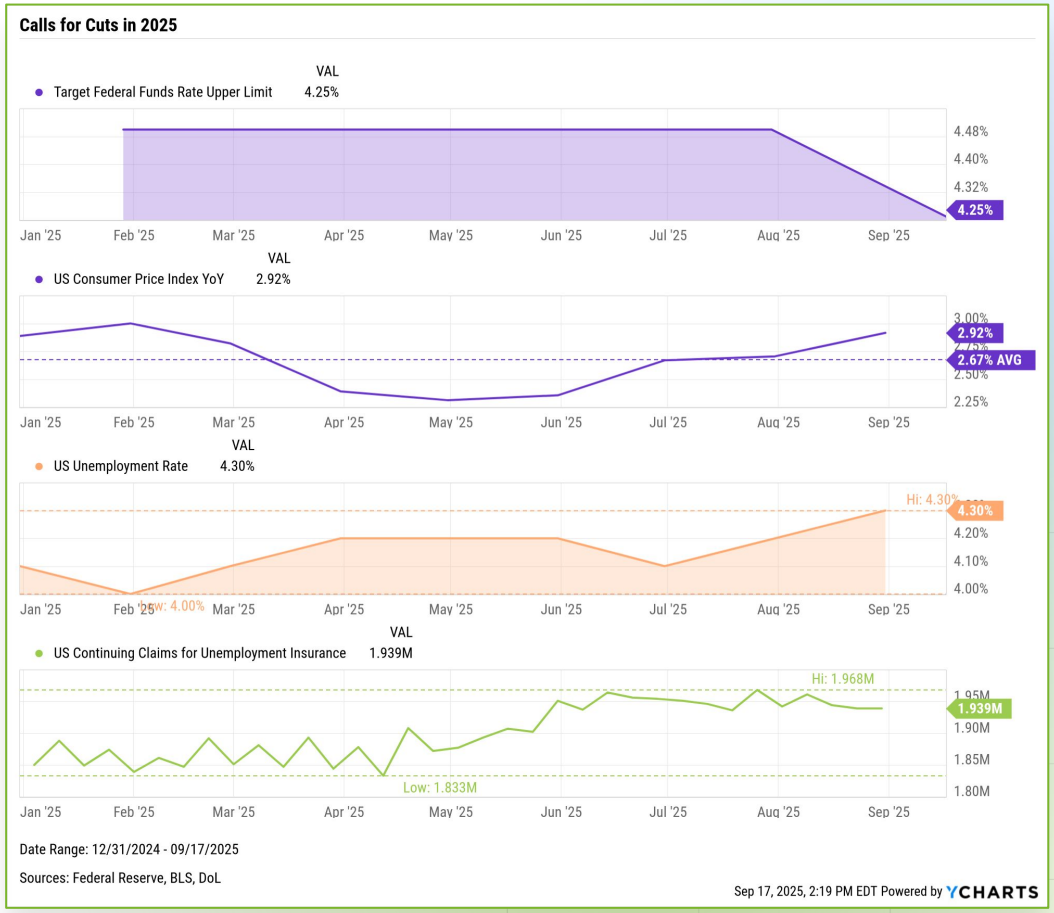
Rates Cut After A Year On Hold

The Big Picture

The Fed's September 2025 decision to cut rates by 25 basis points comes against a backdrop of mounting pressures. Unemployment has climbed to 4.3% and continuing claims at nearly 2 million, after an extended period of elevated policy rates.

Key Takeaway

This cut resumes the easing cycle and signals a gradual move toward lower interest rates. With inflation under control, the Fed has room to shift policy, and financial conditions will adjust in the period ahead.



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Cut Conversations

Putting the Cycle Into Perspective

Bonds Benefit As Yields Fall

Rate cuts typically push bond yields lower, boosting bond prices. Investors benefit from near-term price gains, though reinvestment risk rises as yields decline.

Rates Begin to Adjust

Borrowing costs, especially on credit cards and other variable loans, ease first. Fixed-rate borrowing adjusts more slowly, but household debt pressure begins to lighten.

How Stocks React to Cuts

Stocks can be volatile at the start of cutting cycles, as many coincide with downturns. Over time, easing has supported strong market recoveries, with the S&P 500 returning **9.3% annually** since the Fed's 1981 peak.

Cash Yields Begin to Fade

As policy rates decline, high-yield savings, CDs, and money markets lose their edge. Cash returns that surged during peak rates will step down over time.

Bond Market Reaction

Falling Yields Trade Income for Gains

The Big Picture

Short-term Treasuries, especially 1-Month to 1-Year T-Bills, move almost in step with the Fed Funds Rate. Longer maturities don't follow as tightly, but historically trend in the same direction over time. In a cutting cycle, this dynamic pushes bond yields lower and lifts the value of existing bonds with higher coupons.

Short-Term Instruments

React quickly, with yields adjusting almost immediately to Fed moves.

Long-Term Bonds

Move less directly, but may deliver larger price gains as higher coupons become more attractive.

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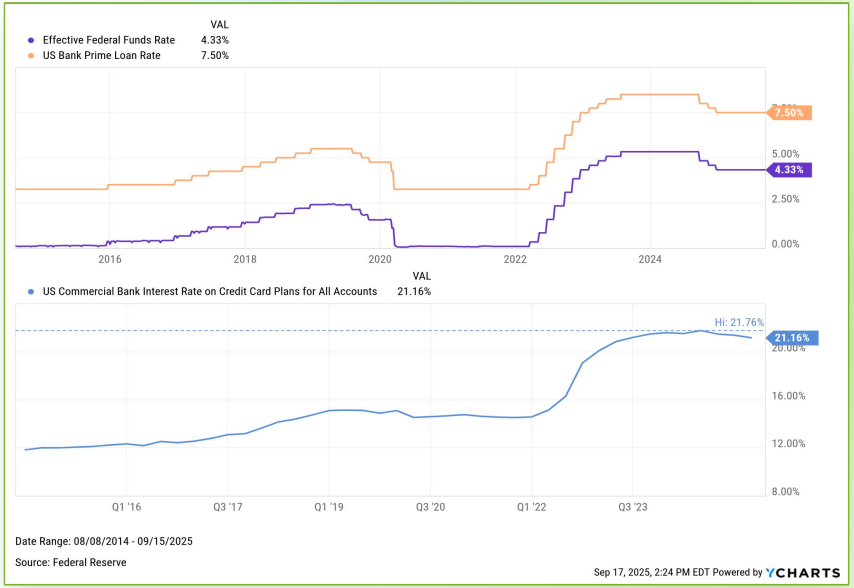
The Cost of Borrowing *Debt Pressures See Some Relief*

Mortgages & Fixed-Rate Loans

Mortgage rates neared 8% in 2023, sidelining many buyers. Cuts have historically pulled them lower, though slowly. Further easing could reduce interest payments, improve affordability, and open refinancing, softening the “lock-in” effect and spurring stronger housing demand.



Credit Cards & Variable-Rate Loans

Credit card APRs climbed to a record 21.7% in 2024. Cuts pass through quickly, giving households modest but immediate relief. Even small declines ease pressure on budgets and free spending power at a time of elevated costs.

Market Performance

Equities tend to welcome cuts

The Big Picture

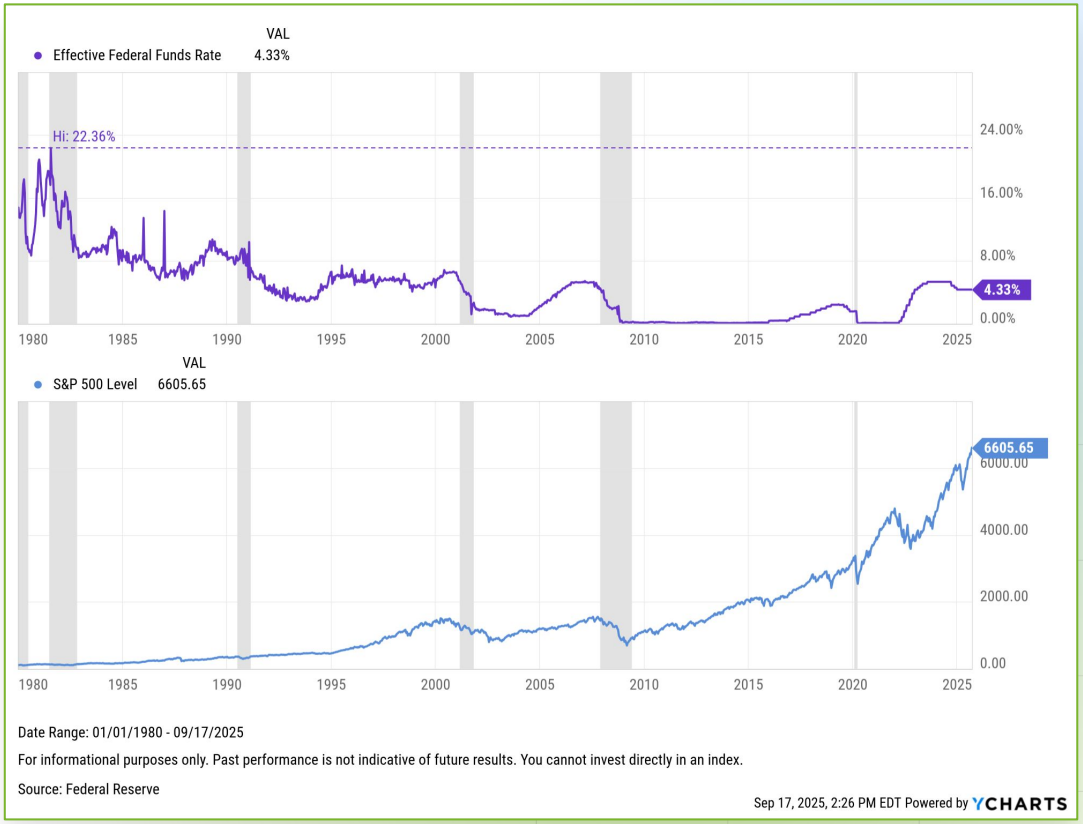
Cuts tend to be positive for equities, though near-term volatility often accompanies easing cycles. The longer-term outcome depends on whether the Fed can engineer a soft landing, which has historically supported broad equity gains.

1995 Soft Landing

After a rapid hiking cycle, the Fed cut rates three times in 1995. Growth steadied, inflation eased, and the expansion carried on into the late 1990s.

2008 Hard Landing

After cuts began in late 2007, the financial crisis deepened. Stocks fell over 50% from peak to trough, and the U.S. entered the Great Recession.



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Savings & Cash Yields

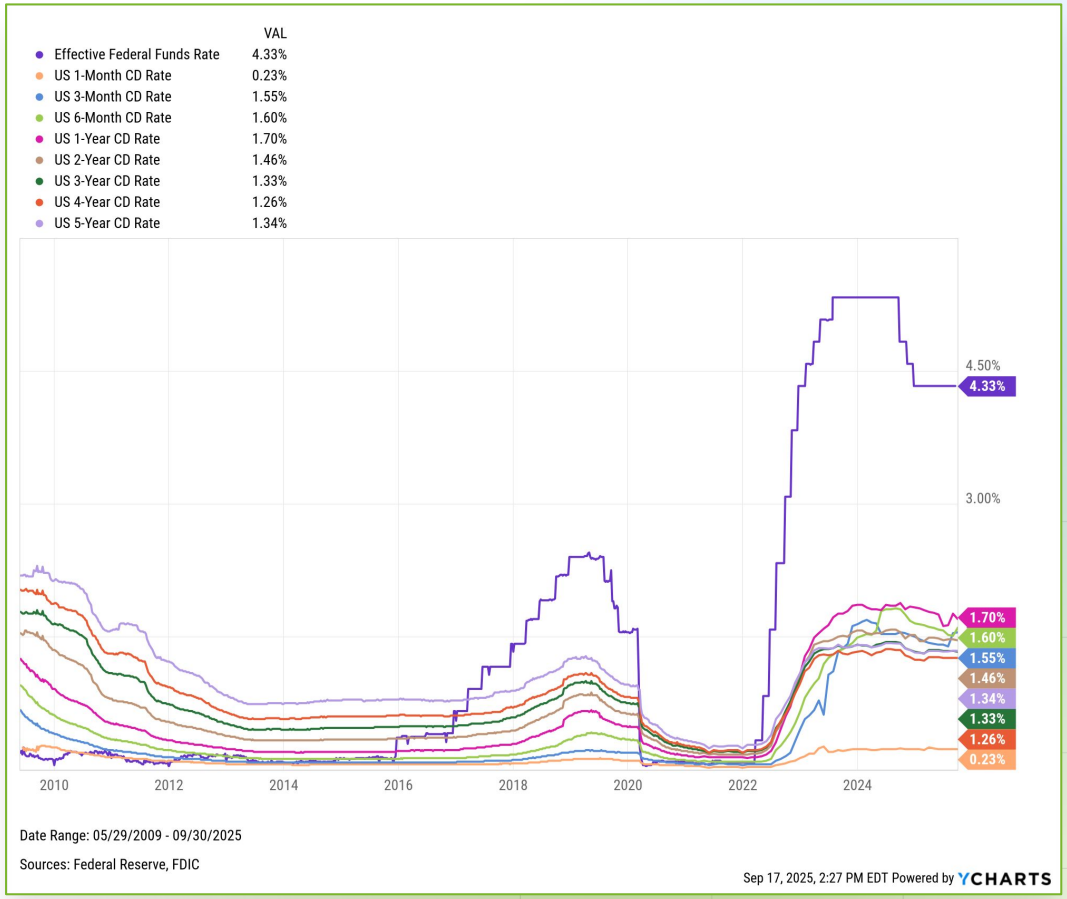
Returns Begin to Fade

The Big Picture

Savings accounts, money markets, and CDs surged during the hiking cycle, giving some of the best cash returns in over a decade. Those payouts will now be stepping down as policy eases.

Key Takeaway

As yields decline, deposit income will shrink, making large cash balances less attractive. This shift is likely to push clients away from sitting on cash and toward investments that can deliver greater income or long-term growth potential.



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