

U.S. FOMC Review

- FOMC action: officials ratified market expectations with a cut of 25 basis points in the target range for the federal funds rate to 4 to 4-1/4 percent, although division over the path of policy remains substantial
- Policy statement: changes to the characterization of the labor market and balance of risks, which signaled that the labor market was a catalyst for renewed policy easing
- The September SEP: growth shifted upward over the forecast horizon; unemployment adjusted lower in 2026 and 2027, median projection for inflation in 2026 higher than previously thought, although still anticipated to return to target thereafter; dot plot signals more aggressive cuts than projected in June (although dispersion was wide)
- Powell press conference: challenges to balancing both sides of dual mandate remain, but cut in support of the labor market made sense from a risk management perspective

Lawrence Werther

 lawrence.werther@us.daiwacm.com
 +1-212-612-6393

Brendan Stuart

 brendan.stuart@us.daiwacm.com
 +1-212-612-6172

The September FOMC Meeting

The FOMC initiated the second phase of policy easing today, although Chair Powell demurred from casting it as an ongoing recalibration and instead framed the move as a “risk management cut” that was appropriate given current information on the labor market. That adjustment was realized as a cut in the target range for the federal funds rate of 25 basis points to 4 to 4-1/4 percent. The Committee had last eased monetary policy at its December 2024 meeting, the culmination of a total reduction of 100 basis points described as a recalibration away from restrictive monetary policy (a peak target range of 5-1/4 to 5-1/2 percent), while the latest move (and possible adjustments at upcoming meetings) was geared toward shifting monetary policy closer to a neutral setting after the target range for the federal funds rate was maintained in modestly neutral territory (4-1/4 to 4-1/2 percent) for the first five meetings of 2025. Currently, inflation remains above 2 percent, although Chair Powell suggested in his press conference that risks to price pressure becoming a persistent problem had diminished since April, and the labor market is again transmitting more discernable warning signals (with the current pace of job growth too slow to arrest an upward drift in the unemployment rate). With that said, possible further easing in coming months is likely to unfold in an increasingly challenging environment for the Committee. Political pressures from the Trump administration are likely to persist (see below), as are concerns about risks to both sides of the dual mandate. Additionally, views on how to address those risks are far from united. The Committee was near unanimous in the decision to cut rates by a quarter point at this meeting (with one official, the newly appointed Governor Stephen Miran, dissenting in favor of a one-half point cut), but the dispersion of views remains wide thereafter: seven of 19 officials wrote down no further rate cuts this year and two indicated only one more reduction; 10 see room for at least an additional 50 basis points in easing through year-end. Thus, debate on the path of policy could henceforth be robust, with Powell noting that there is no “risk free” course of action.

The Statement

The new iteration of the Committee’s statement was similar to that for July in many respects, although it was adjusted to reflect a renewed easing bias. As suggested in our note published last Friday, the Committee adjusted its characterization of labor-market conditions in response to softening data. The latest statement noted, “Job gains have slowed, and the unemployment rate has edged up but remains low” versus stating previously: “The unemployment rate remains low, and labor market conditions remain solid.” On the point, Chair Powell suggested that he views current payroll growth as below the

Economic Projections of the FOMC, September 2025*

	2025	2026	2027	2028	Longer Run
Change in Real GDP	1.6	1.8	1.9	1.8	1.8
June projection	1.4	1.6	1.8	--	1.8
Unemployment Rate	4.5	4.4	4.3	4.2	4.2
June projection	4.5	4.5	4.4	--	4.2
PCE Inflation	3.0	2.6	2.1	2.0	2.0
June projection	3.0	2.4	2.1	--	2.0
Core PCE Inflation	3.1	2.6	2.1	2.0	--
June projection	3.1	2.4	2.1	--	--
Federal Funds Rate	3.6	3.4	3.1	3.1	3.0
June projection	3.9	3.6	3.4	--	3.0

* Median projections

Source: Federal Open Market Committee, Summary of Economic Projections, September 2025

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break-even rate necessary to prevent an ongoing upward drift in the unemployment rate. Consistent with this development, the new statement concluded that the cut was appropriate “in light of the shift in the balance of risks.” The Committee also dropped a reference to “the extent and timing” of “additional adjustments,” but view the change as relatively inconsequential: a further cut has now unfolded with more potentially on the table, but additional policy changes are still contingent on the incoming data and evolving outlook (and corralling a potentially divided committee).

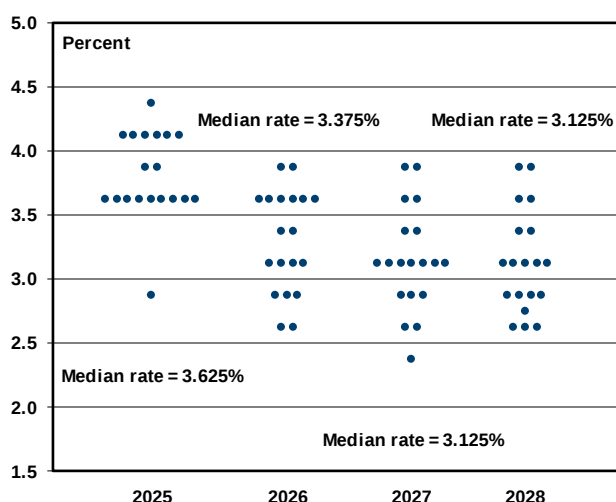
Beyond the language deployed in the statement, the composition of dissents shifted. Previously, Governors Waller and Bowman dissented in favor of reducing the target range for the federal funds rate by 25 basis points at the July meeting, with follow-up statements expressing various degrees of concern about the economic outlook and that for the labor market. In the latest iteration, only Governor Miran ran contrary to the consensus. His call for a more aggressive cut (and likely 2025 year-end dot at 2.875 percent) was representative of the broad market consensus that he could be an outlier whose hasty appointment, recent statements, and still-strong ties to the Trump administration, in our view, cast doubt on the utility of his input at this meeting.

(For a side-by-side comparison of today’s FOMC statement and that from July, please see p. 4)

The Summary of Economic Projections

The September iteration of the Summary of Economic Projections contained significant changes to the expected path of policy, along with those for key economic variables. Turning first to the economic data, the median projections for GDP in 2025 through 2027 were nudged higher, with new information for 2028 implying growth at potential (i.e., matching the unrevised longer-run estimate of 1.8 percent; table, right) Consequently, serious consideration of recession has not permeated FOMC forecasts despite concern about underlying labor market conditions. Regarding the job market, the median projection for the unemployment rate remained at 4.5 percent in 2025, with those for 2026 and 2027 each adjusted lower by 0.1 percentage point to 4.4 percent and 4.3 percent, respectively. The reading for 2028 was aligned with the longer-term view (which remained at 4.2 percent). The projections for the unemployment rate may seem odd given the concern of Fed officials, but they align with the broad contours of the Fed Chair’s previous analysis where he emphasized a “curious kind of balance” in the labor market (supply-side distortions stemming from deportations and sluggish job growth) that had modest near-term impact on the unemployment rate, but at the same time left conditions more susceptible to deepening downside risks. At the same time, median projections for headline and core inflation were revised higher for 2026 (2.6 percent for both the headline and core as measured in the price index for personal consumption expenditures versus 2.4 percent previously), while medians for 2025 and 2027 were unchanged. Evidently, many policymakers now appear comfortable with the view that tariffs will contribute to a one-time price-level shift rather than a more persistent inflation problem; inflation is still expected to peak later this year before beginning to retreat again in 2026. In that respect, inflation is seen as returning to target in 2028 (again, new information).

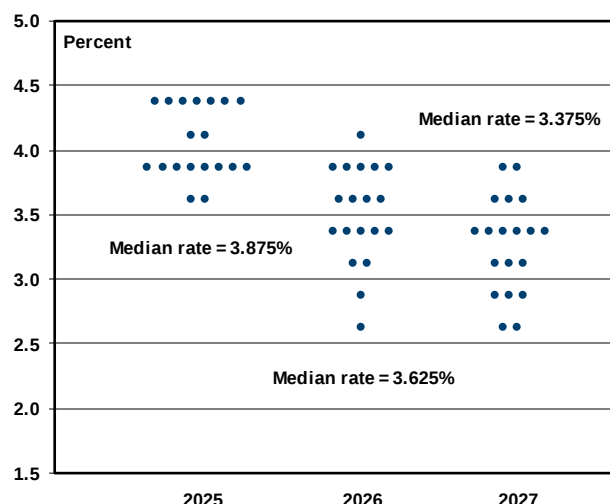
FOMC Rate View, September 2025*



* Each dot represents the expected federal funds rate of a Fed official at the end of the year.

Source: Federal Open Market Committee, Summary of Economic Projections, September 2025

FOMC Rate View, June 2025*



* Each dot represents the expected federal funds rate of a Fed official at the end of the year.

Source: Federal Open Market Committee, Summary of Economic Projections, June 2025

The median projected path of the federal funds rate as of September showed deeper anticipated cuts than in June (two additional cuts this year, with a year-end median of 3.625 percent versus 3.875 percent previously) -- a dovish development first hinted at by Chair Powell during his Jackson Hole speech. The medians for 2026 and 2027 still indicate one cut, but the prevailing level of rates is expected to be lower (see comparison of dot plot, prior page). The median of 3.125 percent for 2028 is close to the unrevised longer-run view of 3.000 percent. Even so, the dispersion of dots across the forecast horizon remained wide, again underscoring the heightened uncertainty that permeates current projections.

Chair Powell's Press Conference & Final Thoughts

Chair Powell's prepared remarks aligned with those at Jackson Hole emphasizing that recent developments in the labor market indicated that a reassessment of the balance of risks was warranted and that easing in policy was appropriate. At the same time, he argued that monetary policy is still well positioned to address any eventuality and that the current cut made sense from a risk management perspective rather than serving as evidence of material deterioration in the economy (indeed, he noted that growth projections were revised higher from the last SEP). Moreover, he suggested that inflation risks had diminished since the spring but still tilted to the upside. All in all, Powell emphasized that the Committee acted in accordance with information in hand but avoided providing definitive guidance (which we view as prudent given heightened policy uncertainty, "curious" labor market conditions, and above-target inflation).

FOMC Statement Comparison*

September 17, 2025 FOMC Statement

Recent indicators suggest that growth of economic activity moderated in the first half of the year. **Job gains have slowed, and the unemployment rate has edged up but remains low. Inflation has moved up and remains somewhat elevated.**

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate **and judges that downside risks to employment have risen.**

In support of its goals **and in light of the shift in the balance of risks**, the Committee decided to **lower the target range for the federal funds rate by 1/4 percentage point to 4 to 4-1/4 percent.** In considering additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; **Michelle W. Bowman**; Susan M. Collins; Lisa D. Cook; Austan D. Goolsbee; Philip N. Jefferson; Alberto G. Musalem; Jeffrey R. Schmid; and **Christopher J. Waller.** **Voting against this action was Stephen I. Miran, who preferred to lower the target range for the federal funds rate by 1/2 percentage point at this meeting.**

** Changes from statement to statement shown in bold.*

Sources: Federal Open Market Committee; Daiwa Capital Markets America

July 30, 2025 FOMC Statement

Although swings in net exports continue to affect the data, recent indicators suggest that growth of economic activity moderated in the first half of the year. The unemployment rate remains low, **and labor market conditions remain solid.** Inflation remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to **maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent.** In considering **the extent and timing of** additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

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