

MARKETS IN FOCUS

Fed Insights

Well-positioned – December FOMC takeaways

December 11, 2025

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For a third consecutive meeting, the Federal Open Market Committee (FOMC) opted to cut its policy rate by 25 basis points (bps), bringing its target range to 3.50% to 3.75%.² While the cut was largely expected, market consensus was generally positioned for a hawkish cut, and it reacted positively to what we believe was a more dovish outcome.

Not only was the summary of economic projections (SEP) a positive surprise, but the FOMC also added to its December statement that the committee would “initiate purchases of shorter-term Treasury securities as needed to maintain an ample supply of reserves on a going basis.”

This announcement came much earlier than expected and follows the end of quantitative tightening, which was announced at the last meeting. This means that the U.S. Federal Reserve (Fed) will begin injecting additional liquidity with the plan of buying \$40 billion of Treasury bills in the next 30 days and likely keeping purchases elevated at or around that level for a few months thereafter.

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² Unless otherwise indicated, all data cited is sourced from Bloomberg as of Dec. 10, 2025.

Key takeaways

- The U.S. Federal Reserve’s 25-basis point cut, paired with a surprise announcement of planned Fed purchases of short-term securities, inspired a rally in risk assets.
- For the first time ever, the Federal Open Market Committee has had two successive meetings with conflicting dissents over the course of monetary policy.
- A new Fed chair in 2026 and continued progress on inflation could give investors the clarity they have sought for risk assets to push higher.

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Fed Chair Jerome Powell underscored that these purchases are solely related to the purpose of maintaining “ample” bank reserves in the system. Still, a boost to liquidity is a boost to liquidity. This surprise, paired with a cut, inspired a rally in risk assets.

The dissents continue

What also stood out were the three dissents: recently appointed Fed Governor Stephen Miran favored a 50-bp cut, while Federal Reserve Bank of Kansas City President Jeffrey Schmid and Federal Reserve Bank of Chicago President Austan Goolsbee both favored no cut at all. This is worth noting because this is the first time on record that we’ve seen back-to-back meetings with conflicting dissents. Yesterday’s meeting is only the sixth time that we’ve seen conflicting dissents since 1990. An increasingly fractured FOMC is a key risk to monitor heading into 2026, especially as Powell’s term comes to an end this coming May (he only has three more meetings as Fed governor). Powell noted that everyone on the committee agrees that 1) inflation is elevated and 2) the labor market has weakened. The central question is which one is more important considering the Fed has one tool and two competing mandates.

The state of the economy

So what did we learn about what the FOMC thinks of the economy? In sum, and importantly as it relates to 2026, the SEP showed us that the Fed largely expects:

- 1) higher real gross domestic product (GDP) growth than it did in September,
- 2) no change to the unemployment rate, and
- 3) lower headline and core Personal Consumption Expenditures (PCE) Price Index inflation.

Powell noted that there hasn’t been a meaningful change to employment or inflation data since the last meeting. This increases the importance of upcoming December data over the next month, especially as it relates to the January decision. The delayed data is subject to distortions that Powell noted, giving the FOMC a bit of wiggle room in how it responds to noisy data in January.

Inflation

Powell linked inflation’s persistence mainly to goods prices, attributing it to tariffs and labeling it as likely being short-lived, while noting steady disinflation in services over the last year. He plainly stated his expectation that the tariffs’ boost to inflation would come down in the second half of 2026. Powell also corroborated the strong GDP numbers from the SEP by noting that real GDP growth should expand next year from its current relatively low level of 1.7% as the effects of the government shutdown fade and labor productivity improves.

Market reaction and the road ahead

It’s clear from the market reaction that the takeaways from the December FOMC are positive for risk assets. Very importantly, the committee (via the SEP) still sees one cut in 2026 followed by another cut in 2027. This clashes a bit with the market’s expectations of two cuts in 2026. Our base case also sees two cuts as the most likely outcome in 2026, especially if inflation slowly moves in the right direction. We also expect to get a more dovish Fed chair by the June meeting. Risk assets may have the clarity they have waited for to support a push higher to fresh all-time highs.

Improvement to the growth outlook could continue to support the strong move in cyclical assets, and it’s especially beneficial to financials, particularly regional banks that stand to benefit from the moderation of credit concerns and a steeper yield curve. The current narrative also bodes well for small caps, providing a boost to the story supporting their earnings growth trajectory – financing costs came down yet again and are likely to continue to come down in 2026 – amid a solid economic backdrop. These themes are consistent with our 2026 outlook, and we continue to feel strongly optimistic heading into next year. Our favored positioning includes being selective in the artificial intelligence trade and seeking diversified strategies that can adapt with a focus on sectors, geographies, and market capitalizations in response to changing correlations and the normalization of returns in international equities versus U.S. stocks.



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Definitions

Artificial intelligence (AI) – A technology that enables computers and machines to simulate human learning, comprehension, problem solving, decision making, creativity and autonomy.

Basis points (bps) – Measurements used in discussions of interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%.

Consensus estimates – Forecasts of a public company's projected earnings, the results of a particular industry, sector, geography, asset class, or other category, or the expected findings of a macroeconomic report based on the combined estimates of analysts and other market observers that track the stock or data in question.

Correlation – The degree to which two variables, securities, or groups of securities move in relation to each other.

Cyclical assets – Assets with prices influenced by macroeconomic changes in the economy and are known for following the economy as it cycles through expansion, peak, recession, and recovery.

Dual mandate – Two over-arching goals that influence the course of monetary policy set by the U.S. Federal Reserve. Those goals are maximum employment and stable prices. Maximum employment is defined as the highest level of employment or lowest level of unemployment that the economy can sustain while maintaining a stable inflation rate.

Federal Open Market Committee (FOMC) – A committee of the U.S. Federal Reserve that sets monetary policy. It consists of 12 members: the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining 11 Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year at which it reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

Gross domestic product (GDP) / real GDP – GDP is the total value of goods and services provided in an economy during a specified period, often one quarter or one year. Real GDP is headline, or nominal, GDP adjusted for inflation.

Hawkish, dovish, and centrist – Terms used to describe the monetary policy preferences of central bankers and others. Hawks prioritize controlling inflation and may favor raising interest rates to reduce it or keep it in check. Doves tend to support maintaining lower interest rates, often in support of stimulating job growth and the economy more generally. Centrists tend to occupy the middle of the continuum between tight (hawkish) and loose (dovish) monetary policy.

Market capitalization, or market cap – The total dollar market value of a company's outstanding shares of stock.

Monetary policy – The decisions made by central banks to raise or lower benchmark interest rates or otherwise tighten or loosen credit to influence an economy's growth, inflation, or employment levels.

Personal Consumption Expenditures (PCE) Price Index – A monthly measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The PCE price index, released monthly by

the U.S. Department of Commerce Bureau of Economic Analysis, is known for capturing inflation or deflation across a wide range of consumer expenses and reflecting changes in consumer behavior.

Personal Consumption Expenditures (PCE), excluding Food and Energy / core PCE index – A measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The core PCE price index is watched closely by the U.S. Federal Reserve as it conducts monetary policy.

Quantitative tightening, quantitative tapering – An attempt by central bankers to reverse the effects of quantitative easing (QE), which is a form of unconventional monetary policy in which a central bank purchases longer-term securities from the open market in order to increase the money supply and encourage lending and investment. In quantitative easing, buying securities adds new money to the economy, and also serves to lower interest rates by bidding up fixed-income securities. It also expands the central bank's balance sheet. In quantitative tightening, reducing those purchases is a policy primarily aimed at interest rates and at influencing investor perceptions of the future direction of interest rates.

Risk assets – Investments such as equities, commodities, high-yield bonds, real estate, and currencies, where the value may rise or fall due to fluctuating interest rates, changes in credit quality, default risks, supply and demand disruption, and other factors.

Summary of economic projections (SEP) – An analysis produced following meetings of the Federal Open Market Committee and includes meeting participants' projections of the most likely outcomes for real gross domestic product growth, the unemployment rate, and inflation for a forward-looking three-year window and over the longer run.

Yield curve – A line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. A steepening yield curve results from a widening in the difference between short- and long-term interest rates. A steepening curve often reflects an expectation of stronger economic activity, rising inflation, and rising interest rates.

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