

US Daily: September FOMC Recap: On Track for an October Cut (Mericle)

- The FOMC lowered the funds rate by 25bp to 4-4.25% today and hinted that another rate cut is very likely in October. We continue to expect 25bp cuts in October and December—with a 50bp cut possible if the labor market weakens more than we expect—followed by two cuts in 2026 to 3-3.25%. Our probability-weighted Fed path remains a bit more dovish than market pricing.
- Many hints pointed to today's cut being the first of a series. First, the median dot showed three cuts this year, above our expectation of two. Second, the statement added dovish language similar to that used in September 2024 and in Chair Powell's Jackson Hole speech. Third, Powell's description of labor market developments highlighted additional weakness beyond the rise in the unemployment rate. Fourth, Powell characterized today's cut as risk management in response to downside risks in the labor market, and insurance cuts usually come in consecutive packages. And fifth, Powell argued that the bond market's pricing of the whole path of cuts could provide meaningful support to the economy, which suggests a need to deliver on that path.

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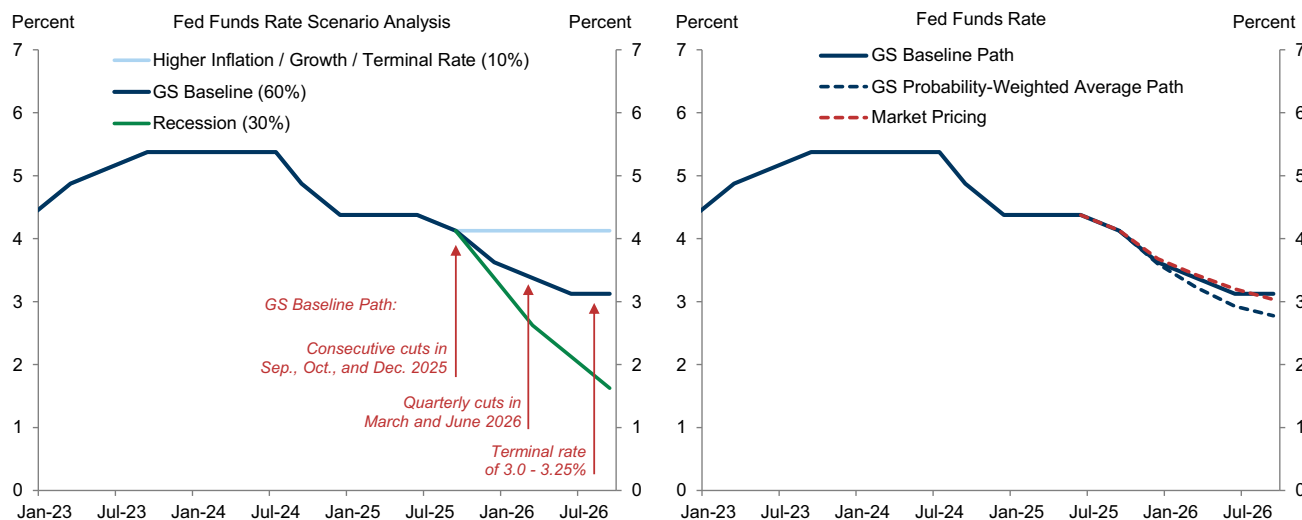
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September FOMC Recap: On Track for an October Cut

The FOMC lowered the funds rate by 25bp to 4-4.25% at its September meeting today and hinted that another rate cut is very likely in October. We continue to expect 25bp cuts in October and December—with a 50bp cut possible if the labor market weakens more than we expect—followed by two cuts next year to 3-3.25%. Our probability-weighted Fed path remains a bit more dovish than market pricing.

Exhibit 1: We Continue to Expect 25bp Cuts in October and December Followed by Two More in 2026 to 3-3.25%; Our Probability-Weighted Fed Path Remains a Bit More Dovish Than Market Pricing



Source: Goldman Sachs Global Investment Research, Bloomberg

Many hints at today's meeting pointed to today's cut being the first of a series of consecutive cuts.

First, the median dot showed three cuts this year by a 10-9 margin, above our expectation of a median of two cuts. We think it is very likely that the Fed leadership is in the majority group, and we see this outcome as indicating that quite a few participants were swayed strongly by the softer recent labor market data.

Second, the FOMC statement incorporated dovish language similar to that used in September 2024 and in Chair Powell’s Jackson Hole speech. The description of the labor market—“job gains have slowed, and the unemployment rate has edged up but remains low”—was almost identical to that used in September 2024, when the FOMC delivered the first of three consecutive cuts. The statement also noted that “downside risks to employment have risen” and that the FOMC cut “in light of the shift in the balance of risks,” meaning that the broader committee was comfortable with language similar to that Powell used in his dovish Jackson Hole speech.

Third, Powell's description of labor market developments was dovish. He noted that the labor market is "really cooling off," and that while labor supply has of course also fallen alongside labor demand because net immigration has declined, the rise in the unemployment rate suggests that labor demand has slowed more. Powell went further in highlighting challenges for specific groups of workers, noting that minority workers

and young workers—who are more susceptible to a weaker labor market—are doing worse, and that “some part of the decline in the labor force participation rate over the last year has probably been cyclical in nature.” His key message—“we see that the labor market is softening and we don’t need it to soften anymore, and we don’t want it to”—was reminiscent of the Fed’s message when it cut three times a year ago.

Fourth, Powell characterized today’s policy decision as “a risk management cut” in response to downside risks in the labor market. In the past, such “insurance cuts” have come in consecutive packages in order to address potential problems quickly rather than waiting for three months by skipping a meeting.

Fifth, in response to a question about whether today’s 25bp rate cut would really provide meaningful support for the economy, Powell said that “you have to look at the whole path,” meaning that the impact on interest rates of the bond market anticipating a series of future rate cuts could indeed have a meaningful impact. For that support to hold up, the FOMC would have to deliver on that expected path.

David Mericle

Disclosure Appendix

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