

THE SUMMER I CUT RATES



Alexa Sinsheimer^{AC} and Max Motz^{AC}

FED WATCH TEAM

“When our goals are in tension like this, our framework calls for us to balance both sides of our dual mandate.” - Jay Powell

The Federal Reserve lowered its benchmark interest rate by a quarter of a percentage point on Wednesday, citing rising risks to the labor market as the key driver behind its first rate cut since December 2024. The move, which has been widely expected per Fed Funds Futures since the July jobs report, brings the target federal funds rate to a range between 4.00%–4.25%.

In the official policy statement, the central bank acknowledged that its assessment of the labor market has changed, with officials now seeing the “downside risks to employment have risen,” a notable shift from previous meetings when the focus remained on inflation and the labor market was characterized as “solid.”

Once again, the decision was not unanimous. Stephan Miran, who had been sworn in just prior to the start of the 2 day policy meeting, dissented in favor of a larger 50 bps cut.

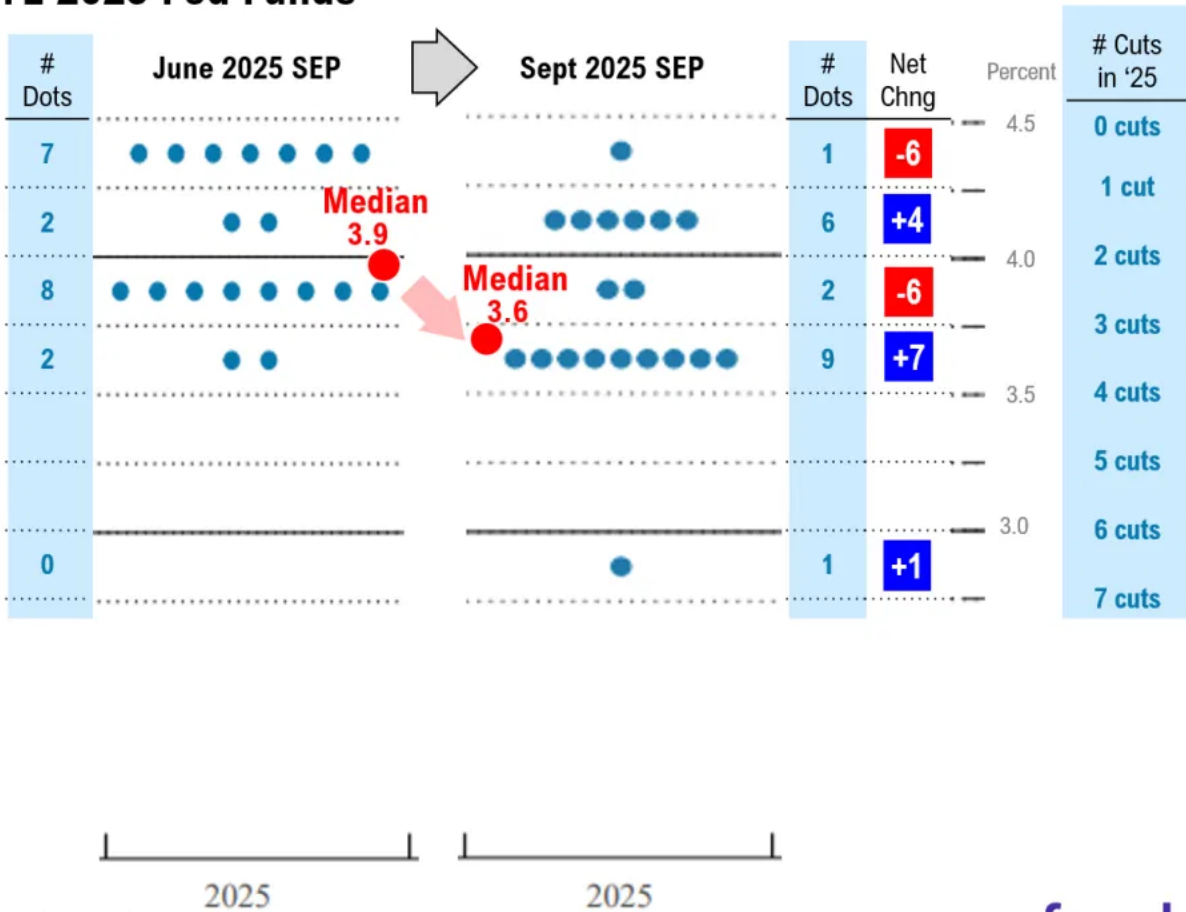
Governor Lisa Cook also participated after a federal appeals court allowed her to remain on the board pending litigation — an unprecedented legal and political backdrop for an FOMC meeting.

The latest Summary of Economic Projections (SEP) showed most officials foreseeing

another half percentage point of cuts by year-end. The “dot plot” was notably scattered: seven of the nineteen participants penciled in no further cuts this year, two saw one more cut, nine projected two more cuts, and one even anticipated five additional cuts. This dispersion underscores just how contentious the next few meetings could be.

FOMC Participants' Assessments of Target Level for Fed Funds Rate by YE2025
 FOMC Summary of Economic Projections (SEP), June 2025 vs. Sept 2025

YE 2025 Fed Funds



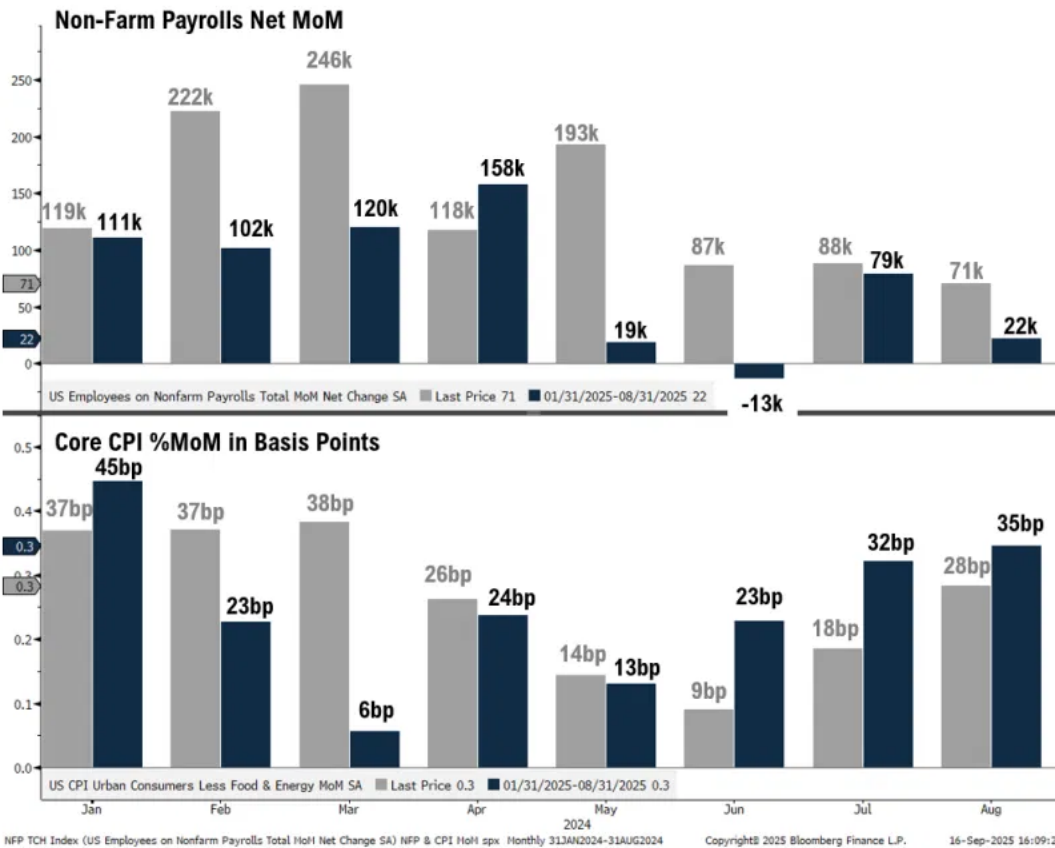
Source: Fundstrat, the Federal Reserve

Chair Powell did not frame this cut as a “recalibration” of policy like he did in 2024. This time, the cut was described as “risk management.” Zooming in, recalibration suggests bringing policy back into alignment through fine-tuning, while risk management reflects a more forward-looking strategy in the face of uncertainty. Essentially, this cut was not about signaling that policy was mismatched with the economy, but about recognizing that downside risks to employment have risen

enough to warrant insurance against a deeper slowdown, particularly amid evolving trade and immigration policies.

Non-Farm Payrolls Net MoM & Core CPI %MoM

2024 in Gray, 2025 in Blue, YTD thru August



Source: Fundstrat, Bloomberg

For Exclusive Use of Fundstrat Clients Only



Also of note during the press conference were Powell’s comments on Fed Independence, both direct and indirect. The Chair reminded viewers that “everything we do is in service to our public mission” and stressed that “we’re strongly committed to maintaining our independence.” In response to questions about White House influence, Powell noted that it is “deeply in our [Fed] culture to do our work based on the incoming data and never consider anything else,” adding that “that is not at all the way we think about things at the Fed. We’re taking a longer perspective, we’re trying to serve the American people as best we can.” He reinforced this point by describing independence as being “in the DNA of the institution,” and when pressed about declining public confidence, said simply that the Fed would “use our tools to achieve

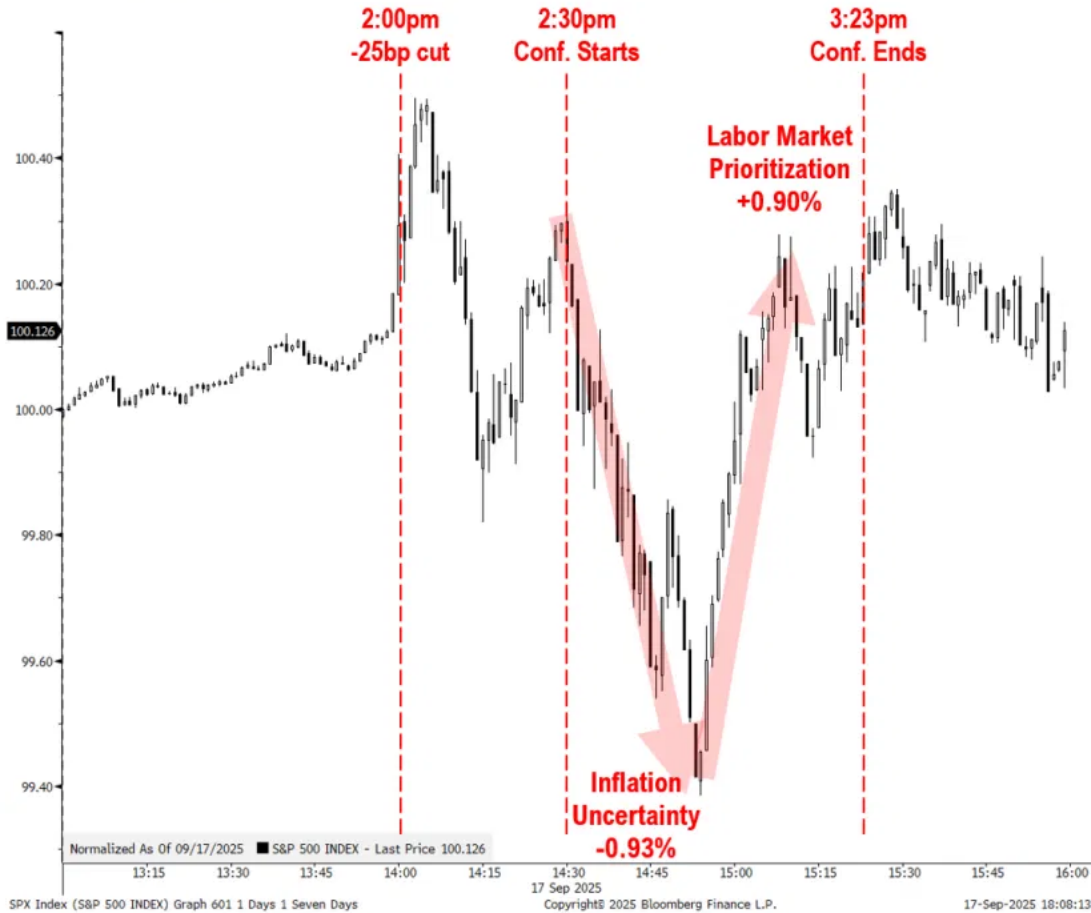
the goals that Congress has given us... we're just going to keep doing our job." Powell also highlighted operational independence by reminding markets that "policy is not on a preset course," that the Fed makes decisions "meeting by meeting" and that the Fed must "live life looking through the windshield rather than the rearview mirror." Taken together, the remarks were a strong assertion that the Fed remains focused on its dual mandate, not politics, and that independence is fundamental to how it operates.

The S&P 500 had a mixed reaction to today's decision and press conference, with the 1D return ranging from +0.23% to -0.78% during the press conference and ultimately ending the day muted at -0.10%. This hardly comes as a surprise, since consensus has been expecting a cut since the July jobs report.

While hard to pinpoint exactly, one possibility is that the reversal during the press conference was due to a dovish market interpretation of Powell's acknowledgement that the labor market is showing signs of weakening and policy will be more oriented towards employment as the pass-through of tariffs into inflation has been slow.

S&P 500 Price Reaction to July 2025 FOMC Meeting

1 Minute Price Chart 1:00PM – 4:00PM EST



Source: Fundstrat, Bloomberg

For Exclusive Use of Fundstrat Clients Only

Treasuries initially sold off on the news, with the 10-year dropping 6 bp and the 2-year falling 7 bp, before sharply recovering to trade above pre-decision levels—ending the day up 6 bp for the 10-year and 5 bp for the 2-year. Nonetheless, the press conference and rate decision appear to have had little impact on the broader downtrend that has persisted in both yields since the start of the year.

FOM C you in October!

Disclosures

This research is for the clients of Fundstrat Global Advisors only. For additional information, please contact your sales representative or Fundstrat Global Advisors at 150 East 52nd Street, New York, NY, 10022 USA.

Analyst Certification (Reg AC)

Alexa Sinsheimer ^{AC} and Max Motz, the research analyst denoted by an “AC” on the cover of this report, hereby certifies that all of the views expressed in this report accurately reflect his personal views, which have not been influenced by considerations of the firm’s business or client relationships. Neither I, nor a member of my household is an officer, director, or advisory board member of the issuer(s) or has another significant affiliation with the issuer(s) that is/are the subject of this research report. There is a possibility that we will from time to time have long or short positions in, and buy or sell, the securities or derivatives, if any, referred to in this research.

Conflicts of Interest

This research contains the views, opinions and recommendations of Fundstrat. At the time of publication of this report, Fundstrat does not know of, or have reason to know of any material conflicts of interest.

General Disclosures

Fundstrat Global Advisors is an independent research company and is not a registered investment advisor and is not acting as a broker-dealer under any federal or state securities laws.

Fundstrat Global Advisors is a member of IRC Securities’ Research Prime Services Platform. IRC Securities is a FINRA registered broker-dealer that is focused on supporting the independent research industry. Certain personnel of Fundstrat (i.e., Research Analysts) are registered representatives of IRC Securities, a FINRA member firm registered as a broker-dealer with the Securities and Exchange Commission and certain state securities regulators. As registered representatives and independent contractors of IRC Securities, such personnel may receive commissions paid to or shared with IRC Securities for transactions placed by Fundstrat clients directly with IRC Securities or with securities firms that may share commissions with IRC Securities in accordance with applicable SEC and FINRA requirements. IRC Securities does not distribute the research of Fundstrat, which is available to select institutional clients that have engaged Fundstrat.

As registered representatives of IRC Securities, our analysts must follow IRC Securities’ Written Supervisory Procedures. Notable compliance policies include (1) prohibition of insider trading or the facilitation thereof, (2) maintaining client confidentiality, (3) archival of electronic communications, and (4) appropriate use of electronic communications, amongst other compliance related policies.

Fundstrat does not have the same conflicts that traditional sell-side research organizations have because Fundstrat (1) does not conduct any investment banking activities, (2) does not manage any investment funds, and (3) our clients are only institutional investors.

This research is for the clients of Fundstrat Global Advisors only. Additional information is available upon request. Information has been obtained from sources believed to be reliable, but Fundstrat Global Advisors does not warrant its completeness or accuracy except with respect to any disclosures relative to Fundstrat and the analyst's involvement (if any) with any of the subject companies of the research. All pricing is as of the market close for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, risk tolerance, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies.

The recipient of this report must make its own independent decision regarding any securities or financial instruments mentioned herein.

Except in circumstances where Fundstrat expressly agrees otherwise in writing, Fundstrat is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice, including within the meaning of Section 15B of the Securities Exchange Act of 1934. All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client website, fundstrat.com. Not all research content is redistributed to our clients or made available to third-party aggregators or the media. Please contact your sales representative if you would like to receive any of our research publications.

Copyright 2025 Fundstrat Global Advisors LLC. All rights reserved. No part of this material may be reprinted, sold or redistributed without the prior written consent of Fundstrat Global Advisors LLC.