

## A NOT-SO-FOREGONE CONCLUSION: THE FED CUTS, BUT DECEMBER IN LIMBO

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FED WATCH TEAM

The Federal Reserve lowered its benchmark interest rate by a quarter of a percentage point on Wednesday afternoon, bringing the target range to 3.75 to 4.00 percent. The move was widely expected, with fed funds futures pricing in roughly 98% odds of a 25 basis point cut ahead of today's announcement.

The vote was not unanimous. Governor Stephen Miran dissented in favor of a larger 50 basis point cut, while Kansas City Fed President Jeffrey Schmid preferred to hold rates steady.

Disagreement within the Fed was not limited to the outcome of this month's meeting, with Powell noting that "there were strongly differing views about how to proceed in December."

Market expectations for another rate cut this year fell from 95% to 69% after Powell remarked that "a further reduction of the policy rate at the December meeting is not a foregone conclusion." The S&P 500 briefly dipped on the comment but recovered as Powell pointed to encouraging inflation developments, including limited price effects from new tariffs so far.

**Fed Funds Futures Estimated Probability of cut in Dec 2025 FOMC Meeting**

2:01PM – 6:30PM 10/29/25



Source: Fundstrat, Bloomberg

The Fed now finds itself at a critical crossroads, caught between internal divisions over how much further to ease this year and a growing data blackout caused by the government shutdown.

The two recent cuts, characterized as “risk management” moves, were pursued after the Fed judged that downside risks to the labor market had become more pronounced. Crucially, cuts take time to filter through the economy, which Powell pointed out to reporters, saying “policy works with a lag, we know that, so the effects of what we’ve done are still moving through the economy.”

That uncertainty has given rise to what Powell called “a growing chorus” within the Committee that it may be appropriate to pause and assess before taking further action. The timing is especially delicate. With the shutdown halting key releases, policymakers are relying on a thinner stream of information to gauge the economy’s health. Powell noted that the Fed still has access to “state-level jobless claims, job openings, survey data, and the Beige Book,” and acknowledged that “if there were a significant or material change in the economy, I think we would pick that up through this,” but he cautioned that the limited data could justify a more careful approach, adding that “if there is a high level of uncertainty, then that could be an argument in favor of caution about moving.”

Below, we’ve compiled a table of some key labor market indicators, the latest release date and headline value, and possible impacts from the shutdown.

## Key Employment Indicators and Potential Shutdown Impact

Indicator	Publisher	Frequency	Key Metrics / Insights	Last release date	Headline value	Shutdown Impact
Employment Situation Report ("Jobs Report")	Bureau of Labor Statistics (BLS)	Monthly (first Friday)	Nonfarm Payrolls, Unemployment Rate (U-3), Labor Force Participation Rate, Average Hourly Earnings. Core gauge of job creation and unemployment.	9/5/2025	+22k Total NFP MoM	Payrolls data for back-paid federal employees should be roughly unchanged. Momentary increase in unemployment metrics due to furloughed employees & short-term contract workers
Job Openings and Labor Turnover Survey (JOLTS)	BLS	Monthly (about 1-month lag)	Job Openings, Hires, Quits, and Layoffs. Measures labor demand and worker mobility.	9/30/2025	7,227k Openings	Openings, Hirings, and layoffs may be lower for the period due to federal hiring freeze.
ADP National Employment Report	ADP Research Institute (private)	Monthly (generally two days before Jobs Report)	Private-sector job creation based on payroll data. Often used as an early signal for NFP trends.	10/1/2025	-32k Private Payrolls MoM	ADP cannot benchmark its data to the BLS numbers, so it is more likely to diverge from BLS results
Weekly Initial Jobless Claims	U.S. Department of Labor (DOL)	Weekly (every Thursday)	New Unemployment Insurance Claims, Continuing Claims. Real-time measure of layoffs and labor market tightness.	9/25/2025	218k Initial Claims	May rise momentarily from furloughed employees claiming unemployment, but impact will be isolated to shutdown period
Beige Book	Federal Reserve	8 times per year (~every 6 weeks)	Qualitative insight on labor shortages, wage pressures, and hiring conditions across Federal Reserve districts.	10/15/2025	N/A	May become less precise in the next release due to less data collection for the current period

Source: Fundstrat, BLS, Fed, ADP

## Why the Employment Report's Absence is Especially Important

With the Government shutdown looming with no end in sight, the information and market reaction from some of the most important indicators remains in limbo. Historically the Jobs report has had a significant impact on both the S&P 500 and rate cut expectations, especially in 2025. Rate cut expectations generally increase when BLS Payrolls data is below expectations (soft), as the Fed is more likely to cut to support the labor market, and decreases when BLS Payrolls data is above expectations (hot), as the Fed would prioritize keeping inflation in check in a strong labor market.

The relationship between the Jobs Report and the S&P 500 however is a little more nuanced. Traders' response to the employment report has fluctuated based on

whether they view inflation risk or recession risk as a bigger issue during the period in which the report is observed:

- In periods where rate cuts are uncertain and employment is sturdy (such as earlier this year), Traders are more likely to buy when the labor market release is soft and sell when the labor market release is hot due to how it affects the likelihood of rate cuts in the near future.
- In periods where rate cuts are more certain, employment is weakening, and there is fear of a potential recession (such as the period between May 2025 and the present), traders have had some concern over the state of the economy, leading to rallies on in-line and hotter employment numbers and declines on weaker employment numbers.

**S&P 500 and Estimated # of Cuts Reaction to BLS Payrolls Employment Releases**  
2025 YTD

Non-Farm Payrolls Net Change MoM SA				Market Reaction to Release	
Release Date	Estimate	Actual	Surprise	S&P 500 1D Chg	Est. # Rate Cuts by YE 1D Chg
1/10/2025	165k	256k	91k	-1.5%	-0.57
2/7/2025	175k	143k	-32k	-0.9%	-0.33
3/7/2025	160k	151k	-9k	0.6%	-0.19
4/4/2025	140k	228k	88k	-6.0%	0.20
5/2/2025	138k	177k	39k	1.5%	-0.49
6/6/2025	126k	139k	13k	1.0%	-0.37
7/3/2025	106k	147k	41k	0.8%	-0.55
8/1/2025	105k	73k	-32k	-1.6%	1.13
9/5/2025	75k	22k	-53k	-0.3%	0.33

  

Market Reaction to Release		
	S&P 500 1D Chg	Est. # Rate Cuts by YE 1D Chg
<b>All Instances in 2025 (N=9)</b>		
Median	-0.3%	-0.33
Win Ratio	44%	33%
<b>Actual &gt; Estimate (N=5)</b>		
Median	0.8%	-0.49
Win Ratio	60%	20%
<b>Actual &lt; Estimate (N=4)</b>		
Median	-0.6%	0.07
Win Ratio	25%	50%

Source: Fundstrat, Bloomberg

See you in December, Fed Watchers!

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