

THE CUT, THE DOTS, AND THE CHAIR: WHY 2026 LOOKS DIFFERENT



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

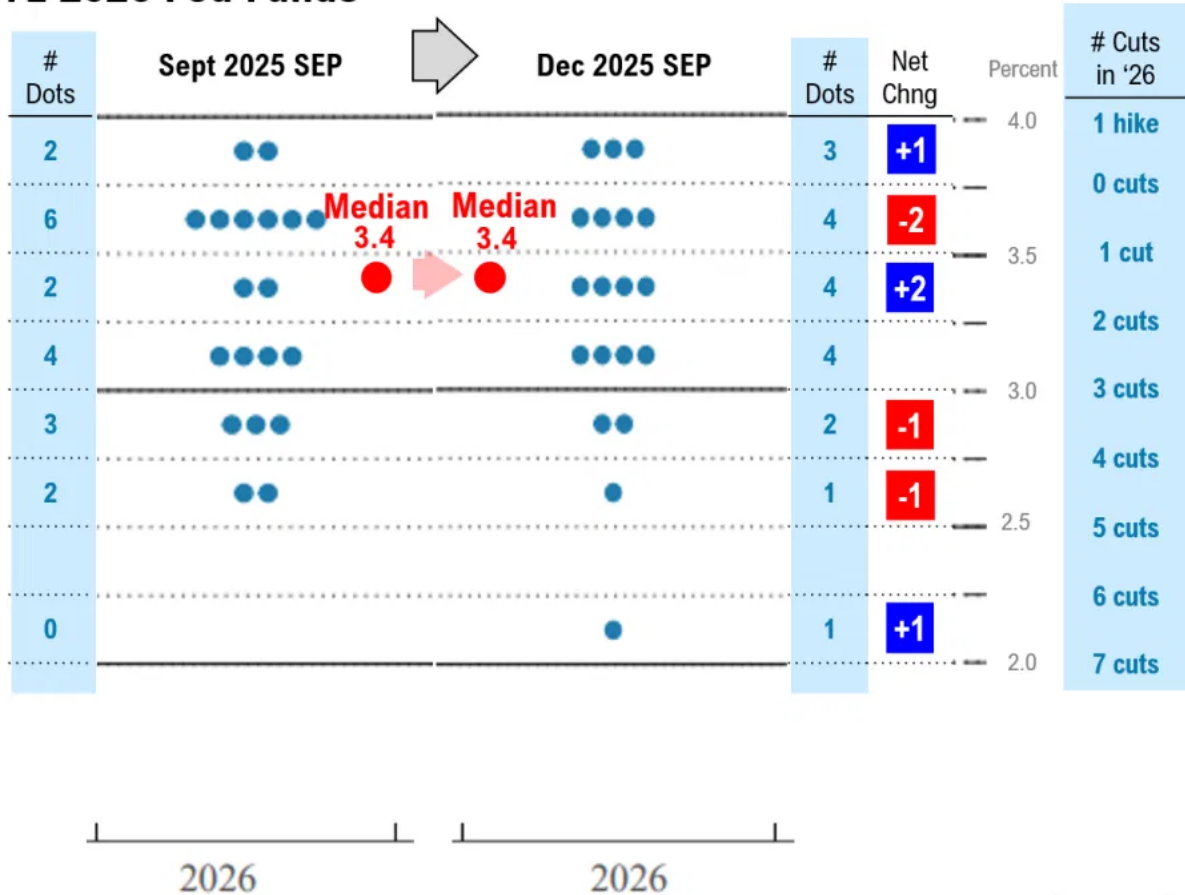
FED WATCH TEAM

The Federal Reserve lowered its benchmark interest rate by 25 basis points today, the third cut of the year and an outcome that carried over a 90 percent implied probability (per Fed Funds Futures) this morning. With the move widely expected, the real debate centered on whether investors would view today's action as a hawkish cut, meaning a reduction in rates today paired with mixed signals about further easing soon.

Within the committee, the divide remains familiar. The more dovish committee members favor cutting now to mitigate the risk of future weakness in the labor market while the hawkish side sees further easing as a risk to improving, but still-elevated inflation. The latest reading (September 2025) of the Fed's preferred gauge of inflation came in below Street expectations, but still above the Fed's target of 2%.

FOMC Participants' Assessments of Target Level for Fed Funds Rate by YE2026
 FOMC Summary of Economic Projections (SEP), Sept 2025 vs. Dec 2025

YE 2026 Fed Funds



Source: Fundstrat, the Federal Reserve

So was this the hawkish cut many investors were expecting? The dot plot offers a mixed answer. The headline median for YE 2026 did not move, holding at 3.4 percent from September to December. The underlying distribution, however, tells a different story. The middle of the distribution thinned out while both tails expanded. The committee is now more divided on the 2026 path than it was in September, and that polarization blurs the signal for investors.

A large part of today's tone reflects the fact that the Fed is operating with incomplete visibility. The recent government shutdown delayed several critical data releases, and unfortunately the BLS has confirmed that many of its economic indicators (including NFP, CPI, and PPI) will not have an October 2025 release due to the shutdown. This

means that despite the government shutdown ending and government data operations resuming, we are not back to 100% economic visibility.

This backdrop supports Powell's statement that the committee is "well positioned to wait and see how the economy evolves." Having already reduced the policy rate by 175 basis points since September of last year, Powell argued that the Fed funds rate is now "within a broad range of estimates of neutral," which naturally raises the bar for an immediate follow-up move at the January meeting.

Notably, the two FOMC members who voted against a cut at this meeting, Goolsbee and Schmid, will not be voting members in 2026. Next year's rotation brings in Minneapolis, Dallas, Cleveland, and Philadelphia Fed Presidents. Also impacting the composition of the committee is the fact that Powell's four year term as Chair ends in May.

That brings us to the structural changes looming over the 2026 committee. President Trump has said publicly that immediate rate cuts are a litmus test for his choice of the next Fed Chair. Powell declined today to say whether he intends to stay on the Board after his Chair term ends in May. This matters because the Chair must hold a Board seat. If Powell resigns from the Board, his seat becomes available for Trump's nominee. If he stays, then the only available Governor seat is the one currently held by Miran, whose term expires at the end of January. Miran could be reappointed, or he could step aside to allow Trump to seat a new Chair immediately. Another option is for Trump to tap an existing Governor as Chair.

These mechanics are important because the committee does not vote in isolation. The ideological environment the FOMC will vote in may lean more accommodative once the new Chair is in place.

Finally, Raphael Bostic is retiring early next year, and although his replacement will be chosen by the Atlanta Fed board rather than the White House, it still introduces another potential change. Although Bostic is a nonvoting participant next year, his successor will still contribute to the SEP.

The Market reacted positively to today's announcement and presser. The S&P 500 rose +0.6% during the press conference today, finishing the day up +0.7% from the

prior close. This broke the pattern of the last four FOMC days, all of which ended the session slightly negative, with declines ranging from -0.3% to -0.6%. Investors seemed to appreciate a less hawkish Powell than many were expecting after October's presser as well a re-assertion of the current policy path supported by the SEP projections being largely unchanged. The ending of Quantitative Tightening (QT) is also generally constructive for equities as it reduces tightening pressure and stabilizes liquidity in the market.

S&P 500 Price Reaction: FOMC Meeting

Since 2024

S&P 500 Daily Price Change

	FOMC Dates	-5D into FOMC	-1D	FOMC Decision	FOMC decision intraday			5D Post-FOMC	10D Post-FOMC	2:30pm Presser to +5D	2:30pm Presser to +10D
					SoD to 2pm Annct.	Annct. To 2:30pm Presser	2:30pm Presser to EoD				
1	1/31/2024	1.2%	-0.1%	-1.6%	-1.0%	0.1%	-0.7%	3.1%	3.2%	2.4%	2.5%
2	3/20/2024	0.1%	0.6%	0.9%	0.3%	0.3%	0.3%	0.5%	-1.5%	0.7%	-1.2%
3	5/1/2024	-0.7%	-1.6%	-0.3%	0.2%	0.8%	-1.4%	3.4%	5.8%	2.0%	4.3%
4	6/12/2024	1.6%	0.3%	0.9%	1.1%	-0.0%	-0.2%	1.0%	1.1%	0.8%	0.9%
5	7/31/2024	-2.1%	-0.5%	1.6%	1.7%	0.4%	-0.5%	-5.8%	-1.2%	-6.3%	-1.7%
6	9/18/2024	2.5%	0.0%	-0.3%	0.5%	-0.3%	-0.5%	1.9%	1.6%	1.4%	1.1%
7	11/7/2024	2.0%	2.5%	0.7%	0.6%	0.2%	-0.1%	-0.4%	-0.4%	-0.5%	-0.5%
8	12/18/2024	0.3%	-0.4%	-2.9%	-0.7%	-0.6%	-1.6%	2.8%	1.2%	1.1%	-0.5%
9	1/29/2025	0.3%	0.9%	-0.5%	-0.9%	0.5%	-0.1%	0.4%	0.2%	0.3%	0.1%
10	3/19/2025	0.8%	-1.1%	1.1%	0.7%	0.6%	-0.2%	0.7%	-0.1%	0.4%	-0.3%
11	5/7/2025	0.8%	-0.8%	0.4%	-0.2%	0.5%	0.1%	4.6%	3.8%	4.8%	3.9%
12	6/18/2025	-0.9%	-0.8%	-0.0%	0.3%	-0.4%	0.0%	2.7%	5.0%	2.7%	5.0%
13	7/30/2025	1.0%	-0.3%	-0.1%	0.3%	-0.6%	0.2%	-0.3%	1.6%	-0.0%	1.9%
14	9/17/2025	1.4%	-0.1%	-0.1%	0.1%	-0.4%	0.2%	0.6%	1.7%	0.8%	1.9%
15	10/29/2025	2.3%	0.2%	-0.0%	0.2%	-0.3%	0.1%	-1.4%	-0.6%	-1.3%	-0.5%
Since start of 2024 (N=15)											
	Average	0.7%	-0.1%	-0.0%	0.2%	0.0%	-0.3%	0.9%	1.4%	0.6%	1.1%
	Median	0.8%	-0.1%	-0.0%	0.3%	0.1%	-0.1%	0.7%	1.2%	0.8%	0.9%
	Win Ratio	80%	40%	40%	73%	53%	40%	73%	67%	73%	60%
	12/10/2025	0.2%	-0.1%	0.7%	0.2%	0.6%	-0.1%	-	-	-	-

Source: Fundstrat, Bloomberg

Taken together, today's cut may have leaned hawkish in tone, but not necessarily in implication. The Fed is navigating real blind spots in the data, a committee that is divided across both tails of the policy spectrum, and a leadership transition that will reshape the center of gravity in 2026. Markets seemed to understand this, reacting more to the absence of a hawkish surprise than to the cut itself. See you next year, Fed Watchers!

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.