



Markets & Economies

Six Quick Points on the Fed's November Rate Cut

A brief outline of the policy and investment implications of the November 6–7 FOMC meeting.



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The Federal Open Market Committee (FOMC), the policy-setting arm of the U.S. Federal Reserve (Fed), cut the target federal funds rate by 25 basis points (bps) on November 7, to a range of 4.5% to 4.75%. This was the second in a widely anticipated series of rate cuts, following an initial reduction of 50 bps on September 18.

Beyond the headline policy move, here are some additional observations on the November FOMC meeting.

1. The FOMC kept its asset purchase program intact. Its post-meeting statement said that the economy continues “to expand at a solid pace,” while the unemployment rate “has moved up but remains low”. In a divergence from the September release, policymakers said that “inflation has made progress” toward the Fed’s 2% goal, omitting a previous assertion of “greater confidence” in that outcome; inflation remains “somewhat elevated.”
2. As for the bigger picture, the FOMC judged that “the risks to achieving its employment and inflation goals are roughly in balance”; it characterized the economic outlook as “uncertain.”
3. Some clues to the pace and size of future cuts were offered by Fed Chair Jerome Powell in his press conference after the FOMC meeting. According to a Bloomberg news report, Powell said he doesn’t rule “out or in” a cut at the December FOMC meeting. “We’re going to wait and see” how the economic data shapes up by December. Monetary policy “is still restrictive,” he added. The Fed “would be concerned” if it saw long-term inflation expectations becoming de-anchored, according to Powell, but at the current time, they are not. Powell avoided questions about the fiscal policy implications of the U.S. election results and their potential impact on monetary policy.
4. Based on trading in fed funds futures on November 7, markets have priced in a 67% probability of a cut of 25 basis points at the final FOMC meeting of the year in December. That would bring fed funds to an implied rate of 4.4%.
5. By way of comparison, the so-called “dot plot” from FOMC members issued on September 18 showed a median year-end projection for the fed funds rate of 4.38%. The median estimate for the end of 2025 was 4.13%.
6. In our view, the ongoing moderation in inflation gives policymakers the ability to offer support (in the form of a so-called “Fed put”) to the U.S. economy should the need arise. Right now, the Fed is cutting rates while economy is in good shape. Overall, these factors indicate a broadly supportive backdrop for risk assets.



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Investment Implications

After the second move in the Fed's rate-cut cycle, where might investors focus their attention? Here are some areas to consider:

Fixed Income

Core and core-plus strategies may be particularly well positioned after the Fed's move. Short-duration bonds continue to have a favorable risk/return profile in the current rate environment. Blending core bonds with short-term credit may provide a way to realize attractive income while mitigating rate volatility.

The "soft landing" scenario for the U.S. economy remains intact, in our view, providing a positive environment for credit. Among the approaches to consider are multi-sector bond, short duration high yield, and opportunistic credit strategies.

Equities

We continue to emphasize investing in quality companies with durable competitive advantages. We do this in growth and value stocks. We continue to see attractive valuations in international equities. We also believe companies in the innovation space, characterized by rapid revenue and earnings growth, are also well positioned for the current environment.



Glossary Definitions

A **basis point** is one one-hundredth of a percentage point.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates.

The **Federal Reserve (Fed)** is the central bank of the United States. The **Federal Open Market Committee (FOMC)** is the branch of the Fed that determines the direction of monetary policy in the United States.

The **federal funds rate** is the interest rate at which depository institutions lend reserve balances to other depository institutions overnight on an uncollateralized basis. **Fed funds futures** are financial futures contracts based on the federal funds rate and traded on the Chicago Mercantile Exchange. These futures are considered a direct reflection of collective marketplace insight regarding the future course of the Federal Reserve's monetary policy.

A **"Fed put"** is a popular term for the notion that the Federal Reserve signals that it will reduce rates if the economy or financial markets need supportive policy measures.

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Fixed-Income Investing Risks

The value of investments in fixed-income securities will change as interest rates fluctuate and in response to market movements. Generally, when interest rates rise, the prices of debt securities fall, and when interest rates fall, prices generally rise. High yield securities, sometimes called junk bonds, carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal. Bonds may also be subject to other types of risk, such as call, credit, liquidity, and general market risks. Longer-term debt securities are usually more sensitive to interest-rate changes; the longer the maturity of a security, the greater the effect a change in interest rates is likely to have on its price.