

New York Life Investments' Global Market Strategy team

# Cut today, caution tomorrow: Fed “well positioned” to wait and see

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As of 4:00pm, 10 December 2025

## Key takeaways

- As expected, the Fed delivered a 25 basis point cut, reducing the Fed’s target range to 3.75% - 3.50%.
- The Fed now considers its policy rate to be within range of the neutral policy rate, and is on hold pending further developments in data.
- We have a constructive economic base case view for 2026, which calls for strong growth, supporting a resilient labor market, and still-sticky inflation. For this reason, we expect only 25-50bps of additional cutting in 2026 – slightly hawkish relative to the market’s pricing of 50bps, which has converged toward our expectations over the past few weeks.
- We believe the Fed’s neutral rate is somewhere around 3.50% for this cycle, and Chair Powell confirmed today that they’ve entered the range of neutral rate estimates. But estimates vary, with 3.0% representing the lower end of the range. If the Fed eases below this rate amid decent economic growth, the Fed may face questions about its inflation-fighting credibility and we’d be concerned that long rates move higher.

## *What we learned from the Fed’s December meeting and press conference*

As expected, the Fed delivered a 25bp cut earlier today, reducing the Fed’s target rate range from 4.00%-3.75% to 3.75%-3.50%. This meeting featured dissents in both directions: Governor Miran called for a 50bp cut, while Kansas City Fed President Schmid and Chicago Fed President Goolsbee called for rates to remain unchanged.

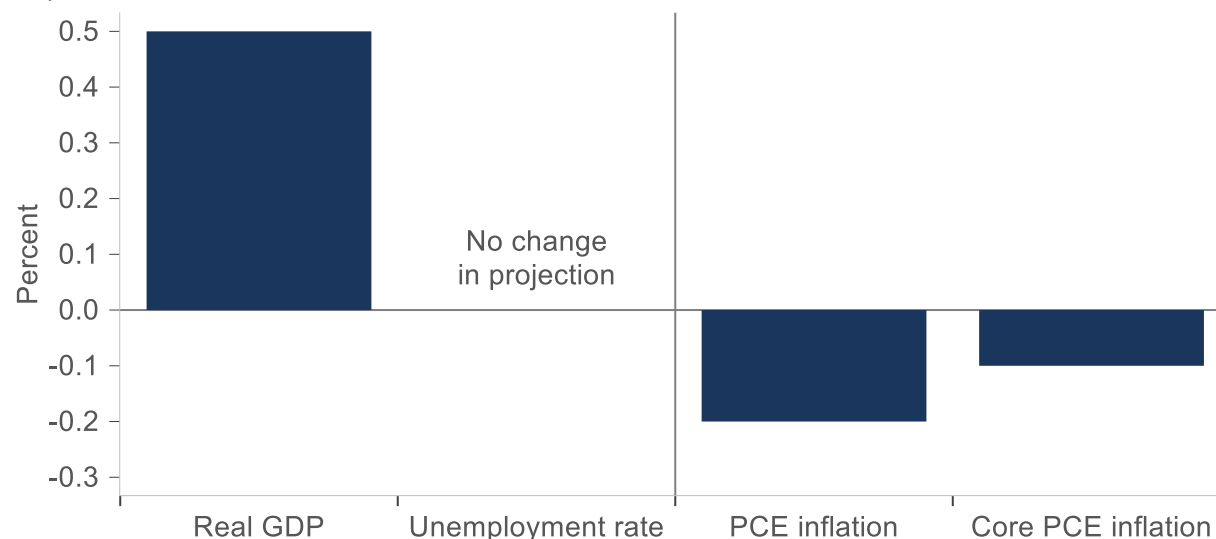
The Fed’s decision comes without the benefit of fresh data: the October and November jobs reports and the November inflation report, delayed from the government shutdown, will be released next week. As we’ve mentioned previously, CPI for October was not surveyed during the shutdown and will represent a permanent hole in official data.

In the press conference, Chair Powell said that the policy rate is now “**within a broad range of estimates of neutral**” and suggested that the Fed is **well-positioned to wait and see how the economy evolves**. Our base case calls for another 25-50bps of further easing by year-end 2026, modestly hawkish relative to current market pricing of 50bps, which has converged toward our expectations over the past few weeks.

The FOMC also updated their economic projections for the final time this year. The FOMC gave a hefty upgrade to their GDP growth projections for 2026 (from 1.8% projected in September to 2.3% today). While constructive growth and sticky inflation are aligned with our base case for 2026, we see these as cause for fewer cuts than the market is currently pricing in.

## Stronger growth and lower inflation in 2026 means investors may not see all the rate cuts they're hoping for next year

FOMC economic projections for key indicators in 2026: change in projections between September and December 2025



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, December 2025.

Having already announced that it would end its quantitative tightening (QT) program on December 1, the Fed will now reinvest in the curve, making purchases of short-term Treasuries as needed. We want to be clear that this does *not* constitute quantitative easing (QE) but is meant to reduce banks' need to tap emergency liquidity facilities.

### Market implications

We are tracking three key implications of today's statement:

**On sentiment:** We believe the Fed's easing into a non-recessionary economy will **support animal spirits**, limiting downside risk in U.S. public equities. Risks to this view in 2026 include upside inflation surprises due to tariffs, cyclical economic overheating, or overly accommodative fiscal policy, which could force the Fed to pump the brakes.

**On rates:** The 10Y Treasury yield hit a 3-month high this week, following concerns about the pace of cuts next year. For now, the 10Y still sits comfortably near the center of our credible range for the cycle (3.75%-4.50%). We see potential for ongoing policy risks, questions around Fed independence, strong fiscal spending, and inflation risks to keep long rates elevated as the Fed eases.

Still, two bond market notes are worth mentioning: (1) lower policy rates in a non-recessionary economy *should* encourage cash to move, tightening already-tight credit spreads all else equal, and (2) though long-term interest rates have moved lower in 2025, we still see room for short-duration fixed income asset classes, including high yield, to flourish as a 'buy and hold' income generation opportunity.

**On liquidity:** By concluding quantitative tightening (QT) and announcing the reinvestment of proceeds in short-duration Treasuries, the Fed aims to maintain an ample supply of reserves on an ongoing basis. The move follows



a period of rising short-term rates and increased usage of the Fed's Standing Repo Facility (SRF), a rarely used daily backstop that dealers tap for overnight funding when liquidity is scarce. As the end of QT helps these funding pressures ease, repo rates should drift back into the Fed's target range, helping to lower short-term financing costs.

### *Our 2026 Fed outlook*

Our base case calls for another 25-50bps of further easing by year-end 2026. This view is modestly hawkish relative to current market pricing, but still supportive of easier financial conditions from here.

In our view, a **more hawkish Fed stance** next year is a risk. The 2026 cohort of voting regional bank presidents appears firmly on the hawkish side. Fed Presidents for Dallas (Logan), Cleveland (Hammack), and Minneapolis (Kashkari) have all strongly signaled their preference to hold rates steady.

At the same time conversations about the nature and impact of a **new Fed chair** next year are gaining traction. Chair Powell's term is set to expire in May, and the White House plans to name a successor in January. National Economic Council Director Kevin Hassett is currently viewed as the top pick, but all candidates are expected to have a more dovish monetary policy stance.

A new chair alone is unlikely to drive a materially faster pace of rate cuts in 2026. While the chair plays a critical role in shaping the Federal Open Market Committee's (FOMC) discussions and communication, interest rate decisions ultimately rest with the majority of the FOMC's 12 voting members, not just the chair.

In our view, larger risk lies in the *perception* of **Fed independence**. So far in this Fed cutting cycle, the labor market has deteriorated just enough to avoid market-moving questions about Fed independence as the Fed has eased. 2026 will be more of a challenge, because the Fed is approaching the point where policy moves from restrictive, to neutral, and potentially even to accommodative. If our economic base case view is right – with growth resilient and inflation sticky in 2026 – then cuts below the Fed's neutral rate could prompt markets to question the Fed's **inflation fighting credibility** – putting upward pressure on long term rates.

*The latest Macro Pulse – [our 2026 outlook](#) – is out now, including deeper dives on inflation, the labor market, rates, and Fed policy.*

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