

New York Life Investments' Global Market Strategy team

The October FOMC: not disrupting the bull run, but nothing guaranteed for December

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INVESTMENTS

October 29, 2025

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As of 4:00pm, 29 October 2025

Key takeaways from the meeting and press conference

- As expected, the Fed delivered a 25bp cut earlier today, reducing the Fed's target rate range from 4.25%-4.00% to 4.00%-3.75%. This meeting featured dissents in both directions: Governor Miran called for a 50bp cut, while Kansas City Fed President Schmid called for rates to remain unchanged. As additional positions on the FOMC turn over in the coming year, dissents in both directions may become more likely, though it's not yet clear this will impact the traditional reaction function of monetary policy.
- In the press conference, Chair Powell emphasized several times that a further rate cut in December is "not a foregone conclusion." We have been adamant that the market was getting ahead of itself in expecting a sustained cutting cycle. Our base case already called for 50-75bps of easing by year-end 2026; market expectations for 100bps of easing are now having to adjust in response to today's developments.
- The Fed also announced that it would end its quantitative tightening (QT) program on December 1. In place since 2022, QT has reduced the Fed's balance sheet by over \$2 trillion, allowing securities to mature without replacement, thereby draining liquidity from the financial system.

Market implications

- We continue to expect that the Fed's easing into a non-recessionary economy will support animal spirits, limiting downside risk in U.S. public equities in 1H2026. Risks to this view include upside inflation surprises and unexpectedly fast translation of tariffs into corporate margin pressure.
- After the notable rally in rates across the Treasury curve pushing the 10Y yield toward the bottom of what we view as a credible range for the cycle (3.75%-4.5%), we see potential for ongoing policy risks, questions around Fed independence, strong fiscal spending, and inflation risks to push long rates up as the Fed eases.
- Still, two bond market notes bear mentioning: (1) lower policy rates in a non-recessionary economy may mean that cash begins to move, tightening already tight credit spreads all else equal, and (2) though long-term interest rates are moving lower, we still see room for short-duration fixed income asset classes, including high yield, to flourish as a 'buy and hold' income generation opportunity.
- The Fed's decision to end its QT program will boost liquidity across the financial system, by allowing the Fed to reinvest the proceeds from maturing Treasuries and MBS on its balance sheet back into U.S. Treasuries. The move follows a period of rising short-term rates, including SOFR, and tapping of the Fed's Stading Repo Facility (SRF), a rarely-used daily backstop through which dealers borrow overnight cash when they're strapped for liquidity (we discussed this in greater detail in [this week's macro note](#)). As QT ends and funding pressures ease, repo rates should realign into the Fed's target range, lowering short-term financing costs.



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SMRU: 8554581