

Macro Pulse for September 21

- We see last week's 25bp Fed cut as the start of a sporadic, not sustained, rate cutting cycle, delivering roughly 100-125bps of easing in the coming year. For the remainder of 2025: based on what we know today, we believe one further cut is appropriate.
- While moderate easing is not intended to extend the U.S. economic cycle outright, it *does* represent an inflection point in allocation choices. As money market rates lose potency, we see short duration corporate credit as a well positioned total return opportunity. Even a few further cuts may be enough to support private credit creation and encourage sluggish private equity deal flow. We expand on this theme in this week's note below.
- We also expect sporadic easing to have little effect on the K-shaped economy, in which outcomes differ widely between high and low income consumer cohorts. August retail sales data held up nicely for both staples and discretionary spending, but consumers in the top 10% of income distribution now account for nearly half of U.S. consumer spending.

The impact of sporadic easing on the economy (meh) and markets (cheers)

On Wednesday, the Fed cut its fed funds rate by 25bp, marking a return to its easing cycle. The move came on the back of months of soft hiring and a recent pickup in jobless claims. While markets are betting on more cuts in October and December, we take a more cautious view – seeing this as the start of a sporadic, not sustained, easing cycle.

In this week's note, we dig into what limited easing really means, with a closer look at rates-sensitive areas of the economy, including housing, consumer activity, business investment, and markets more broadly. Our take: a modestly lower cost of capital will only go so far to support an economy facing meaningful policy shifts, including tariffs and immigration policy changes. Still, the signal matters – especially with equities near all-time highs. We expect the Fed cut to give risk assets more room to run in the near term.

Rate cuts alone are unlikely to revive the housing market

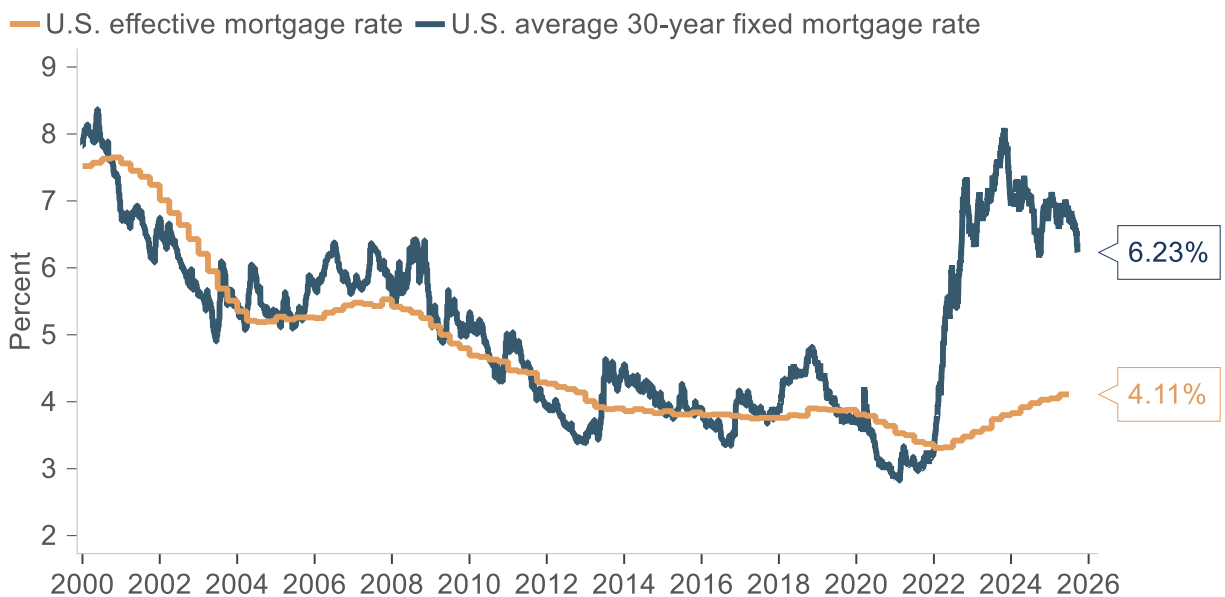
Housing affordability is shaped by three factors – home prices, household income, and financing costs. Affordability has worsened as home prices surged faster than household incomes, while higher interest rates have sharply raised borrowing costs.

A 25bp cut will not help current homeowners with 30-year fixed mortgage rates. Even with the fed funds rate now 125bps below its September 2024 high, mortgage rates today are around where they were one year ago (6.3%). This is because moves in mortgage rates tend to align closely with movement in the 10-year Treasury, which has remained roughly rangebound (between 4.0% and 4.5%) for the past year. *For more on the drivers of long-term interest rates, see our [Macro Pulse report](#).*

At the same time, home prices remain elevated and continue to rise faster than household income. Both supply and demand dynamics are at play, with housing supply constrained and demand

impacted by existing homeowners “locked in” to lower mortgage rates, hesitant to sell and give up their lower rates.

Just as the 2022 surge in mortgage rates did not cause a housing crash, we do not expect moderate mortgage rate relief to cause a housing upswing



Sources: New York Life Investments Global Market Strategy, Bankrate, Macrobond, September 2025.

So, what could unlock the housing market? A combination of lower rates and lower prices. The encouraging news is that inventory is gradually building and has nearly returned to pre-pandemic levels. But until prices ease, or longer-term rates move meaningfully lower, a pickup in housing activity for anyone more than the wealthiest households looks unlikely.

Lower rates involve tradeoffs for consumers – good for borrowing, challenging for savings

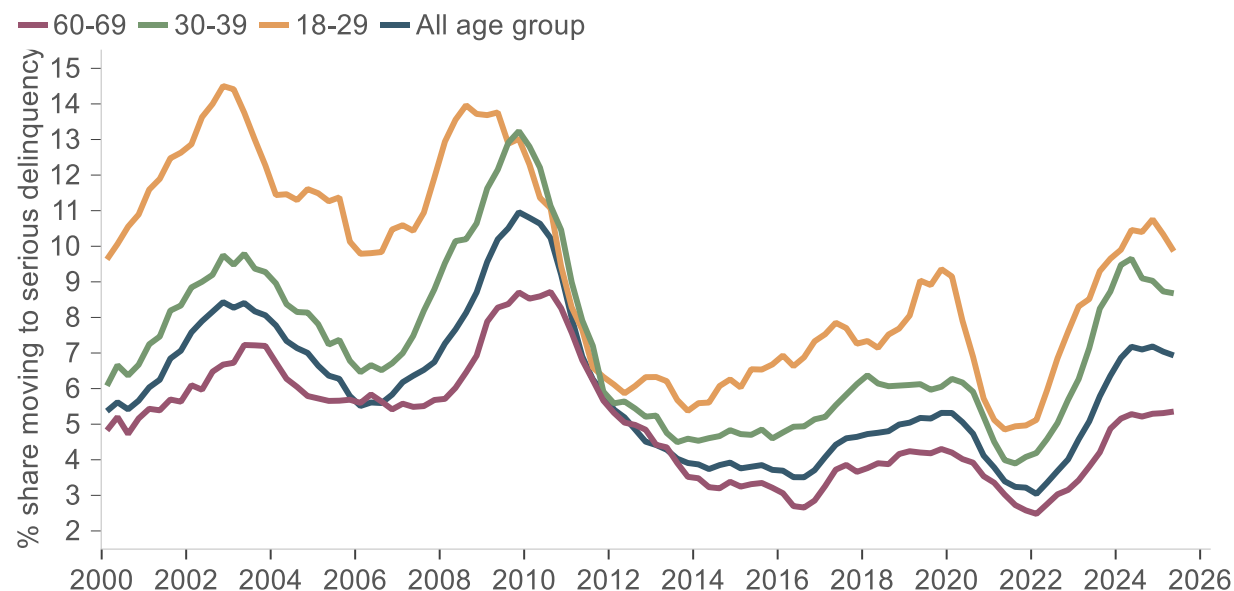
While a 25bp cut reduces the cost of borrowing for consumers and companies, it also presents a challenge. Investments indexed to the short end of the curve will see lower returns, and that may shift the ideal form of investments.

As a recent JP Morgan analysis highlighted, Americans hold \$14 trillion in time deposits – such as money market funds and other short-term investments. A 25bp cut would directly reduce income earned on these savings. The impact would be felt most by higher income households, who hold the bulk of these assets, and who have been the key driver of consumer spending in recent years.

As rate cuts continue, lower-income households may see limited relief, as most credit cards debt is variable rate. With more than half of Americans carrying a balance on their credit cards – and credit card delinquency rates near 15-year highs – lower rates could modestly ease their debt burdens.

Credit card delinquencies are high, especially for younger borrowers

Latest: 2025 Q2



Sources: New York Life Investments Global Market Strategy, Federal Reserve Bank of New York, Macrobond, September 2025.

One area where Fed cuts may provide more tangible support is auto financing. Car loans are short-dated, and rates are more closely tied to the Fed funds rate, meaning that lower rates may help stimulate demand for car and car loans. This could be a welcome relief to the auto sector, which is currently navigating headwinds from tariffs.

Businesses enjoy a lower cost of capital – but still face uncertainty

Like auto loans, many business loans (including bank loans and private credit) are relatively short-term and closely track short-term interest rates. That means the Fed's 25bp cut should give business investment a small boost in the near term.

Private business investment trends, however, have been volatile – surging in Q1 2025 before falling sharply in Q2, largely in response to shifting tariff policy. Looking ahead, we see scope for a rebound, supported by new tax incentives for capital expenditure under the One Big Beautiful Bill Act. Lower rates should reinforce this momentum, helping to lift business investment as we move into Q4.

Market impacts – the flywheel starts to turn

While the impact of sporadic easing on the real economy looks limited, financial markets are already reaping the rewards. The IPO window has swung open, with volumes reaching a four-year high after numerous sizable deals in just the past two weeks. Even with our expectations for the easing cycle trending a bit less dovish than consensus, we believe sporadic easing represents inflection points in several facets of allocation:

Private equity: U.S. private equity activity is likely to pick up, as lower rates bolster valuations and improve IRRs, setting the stage for broader deal flow. Coupled with rising M&A momentum, thanks to lower financing costs and increased liquidity, these shifts suggest the private market flywheel may finally be starting to turn.

Real estate: Though residential housing may still be a ways away from its recovery, the commercial real estate cycle is showing signs of having reset. We continue to favor sectors with durable demand growth such as those driven by foundational changes in demographics and global megatrends.

Cash: The money market has offered competitive interest rates for several years, disincentivizing diversification in public credit. With money market rates expected to lose around 100bps of potency over the coming quarters, we see a clear case for investors to consider short duration corporate credit to replace money market exposure, and as a pairing to a core bond exposure. As this reallocation occurs, tight **spreads** in IG and HY corporate credit can tighten further from here: we see ample potential for upward pressures on long Treasury rates to reignite (see notes on duration below), at the same time as Fed cuts support credit fundamentals.

Duration: With the 10-year Treasury yield close to plumbing the lows of what we view as credible range for this cycle (3.75-4.5%) and fiscal, policy risk, and Fed independence concerns unchanged, we are staunch sellers of duration with the exception of high-quality municipal bonds, both taxable and tax-exempt.

Small caps: While small caps could get a lift from renewed risk appetite and a small extension of the economic cycle due to Fed cuts, we continue to favor large caps. In our view, small caps are likely to lag until the growth outlook becomes more durable.

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