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Fed announcement: Sometimes, dots speak louder than words and actions

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The Fed cut rates by 25 bps today, as expected, but it was certainly a hawkish cut within a divided committee. There were two dissents against the cut, and a total of six dots favoring no change in policy today (four non-voters in addition to the two dissents). Miran once again voted for a larger cut, and likely a lower rate path than in September, but that is just noise at this point. The accompanying December projection showed that the median voter favored no change relative to the September projection—one cut in each of 2026 and 2027—but the distribution of the dots in 2026 is slightly more hawkish, almost evenly split between a 3 % and 4 % midpoint, after stripping out the known outliers. There are fewer dots below-neutral policy in 2026 than in the September projection.

Despite three straight rate cuts and a cooling labor market, the FOMC sent a clear signal that inflation risks are not an afterthought, and that a growing part of the committee is willing to fight them now that policy is close to or within the neutral range. Powell reiterated that the committee should seek to balance the tension in its job-market and inflation mandates, and did a good job of not leaning too much to one side by feeding into the gloom on the job market, as expressed by some members.

The near-term path of policy is also cloudy, with the committee likely to view incoming data for October and November with a “skeptical eye,” given distortions arising from partial data collection. The dust will likely not fully settle until the Fed starts to see December data, which casts some doubt about a move in January. Adding to that, the FOMC will shuffle voting members and the new roster could be marginally more hawkish, and more open about their views, than the 2025 configuration of the committee.

We learned a lot more than we usually do from the press conference as well. The Fed’s view on growth has changed, with Powell putting more weight on the growth impulse from AI continuing into the new year, and noting that, while persistent inflation risks are nothing to sneeze at, underlying inflation, excluding the impact of tariffs, has made progress in the Fed’s view. His tone on the job market was far more balanced than in the prior meeting as well.

While these are all sensible views, many of which we share, they do not necessarily add up to the hawkish message sent in the dots today. If you believe inflation is still a one-time price level shock, and the job market has moved a touch weaker than expected, some additional insurance of two rate cuts in 2026 seems reasonable. Two possible explanations for what we saw today.

First, the committee may not be very confident about the path ahead with so many moving parts (Supreme Court ruling, AI spending, tariff pass-through) and is waiting to see whether Q4—and possibly early-2026—data provide the clarity it needs. Second, this may be a signal that the committee intends to take a hard line against a new Chair who might not focus as intensely on guarding both sides of the Fed’s mandate. Perhaps it is both. But the Fed’s choice today was a wise one, even if it is a bit overdue. We expect one more rate cut in 2026 under Powell’s tenure.

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