Fed Approves 25 basis points Rate Cut, Signals Two More Reductions in 2025

EBC Financial Group highlights that while easing supports employment trends, tariff-related inflation risks and political dynamics cloud longer-term policy.

As the Fed lowers rates for the first time in President Trump's new term, EBC Financial Group highlights how mounting labor market worries, inflation risk, and political crosscurrents are shaping the outlook for investors worldwide.

DC, UNITED STATES, September 18, 2025 /EINPresswire.com/ -- The U.S. Federal Reserve has lowered its benchmark interest rate by 25 basis points, bringing the target range down to 4.00–4.25%. It marks the first rate cut of President Donald Trump's second term, following a nine-month pause prompted by uncertainty over the administration's major policy shifts.

The decision reflects the Fed's mounting concerns about a softening labour market, while leaving inflation risks and political pressures in the background. Markets are now bracing for further moves, with the Fed signalling the likelihood of two additional cuts before the end of the year.

Labour Market Concerns Take Priority

Federal Reserve Chair Jerome Powell highlighted "meaningful downside risk" to employment as the primary driver of the rate adjustment, noting weakening job creation and a slower pace of hiring. While inflation remains above target, the Fed's post-meeting statement emphasised that risks to the labour market have intensified. The U.S. unemployment rate stood at 4.3% in August, the highest since October 2021, and a recent Bureau of Labor Statistics revision showed nearly one million fewer jobs created in the 12 months leading up to March 2025 than initially reported.

At the same time, the arrival of newly appointed Fed Governor Stephen Miran injected fresh debate into the committee. The final decision came with an 11–1 vote, with Miran pushing for a more aggressive 50-basis-point cut, signalling his preference for faster and deeper easing, while also highlighting the increasingly political atmosphere surrounding the Fed's independence.

Market Reactions and Projections

Bond markets had largely anticipated the Fed's decision. Futures are now pricing in additional quarter-point cuts in both October and December, while the so-called "dot plot" of policymakers' projections shows deep uncertainty over the 2026 rates trajectory.

David Barrett, CEO of EBC Financial Group (UK) Ltd., said the Fed's caution reflects both market expectations and political realities. "The Fed announced a 25 bps cut – the bond market had very much priced this in pre-meeting. The market had also priced in the expectation of another two 25 bps cuts, and the statement seems to acknowledge that as well. Post-statement, October and December are almost fully pricing for additional cuts," he said.

Political Undercurrents and Inflation Ambiguity

The Fed's decision comes amid mounting political pressures that threaten the central bank's traditional independence. White House alumnus Stephen Miran's dissent signals how political considerations may increasingly influence monetary policy, while the White House's recent attempt to remove Governor Lisa Cook – ultimately blocked by federal courts – underscores the administration's desire to reshape the Fed's composition.

Adding to these dynamics, the central bank must now navigate the inflationary effects of President Trump's expanded tariff policies, which officials acknowledged are "beginning to push up some prices" even as they noted that broader economic impacts "remain to be seen."

Barrett added, "This outcome is quite favourable from a political perspective. Miran voted for 50 bps and is clearly looking for more towards the end of 2025 and moving into 2026. The dot plot for 2026 is inconclusive, as policymakers lack a clear view on where rates will go next year. Their main concern is the final impact of tariff-driven inflation."

Outlook: Markets in Transition

Market response was mixed. U.S. Treasury yields rose across tenors, the U.S. dollar edged weaker before recovering its losses, and equities remain supported by the prospect of lower short-term rates. However, questions linger about longer-term inflation and sector-specific corrections.

Barrett concluded, "In theory, a more politically driven Fed and lower short-term rates will embolden stocks, but I think we're nearing a necessary clear-out in some sectors before another leg higher. The dollar may grind lower over time, with USD/JPY remaining the key risk trigger to watch.”

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