

DECEMBER 1, 2025

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Downward momentum

Traders who worked on the day after Thanksgiving seem to have returned with optimism about a Federal Reserve rate cut at next week's Federal Open Market Committee (FOMC) meeting. Fed funds futures market odds that the Fed will lower the target range to 3.50-3.75% increased and are nearing 90%. They had fallen after Chair Powell cast doubt in the October FOMC meeting, but other Fed speakers have since signaled they would vote for a 25 basis-point cut.

The reason has not changed. Policymakers have indicated over the year they are more concerned about the labor market than inflation. It will be some time until government data will be up-to-date, but what information we do have supports that shift in focus. Private data and continued claims for unemployment benefits give credence to the view that the jobs market is softening. On the prices side of the equation, inflation has declined to more normal levels recently. The Core Producer Price Index (PPI), which excludes volatile items such as food and energy, slipped to a 17-month low of 2.6% in September. Similarly, the Core Consumer Price Index (CPI) Core sat at 3.0% that month, and Powell said that represents a one-time impact from President Trump's tariff policies.

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G40461-19 (12/25)