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Converting To Real-Wealth

# Fed Begins 2025 Easing Cycle


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# Balancing Growth, Inflation & Politics Fed’s First Cut of 2025

The Federal Reserve lowered its benchmark rate by **25bps to 4.00–4.25%**, marking its **first cut of 2025** and the first easing since December 2024. The move reflects growing concern about a **slowing labor market**, even as **inflation** remains **stubbornly above target**.

- **Decision Dynamics:** The vote was split. Newly appointed Governor **Stephen Miran advocated for a 50bps cut**, but **Chair Powell emphasized the need for gradualism** and reiterated the Fed’s independence amid rising political scrutiny.

- **Labor Market Weakness:** Job creation has slowed sharply, with only **22,000 jobs in August**, and prior months revised down. **Unemployment has risen to 4.3%**, and Fed projections now see it reaching **4.5%**.

- **Inflation Stickiness: Core CPI remains at 3.1%**, well above the **2% target**. This limits the Fed’s scope for aggressive easing despite political pressure.

- **Policy Outlook:** The dot plot signals two additional cuts in 2025, though internal views diverge widely, ranging from no cuts to as many as six. **Growth forecasts edged higher (1.6% vs. 1.4%)**, suggesting resilience despite headwinds.

# Historical Context

The Fed's latest cut follows its first move in **December 2024, when rates were lowered by 25bps to 4.00–4.25%**. That adjustment was framed as a **precautionary step** amid slowing growth, with officials emphasizing caution as inflation remained above target.

Through most of 2024, policy had been held near restrictive levels after the sharp tightening cycle of 2022–23, when rates were lifted above 5% to curb runaway inflation.

The 2025 cut, by contrast, marks a clearer pivot, signaling the start of an easing cycle shaped not just by growth risks, but by the challenge of lowering inflation that remains stuck at 3.1%.

# Policy Balancing Act

The Fed is navigating a complex policy mix:

- Tariffs and trade tensions continue to create uncertainty
- Labor market softening is emerging after years of strength.
- Inflation progress has stalled, reinforcing caution.

Political pressure is mounting, with the Trump administration pushing for faster cuts and seeking greater influence over the Fed's leadership. Powell's defense of independence underscores the stakes for policy credibility.

The Fed has entered an easing cycle, but it will be a measured path, constrained by sticky inflation and political noise. For traders, this environment demands selectivity: opportunities may arise in rate-sensitive sectors and U.S. Treasuries, but persistent inflation risk argues for maintaining hedges and focusing on quality assets.

# Quick Data Snapshot

| Indicator / Decision | Latest Update | Implication |
|---|---|---|
| **Rate Cut** | 25bps → Fed funds at **4.00–4.25%** | First cut since Dec 2024, signals easing cycle. |
| **Vote Dynamics** | Split; Miran pushed for 50bps | Internal divisions, rising political influence. |
| **Labor Market** | **+22k jobs** in Aug; Unemployment **4.3%** (seen 4.5%) | Clear slowdown, supports easing. |
| **Inflation (Core CPI)** | **3.1%** | Above 2% target, limits room to cut aggressively. |
| **Dot Plot (2025)** | Median: **2 more cuts**; range: 0–6 | High uncertainty, divergence among officials. |
| **GDP Forecast (2025)** | **1.6%** (vs 1.4% in June) | Slightly stronger growth outlook. |
| **Political Context** | Trump pushing faster cuts; Fed reaffirms independence | Fed reaffirms independence<br>Policy credibility at stake. |

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