

# Fed Cuts: One Slice at a Time

As expected, the FOMC today announced a cut of 25 basis points in the federal funds rate, lowering the rate to 4.50%–4.75%. U.S. election results suggest we could see looser fiscal policy and new trade tariffs ahead, which might lift growth as well as inflation.

## Authors

Matthias Scheiber, Ph.D., CFA

## Date

11/7/2024

## Topic

Market Events

## Key takeaways

- We expect the Fed to stay vigilant in monitoring inflation—the fight may not be over just yet.
- The market now prices the federal funds rate at 3.85% by the summer of 2025, which looks realistic to us.
- With the U.S. election uncertainty largely over, we expect the equity rally to broaden, and our outlook for higher-yielding bonds remains favorable.

Today, the Federal Open Market Committee (FOMC) announced a cut of 25 basis points (bps; 100 bps equal 1.00%) in its key interest rate, the federal funds rate, lowering the rate to 4.50%–4.75%. The cut was widely expected based on recent inflation progress, and while economic data remain robust, it was broadly welcomed as a sign that the Federal Reserve (Fed) is keen to bring inflation-adjusted yields down further. A Republican sweep seems very likely, and looser fiscal policy as well as trade tariffs might lift not only growth but also inflation. Market expectations for a December rate cut have moved down.

That said, the inflation rate has continued to improve. While the Fed's preferred measure of prices, the [Personal Consumption Expenditures \(PCE\) Price Index](#), has remained stable over the past several months, the core PCE Price Index (which excludes food and energy) remains slightly elevated. This will likely lead to a less aggressive rate-cutting cycle compared with what the market was expecting back in September when the Fed started its cuts.

The key data points we're monitoring concern the labor market—the key challenge for the U.S. economy moving forward. Monthly nonfarm payroll numbers have been more volatile lately due to various strikes and the devastation caused by hurricanes, but there is also an overall weakness in professional and business hiring. The U.S. unemployment rate, which has steadily increased in 2024, ticked up to 4.2% in September. Forward-looking growth indicators for the U.S. manufacturing sector worsened again lately while the services sector stabilized, painting a picture of a gradually weakening economy.

We expect the Fed to remain vigilant in monitoring inflation as the fight might not be over just yet. Beyond 2024, the interest rate market continues to price more rate cuts, although nearly two rate cuts have been priced out since September's cut. The market now prices the federal funds rate at 3.85%, instead of 3.50%, by the summer of 2025. The current market pricing looks realistic to us.

We continue to like equities—especially the cheaper parts of the U.S. equity market (excluding mega-cap U.S. technology equities). We expect the equity rally to broaden and believe that any relief from perceived looser monetary policy would likely support equity prices in the medium term. With the uncertainty around the U.S. elections now eliminated, the outlook for higher-

yielding bonds remains favorable as a U.S. recession looks less likely under a Republican president and Senate.

This material is provided for informational purposes only and is for professional/institutional and qualified clients/investors only. Not for retail use outside the U.S. Recipients who do not wish to be treated as professional/institutional or qualified clients/investors should notify their Allspring contact immediately.

THIS CONTENT AND THE INFORMATION WITHIN DO NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY JURISDICTION WHERE OR TO ANY PERSON TO WHOM IT WOULD BE UNAUTHORIZED OR UNLAWFUL TO DO SO AND SHOULD NOT BE CONSIDERED INVESTMENT ADVICE, AN INVESTMENT RECOMMENDATION, OR INVESTMENT RESEARCH IN ANY JURISDICTION.

**INVESTMENT RISKS: All investments contain risk. Your capital may be at risk. The value, price, or income of investments or financial instruments can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Past performance is not a guarantee or reliable indicator of future results.**

Allspring Global Investments<sup>TM</sup> (Allspring) is the trade name for the asset management firms of Allspring Global Investments Holdings, LLC, a holding company indirectly owned by certain private funds of GTCR LLC and Reverence Capital Partners, L.P. These firms include but are not limited to Allspring Global Investments Luxembourg, S.A.; Allspring Funds Management, LLC; Allspring Global Investments, LLC; Allspring Global Investments (UK) Ltd.; Allspring Global Investments (Singapore) Pte. Ltd.; Allspring Global Investments (Hong Kong) Ltd.; and Allspring Global Investments (Japan) Ltd.

Unless otherwise stated, Allspring is the source of all data (which is current or as of the date stated). Content is provided for informational purposes only. Views, opinions, assumptions, or estimates are not necessarily those of Allspring or their affiliates and there is no representation regarding their adequacy, accuracy, or completeness. They should not be relied upon and may be subject to change without notice.

© 2025 Allspring Global Investments Holdings, LLC. All rights reserved.