

Weekly Market Commentary



Inflation or Employment? Four Charts About The Fed's Rate Cut

By Michael Crook, CAIA, Chief Investment Officer

The Federal Reserve's Open Market Committee (FOMC) voted to cut the Fed funds rate by 0.25% last Wednesday, resuming a rate-cutting cycle that initially started 12 months ago. The initial cutting cycle started in September 2024 but was quickly paused after additional cuts in November and December. The Fed funds rate target was lowered from 5.25-5.5% to 4.25-4.5% during that period.

A quarter-point cut by the Fed was well-telegraphed and fully priced in by market participants. While inflation has yet to reach 2%, FOMC members are worried about the labor market. As we [discussed last week](#), the abrupt closing of the southern border has resulted in perhaps 200k fewer migrants entering the labor force each month, which has made the jobs data difficult to interpret. For now, the Fed is biased toward stimulating growth at the risk of higher inflation.

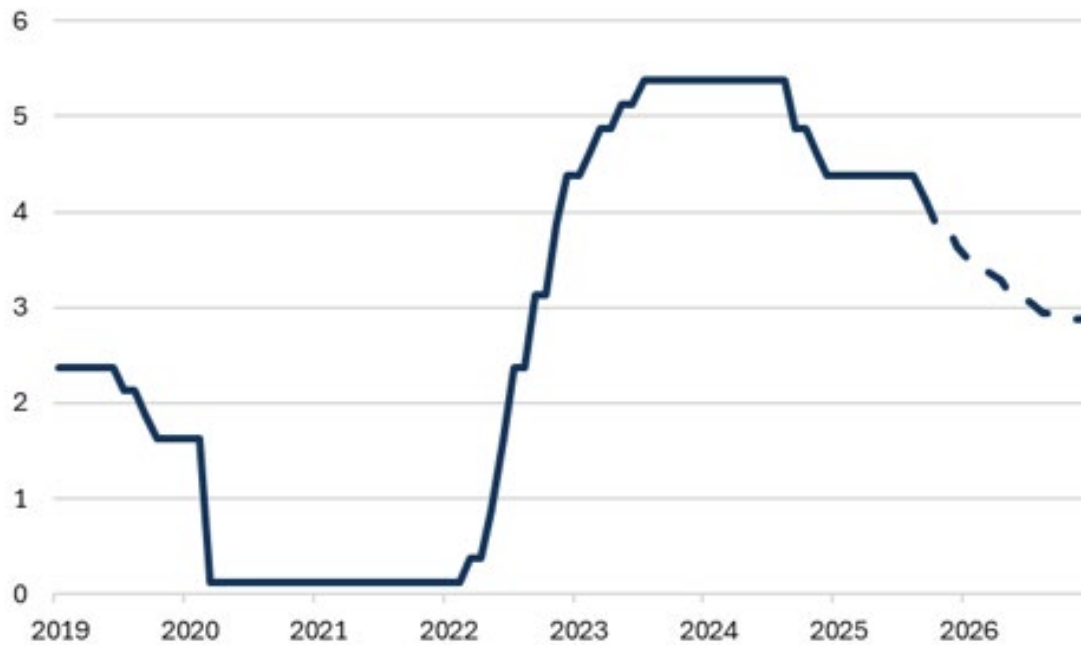
As we've discussed, [President Trump has been making a fiscal case](#) for rate cuts. Fed Chair Jerome Powell [used Jackson Hole to pivot](#) to a (fragile, in our opinion) monetary case for rate cuts. Regardless of the reason, everyone with influence wants to cut policy rates, and more cuts are likely to come (Fig. 1).

1. Inflation is higher, not lower, than when the Fed paused rate cuts at the beginning of the year (Fig. 2).
2. Despite many cross-currents in the labor market (e.g. a sudden stop to immigration), the labor market remains very *normal* in regard to the unemployment rate and the job vacancy rate (Fig. 3).
3. Real GDP continues to track above trend (Fig. 4).

What matters for investors:

- Lower short-term interest rates benefit industries that typically rely on short-term borrowing, like real estate construction and banking.
- Investors will see lower yields on short-term fixed income and certain private credit investments.
- Lower short term rates make the [dollar less attractive](#) versus other developed market currencies.
- All else equal, we believe a series of policy rate cuts adds fuel to the supportive environment for risk assets but also increases the risk of elevated inflation in the mid-term.

Fig. 1: Fed funds target rate (solid line) and market implied path (dashed line)



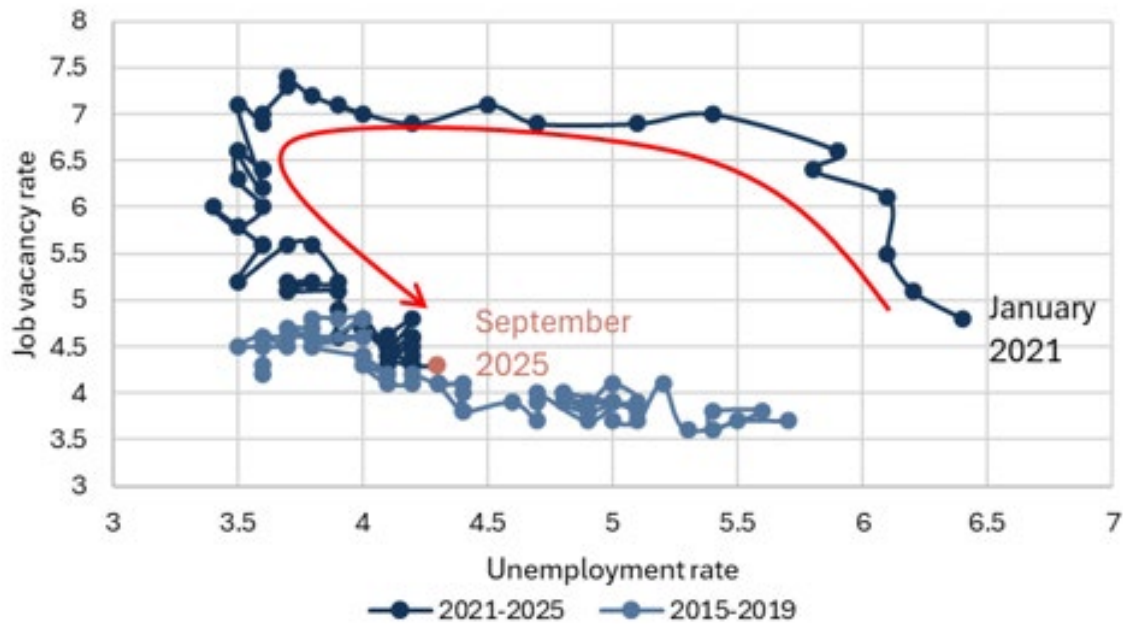
Source: Bloomberg, Mill Creek. 2019 – September 18, 2025.

Fig 2: Fed funds target and PCE inflation



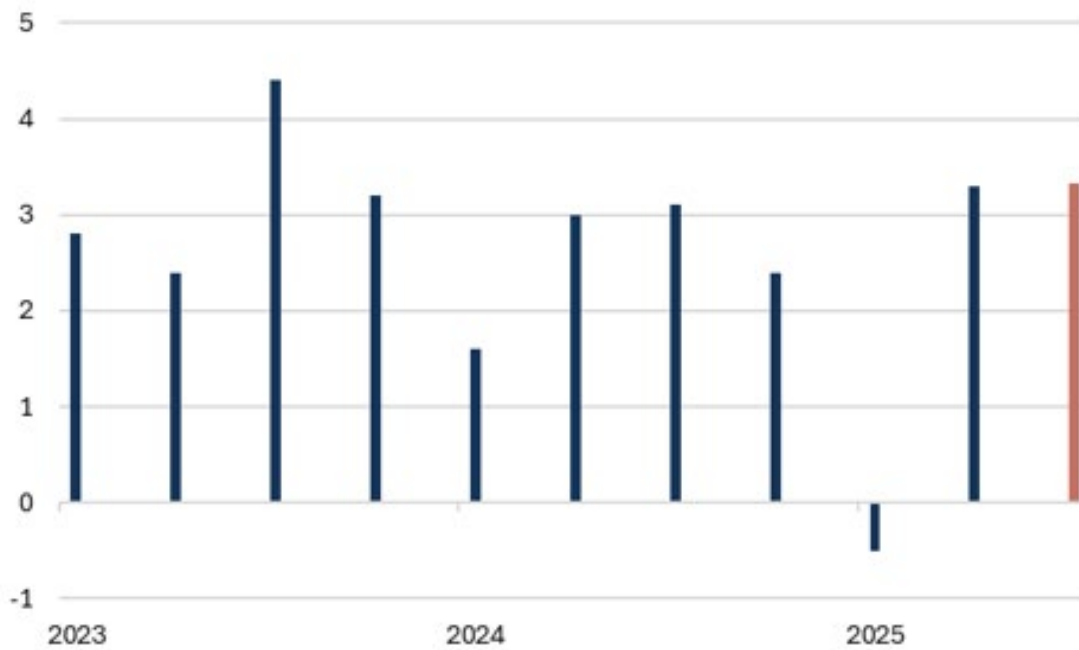
Source: Bloomberg, Mill Creek. 2019 – September 18, 2025.

Fig. 3: The Beveridge Curve indicates a normal labor market



Source: Bloomberg, Mill Creek.

Fig. 4: Quarterly real GDP growth, 2023-Q3 2025 (annualized)



Source: Bloomberg, Mill Creek. Q3 2025 is the Atlanta Fed GDPNow estimate as of September 17.

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