THE RIO CLUB 15 September 2025

WILL THE FED CUT RATES?

General market comment

Following a weak US August payroll report, markets are certainly expecting the Federal Reserve to begin cutting interest rates at this week's Federal Open Market Committee meeting.

Money managers are focused on the pace of future cuts, as the Fed aims to support the labour market while guiding inflation back to its 2% target. The 'in the know' consensus is that they will announce a 25-basis point cut, with further cuts in October and December. I would point out that rate reductions in non-recessionary periods typically boost liquidity and support risk assets.

This would point to market implications which would include a weaker US Dollar, higher gold prices, a steeper US Treasury yield curve, and a favourable outlook for global equities. Large-cap growth stocks, especially in tech, tend to benefit most from Fed easing and this market has already priced in a 0.25% cut.

Meanwhile, across the pond, pound is up 0.42% against the dollar, at 1.3611. It's all about the UK this week with the Bank of England rate decision due on Thursday. To be clear, I expect rates to be left unchanged, so there could be further upside in the pound. Our analysts concur we me that the Bank of England will do little to encourage the market to raise expectations for a November cut, and as such I stand by my prediction. That would mean that its supportive of GBP - you heard it here first!

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