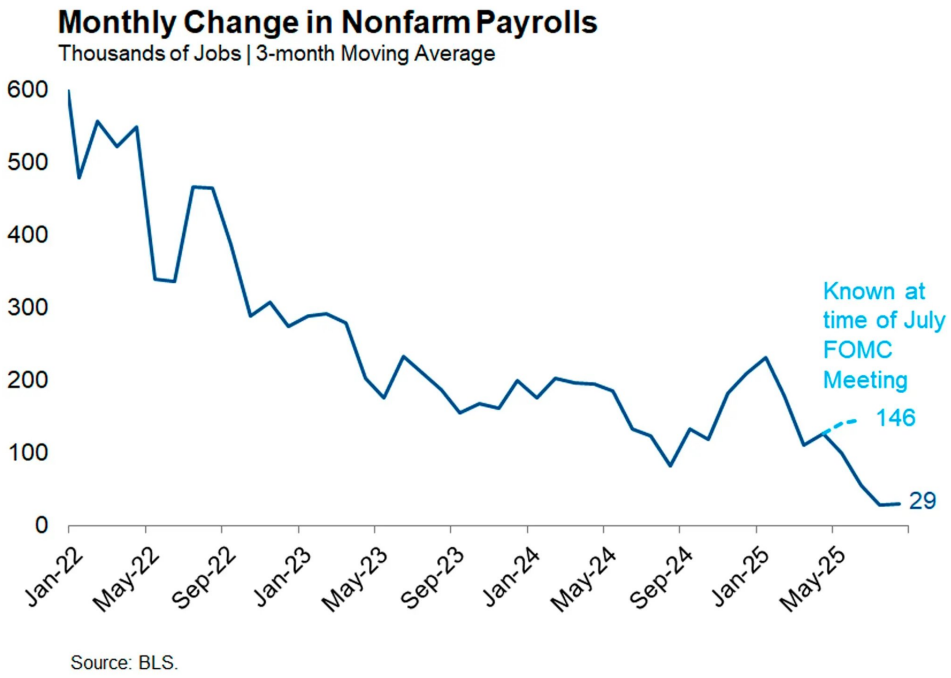
CHIEF ECONOMIST UPDATES

Divided FOMC Resumes Easing Cycle

September 17, 2025
Authors: David Eichhorn, CFA, Paul Oehrlein, CFA



A starkly divided FOMC lowered the policy rate by 25 bps today to a range of 4.00-4.25%, resuming the easing cycle that had been paused since January due to inflation concerns. This was an FOMC meeting unlike any other, with one governor serving under the protection of a temporary restraining order delaying her termination and another having been sworn in about an hour before the meeting began. Those irregularities notwithstanding, the results of the meeting were fairly close to the expectations that were actively managed by Fed communications over the last month. We maintain our view that the Fed will deliver two additional cuts at the remaining two meetings this year and then reassess the state of inflation and the labor market.

Today's action confirms the dovish shift in the Fed's reaction function that has occurred in response to the moderate stagflation that is now apparent in the U.S. economy. Tariff inflation is arriving more slowly than initially expected, and the Fed may not have clarity on the size and scope of those price effects until mid-2026. Meanwhile, the downside risks to the labor market we've been monitoring since last year have now materialized. As Powell mentioned, when the FOMC last met in July, they thought payroll growth was running at 146,000. Due to the historically large revisions of the last few months, the current estimate of that pace is just 29,000. This combination has shifted the balance of risks from inflation to employment, and the Fed has now resumed easing to protect against further deterioration in the labor market.

We were also struck by the stark divisions that persist within the Committee. Today's vote yielded just one dissent, from newly installed Governor Miran in favor of a 50-bp cut. We were a bit surprised that President Schmid did not dissent in the other direction, though the 2025 dot at 4.375% is a soft dissent and probably belongs to him. Though the median 2025 dot declined to show two additional cuts after today, it was a fragile median. While ten participants project two or more additional cuts this year, two project one additional cut and seven project no additional cuts.

This division is perhaps unsurprising considering the extraordinary challenge that stagflation presents to a central bank. Even the moderate stagflation we are experiencing today forces the Fed to pick one side of their mandate because their tools cannot simultaneously address both. Chairman Powell has led the Committee to act in pursuit of the dovish path, betting that tariff-induced inflation will prove temporary. This seems appropriate given the sudden downgrade to the labor data, but there is risk in the other direction as well. The Summary of Economic Projections released today shows that Fed participants themselves expect to miss their inflation target for a sixth consecutive year. If this stagflationary tension persists into 2026, the Committee division will continue, and Powell's successor may have a hard time wrangling a consensus.

Disclosure Information

This material has been prepared by NISA Investment Advisors, LLC (“NISA”). This material is subject to change without notice. This is for information and illustrative purposes only. It is not, and should not be regarded as “investment advice” or as a “recommendation” regarding a course of action, including without limitation as those terms are used in any applicable law or regulation. This information is provided with the understanding that with respect to the material provided herein (i) NISA is not acting in a fiduciary or advisory capacity under any contract with you, or any applicable law or regulation, (ii) that you will make your own independent decision with respect to any course of action in connection herewith, as to whether such course of action is appropriate or proper based on your own judgment and your specific circumstances and objectives, (iii) that you are capable of understanding and assessing the merits of a course of action and evaluating investment risks independently, and (iv) to the extent you are acting with respect to an ERISA plan, you are deemed to represent to NISA that you qualify and shall be treated as an independent fiduciary for purposes of applicable regulation. NISA does not purport to and does not, in any fashion, provide tax, accounting, actuarial, recordkeeping, legal, broker/dealer or any related services. You should consult your advisors with respect to these areas and the material presented herein. You may not rely on the material contained herein. NISA shall not have any liability for any damages of any kind whatsoever relating to this material. No part of this document may be reproduced in any manner, in whole or in part, without the written permission of NISA except for your internal use. This material is being provided to you at no cost and any fees paid by you to NISA are solely for the provision of investment management services pursuant to a written agreement. All of the foregoing statements apply regardless of (i) whether you now currently or may in the future become a client of NISA and (ii) the terms contained in any applicable investment management agreement or similar contract between you and NISA.