

FOMC December 2025: The Fed's Goldilocks cut and bullish projections with Daleep Singh

Instead of delivering a hawkish cut today, as the market expected, the Fed delivered a Goldilocks cut. We didn't get a historic number of dissents in favor of no cuts; we received an unmistakably bullish set of economic projections in which the supply side comes to the rescue. The FOMC now projects a 50 basis point faster pace of real GDP growth in 2026, while inflation continues to cool into next year. That's a market friendly set of forecasts that will fuel hopes that a productivity boom is looming. It's also a set of forecasts that allows the current Fed to justify putting the brakes on the easing cycle. But that still leaves an unresolved political tension. We have a Fed that's clinging to a one cut baseline for 2026 and 2027, but we have an administration looking for far more aggressive easing, not a pace of one cut per year. So, if the White House wants easier monetary policy to juice growth ahead of the midterms, they're not going to feel reassured by the Fed's policy guidance from today. And it's this divergence that still looms as the biggest macro risk on the horizon. We continue to see a strong possibility that the divergence gets resolved with a far more dovish Fed reaction function when Chair Powell's term is up, producing far more dovish monetary policy and the very real risk of economic overheating.

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