



Insigneo Weekly Dispatch

# The September Fed Meeting: A Preview of the Long-Awaited Monetary Easing Cycle



## Mauricio Viaud

Senior Investment Strategist  
and PM

### The September Fed Meeting: A Preview of the Long-Awaited Monetary Easing Cycle

The Fed is expected to begin a cautious and potentially uneven rate-cutting cycle this week, starting with a 25-basis-point cut, but unlike past cycles, future cuts may be spaced out due to conflicting signals from inflation and the weakening labor market.

Wall Street anticipates 5–6 rate cuts by the end of 2026, with a terminal rate around 3% reached by mid-2026, though the Fed may proceed more gradually than markets expect, to avoid overreacting in a “stagflation-lite” environment.

Historical parallels to 1995 and 2019 suggest that preemptive easing cycles can support markets, but this cycle may be more volatile due to stubborn inflation and a slowing economy, requiring a unique and less predictable policy path.

After a nearly yearlong pause, this week will likely mark the restart of a monetary easing cycle, as the Fed is widely expected to announce a rate cut after its meeting on Wednesday. **We believe that the most probable outcome this week will involve a 25-basis point reduction in the Fed Funds rate.** However, we will be paying close attention to any indication that Chairman Jerome Powell might give regarding the path of future rate cuts, as we believe that this cycle is unlikely to be like most others.

Wall Street is expecting between five and six cuts by the end of 2026, with as many as three of those cuts penciled in for this year. While it is widely expected that the terminal rate should settle near 3%, Wall Street is expecting that this will happen sooner rather than later, reaching this level by May of next year. **Although we do believe that this easing cycle will involve several cuts into next year, culminating with a terminal rate near 3%, the cycle may not be as frontloaded as the Street expects.** Former Fed governor Steven Kaplan said it best during a recent interview, when he characterized the current monetary easing cycle as a “halting cycle”, meaning that the Fed is likely to cut, then halt, taking its time to evaluate the progression of both parts of its dual mandate, the labor market and inflation. A slew of economic data published over the past month shows that although inflation remains sticky at nearly 3%, the jobs market may be beginning to deteriorate. Recently updated revisions from the Bureau of Labor Statistics showed that through March of this year, there were 911,000 fewer jobs than initially reported, while the number of new jobs created in August was only 22,000. Clearly, the job market appears to be slowing, which could signal weaker economic growth ahead, implying that rate cuts are certainly needed.

However, stubbornly high inflation limits the Fed's ability to cut rates as freely as it might like.

We have long argued that this is a unique economic cycle which will require an equally unique monetary easing cycle. In previous cycles, the Fed has cut rates in a reactionary manner, attempting to reinvigorate economic growth. **This easing cycle may have different motivations, as the Fed is trying to avert or perhaps mitigate an economic slowdown, not necessarily jump start growth.** Unlike some previous occasions, the economy is not yet in contraction, and inflation remains stubborn. Fears of recession have morphed into fears of stagflation where growth stagnates while inflation remains high. However, the picture might not yet be as bleak as it appears. Cameron Dawson, CIO at NewEdge Wealth, smartly stated during a recent interview with Bloomberg that what the economy may be facing is a form of "stagflation-lite", where economic growth gradually slows, while inflation remains high, but not too high. In fact, given low economic growth expectations near 1%, coupled with current inflation levels, the argument could be made that we may already be in a "stagflation-lite" environment. The Fed likely recognizes this environment as well, seeing the need to react, but knowing that it cannot over or under react.

Studying different easing cycles in history, the current environment could best resemble a scenario that played out thirty years ago in 1995, as well as a more recent one in 2019. Coming off strong economic growth in the early 90's, 1995 began to see a gradual level of cooling while inflation remained moderately high. Fearing a meaningful contraction ahead, the Fed cut rates three times that year, in what was seen as a "mid-cycle adjustment". This move fueled the tech boom, sending the S&P 500 more than 30% higher over the next twelve months. 2019 saw a similar scenario, when after a meaningful economic expansion, growth became fraught with uncertainty,

mainly as result of trade wars between the U.S. and China. The Fed cut rates three times that year, in what Powell himself described as a "mid-cycle adjustment". The result was the continuation of the economic expansion and a more than 15% move higher by the S&P 500, only to be cut short by the COVID-19 pandemic. Fast forward to 2025, we could be facing a similar monetary easing cycle, an infrequent, but not unprecedented one.

Sometimes when navigating curves along a busy highway, we know that we have to slow down to manage the curves ahead, but perhaps we cannot slow down as much as we would like, given the cars behind us. The Fed finds itself in a similar situation. Unlike in 1995 and 2019, the current environment might require more than the three rate cuts in each of the previous two scenarios. However, the path of monetary easing might not be as well-defined as Wall Street expects. This is likely to create volatility as investors adjust their expectations to the fits and starts that this cycle is likely to see, caused by the conflicting forces between inflation and the labor market. We would not be surprised by periodic bumps on the road; however, despite possible pull-backs along the way, the ensuing monetary easing cycle should drive markets higher over time. ■



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