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FOMC Update

As summarized by Smith Shellnut Wilson

December 10, 2025

Fed Cuts 25bps, Signals One Cut in 2026

The Fed concluded its final FOMC meeting of 2026 with a third consecutive interest-rate cut. Leading into the meeting, and following recent dovish remarks from FOMC participants, the futures market had priced in a 97% probability of a 25-basis-point reduction. The market was correct: the Fed lowered the overnight rate to a range of 3.50%–3.75%, bringing the total decline to 1.75% since September 2024.

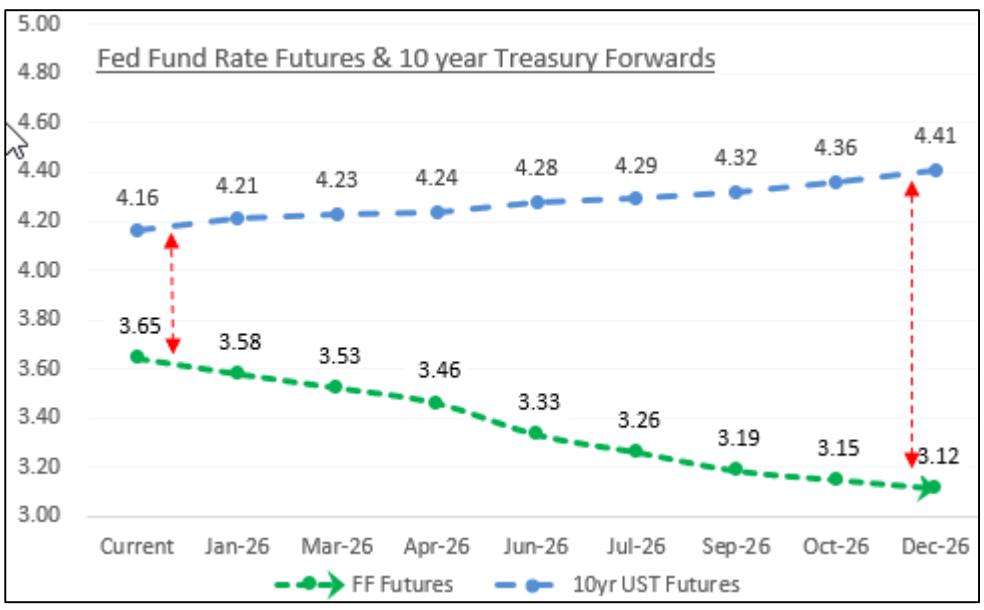
Of the 12 voting members, nine supported the 25-basis-point cut, two dissented in favor of no change (Austan Goolsbee, Jeff Schmid), and one dissented for a 50-basis-point cut (Stephen Miran). This marks the first time since 2019 that three officials dissented on a policy decision. These divisions underscore the ongoing debate over whether labor market weakness or persistent inflation poses the greater risk to the U.S. economy.

The FOMC maintained its outlook for just one additional cut in 2026, with median projections calling for one cut in 2026 and one in 2027. However, the rate outlook remains deeply divided: seven officials favor holding rates steady throughout 2026, while eight support at least two cuts. Futures markets, by contrast, still project two 25-basis-point cuts in 2026 and none in 2027.

Officials also upgraded their median GDP growth forecast for 2026 to 2.3% (up from 1.8% in September) and expect inflation to decline to 2.4% next year (previously 2.6%).

In a notable shift from recent years, long-term rates are no longer expected to mirror short-term rate movements. The chart below illustrates the projected paths for Fed Funds futures and 10-year Treasury futures. By the end of 2026, the 10-year Treasury is expected to rise to 4.41% from its current 4.16%. If that occurs while the overnight rate falls by 50 basis points, the Treasury curve, after years of flat/inversion, would return to a more typical average steepness of roughly +140 basis points between the overnight rate and the 10-year Treasury.

Fed Fund Futures & 10yr UST Futures



Side-by-side comparison of the U.S. Federal Open Market Committee statements from December 10, 2025 and October 29, 2025.

December 10, 2025	October 29, 2025
Available indicators suggest that economic activity has been expanding at a moderate pace. Job gains have slowed this year, and the unemployment rate has edged up through September. More recent indicators are consistent with these developments. Inflation has moved up since earlier in the year and remains somewhat elevated.	Available indicators suggest that economic activity has been expanding at a moderate pace. Job gains have slowed this year, and the unemployment rate has edged up but remained low through August; more recent indicators are consistent with these developments. Inflation has moved up since earlier in the year and remains somewhat elevated.
The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment rose in recent months.	The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment rose in recent months.
In support of its goals and in light of the shift in the balance of risks, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to 3-1/2 to 3-3/4 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.	In support of its goals and in light of the shift in the balance of risks, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to 3-3/4 to 4 percent. In considering additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee decided to conclude the reduction of its aggregate securities holdings on December 1. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.
In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.	In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.
The Committee judges that reserve balances have declined to ample levels and will initiate purchases of shorter-term Treasury securities as needed to maintain an ample supply of reserves on an ongoing basis.	
Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Susan M. Collins; Lisa D. Cook; Philip N. Jefferson; Alberto G. Musalem; and Christopher J. Waller. Voting against this action were Stephen I. Miran, who preferred to lower the target range for the federal funds rate by 1/2 percentage point at this meeting; and Austan D. Goolsbee and Jeffrey R. Schmid, who preferred no change to the target range for the federal funds rate at this meeting.	Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Susan M. Collins; Lisa D. Cook; Austan D. Goolsbee; Philip N. Jefferson; Alberto G. Musalem; and Christopher J. Waller. Voting against this action were Stephen I. Miran, who preferred to lower the target range for the federal funds rate by 1/2 percentage point at this meeting, and Jeffrey R. Schmid, who preferred no change to the target range for the federal funds rate at this meeting.
SOURCE: Federal Reserve Board	SOURCE: Federal Reserve Board

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