

## Economic Research | World in Focus

### Fed signals caution – no clear path to cuts

The Fed's second consecutive 25 bp cut was expected, but Powell's press briefing signaled a pivot toward caution. A divided FOMC and limited data—due to the government shutdown—have raised the threshold for further easing. With growth stabilizing and inflation sticky, insurance cuts appear complete. Market pricing of 1 pp in additional cuts looks aggressive even as the Fed appears willing to tolerate modest inflation overshoots to preserve employment stability. In our view, UST 10Y yields below 4% are unsustainable as 1pp rate cuts are fully priced in and lower UST yields make long duration borrowing (borrowing mix to shift away from T-Bills) more attractive thus putting upward pressure.

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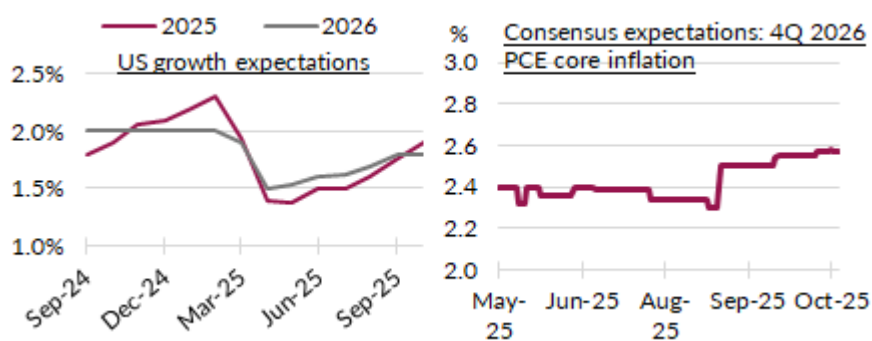
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**Exhibit 1 - The narrow path between inflation control and growth support**



Source: Bloomberg, Axis Bank Research

#### Fed cuts again, but Powell pushes back on December rate cut expectations

The Federal Reserve delivered a second consecutive 25 bp rate cut, lowering the Fed Funds target range to 3.75–4%, and announced the end of Treasury runoffs starting December 1 ([link](#)). However, Chair Powell used the post-meeting press conference to challenge market expectations of a December cut, stating it was “far from” a certainty. His remarks triggered a swift market reaction, reflecting a recalibration of rate path expectations.

#### Diverging views & data blackout complicate outlook; a higher bar for easing

Powell highlighted a “growing chorus” within the FOMC questioning the need for further easing. The government shutdown has created a data vacuum, and this is amplifying internal divisions, as some officials remain concerned about sticky inflation—partly driven by tariffs—while others worry about weakening demand in rate-sensitive sectors.

#### Insurance cuts are now over, growth outlook remains strong and inflation sticky

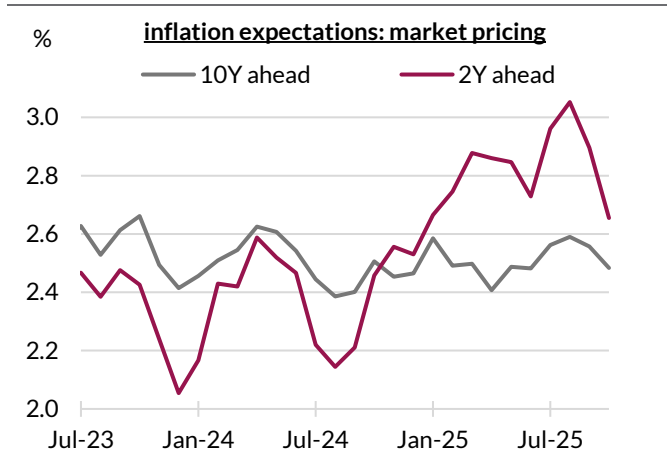
The rate cuts thus far were insurance against a potential weakening in the labor market ([link](#)). However, the growth outlook has recovered (Fig 5-7) while inflation remains sticky (Fig 3). Inflation expectations (2Y ahead) are now 40bps lower vs. in Aug (Fig 2) but remain elevated. While a December cut remains plausible, it now faces a higher hurdle, especially in the absence of compelling labor market deterioration. In our view, market pricing of fed funds rate at 3% by Dec-26 (Fig 4) is slightly aggressive (influenced by political considerations) as restrictive monetary policy is necessary to bring inflation back to target.

#### 1pp rate cut priced in; UST 10Y yields below 4% unlikely to sustain for very long

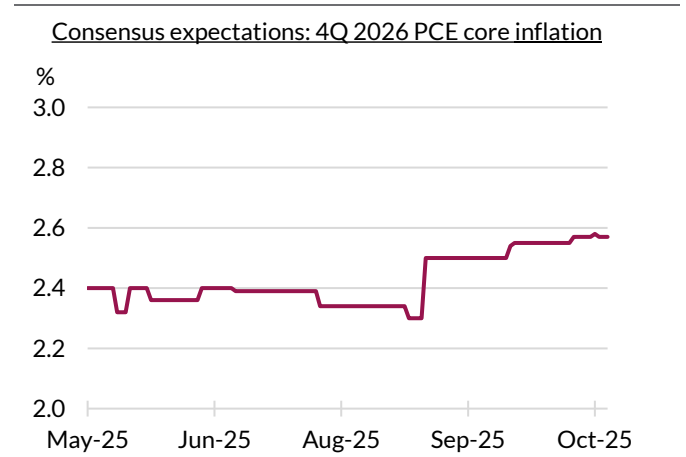
We are now in the era of higher-for-longer rates (Sep-23 report [link](#)). Higher reliance on T-bills (post Mar-25) to finance deficits have kept UST rates under check: share of incremental issuances over 3M via T-Bills was -10% in Mar-25 but rose to 45% in Aug-25. Lower rates on 10Y bonds make long duration borrowing more attractive thus putting upward pressure. Hence, UST rates are unlikely to remain below 4% on a sustainable basis despite rate cuts.

**October 30, 2025**

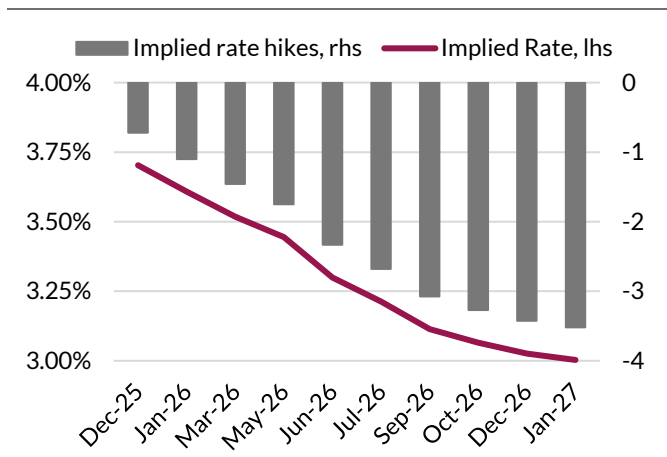
FOMC review

**Exhibit 2 - Inflation expectations (2Y) 40bps lower vs. peak**


Source: Bloomberg, Axis Bank Research

**Exhibit 3 - PCE core inflation forecast at 2.6% in 4Q26**


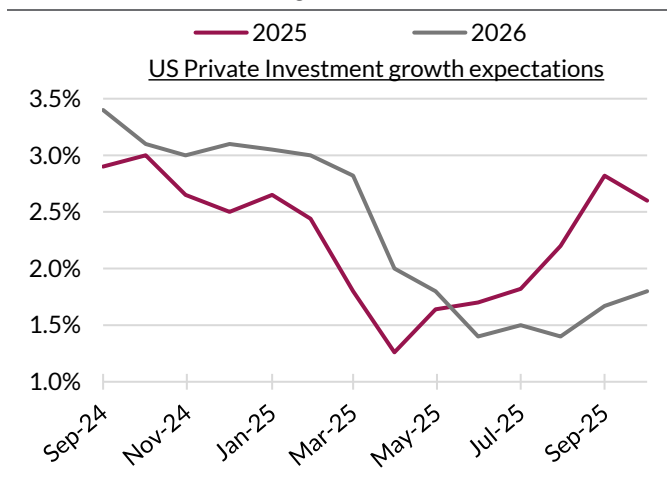
Source: Bloomberg, Axis Bank Research

**Exhibit 4 - Markets now pricing in 1 rate cut by Jan-26 and then an additional 50bps cut in rest of 2026**


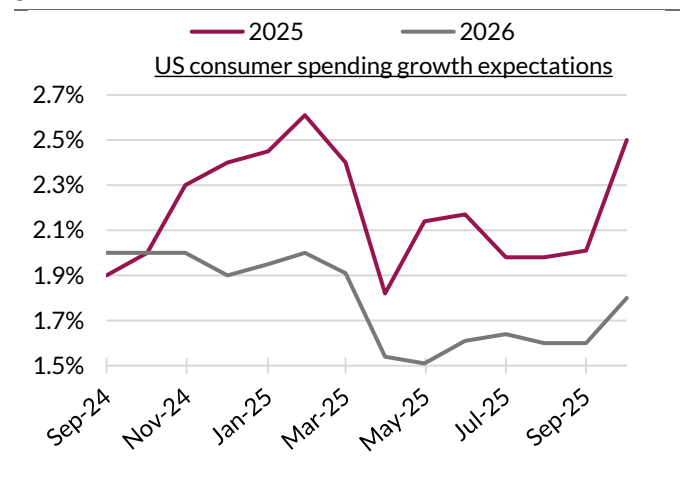
Source: Bloomberg, Axis Bank Research

**Exhibit 5 - 2025 growth expectations inching back to 2%**


Source: Bloomberg, Axis Bank Research

**Exhibit 6 - Tariff uncertainty removal has led to a sharp recovery in US investment growth expectations...**


Source: Bloomberg, Axis Bank Research

**Exhibit 7 - ...along with a recovery in US consumer spending growth expectations**


Source: Bloomberg, Axis Bank Research

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