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Digitian View on Fed Rate Cut (Phase 2)

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Digitian View on Fed Policy Rate Cut after 9 months

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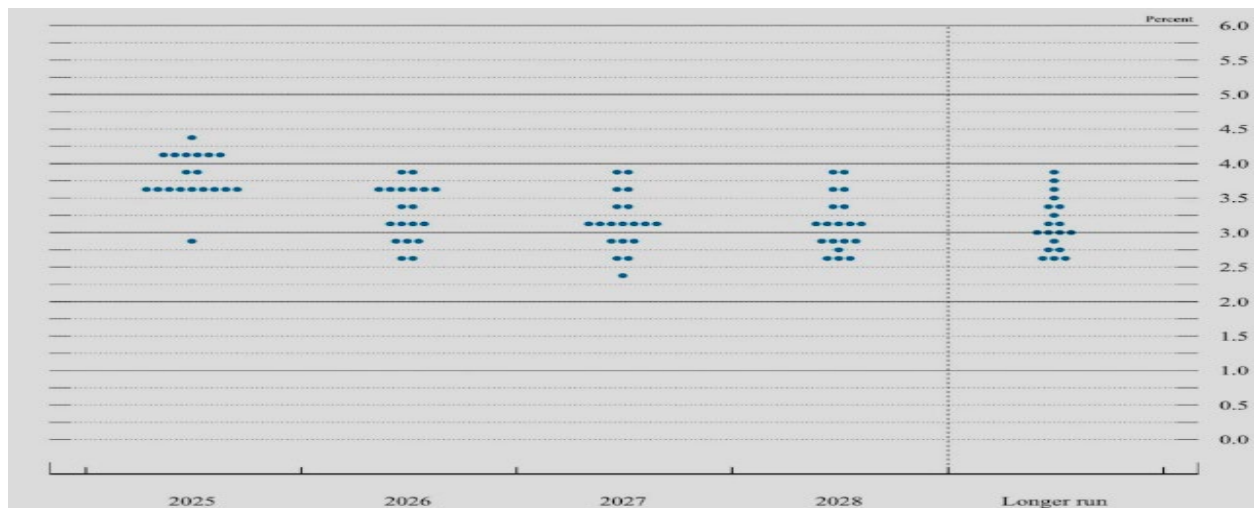
1. **GDP is moderated to 1.5%** from **2.5%** in **2024** which shows **slow down in consumer expenditure**
2. **Labor market** showing signs of **softness** - **labor force participation** slowed down from **2024**, **new job is growing at a slower speed.**

However, it could be linked to the **strict immigration Policy of the Trump Government** to a greater extent **in the supply side**. Further, due to **higher Tariff environment**, the market may not be willing to hire more, leading to **demand slowness**. **The AI development** could have **impacted few sectors, especially IT** but still the effect could **not be significant** at this point.

So, in the last 6 months Fed seen **Labor market Softening** and the **25 basis points (4.1-4.3%) cut off** is more to balance the strategic approach and from the point of **Risk management**. **(The decision was vetted 11:1 by Fed Governors in favor of a 25 bps rate cut)**

3. **Inflation** is inching higher than predicted and it is due to **one time tariff effect** and will **stay elevated** and projected to be around **3.1% in 2026**. The view is consistent over the past 90 days. So the cut is not to tame down inflation, but it could have some effect in the coming **1-2 years as Long Term Inflation is more or less stable and tending towards 2% targeted inflation rate of the Fed.**

DOT Plot as on 09/17/2025



As on today Dot Plot shows that 10 Fed Governors (52%) are for another rate cut in 2025 and only 1 Fed Governors prefers another 2 cuts). So, our prediction in this regard will be another 25-bps cut in December 2025 at the most if labor market continues show softness.

Likewise in 2026, 17 Fed Directors (90%) think there will be atleast 1 rate cut and 11 Fed Directors (61%) think there will be 2 Rate Cuts. We also believe as of now there will be 2 rate cuts in 2026 to 3.25% and Only 1 rate cut in 2027 to 3% and could be end of the cycle.

Overall it will strengthen the dollar and the other Central Bank Governors will follow this regimen. This will provide stimulus to avoid recession and boost growth. The market will calibrate positively.