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Markets Reel Amid Fed's Cautious **Rate Cut Outlook** and **Economic Projections**



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“Markets Reel Amid Fed's Cautious Rate Cut **Outlook and Economic Projections**”

The Dow Jones Industrial Average plunged 1,100 points, marking its steepest drop since August and extending its losing streak to a 10th session, the longest since 1974. This sharp decline comes in the wake of the Federal Reserve's decision to cut interest rates by 25 basis points, lowering the benchmark rate to 4.25%-4.5%, a two-year low. Despite this expected cut, the Fed's cautious forecast of just two rate cuts for 2025—down from four projected earlier—sent ripples through financial markets, igniting fears of prolonged inflationary pressures and tighter monetary policy.



A TALE OF TWO NARRATIVES **GROWTH AMID UNCERTAINTY**

The Federal Reserve's decision reflects a "wait-and-watch" approach, driven by persistent inflation risks and uncertainties surrounding economic policies under the incoming Trump administration. While Fed Chair Jerome Powell praised the resilience of the U.S. economy, highlighting robust consumer spending and a steady labor market, he also cautioned about lingering inflationary challenges. "Recent inflation readings remain the single biggest factor influencing our decisions," Powell noted, emphasizing that inflation may not reach the Fed's target until 2027.

In contrast, the Fed projects the U.S. economy to remain buoyant in the near term, with stronger-than-expected growth and lower unemployment. This optimism, however, is tempered by risks tied to potential trade policies, including high tariffs and regulatory overhauls, which could disrupt the current economic equilibrium.

MARKET FALLOUT AND INVESTOR SENTIMENT



The Fed's cautious stance and muted rate-cut projections jolted investor confidence. The S&P 500 tumbled 3%, while the Nasdaq Composite fell 3.3%, mirroring the Dow's dramatic slide. Rising U.S. Treasury yields compounded market woes, with the 10-year yield surging past 4.5%, reflecting heightened concerns over tighter financial conditions.

Adding to the turbulence, momentum trading has intensified as fund managers reallocate portfolios to chase outperforming mega-cap tech stocks. "We're seeing significant selling of non-tech stocks to rebalance portfolios before year-end," remarked Ritesh Jain, founder of Pinetree Macro, highlighting the dynamics driving the Dow's recent losses.

INFLATION, TRADE POLICIES, **AND THE PATH AHEAD**

The Fed's projections underscore the complex interplay between inflation management and economic growth. While Powell reiterated the Fed's commitment to preserving a strong labor market, he acknowledged uncertainties tied to Trump's trade policies, including potential tariffs on goods from Mexico, Canada, and China. Such measures could stoke inflation, further complicating the Fed's path toward its 2% target.

Historical simulations, such as those conducted during Trump's first term, suggest that retaliatory tariffs could necessitate rate hikes, adding another layer of complexity to the Fed's policy calculus. Powell stressed that while trade policy developments are being factored into economic models, their full impact remains uncertain.

THE BROADER PICTURE **BALANCING OPTIMISM AND CAUTION**

Despite the market's immediate reaction, some investors remain bullish on long-term growth prospects, driven by anticipated tax cuts and regulatory easing under the Trump administration. However, persistent inflation in housing, food, and goods underscores the challenges ahead. Powell's measured tone reflects the Fed's delicate balancing act: fostering economic growth while taming inflation without derailing the "soft landing" many believe the U.S. economy has achieved.

As the Dow's historic losing streak unfolds, market participants and policymakers alike must grapple with a rapidly shifting landscape, where cautious optimism and strategic foresight will be crucial in navigating the uncertainties of 2025 and beyond.

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