UOB Investment Insights

Fed's First Rate Cut in 2025: What It Means for Your Portfolio

18 September 2025

<u>Key takeaways</u>

- The Federal Reserve (Fed) lowered rates by 25 basis points (bps), signaling a cautious shift in policy to support a weakening labour market.
- With interest rates likely to decline further, it will provide a supportive backdrop for US stock markets, particularly growth sectors like technology. Potential US dollar weakness will also likely boost the appeal of gold and non-US denominated assets like global stocks and bonds.
- Diversify investments across asset classes, regions and sectors to capture opportunities that emerge. Investors with higher risk appetite can consider Tactical opportunities in technology, dividend stocks, and gold.

Fed's pause ends with a 25bps rate cut

On 17 September 2025, the Fed announced a 25bps cut to the Federal Funds Target Rate, lowering it to a target range of 4.00% - 4.25%.

The FOMC vote count was 11-1, with the one dissent likely to have come from new Fed Governor Miran who preferred a larger 50bps reduction.

This marks the first rate cut since December 2024. Fed Chairman Jerome Powell described the decision as a "risk management cut" amid concerns about labour market weakness, but remained cautious by stressing the Fed is in a "meeting-by-meeting situation" on future policy decisions pending economic data.

Interest rate outlook

- The Fed's updated dot plot indicates Fed officials expect two additional rate cuts in 2025, one reduction in 2026 and one in 2027.
- UOB expects two 25bps rate cuts this year at policy meetings in October and December, followed by two additional cuts in 2026.

Market implications

Stocks

- The Fed's outlook of more interest rate cuts will support corporate earnings and global stock markets, setting the stage for positive investor sentiment into the end of 2025.
- Quality growth stocks, particularly in the technology sector, are expected to outperform in a lower rate environment.
- As yields on cash instruments and short-term bonds decline, quality dividend stocks will remain attractive for investors seeking income.

Bonds

- US Treasury bond yields rose despite the rate cut, as the policy easing had already been priced in while Fed Chairman Powell did not signal a series of aggressive rate cuts that the bond market was expecting.
- This reaction is unlikely to persist.
- Investment grade bond still offers attractive income for investors as interest rates decline. However, yields of some long-term government bonds may remain elevated due to high fiscal spending and fiscal sustainability concerns.

Currency

- The USD is expected to face continued downward pressure from further rate cuts ahead.
- UOB forecasts the Dollar Index to decline towards 96.3 by the end of 2025.
- A weaker USD may enhance the appeal of non-USD-denominated assets, including global stocks and bonds.

Gold

- Gold is expected to see continued demand from central banks and investors amid the potential backdrop of Fed rate cuts, USD weakness. Questions over the Fed's independence, and US fiscal sustainability concerns.
- UOB forecasts gold prices to rise up to US$4000 per ounce by 3Q 2026.

What can you do?

- Historically, when the Fed eases monetary policy and the economy avoids recession, both the stock and bond markets respond positively.
- The outlook of more Fed rate cuts is supportive of stock markets, and any short-term dip represents a buying opportunity to position for a typically strong year-end rally.
- Review your portfolio, avoid concentration risks, and diversify across different asset classes, regions, and sectors.
- For conservative investors:
    - Build Core investments and diversify via multi-asset strategies.
    - Lock in yields with quality investment grade bonds and investment grade bond funds.
    - Consider a 5% - 10% allocation in Gold to diversify your portfolio.
- For investors with higher risk appetite:
    - Consider growth sectors like technology which stand to benefit from rate cuts.
    - Quality dividend stocks can help you navigate the environment of falling interest rates.
    - Consider Chinese stocks which are supported by rising market liquidity, a portfolio rotation among domestic investors from bonds to stocks, and the country's push for technological innovation and self-sufficiency.
- Speak to a UOB Advisor on how to position your portfolio according to your risk appetite and goals.

Right By You

IMPORTANT NOTICE AND DISCLAIMERS:

The information contained in this publication is given on a general basis without obligation and is strictly for information purposes only. This publication is not intended to be, and should not be regarded as, an offer, recommendation, solicitation or advice to buy or sell any investment or insurance product and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose. Any description of investment or insurance products, if any, is qualified in its entirety by the terms and conditions of the investment or insurance product and if applicable, the prospectus or constituting document of the investment or insurance product. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. If in doubt, you should consult your own professional advisers about issues discussed herein.

The information contained in this publication, including any data, projections and underlying assumptions, are based on certain assumptions, management forecasts and analysis of known information and reflects prevailing conditions as of the date of the publication, all of which are subject to change at any time without notice. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this publication, United Overseas Bank Limited ("UOB") and its employees make no representation or warranty of any kind, express, implied or statutory, and shall not be responsible or liable for its completeness or accuracy. As such, UOB and its employees accept no liability for any error, inaccuracy, omission or any consequence or any loss/damage howsoever suffered by any person, arising from any reliance by any person on the views expressed or information contained in this publication.

Any opinions, projections and other forward-looking statements contained in this publication regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The information herein has no regard to the specific objectives, financial situation and particular needs of any specific person. Investors may wish to seek advice from an independent financial advisor before investing in any investment or insurance product. Should you choose not to seek such advice, you should consider whether the investment or insurance product in question is suitable for you.