

The Fed cuts rates but delivers cautious message

30 October 2025

Key takeaways

- The Federal Reserve (Fed) delivered a second straight 25 basis points (bps) interest rate cut but cautioned that further policy easing in December is not a foregone conclusion.
- There may be more market volatility but stay invested and market dips represent buying opportunities given resilient corporate earnings and potential de-escalation in US-China trade tensions.
- It is important to diversify and avoid concentration risks given pockets of concern over asset valuations. Those with higher risk appetite can consider Tactical opportunities in the technology sector, developed market financials, quality dividend stocks, Asia ex-Japan stocks, and Chinese stocks.

Second rate cut in 2025 but the Fed tempers expectations for December

On 30 October 2025, the Fed lowered its Federal Funds Target Rate (FFTR) by 25bps to a range of 3.75% - 4.00% as widely expected. This was driven primarily by concerns of a weakening labour market and "elevated uncertainty" in the outlook.

The Fed also announced it will end its balance sheet reduction by reinvesting maturing securities into United States (US) Treasury bills from 1 December, amid signs of tightening liquidity and money-market conditions. This effectively ends the quantitative tightening (QT) process that started in 2022.

Cautious policy guidance

- Fed Chairman Jerome Powell said that while further policy easing is possible ahead, he cautioned that a rate cut in December is "not a foregone conclusion" and monetary policy is "not on a preset course" but will be "data dependent".
- He added that while the labour market is showing signs of cooling, inflation remains elevated, and the Fed must balance its dual mandate amid these mixed signals.
- Powell also highlighted the lack of economic data stemming from the US government shutdown.
- This resulted in investors dialling down rate cut expectations for December.

Post-decision market reaction

- Investors looked past the rate cut and focused on Fed Powell's cautious forward guidance.
- US stock markets saw mild selling activity before closing mixed, US Treasury bond yields surged across the curve while the US dollar strengthened.

Interest rate outlook

- Investors have dialled down their expectations of a 25bps rate cut in December from 94% to 69%, but the market is still pricing in a total of 75bps of reduction by September 2026.
- UOB expects one more 25bps rate cut this year in December, followed by two additional 25bps cuts in 2026.

Outlook for stocks and bonds

Stocks

- There may be more volatility in the short term given the Fed's cautious policy guidance, while there are pockets of concerns over valuations after the stock rally over the past six months.
- That said, resilient corporate earnings and potential de-escalation in US-China trade tensions will provide support to global stock markets.
- It will be prudent to avoid concentration risks and diversify the portfolio.
- Be selective by focusing on quality stocks with strong corporate earnings and look to accumulate these on dips.
- Quality dividend-paying stocks will remain attractive given income generation and can serve as an anchor of the stock portfolio.
- Technology stocks should remain one component of the investment portfolio as the artificial intelligence (AI) structural theme remains intact.
 - Mega-cap tech stocks have been dominant for good reasons, since their standing as AI market leaders and hyperscalers have led to strong revenues and profits.
 - That said, there are questions whether future earnings growth has already been reflected in their elevated share prices.
 - Investors should avoid a narrow focus and look to diversify beyond these mega-cap companies into other AI enablers and beneficiaries, and the broader tech sector.
- Financial stocks may continue to benefit from positive investor sentiment driving strong revenues in trading, investment banking, and wealth management, offsetting any decline in net interest income.
- The mid-term outlook remains positive for Asia ex-Japan and Chinese stocks as valuations remain comparatively attractive, and short-term dips represent buying opportunities.

Bonds

- Some volatility could be seen in the interim but prioritise investment grade bonds that offer attractive income while the global economy is gradually slowing.

What can you do?

- Stay invested and market pullbacks represent an opportunity to accumulate risk assets on dips.
- Nonetheless, it is prudent to review your portfolio regularly to avoid concentration risk.
- It is also important to build a diversified portfolio across asset classes, regions, and sectors.
 - Gold can serve as a good portfolio diversifier and a 5-10% allocation is favoured.
- Income-focused investors can consider locking in income through investment grade bonds and quality dividend stocks.
- For investors with higher risk appetite:
 - Tactical investment opportunities are seen in Asia ex-Japan and Chinese stocks, the technology sector, and developed market financials, and short-term dips represent buying opportunities.
- Speak to a UOB Advisor on how to position your portfolio according to your risk appetite and goals.



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