

Jackson Hole Economic Symposium: Opening the door to interest rate cuts ahead

26 August 2025

Key takeaways

- Global financial markets initially responded positively to United States (US) Federal Reserve (Fed) Chairman Jerome Powell's cue that the central bank will likely resume interest rate cuts ahead, before the uplift waned.
- Nonetheless, potential Fed policy easing will provide implicit support for financial markets through the historical trend of seasonal volatility in September.
- Diversification remains key; Investment grade bonds, technology and quality dividend stocks stands to benefit from rate cuts, we remain positive on Chinese stocks, while investors can consider Gold as a hedge against US dollar (USD) weakness.

In his Jackson Hole Symposium speech on 22 August 2025, Fed Chairman Powell cautiously opened the door to a resumption of interest rate cuts ahead.

Pointedly, the theme "Labour Markets in Transition: Demographics, Productivity, and Macroeconomic Policy" reflects the Fed's growing concern over downside risks to the labour market even though inflation concerns remain.

What did we learn from Fed Powell?

Inflation and labour market outlook

- Inflation:
 - Powell noted that the near-term risks are tilted to the upside given the potential impact of tariffs which he said is "now clearly visible".
 - Nonetheless, Powell said the reasonable base case is that tariff effects will be relatively short-lived representing a one-time shift in prices.
 - But he conceded the possibility that tariffs could yet have a more lasting inflation impact and consumer inflation expectations may rise.
- The main shift in outlook was for the US labour market:
 - Powell mentioned that "downside risks to employment are rising" as shown by how jobs growth has slowed to an average of 35,000 per month over the past three months.
 - He added that if these risks materialise, "they can do so quickly in the form of sharply higher layoffs and rising unemployment".

Shifting toward rate cuts – Emphasis on the labour market

- As expected, Fed Chairman Powell shifted his focus away from inflation and placed more emphasis on supporting the US labour market.
- Notably, he signalled that a softening US labour market is a key reason that “the balance of risks appears to be shifting”, warranting an adjustment in interest rates.
- That said, Powell did not commit to the timing, size, and projected pace of rate cuts ahead, stressing that the Fed will retain a data-dependent approach.

Changes to the Fed’s monetary policy framework

- The Fed abandoned its average inflation-targeting framework that tolerated above-target inflation to make up for periods undershooting the goal, now favouring a more flexible approach to managing inflation expectations.
- The Fed also removed language that characterised low interest rates as a “defining feature of the economic landscape”.

Interest rate outlook

- Investors are now pricing in an 85% probability of a Fed rate cut in September.

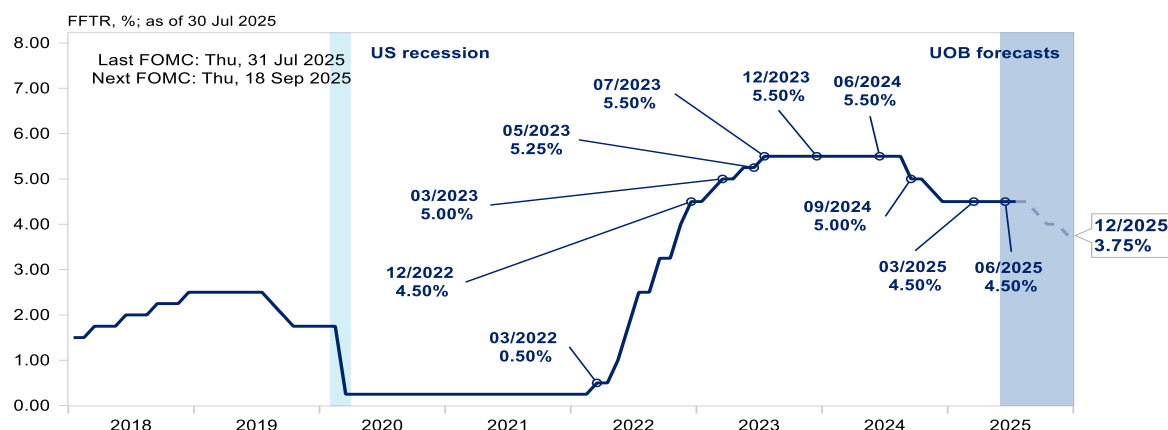
UOB’s expectation:

- We retain the outlook of three 25 basis points (bps) rate cuts this year in September, October, and December.
 - We also expect two more rate cuts in 2026 to bring the upper bound of the Fed Funds Target Rate (FFTR) down to 3.25%.
- Before the 17 September policy decision, stay alert to US economic data like the August jobs report and inflation data which will influence the Fed’s interest rate projections.

UOB’s Projected US Federal Funds Target Rate Trajectory (As of 25 Aug 2025)

Source: Macrobond, UOB Global Economics & Markets Research

US: Federal Funds Target Rate Trajectory
After a 100bps cut in 2024, the Fed have opted for “wait-and-see” approach for 5 meetings in a row amidst tariffs risks to inflation and unemployment. We still expect three 25-bps cuts in 2025, in Sep, Oct and Dec FOMC.



What can you do?

- Review your portfolio, avoid concentration risks, and diversify across different asset classes, regions, and sectors.
- Bonds stand to benefit from rate cuts, and we continue to prefer quality investment grade bonds to lock in yields.
- We remain mindful of potential seasonal market volatility across September.
- Nonetheless, potential Fed rate cuts ahead will support global stock markets, and any short-term dips represent a buying opportunity to position for a strong end to 2025.
- For conservative investors:
 - Build Core investments and diversify via multi-asset strategies.
- For investors with higher risk appetite:
 - Growth sectors like technology stands to benefit from rate cuts, and we retain a Tactical investment call on technology stocks.
 - Quality dividend stocks are another Tactical investment to consider navigating the environment of falling interest rates.
 - We remain positive on Chinese stocks that have additional support from rising market liquidity and a portfolio rotation among domestic investors from bonds to stocks.
 - To hedge against potential USD weakness, investors can consider a 5% - 10% allocation in Gold.
- Speak to a UOB Advisor on how to position your portfolio according to your risk appetite and goals.



Right By You

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