AmBank Group

AmBank Economics

#WhatWeThink

Fed poised for more cuts despite recent fractured votes

11 December 2025

The Fed eased policy rates by another 25bps as expected, given recent sluggishness in employment readings. We think 2026 entails another 50bps worth of Fed cuts, driven by cooler inflation readings and a redoubling of focus on the employment mandate – especially with the introduction of more dovish voting FOMC members next year. While this entails a weaker dollar by end-2026, expect a volatile pathway ahead, mired by more dissenting Fed votes and mixed data readings.

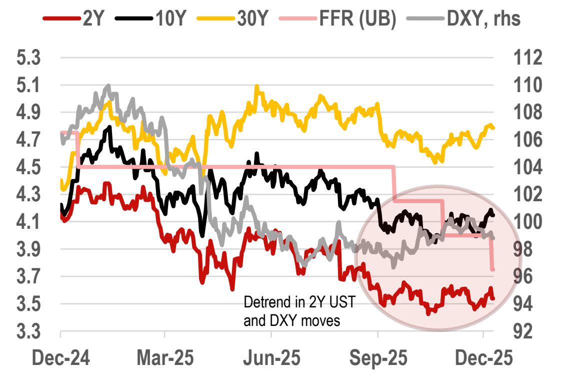
Fed cuts amid an inflationary rock and a harder labour place

A third consecutive 25bps rate cut was delivered by the Fed, bringing policy rates to 3.50-3.75%. This comes despite the US's disinflation progress stagnating since 2Q2024, as sticky services' price growth, entrenched inflation expectations, and the end of supply-chain disruptions continue to drive core PCE above the Fed's 2% y/y growth target (Exhibit 11). However, on US employment conditions, the Fed's latest Beige Book indicates an increasingly K-shaped economy (resilient upper-income consumers supporting overall growth, but worsening conditions for low- and middle-income households), even as UOM consumer sentiment also remained near-historical lows (Exhibit 10). While new headline job layoffs appear to be stalling, the high number of continued jobless claims suggests that labour-saving tactics by businesses, such as allowing natural attrition, hiring freezes, and incremental wage increases (Exhibit 8-9), are in effect. It is against this backdrop that the Fed began its recent round of monetary easing in September (after pausing rate cuts since January 2025).

We maintain our view of two more Fed rate cuts in 2026

Compared to their September outlook, the Fed's latest Summary of Economic Projections (see Exhibit 5) paints a more optimistic backdrop, featuring improved employment conditions, moderating inflation, and stronger growth for 2026. Most notable among these is the expected progress on core inflation, which we believe is justifiable, as recent (4Q2025) weaknesses in labour market conditions, slower wage increases, and a decline in consumer sentiment are likely exerting a disinflationary force on services (stickier) inflation. While goods inflation has recently risen due to tariffs, cost increases are expected to be one-off, especially with the de-escalation of US tariff tensions globally. Accordingly, we believe this will provide room for the Fed to redouble its focus on the employment side of its mandate in 2H2026 - especially with growing concerns that recent job growth data has continued to be overstated. Hence, we maintain our view of two Fed cuts in 2026, with risks tilted towards more cuts (three) on employment risks. This contrasts with the Fed's median dot plot projections, which currently show just one ahead (see Exhibit 2), which we believe may be driven by the Fed's desire to anchor inflation expectations, as well as its cautiousness regarding upside risks to inflation.

Exhibit 1: Recent UST yield response to changes in Fed rates



Sources: AmBank Economics, Bloomberg

Exhibit 2: 2025-2028 dot plot projections

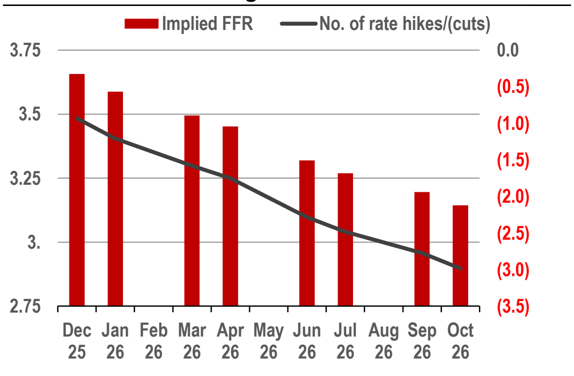
	2025	2026	2027	2028
Fed Funds Rate (upper-bound)				
Dec - Median	3.75^	3.50	3.25	3.25
Dec - CT*		3.00 - 3.75	3.00 - 3.75	2.87 - 3.75
Sep - Median	3.75	3.50	3.25	3.25
Sep - CT*	3.75 - 4.25	3.00 - 3.75	3.00 - 3.75	2.87 - 3.75
Jun - Median	4.00	3.75	3.50	-
Jun - CT*	4.00 - 4.50	3.25 - 4.00	3.00 - 3.75	-

*CT = Central Tendency range. Excludes the lowest and highest three projections by FOMC members, regardless of voting status

^actual end-2025 Fed Rate (upper-bound)

Sources: AmBank Economics, Federal Reserve

Exhibit 3: Swap markets expect two more Fed cuts next year – one each by the Fed's June and October 2026 meetings



Sources: AmBank Economics, Bloomberg

Exhibit 4: AmBank forecasts

		1Q26	2Q26	3Q26	4Q26
DXY	**Revised**	**97.8**	**97.0**	**96.3**	**95.5**
	Prior:	96.8	96.3	96.3	96.5
US FFR (UB)		**3.50**	**3.50**	**3.25**	**3.00**

Trump sees 1-2 Governor appointees in 2026, while voting regional Fed Presidents also tilt dovish for the year

Market whispers place Kevin Hassett (Director of the National Economic Council), a Trump loyalist who has campaigned for the FOMC to be more aggressive in easing policy rates, as the frontrunner to replace Jerome Powell as the next Fed chairman. Alongside other Fed Governors Christopher Waller and Michelle Bowman, this means that US President Trump will have three appointees among the seven-member Board of Governors for the Fed's FOMC meetings, which are currently the three most dovish members among the voting panel (see Exhibit 12). Governor Lisa Cook, who is under threat of being fired for mortgage fraud, may also see her position filled by a more dovish candidate, pending a Supreme Court hearing in January 2026. Trump appointees may rise to five from June 2026, should Powell opt to leave the Fed after his term as Chairman ends (which is traditionally the case, given the risks of a divided Fed and mixed policy signals should an ex-Chairman remain as Governor). Alongside composition changes in voting regional Fed presidents in 2026 (see Exhibit 12), this suggests a decisively dovish tilt for incoming Fed decisions ahead. Announcements on the next Fed chairman and Lisa Cook's court case are expected by early-January and 21 January respectively, while Powell has declined to answer on his role past-May 2026.

However, Fed dissents may also generate some market volatility ahead, including for key assets such as currencies and short-dated government debt. While the Fed has prided itself on consensus decision-making (most notably under Powell (see Exhibit 6), where average dissents per meeting is significantly lower than prior Chairmans - even despite presiding through the pandemic economic shock and post-pandemic spike in inflation), recent communications by Fed officials were markedly divided and non-uniform, which has also manifested into official votes (see Exhibit 7). Assuming data releases ahead also remain inconclusive for the rates pathway, this may even result in 7-5 or 8-4 voting splits ahead, generating noise that weakens Fed communication clarity. An erosion in market confidence in Fed independence, shifting towards a 'political economy,' may also erode monetary transmission, leading to lower interest rates for government debt, mortgage loans, and commercial lending, as markets demand a higher risk premium. Jobs and inflation reports up to end-2025 are expected prior to the Fed's next FOMC meeting on 28 January.

DXY to trend down on Fed easing and stronger DM FX

Clarity on the Fed rates front, along with implications from upcoming changes to the Fed, suggests a preordained path towards a weaker dollar in 2026 – especially with short-term yields already deviating from recent DXY moves (Exhibit 1). Catalysing a weaker DXY index ahead are rising hawkishness within the ECB, alleviation of near-term fiscal risks in the UK, and prospects of higher BOJ policy rates ahead. Our forecasts see the DXY hitting a low of 95.5 by end-2026, premised on two Fed cuts expected in 2026. Nevertheless, nascent geopolitical tensions (China-Japan) and trade tensions (China-EU/Mexico/ASEAN), growing concerns about the sustainability of AI valuations, and very elevated gold prices may prompt markets to revisit the safe-haven appeal of US assets, posing some upside volatility risks to the dollar under these scenarios.

Exhibit 5: Summary of Fed economic projections

	2025	2026	2027	2028
Real GDP (% chg y/y)				
Dec - Median	1.7	2.3	2.0	1.9
Dec - CT*	1.6 - 1.8	2.1 - 2.5	1.9 - 2.3	1.8 - 2.1
Sep - Median	1.6	1.8	1.9	1.8
Sep - CT*	1.4 - 1.7	1.7 - 2.1	1.8 - 2.0	1.7 - 2.0
Jun - Median	1.4	1.6	1.8	-
Jun - CT*	1.2 - 1.5	1.5 - 1.8	1.7 - 2.0	-
Core PCE (%)				
Dec - Median	3.0	2.5	2.1	2.0
Dec - CT*	2.9 - 3.0	2.4 - 2.6	2.0 - 2.2	2.0
Sep - Median	3.1	2.6	2.1	2.0
Sep - CT*	3.0 - 3.2	2.5 - 2.7	2.0 - 2.2	2.0
Jun - Median	3.1	2.4	2.1	-
Jun - CT*	2.9 - 3.4	2.3 - 2.7	2.0 - 2.2	-
Unemployment Rate (%)				
Dec - Median	4.5	4.4	4.2	4.2
Dec - CT*	4.5 - 4.6	4.3 - 4.4	4.2 - 4.3	4.0 - 4.3
Sep - Median	4.5	4.4	4.3	4.2
Sep - CT*	4.4 - 4.5	4.4 - 4.5	4.2 - 4.4	4.0 - 4.3
Jun - Median	4.5	4.5	4.4	-
Jun - CT*	4.4 - 4.5	4.3 - 4.6	4.2 - 4.6	-

*CT = Central Tendency range. Excludes the lowest and highest three projections for each variable

Sources: AmBank Economics, Federal Reserve

Exhibit 6: While dissents per term fell markedly under Powell's term, …

Fed Chairman	Term	Dissents per meeting (avg)
Jerome Powell	From 2018	**0.328***
Janet Yellen	2014-2018	0.688
Ben Bernanke	2006-2014	0.727
Alan Greenspan	1987-2006	0.536
Paul Volcker	1979-1987	1.227

*excluding Sep-Dec 2025 meetings

Sources: AmBank Economics, Bloomberg, Federal Reserve

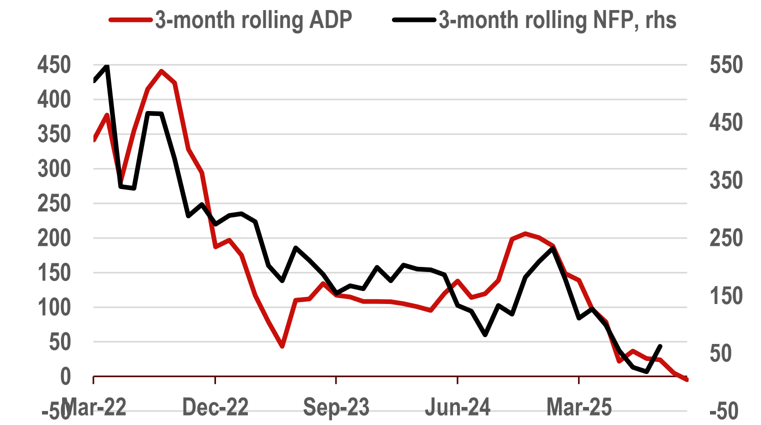
Exhibit 7: … recent meetings have invited more votes against the consensus decision

FOMC meeting	Final decision	Decision-split		
		More dovish	Consensus	More hawkish
Dec 25	**Cut**	1	9	2
Oct 25	**Cut**	1	10	1
Sep 25	**Cut**	1	11	0
Jul 25	**Hold**	2	9*	0
May 25	**Hold**	0	12	0

*1 absent and not voting for Jul 2025 meeting

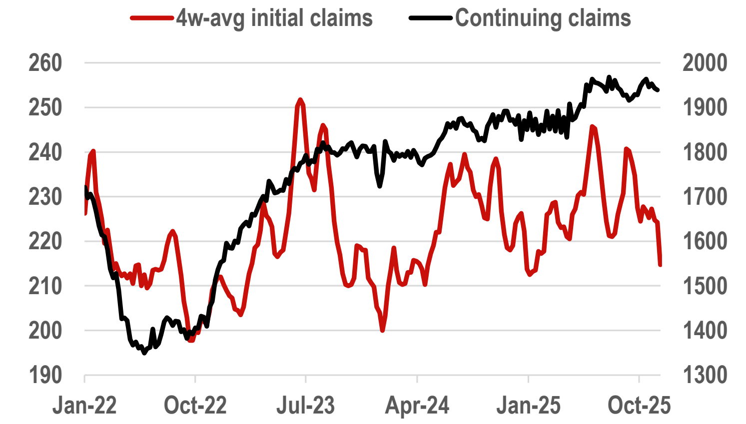
Sources: AmBank Economics, Bloomberg, Federal Reserve

Exhibit 8: ADP data suggest incoming NFP job additions (for October/November) to come in weak



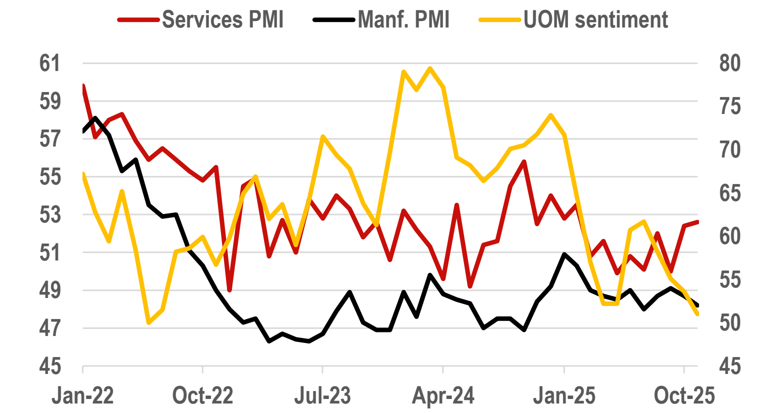
Sources: AmBank Economics, Bloomberg

Exhibit 9: Alongside jobless claims data, indicating a 'frozen' US labour market



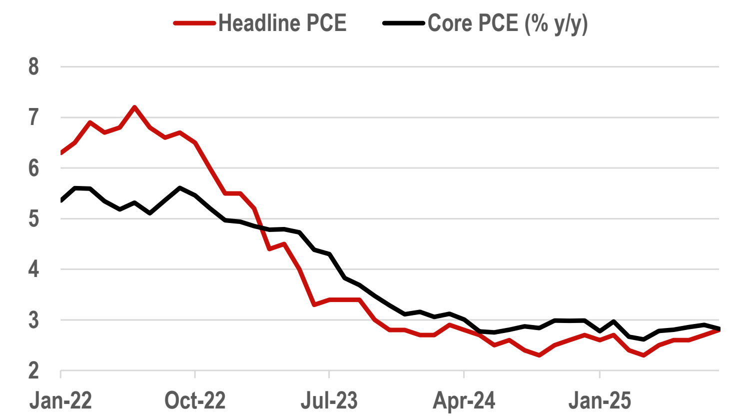
Sources: AmBank Economics, Bloomberg

Exhibit 10: UOM consumer sentiment indicates pessimism on the labour market and inflation outlook



Sources: AmBank Economics, Bloomberg

Exhibit 11: Stagnant core inflation at the 3% y/y level expected to make progress in 2026



Sources: AmBank Economics, Bloomberg

Exhibit 12: FOMC 2026 management members

	Position	Name	Spectrum*	Other notes
Permanent Voters	FOMC Chair	Jerome Powell	0	**Chairman term expires on 23 May 2026** Governor term expires later on Jan 2028
	Vice Chair of Governors	Philip Jefferson	0	
	Vice Chair of Supervision	Michelle Bowman	-2	Shortlisted as next Fed chair
	Governor	Michael Barr	0	
	Governor	Lisa Cook	-1	**Under threat of firing for fraud**
	Governor	Stephen Miran	-2	**Term expiry on Jan 2026**
	Governor	Christopher Waller	-2	Shortlisted as next Fed chair
	Vice Chair of FOMC & New York Fed President	John Williams	-1	
2026 Fed regional presidents (voting)	FRB of Cleveland	Beth Hammack	2	
	FRB of Philadelphia	Anna Paulson	-1	
	FRB of Dallas	Lorie Logan	1	
	FRB of Minneapolis	Neel Kashkari	0	
2027 Fed regional presidents (alternate)	FRB of Chicago	Austan Goolsbee	0	2025 voting member
	FRB of Richmond	Thomas Barkin	1	
	FRB of Atlanta	Raphael Bostic	0	**Will retire on end-Feb 2026**
	FRB of San Francisco	Mary Daly	-1	
Other regional presidents	FRB of Boston	Susan Collins	0	2025 voting member
	FRB of St. Louis	Alberto Musalem	1	2025 voting member
	FRB of Kansas City	Jeffrey Schmid	2	2025 voting member

*(-2 = dovish, 0 = neutral, +2 = hawkish). Assessments by Bloomberg, based on members' recent comments

Note: Though 19 FOMC members participate in the meeting, only 12 are voting members. In the event of a tie, there is no change in monetary policy (though this is usually avoided by the Fed chair voting last).

Sources: AmBank Economics, Bloomberg, Federal Reserve

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