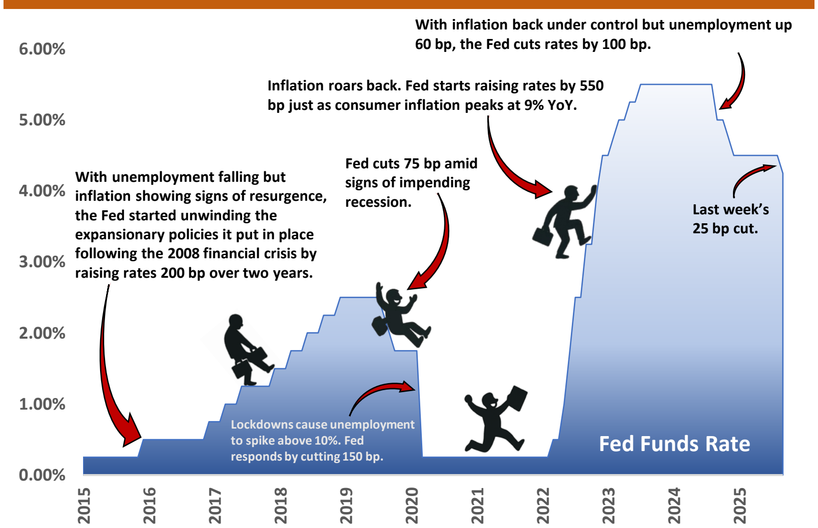
SOLUTIONS
Economic & Market Watch
September 29, 2025

Economic & Market Watch Intelligence Brief

Briefing

- Futures markets have a poor track record for predicting the federal funds rate. For five years running in the 2010s, traders consistently priced in hikes that didn't materialize. When the hikes eventually arrived and peaked, traders missed the turnaround. The persistent gap underscores the difficulty of forecasting Federal Reserve policy in real time (**Figure 1**).
- Fed policy changes mostly affect short-term rates. Since 2009, a 100 basis point (bp) change in the federal funds rate has played out (on average) as an 87 bp change in 3-month Treasury yields, a 43 bp change in 2-year yields, a 13 bp change in 10-year yields and a 12 bp change in 30-year yields. The longer the horizon, the more yields depend on structural growth, inflation expectations and global capital flows rather than Fed policy (**Figure 2**).
- The Fed's goal is to maintain low unemployment and stable prices. But those two goals are contradictory. Raising rates reduces inflation but increases unemployment. Lowering rates does the reverse. The sum of unemployment and inflation is "misery." Misery was high following the financial meltdown. But since unemployment and inflation were falling, the Fed held interest rates steady. When inflation started increasing in 2016, the Fed raised rates. When unemployment spiked in 2020, it cut rates (**Figure 3**).

Chart of the Week



Commentary

In the wake of the massive inflation of the 1970s, Congress gave the Fed an impossible mandate: to pursue maximum employment and stable prices. The mandate is impossible because the two goals require contradictory policies. Lowering interest rates makes it easier for businesses to borrow to expand. When they do so, they create jobs and unemployment falls. But lowering rates also increases financial liquidity, which puts upward pressure on inflation. The contradictory goals mean that, since 1978, the Fed has had to walk a tight-rope: alternately fighting inflation at the cost of higher unemployment or fighting unemployment at the cost of higher inflation.

From 2015 to 2018, the Fed raised rates slowly, hoping to unwind the expansionary policy that was needed to address the 2008 financial crisis but was subsequently creating inflation. By 2019, inflation was trending down, but the economy was showing signs of a looming recession, and the Fed started to cut rates. COVID pre-empted the recession and lockdowns caused unemployment to spike. The Fed cut rates to compensate. As the economy picked back up, expanded liquidity from the rate cut drove up inflation. The Fed raised rates an aggressive 550 bp. This brought inflation under control but did so at the cost of putting upward pressure on unemployment.

Snapshots

Figure 1: Market Forecasts of the Federal Funds Rate

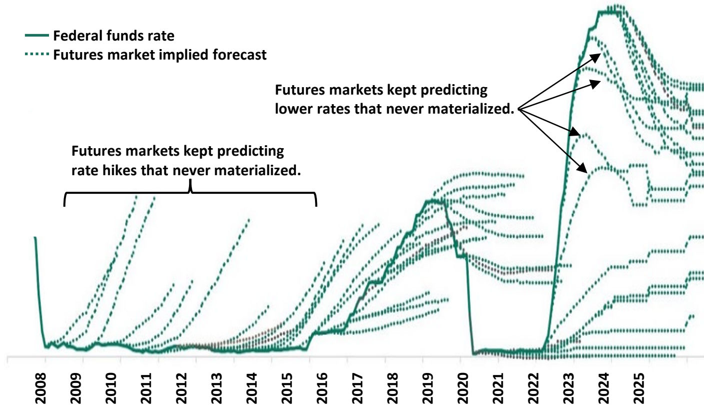


Figure 2: Effect of Federal Funds Rate on Treasury Yields

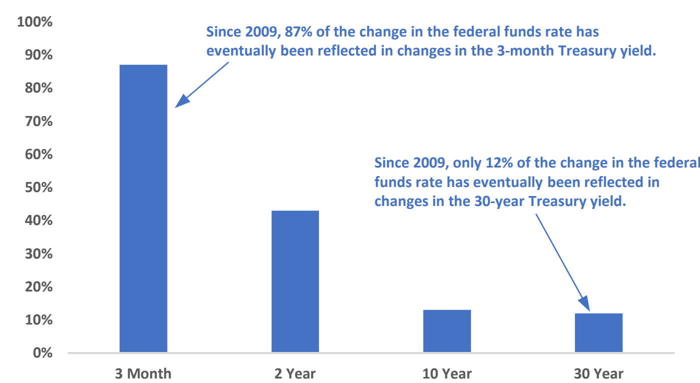
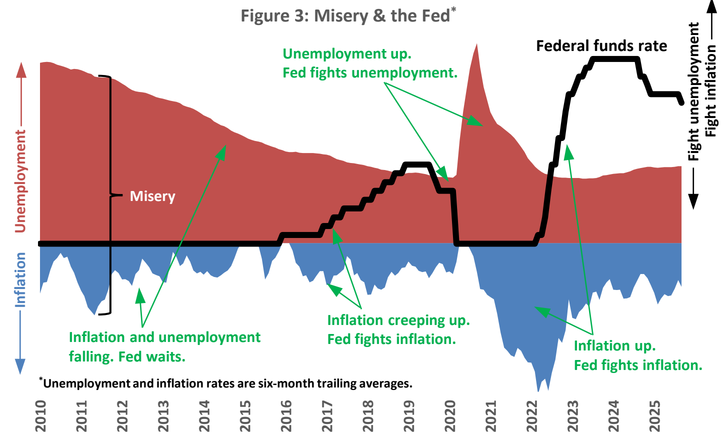


Figure 3: Misery & the Fed*



*Unemployment and inflation rates are six-month trailing averages.

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Economic & Market Watch Dashboard

Key Indicators

INTEREST RATES[1]		2025		2026		
	Current	Q3	Q4	Q1	Q2	Q3
Fed Funds Target[2] (%)	4.25	4.25	3.75	3.75	3.50	3.25
SOFR (%)	4.16	4.06	3.80	3.56	3.37	3.20
2Y UST (%)	3.63	3.72	3.61	3.53	3.48	3.44
5Y UST (%)	3.74	3.89	3.83	3.79	3.75	3.71
10Y UST (%)	4.15	4.30	4.24	4.21	4.19	4.17
30Y UST (%)	4.71	4.76	4.70	4.67	4.65	4.64

ECONOMY		2025		2026		
	Current	Q3	Q4	Q1	Q2	Q3
PCE Inflation (YoY %)	2.6	3.2	2.8	2.5	2.3	2.2
CPI Inflation (YoY %)	2.9	2.9	3.0	2.9	3.0	2.8
Real GDP (QoQ %)	3.8	0.8	1.3	1.8	2.0	2.9
Unemployment (%)	4.3	4.4	4.6	4.7	4.7	4.7
Consumer Spending (QoQ %)	1.6	0.6	0.8	1.4	1.7	1.8
Industrial Production (YoY %)	0.9	1.1	1.4	1.0	1.0	1.4

Equities & Currency

	Current	Year ago
DJIA	46,224	42,330
Nasdaq	22,675	18,189
S&P 500	6,671	5,762
US Dollar Index	$1,201.75	$1,225.96

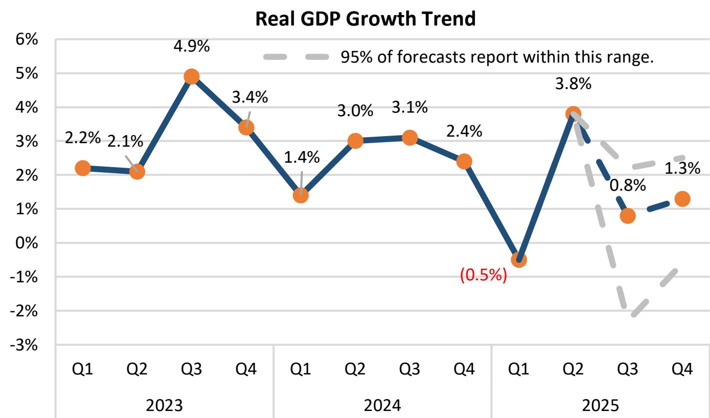
Commodities

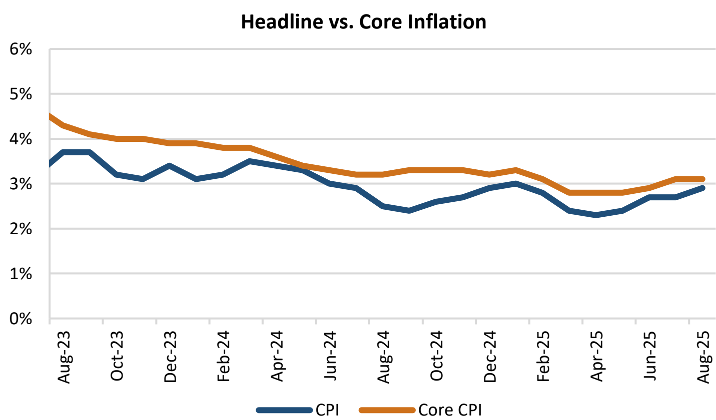
	Current	Year ago
Crude Oil (Per Barrel)	$63.70	$68.17
Natural Gas (Per MMBtu)	$3.23	$2.92
Coal (Per Short Ton)	$10.64	$14.66
Gold (Per Ounce)	$3,828.00	$2,635.70
Corn (Per Bushel)	$4.20	$4.25
Soybean (Per Bushel)	$10.09	$10.57

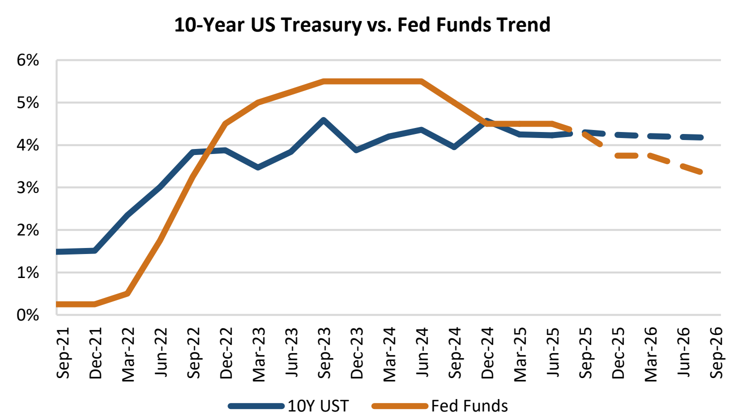
Industry

	Current	Year ago
Natural Gas Storage (Billion Cubic Feet)	3,508	3,486
U.S. Daily Power Consumption (MWh)	12,267,696	11,590,753
World Container Index (Per 40ft)	$1,761	$3,970

Forecasts







[1] Unless otherwise indicated, forecasts are from the Blue Chip Professional Forecasters.
[2] Target rate forecast is based on futures market contracts.

Source: Blue Chip Financial Forecasts, Trading Economics, Moody's Analytics, Statista, Trading Economics, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Energy Information Administration, U.S. Treasury Department, Federal Reserve Bank of Atlanta, Federal Reserve Bank of New York, Federal Reserve Bank of St. Louis, International Monetary Fund, World Bank, University of Michigan, The Conference Board.