

# The Fed hints at short-term pause after third rate cut

11 December 2025

## Key takeaways

- The Federal Reserve (Fed) lowered interest rates by 25 basis points (bps) for a third straight meeting as widely expected, but the policy statement signalled uncertainty over the timing of further rate cuts.
- Fed officials retained their projection of only one rate cut in 2026 and emphasised that future policy moves will be on a meeting-by-meeting approach, guided by upcoming economic data.
- Maintain a diversified portfolio. Those with higher risk appetite should look to accumulate quality stocks and resilient dividend stocks in tranches, and consider Tactical opportunities in the technology sector, developed market financials, Asia ex-Japan stocks, and Chinese stocks.

## Third rate cut in 2025 but hints of a pause ahead

At the December policy meeting, the United States (US) Federal Reserve (Fed) delivered the widely expected 25 basis points (bps) rate cut, the third straight policy easing since September. This brings the Federal Funds Target Rate (FFTR) down to a range of 3.50% - 3.75%.

Fed Chairman Powell characterised this rate cut as a “prudent adjustment” and a “further normalisation of our policy stance” to stabilise the labour market, while maintaining interest rates high enough to ensure inflationary pressures ease once the tariff impact has subsided.

### Hinting at a near-term pause

- The Fed policy statement notably mentioned they will consider the extent and timing of additional policy adjustments, which is a phrase they used in December 2024 before they kept interest rates on hold for an extended period.
- Fed Chair Powell also hinted at a potential policy pause, saying “we are well positioned to wait and see how the economy evolves”.

### Dot plot reveals Fed officials remain divided on where interest rates are headed

- Fed officials remain divided on their interest rate outlook as they are unclear whether labour market weakness or persistent inflation poses the greater risk to the US economy.
- The vote count in favour of a rate cut was 9-3.
  - Two officials voted to keep interest rates unchanged, while Trump appointee, Governor Miran, again voted in favour of a larger 50bps reduction. The last time three officials voted against a policy decision was back in 2019.
- The dot plot reveals that the median expectation of Fed officials is for one rate cut in 2026, and another in 2027. This is unchanged from the previous projection in September.
  - Looking deeper reveals a continued division, with seven Fed officials expecting to keep interest rates unchanged in 2026 while eight officials project at least two rate cuts.

### The Fed steps in to keep funding markets running smoothly

- The Fed announced it will start purchasing USD40 billion of short-maturity US Treasury bills from 12 December 2025 to rebuild reserves in the financial system and support liquidity in funding markets.

## UOB's view: Two more rate cuts next year

- We anticipate the Fed will keep policy on hold in the early part of 2026 but retain the outlook of two more rate cuts, in 2Q and 3Q 2026 respectively.

## Market outlook

### Stocks

- While December has historically been a strong month for global stocks, the possibility of year-end profit-taking by investors should not be dismissed with stock markets hovering near record highs while concerns persist over aggressive AI investments and elevated technology stock valuations.
- Beyond this short-term phase, we retain a positive stock market outlook as we expect corporate earnings strength to continue while interest rates are gradually declining.
- It is noteworthy that diversification beyond US stocks proved highly rewarding this year, and investors should continue to maintain a diversified portfolio and avoid concentration risks.
- Focus on quality stocks, particularly quality dividend-paying stocks for their income generation.
- Investors should maintain a portfolio allocation in technology stocks as the AI cycle will sustain earnings growth but diversify the focus away from mega-cap technology stocks to the broader technology sector.
- We continue to look favourably on Asia ex-Japan and Chinese stocks given their comparatively attractive valuations, while Asian companies are increasingly involved in the AI structural cycle.
  - This is apparent in Asia's leadership in technology manufacturing from semiconductors and high-bandwidth memory chips to manufacturing equipment.

### Bonds

- Investors should consider quality investment grade bonds to lock in attractive income.

## What can you do?

- Stay invested but it is important to diversify the portfolio and avoid concentration risks.
- For conservative investors:
  - Build Core investments with multi-asset strategies to capture opportunities across different asset classes, regions, and sectors as they emerge.
  - Lock in income with quality investment grade bonds and investment grade bond funds.
  - Consider a 5% - 10% allocation in Gold to hedge against uncertainty and diversify your portfolio.
- For investors with higher risk appetite:
  - Use market pullbacks to accumulate quality growth and resilient dividend stocks in tranches.
  - Be selective when investing in the artificial intelligence (AI) theme. Diversify beyond a narrow focus on mega-cap stocks into the broader technology sector.
  - Other opportunities are seen in Chinese stocks, Asia ex-Japan stocks, and developed market financials.
- Speak to a UOB Advisor on how to position your portfolio according to your risk appetite and goals.



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