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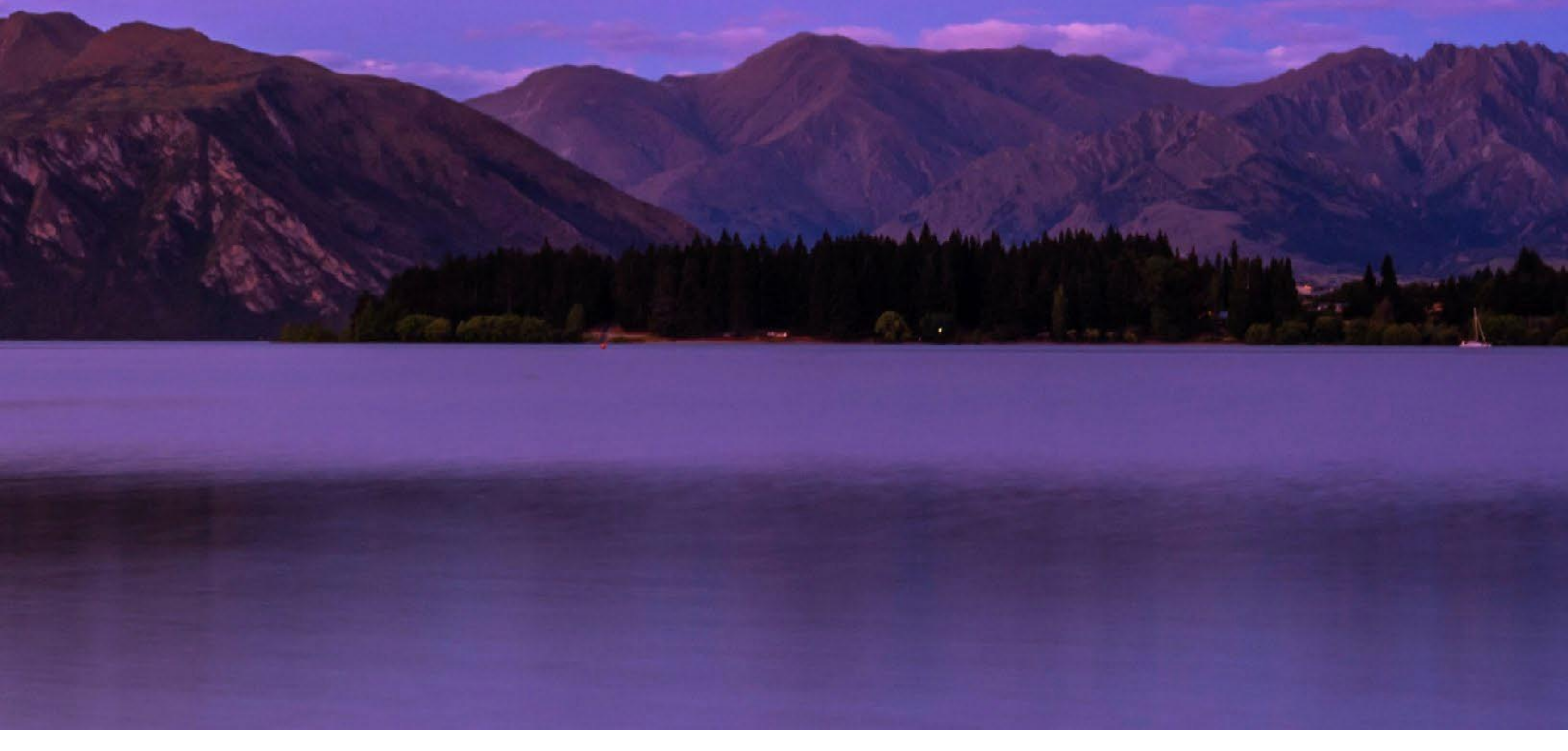
Market Perspectives: Rate Cuts, Dollar Shifts and the Investment Ripple Effect



MARKET PERSPECTIVES: RATE CUTS, DOLLAR SHIFTS AND THE INVESTMENT RIPPLE EFFECT

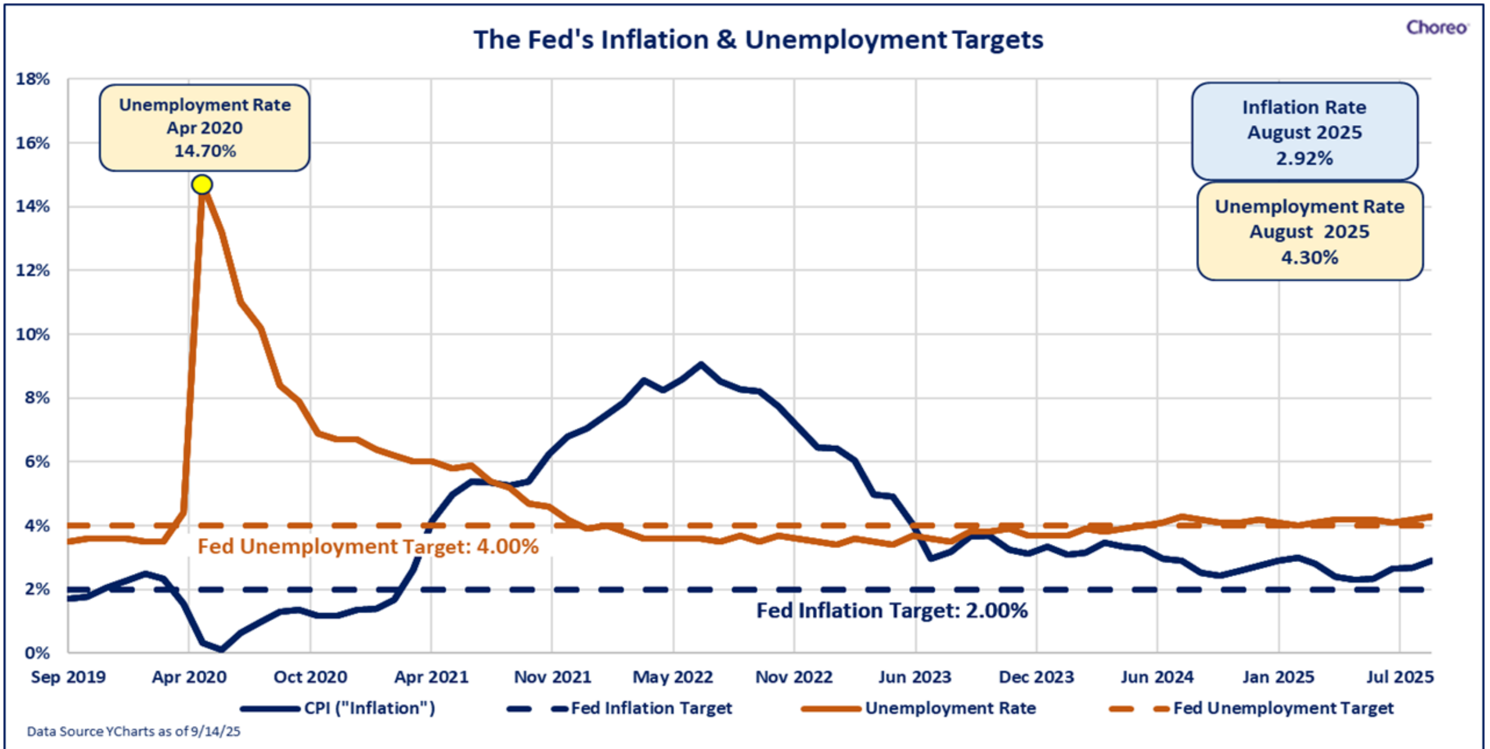
"Investing is not about beating others at their game. It's about controlling yourself at your own game."

~ Benjamin Graham

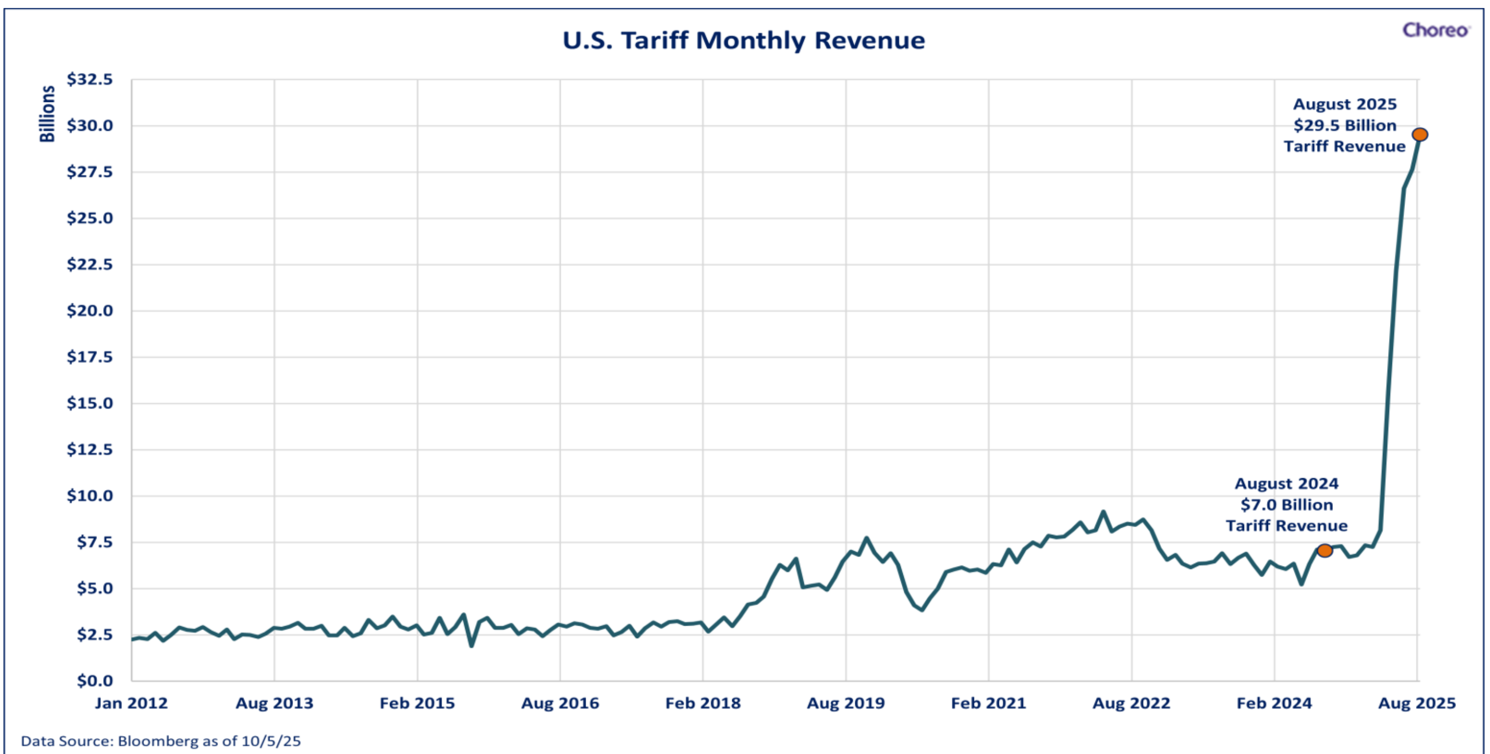
- After roughly nine months of inaction, the Federal Reserve (the "Fed") cut interest rates at its September meeting.
- The ripple effects of this monetary easing (along with other circumstances that may have prompted this more accommodating stance) will be worth monitoring in upcoming quarters.
- While the equity and bond markets have generally remained resilient, tariff policy, labor market uncertainty, and dollar weakness continue to make headlines.

Coverage of the continuing government shutdown that began on October 1 -- following a year that has included tariff announcements and retractions, rising unemployment, fiscal and tax policy changes, and global geopolitical tensions -- has resulted in an even higher volume of both economic news and speculation. Despite the factors driving these issues, interest rates can be a primary driver of markets and economic activity. At the Fed's September meeting, the interest rate reduction cycle (which was paused in December 2024) began once again with a 0.25% cut to the federal funds rate (to a range of 4.00%-4.25%, down from 4.25%-4.50%). The rate cut decision was widely anticipated by market experts, and there are further expectations of similar rate cuts in future meetings. Decreased fed fund rates may spur consumer spending, as lower rates reduce borrowing costs, typically stimulating the economy.

The Fed sets interest rates with a dual mandate: achieve maximum employment (labor) and stabilize prices (inflation). Inflation -- while still above the Fed's 2% target -- has come down from elevated levels in 2021-22, with a recent trend in various economic reports showing small upward shifts in price levels. Very recently, the labor market has shown indications of a potentially weaker job market, and while inflation fears remain, the Fed seems to be driving a sharper focus on full employment. This is likely because fewer jobs for Americans means less disposable income and consumer spending, which threatens to restrict economic growth. The September interest rate cut demonstrates the concern of Fed officials as well as the central bank's effort to mitigate risk of economic slowdowns.

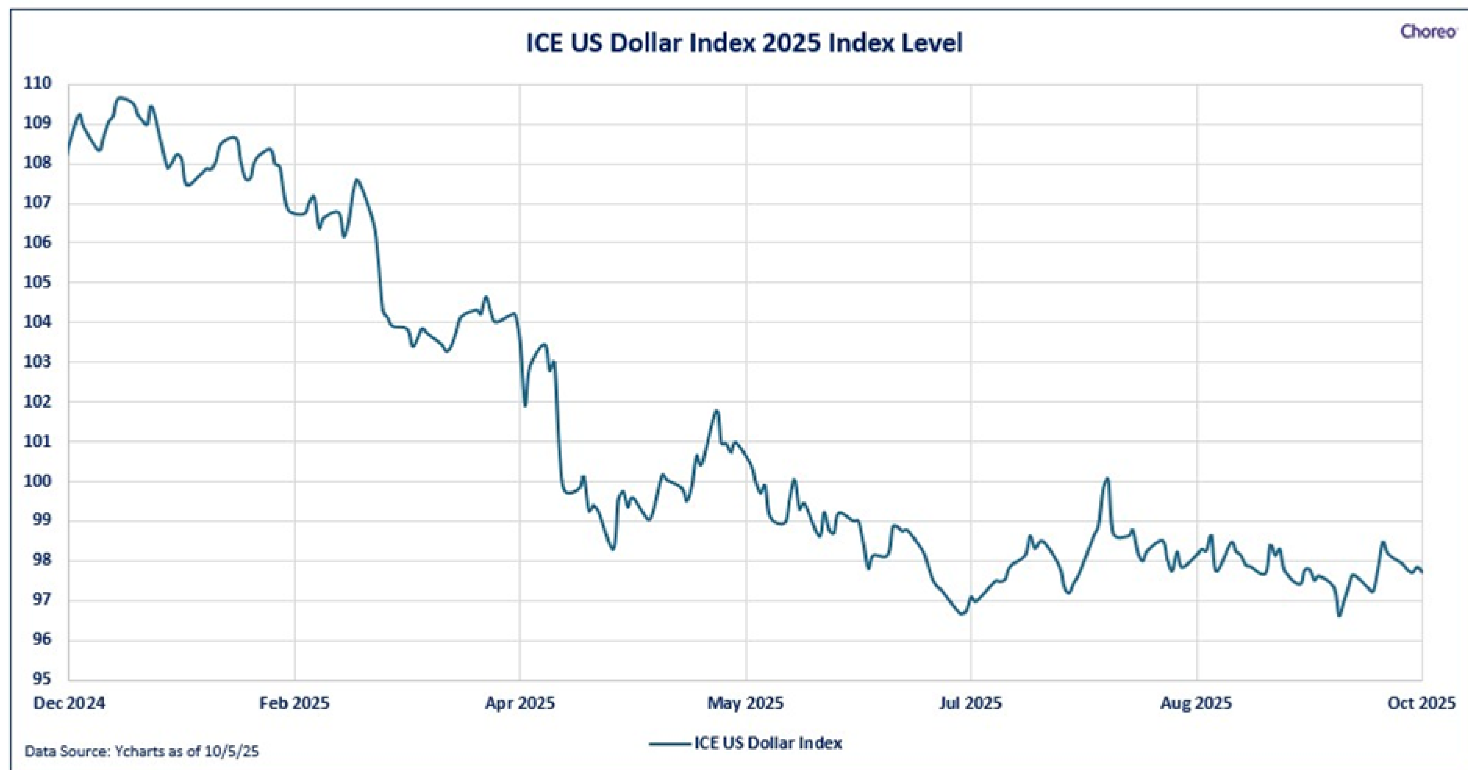


Although the September rate cut was delayed due to uncertainties surrounding trade policy, tariffs, and their potential impact on the U.S. and global economies, it's been expected for some time. Historically, tariffs have had inflationary effects, but the past year has muddied the water regarding magnitude and impact on price levels. While we're confident that the implementation of tariffs has increased U.S. government revenues, President Trump's recent announcement of additional tariffs on China may introduce even further uncertainty.



The many economic uncertainties of 2025, combined with the sizable budget deficit increase from the July 4 "One Big Beautiful Bill Act," have placed considerable pressure on the U.S. dollar. Year to date, the Dollar

Index (a trade-weighted measure comprising 57.6% Euro, 13.6% Japanese Yen, 11.9% British Pound, 9.1% Canadian Dollar, 4.2% Swedish Krona and 3.6% Swiss Franc) has fallen by nearly 10%. The recent sharp movement in currency markets is significant, and the dollar's weakness, as illustrated below, has far-reaching implications.



Currency fluctuations can influence trade balances, corporate earnings, and the relative performance of international stocks. A weaker dollar generally makes U.S. exports more competitive abroad while making imports more expensive, which can narrow the trade deficit over time. Many U.S. companies generate revenues and earnings in other countries, and large multinational companies are particularly sensitive to currency movements, which can affect revenues and earnings they bring back home to the U.S. The weak dollar has also supported the rally of international stocks this year, which are outperforming U.S. equities.

Conclusion

While it's tempting to oversimplify market performance and attribute it to any one factor, the global investment landscape is complex and influenced by many interconnected forces. As always, a long-term perspective is critical, and this is especially true during these times of information overload and economic uncertainty. Please reach out to your Choreo advisor with any questions.

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