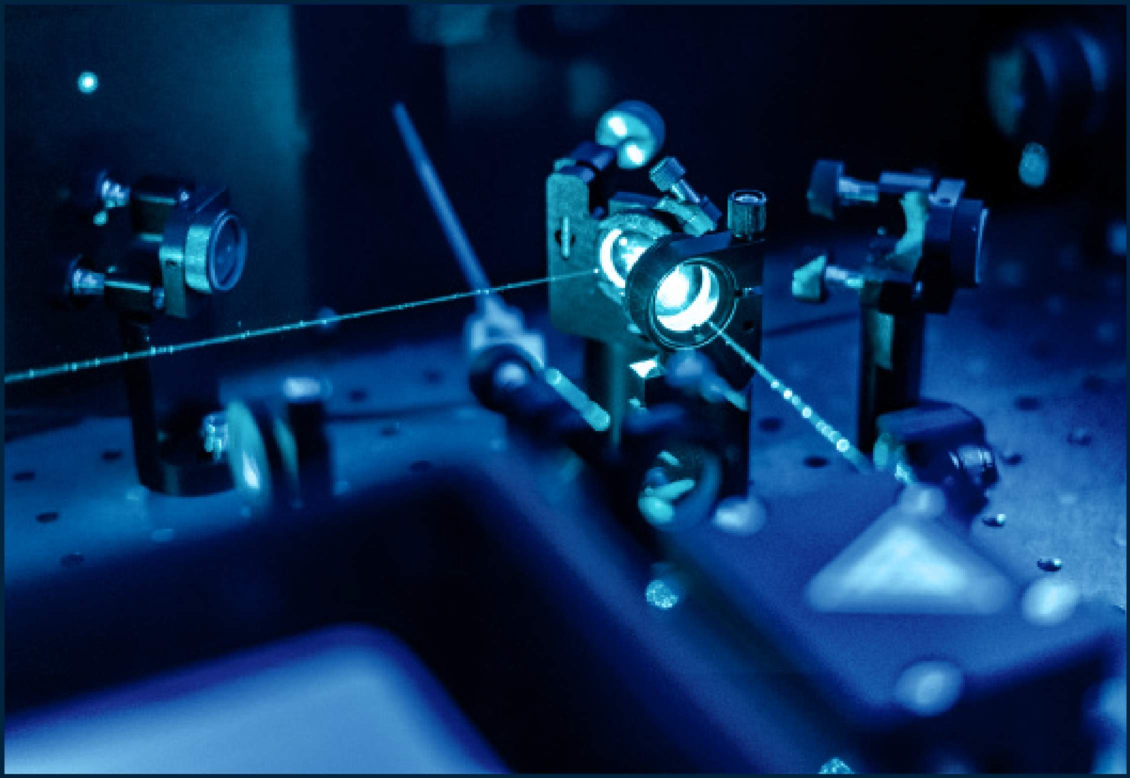

FED THOUGHTS:

TIME PRESENT AND TIME PAST

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December 2025

> Time present and time past
> Are both perhaps present in time future,
> And time future contained in time past."

T.S. ELIOT, FOUR QUARTETS 1: "BURNT NORTON", 1943.[1]

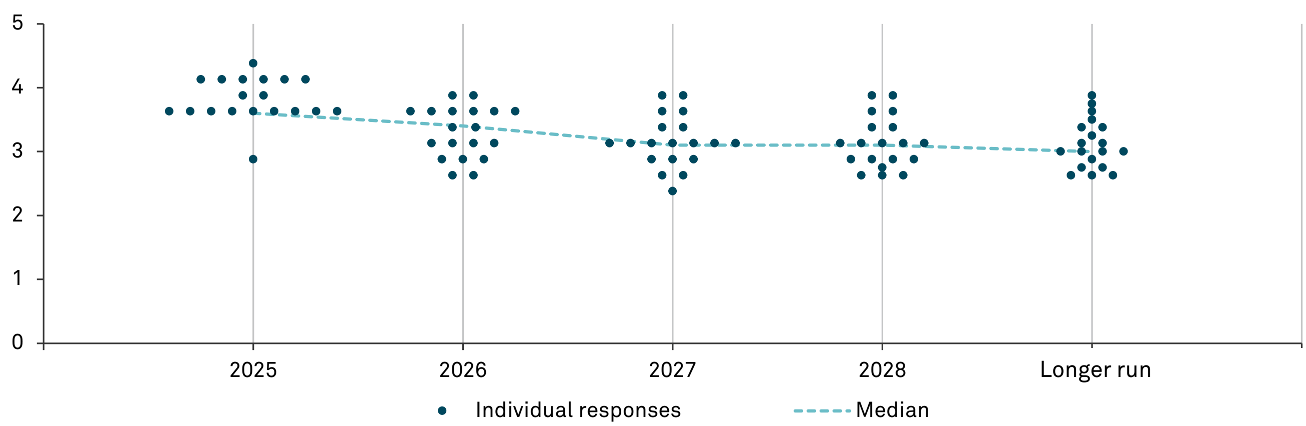
While English scholars might disagree, and perhaps being overly influenced by my career at the Federal Reserve (Fed), I think Eliot provides a good description of the Federal Open Market Committee's (FOMC's) Summary of Economic Projections (SEP).

The 19 people taking part in FOMC meetings, the voters (the seven governors and five Bank presidents) and observers (the remaining seven presidents), provide their views each quarter on the future of the economy: views shaped by the past, and often with immediate implications for the present. I keep being drawn back into the past, (their last forecast submission in September), as I think about the future (the action to be taken at the meeting on December 9 to 10). Afterall, the economic outlook, or what we know about it given the lack of official data because of the federal government shutdown, has not materially changed, so those preferences would still seem to prevail.

Much has been made of the division among the FOMC, with a sharp reaction in markets to the release of the October meeting minutes indicating that many FOMC participants object to further easing this year. Chair Powell had warned as much in his press conference at that meeting, explaining "there were strongly differing views" and that "a further reduction in the policy rate at the December meeting is not a foregone conclusion—far from it."

As made public in September, the range of views about the appropriate funds rate at the end of the year was very wide, especially given that only two FOMC meetings followed (see charts). The median outcome was tipped by one submission to three quarter-point moves by the end of the year; one participant did not want to change the policy rate, and another wanted it 1½ percentage point lower.

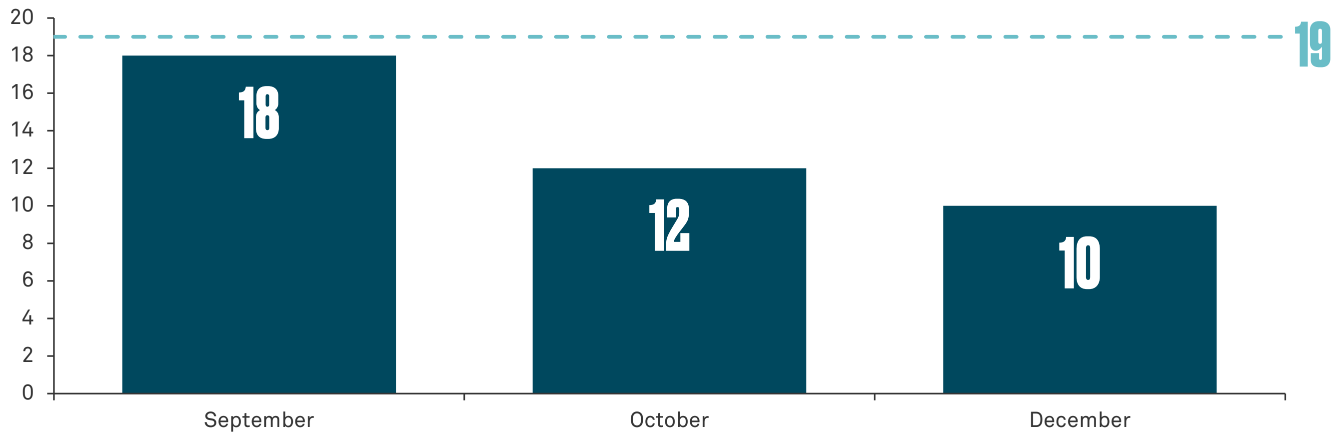
FOMC participants' assessments of appropriate monetary policy
Midpoint of target range or target level for the federal funds rate, percent



Source: Federal Reserve Summary of Economic Projections as of 11/23/2025.

FOMC participants with year-end 2025 submissions at or below the funds rate target decided at the meeting

If the target were cut 1/4 point each of the last three meetings of the year, number



Source: Federal Reserve Summary of Economic Projections as of 11/23/2025.

As a former FOMC vote wrangler, I find the second chart to be particularly useful. It walks participants positions forward each meeting, one cut at a time. In most circumstances, an FOMC member will be indifferent to the exact timing of action, provided it is within their assessment of the appropriate funds rate by year's end. In September, there was no dissent against a rate cut because only one of the 19 participants viewed the new target as below the rate they considered appropriate at year end—and that must have been a bank president not on the Committee. At least one more cut in October was consistent with the year-end views of 12 participants, implying a closer contest with opposition from nine. Two dropped out of the count favoring additional easing once the FOMC agreed to the October cut. If assessments of the economy do not change by the December meeting, the discussion will be nearly evenly split among participants about another action. That is, the outcome is not a foregone conclusion but slightly tipped to easing.

Here it helps to count votes. While there were seven participants opposed to the quarter-point cut, only one dissented in October, President Schmid. This seems to imply the other six were Bank presidents not on the Committee. Since then, two presidents in the voting rotation (Presidents Goolsbee and Musalem) have signaled they are likely to dissent at the upcoming meeting. This suggests they submitted the two dots indicating a preference for two quarter-point cuts in 2025, implying that the 10 remaining that were comfortable with an additional cut from the vantage point of September comprise the seven governors, two voting presidents (probably Presidents Collins and Williams) and one observing president (presumably President Daly). Note that the distribution among the voters on the FOMC favors easing much more than the seven observing Bank presidents.[2]

This explains the outsized and mistaken market reaction to the publication of the minutes from the October meeting. Truth be told, the drafters would provide a public service if they put Venn diagrams in the margins that made clear the universe of policy makers sampled in each paragraph. The section, "Participants' Views on Current Conditions and the Economic Outlook" summarizes the views of all 19 participants. Characterizations that "some" or "many" of them find reasons not to act logically following the fact that nine of them already thought that way in September about the December meeting. Hence, there was no information in the minutes' explanation that "Many participants suggested that, under their economic outlooks, it would likely be appropriate to keep the target range unchanged for the rest of the year."

Earlier in the same paragraph in the minutes, it was noted that "several" participants were on either side of easing in December. That got attention but, according to the qualifier to that sentence, the assessment was based on an unnumbered set of most of them who thought further cuts were appropriate "in the near term." It excludes at least the two respondents to the SEP who had submissions for the end-2026 funds rate at its level after the October meeting and potentially more who viewed the "near-term" as only the next few meetings. It also potentially excludes those whose data dependence made them silent for that part of the discussion. Again, there was no news.

Chair Powell, probably counting votes in a similar manner, offered multiple warnings about differences of opinion in the group at his press conference and probably put reminders in the minutes for three reasons. For one, he was respectful of data-dependence, acknowledging that events may prove the large minority right. For another, he was giving his colleagues the opportunity to litigate their views without his thumb on the scale. Unfortunately for the clarity of Fed communications, FOMC participants do not speak much between meetings so that the fight is mostly undertaken in public. Lastly, he was warning that many policymakers will be expressing opposing views. Those in the minority have strong incentives to air their views in public in the hope of bolstering the conviction of like-minded colleagues and perhaps swaying those on the fence. By our reading, given that they have retained their views consistently since at least September, it is just talk—unsurprising and performative.

As of now, we think that the FOMC will likely deliver another cut in December because the logic supporting actions at the past two meetings will likely still prevail Tighter immigration enforcement has reduced the flow and stock of workers, so maintaining labor-market balance now requires slow increments to labor demand to match suppressed labor supply. To Fed officials, such a slow expansion in jobs makes the economy perilously vulnerable to adverse shocks even though real GDP seems likely to average above 2% in 2025. Given that inflation has risen no more than expected, they are inclined to accept that tariffs will mostly have a one-off effect on prices and want to buy insurance against adverse employment outcomes. Essentially, they will buy protection against an employment downturn at the cost of a little more inflation in 2026. When Powell gets off the fence, he will bring enough members with him to win the vote.

Three governors will likely dissent in favor of easing if Powell surprises us and opts to keep the policy rate unchanged. If he does swing to accommodation, a quarter-point cut runs counter to the public position of four Bank presidents on the committee (Collins, Goolsbee, Musalem, and Schmid). I do not think all four will dissent, nor will their non-voting colleagues be as vocal after the meeting. Some of the Bank presidents may worry about the potential political backlash to the Fed from an obvious split in the preferred stance of policy between officials that are appointed by the president and confirmed by the Senate (the Fed governors who currently favor policy accommodation) and those that are not (the Bank presidents who mostly prefer keeping policy unchanged. As consolation, they can offer their opposition to excessive accommodation through the placement of their dots in the update to the SEP done at that meeting. A nine-to-three vote seems like the best bet, and one likely for a quarter-point cut announced December 10.

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Vincent is the firm's Chief Economist and Macro Strategist. In this role, he is responsible for developing views on the global economy and making relative value recommendations across global bond markets, currencies and sectors.

Previously, Vincent served as the Chief US Economist and a managing director at Morgan Stanley. For the prior four years, he was a resident scholar at the American Enterprise Institute (AEI). Vincent also spent 24 years at the Federal Reserve, holding several roles including Director of the Division of Monetary Affairs and Secretary and Economist of the Federal Open Market Committee (FOMC). His responsibilities at the Federal Reserve included directing research and analysis of monetary policy strategies and the conduct of policy through open market operations, discount window lending and reserve requirements. Prior to these roles, he was the principal liaison with the domestic desk at the Federal Reserve Bank of New York and was responsible for preparing a document outlining policy alternatives for each FOMC meeting. He was Deputy Director in the Division of International Finance and Associate Economist of the FOMC and spent five years at the Federal Reserve Bank of New York in both the domestic and international research departments.

His academic publications primarily concern the conduct of policy and issues related to the monetary transmission mechanism as well as an analysis of alternative auction techniques and Treasury debt management. After an undergraduate training at Fordham University, he received graduate degrees in economics at Columbia University.

Endnotes

1. Poetry Verse, Four Quartets 1: Burnt Norton, T.S. Eliot as of 11/25/25
2. There are no "non-voting" members of the FOMC. Someone is either a member who votes or a non-member who observes.

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