FRANKLIN TEMPLETON | Institute

Breaking Views: Briefings with the Institute

October FOMC Meeting

October 29, 2025



Larry Hatheway
Global Investment Strategist
Franklin Templeton Institute



Rick Polsinello, CIMA®
Senior Market Strategist
Franklin Templeton Institute

The Federal Reserve (Fed) lowered its benchmark interest rate at its October policy meeting, the second cut in a row. Franklin Templeton Institute Strategists Larry Hatheway and Rick Polsinello discuss the implications for markets and investors.

Key takeaways

- As anticipated, the Fed announced a cut of 25 basis points in its benchmark interest rate, putting fed funds in the range of 3.75% to 4.0%. (Fed funds is the rate banks charge each other for holding overnight reserves.) However, the meeting produced a small fright for markets, given that the Fed's communication created greater uncertainty about the prospects for further easing moves. In contrast to what had been anticipated, investors are now confronted by the possibility that the Fed may not cut rates again in December, and perhaps not even in the first quarter of 2026.
- In addition, the meeting produced an unusual outcome of two dissents from opposite sides of the Committee's decision, with one member voting for a 50-basis-point cut and another calling for no cut.
- The lack of official government data due to the shutdown likely played a part in the Fed's caution in offering limited forward guidance. But more important appears to be the conflict in the Fed's dual mandate—the labor market is softening coincident with an overshooting of the Fed's inflation target.
- This increased uncertainty will likely impact markets and investor behavior. In addition, the US yield curve is relatively flat, but we think steepening remains likely. Also, investors who were accustomed to 4%-5% yields in CDs or money markets may now be incentivized to consider extending duration (duration is a measure of how much a bond's price changes relative to changes in interest rates) or increasing credit exposure (which may include higher default risk) as returns in cash deposits fall.
- We are likely to see some short-term volatility as policy and economic uncertainty linger, but we still see a strong fundamental backdrop for risk assets. The US equity market is enjoying robust third-quarter earnings and should gain support from recent trade deals between the United States and various Asian economies, potentially including China. Consumer spending, a key driver of the economy, also remains solid.
- Overall, we remain constructive on equities supported by earnings and economic growth.
- The Fed also announced the end of quantitative tightening in December and will reinvest the proceeds from mortgage-backed securities (MBS) into Treasury bills. While the move should help stabilize the level of reserves in the banking system, it will also reduce the Fed's net holdings of MBS. Together with some backup in long-term interest rates, the policy could add some financing stress to the US housing market, where affordability remains problematic.
- In credit markets the fundamentals remain solid, which we believe offers support for both investment-grade and high-yield markets.
- We also favor tax-exempt municipal bonds, which we believe offer attractive after-tax yields for many investors.

Not FDIC Insured | No Bank Guarantee | May Lose Value

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

Equity securities are subject to price fluctuation and possible loss of principal. **Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**.

The government's participation in the economy is still high and, therefore, **investments in China** will be subject to larger regulatory risk levels compared to many other countries.

Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default.

Asset-backed, mortgage-backed or mortgage-related securities are subject to prepayment and extension risks.

Diversification does not guarantee a profit or protect against a loss.

IMPORTANT LEGAL INFORMATION

This material is intended to be of general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. It does not constitute legal or tax advice. This material may not be reproduced, distributed or published without prior written permission from Franklin Templeton.

The views expressed are those of the investment manager and the comments, opinions and analyses are rendered as at publication date and may change without notice. The underlying assumptions and these views are subject to change based on market and other conditions and may differ from other portfolio managers or of the firm as a whole. The information provided in this material is not intended as a complete analysis of every material fact regarding any country, region or market. There is no assurance that any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets will be realized. The value of investments and the income from them can go down as well as up and you may not get back the full amount that you invested. Past performance is not necessarily indicative nor a guarantee of future performance. Past performance is not necessarily indicative nor a guarantee of future performance. All investments involve risks, including possible loss of principal.

Any research and analysis contained in this material has been procured by Franklin Templeton for its own purposes and may be acted upon in that connection and, as such, is provided to you incidentally. Data from third-party sources may have been used in the preparation of this material and Franklin Templeton ("FT") has not independently verified, validated or audited such data. Although information has been obtained from sources that Franklin Templeton believes to be reliable, no guarantee can be given as to its accuracy and such information may be incomplete or condensed and may be subject to change at any time without notice. The mention of any individual securities should neither constitute nor be construed as a recommendation to purchase, hold or sell any securities, and the information provided regarding such individual securities (if any) is not a sufficient basis upon which to make an investment decision. FT accepts no liability whatsoever for any loss arising from use of this information and reliance upon the comments, opinions and analyses in the material is at the sole discretion of the user.

Franklin Templeton has environmental, social and governance (ESG) capabilities; however, not all strategies or products for a strategy consider "ESG" as part of their investment process.

Products, services and information may not be available in all jurisdictions and are offered outside the US by other FT affiliates and/or their distributors as local laws and regulation permits. Please consult your own financial professional or Franklin Templeton institutional contact for further information on availability of products and services in your jurisdiction.

Brazil: Issued by Franklin Templeton Investimentos (Brasil) Ltda., authorized to render investment management services by CVM per Declaratory Act n. 6.534, issued on October 1, 2001. **Canada:** Issued by Franklin Templeton Investments Corp., 200 King Street West, Suite 1400 Toronto, ON, M5H3T4, Fax: (416) 364-1163, (800) 387-0830, http://www.franklintempleton.ca. **Offshore Americas:** In the US, this publication is made available by Franklin Templeton, One Franklin Parkway, San Mateo, California 94403-1906. Tel: (800) 239-3894 (USA Toll-Free), (877) 389-0076 (Canada Toll-Free), and Fax: (727) 299-8736. **US:** Franklin Templeton, One Franklin Parkway, San Mateo, California 94403-1906, (800) DIAL BEN/342-5236, franklintempleton.com. Investments are not FDIC insured; may lose value; and are not bank guaranteed.

Issued in Europe by: Franklin Templeton International Services S.à r.l. – Supervised by the *Commission de Surveillance du Secteur Financier* – 8A, rue Albert Borschette, L-1246 Luxembourg. Tel: +352-46 66 67-1 Fax: +352 342080 9861. **Poland:** Issued by Templeton Asset Management (Poland) TFI S.A.; Rondo ONZ 1; 00-124 Warsaw. **Saudi Arabia:** Franklin Templeton Financial Company, Unit 209, Rubeen Plaza, Northern Ring Rd, Hittin District 13512, Riyadh, Saudi Arabia. Regulated by CMA. License no. 23265-22. Tel: +966-112542570. All investments entail risks including loss of principal investment amount. **South Africa:** Issued by Franklin Templeton Investments SA (PTY) Ltd, which is an authorized Financial Services Provider. Tel: +27 (21) 831 7400 Fax: +27 10 344 0686. **Switzerland:** Issued by Franklin Templeton Switzerland Ltd, Talstrasse 41, CH-8001 Zurich. **United Arab Emirates:** Issued by Franklin Templeton Investments (ME) Limited, authorized and regulated by the Dubai Financial Services Authority. Dubai office: Franklin Templeton, The Gate, East Wing, Level 2, Dubai International Financial Centre, P.O. Box 506613, Dubai, U.A.E. Tel: +9714-4284100 Fax: +97144284140. **UK:** Issued by Franklin Templeton Investment Management Limited (FTIML), registered office: Cannon Place, 78 Cannon Street, London EC4N 6HL. Tel: +44 (0)20 7073 8500. Authorized and regulated in the United Kingdom by the Financial Conduct Authority.

Australia: Issued by Franklin Templeton Australia Limited (ABN 76 004 835 849) (Australian Financial Services License Holder No. 240827), Level 47, 120 Collins Street, Melbourne, Victoria 3000. **Hong Kong:** Issued by Franklin Templeton Investments (Asia) Limited, 62/F, Two IFC, 8 Finance Street, Central, Hong Kong. **Japan:** Issued by Franklin Templeton Investments Japan Limited. **Korea:** Issued by Franklin Templeton Investment Advisors Korea Co., Ltd., 3rd fl., CCMM Building, 101 Yeouigongwon-ro, Yeongdeungpo-gu, Seoul, Korea 07241. **Malaysia:** Issued by Franklin Templeton Asset Management (Malaysia) Sdn. Bhd. & Franklin Templeton GSC Asset Management Sdn. Bhd. This document has not been reviewed by Securities Commission Malaysia. Singapore: Issued by Templeton Asset Management Ltd. Registration No. (UEN) 199205211E, 7 Temasek Boulevard, #26-03 Suntec Tower One, 038987, Singapore.

Please visit www.franklinresources.com to be directed to your local Franklin Templeton website.

FRANKLIN TEMPLETON | franklintempleton.com

© 2025 Franklin Templeton. All rights reserved.