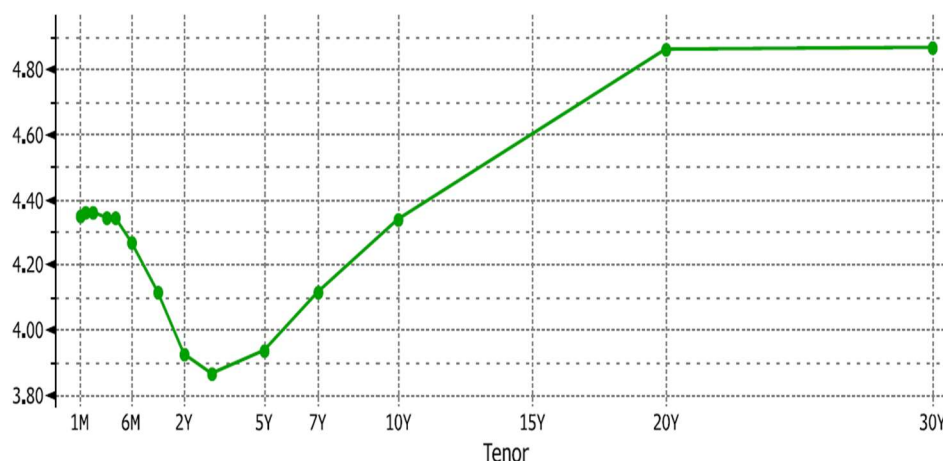


**Does a Fed rate cut even matter?**

As is becoming standard with this Administration, all the dirty laundry is out in the open. It is not often that you hear a U.S. President directly commenting about the Fed funds rate and because of that, the U.S. population, beyond just the investment world, is probably more aware that it exists and that Trump wants the rate to be lower. Because of this heightened Fed fund rate awareness, we thought it would be interesting to evaluate what a Fed fund cut actually does for the nation and, maybe more importantly, does it even matter at this point.

- What is the impact of a Fed funds rate cut:
  - At the most basic level, Fed funds rate is the rate that U.S. banks borrow money from each other on an overnight basis to manage their short-term liquidity needs and meet regulatory reserve requirements. In addition to U.S. banks, U.S. branches of foreign banks and government sponsored entities (GSEs) can also access this market which is called the federal funds market. By nature of this rate being the baseline borrowing rate for financial institutions, the Fed funds rate is used as the benchmark to determine rates for consumer lending products such as mortgages and credit cards. Obviously, banks build in a “spread” between where they can get access to financing and where they lend. That “spread” is how these firms generated revenue. As the Fed funds rate goes lower, consumer financing and the interest expense impact to consumers that borrow, also goes down. The lower the cost to borrow, the more incentive for consumers to borrow for home purchases, home renovations, cars, and to spend more in general. In short, financial liquidity available to the economy goes up which leads to consumer confidence going up, GDP goes up, revenue and earnings go up, stock prices go up, etc. This increase in revenue for companies then leads them to increase their capex to invest back into their businesses and likely hire to meet increased demand for goods and services.
  - As with any stimulant, there are, of course, some side effects. As supply races to catch up to the increase in demand for goods and services mentioned above, price appreciation and, in turn, inflation can increase. In other words, it is important for the Fed to balance the Fed funds rate, and other levers they have, at a level that stimulates demand without doing so at a level that quickly leads to inflation.
- Does a Fed cut even matter at this point:
  - From Trump’s perspective, he is directly relating the Fed funds rate to interest expense on U.S. Treasury debt. To some extent he is right, at least at the short-end of the maturity range for U.S. Treasuries, but at the end of the day, the U.S. Treasury curve is a reflection of future U.S. market growth expectations. Those expectations are ultimately the driver of U.S. interest expense and not the overnight borrowing rate of the Fed funds market. Case in point, if you look at the entire U.S. Treasury curve, there is a massive kink at the front-end that is pegging the curve close to the effective Fed funds rate, while the remainder of the curve is a reflection of expectations. The market determines the interest expense for the U.S. government, not the Fed funds rate.

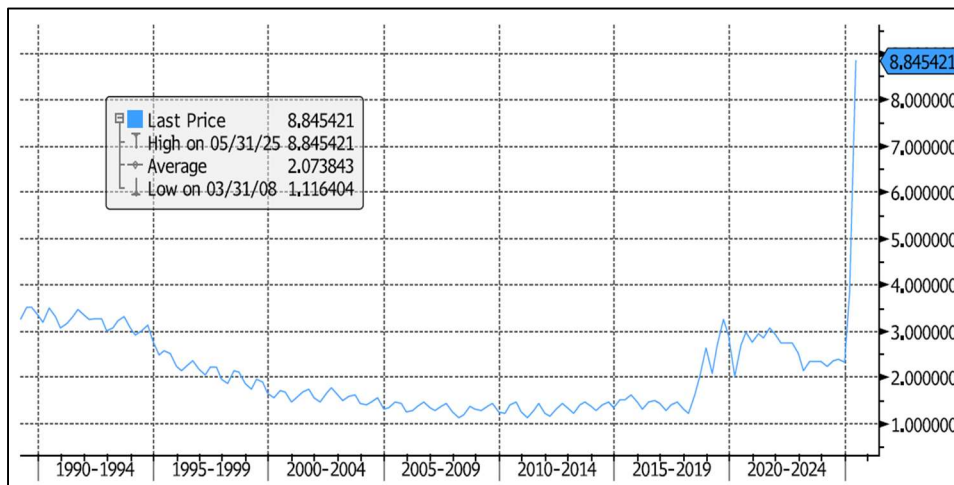
U.S. Treasury Curve



- The FOMC statement from yesterday noted that “unemployment remains low” and Chair Powell mentioned in his public comments numerous times that the labor market faces “downside risks.” It is unclear what risks he was specifically referring to but based on strong corporate earnings, albeit off of lower expectations, we believe what he is referencing is the impact of AI on the future of the workforce. That said, with the amount of future investment in U.S. manufacturing committed through trade deals with foreign nations and the impact of tariffs providing opportunities for U.S. manufacturers to be competitive again, these are potentially positive influences for the American worker and the labor market in general. Although this will take time to play out, it will also take time for corporations, and workers, to retool and reskill in a way that leverages AI to its fullest potential. So, in the short run, labor rates could be challenged as this transition takes place, but in the long run, you could argue the future is bright for U.S. productivity. With this probable future state already in motion without a Fed rate cut, then you could argue that a rate cut probably does not matter for economic growth over time.

- That leads us to address the other mandate for the Fed – inflation. Powell also stated in his public comments, which he has stated before, that tariffs will only have a one-time impact on price levels. Unfortunately, as we are all aware, the trade war negotiations are still ongoing and far from over, so the end state is still uncertain and as much as inflation remains elevated it is “closer” to the Fed’s target rate of 2%. A data driven Fed is likely challenged when they review the effective tariff rate for the U.S. that is now closer to 9% with the current deals that are now in place. To put that in perspective, the average effective tariff rate since the late 1980s has been ~2%. It is for this outstanding concern around inflation and what the ultimate end-state of tariff looks like, that the Fed continues to hold off making changes to their policy. Creating an environment of increased inflation, at this point in time, appears to be a greater risk to cutting rates than needing to cut to promote economic growth. For this reason, a rate cut would matter here, and the market is beginning to realize what we have been saying in this commentary all year. The market’s expectations are now down to one 25bps cut for 2025.

United States International Trade Commission Approximate Effective Tariff Rate



## Who We Are

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*Seelaus Asset Management, LLC is a private, women-owned investment manager providing expertise in active fixed income and equity portfolio management and designing customized investment strategies.*

### Our Vision

*To be a best-in-class asset manager that leads with value in a client driven, partnership model.*

### Our Values

- *Innovative*
- *Impactful*
- *Diverse Perspective*
- *Authentic*

### Our Mission

*To be an agent for change in the finance industry by demonstrating a straight line between the support we receive as a women-owned firm and the support we provide to women in the industry and in the community.*

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To learn more about our investment offerings, please call 212-935-0755, email [ir@seelausam.com](mailto:ir@seelausam.com) or visit <https://www.rseelaus.com/asset-management/>

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