A Divided Federal Reserve Delivers a 25-Basis-Point Cut—Its Third of 2025—As the Dot Plot Signals Slow Disinflation and Higher-for-Longer Rates.

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by Francisco Rodríguez-Castro
frc@birlingcapital.com

The **U.S. and European stock markets digested a highly anticipated yet unusually divided Federal Reserve decision on Wednesday**, as the central bank delivered its expected rate cut—but paired it with a notably more restrictive outlook for future easing and markets closed mostly higher.

The Federal Open Market Committee (FOMC) lowered the federal funds rate by 25 basis points, placing the target range at 3.50%–3.75%, consistent with market expectations for a "hawkish cut". The adjustment reflects the Fed's attempt to balance emerging signs of economic softness with lingering concerns about inflation's persistence above the 2% target.
However, the tone of the announcement shifted the conversation dramatically.

Also, the **Fed presented the December Dot Plot that signals a slow path to 2% inflation and only gradual rate cuts ahead** as policymakers brace for sticky services pressures.
Growth holds steady, inflation eases slowly, and the Fed projects a higher-for-longer rate environment through 2027.

A Rare 9–3 Split Reveals Deep Policy Tensions

The decision came with three dissents, the first such divided vote since September 2019, underscoring the Fed's internal struggle over what its policy priority should be in the months ahead.

The dissenting voices reflected opposing views from both ends of the policy spectrum:

- Governor Stephen Miran dissented in favor of a 50-basis-point cut, arguing that the economy requires faster easing to counter slowing growth and cooling labor demand.
- Kansas City Fed President Jeffrey Schmid and Chicago Fed President Austan Goolsbee dissented from the other direction, preferring to hold rates steady, citing concerns that inflation remains too elevated to justify additional easing.

This combination of hawkish and dovish dissents points to a Fed grappling with a fundamental question: Is inflation still the enemy, or is weakening demand becoming the bigger threat?

The Federal Reserve's December 2025 Dot-Plot Projections
The Federal Reserve's December 2025 Summary of Economic Projections (SEP) paints a picture of an economy gradually cooling toward trend growth, with inflation easing only slowly and policymakers signaling a cautious path for monetary easing in 2026 and beyond. The dot plot shows a Federal Open Market Committee that remains divided—more hawkish than markets expected—but aligned in the view that interest rates will remain restrictive for longer.

Growth Expectations: Moderation Ahead
Fed officials project real GDP growth of 1.7% in 2025, followed by a modest pickup to 2.3% in 2026 before returning toward the longer-run trend of 1.8%.

This outlook reflects the Fed's belief that the economy will cool but avoid recession, supported by resilient consumer spending and stable labor markets, but constrained by tighter financial conditions. Notably, the December projection for 2025 is slightly higher than the September estimate (1.6% → 1.7%), suggesting the Fed now recognizes the economy has been more resilient than previously expected.

Labor Market: A Gradual Softening
The unemployment rate is projected to hold steady at 4.5% through 2027, essentially unchanged from the September projections.

This signals the Fed expects a gradual rebalancing of labor supply and demand—not a dramatic downturn. The stability across multiple years reflects a soft-landing outlook, where tighter monetary policy cools hiring without forcing a severe contraction.

Inflation: Slow Progress, Sticky Components
Inflation remains the key tension point in the dot plot.

PCE Inflation
- 2.9% in 2025,
- Falling to 2.4% in 2026,
- Reaching the Fed's target range of 2.0% by 2027 and beyond.

The message is clear: inflation is easing, but the path back to 2% is slower than ideal—particularly in services.

Core PCE Inflation
Core inflation, the Fed's preferred gauge of underlying pressures, shows a similar but slightly more stubborn trajectory:
- 3.0% in 2025
- 2.5% in 2026
- 2.1% in 2027

These estimates underscore that the Fed expects services inflation to cool at a deliberate pace. Progress continues, but the Committee does not foresee a return to target before late 2027.

Interest Rates: A Higher-for-Longer Posture
The heart of the dot plot—the projected federal funds rate—reveals the internal debate over how quickly policy should normalize.

For 2025, the median projection places the federal funds rate at 3.6%, unchanged from September. This is notable: despite softer inflation prints, the Fed is not prepared to accelerate the easing cycle.
For 2026 and 2027:
- 3.4% in 2026,
- 3.1% in 2027,
- Converging toward a longer-run neutral rate of 3.0%.

The central tendency and range indicate wide dispersion among policymakers, highlighting elevated uncertainty and disagreement about the persistence of inflation.
Overall, the path suggests:

- The Fed expects only modest rate cuts in 2026,
- A more normalized stance in 2027,
- No return to ultra-low interest rates of the past decade.

This aligns with Chair Powell's repeated message that structural inflation pressures—housing, wages, services—may hold interest rates above the pre-pandemic equilibrium.

The Big Picture: A Cautious Fed Navigating a Slow Disinflation
The December dot plot signals three anchoring themes:

1. Soft landing remains the base case.
   Growth slows but stays positive; unemployment stabilizes, not spikes.
2. Inflation progress continues, but slowly.
   Core inflation does not return to 2% until 2027, reinforcing caution.
3. Rate cuts will be gradual and measured.
   The Fed is not in a hurry; policy remains data-dependent and risk-averse.

For markets, this translates into a continued repricing toward a higher-for-longer environment. For investors and policymakers, the SEP underscores that the Fed sees more work ahead to fully anchor inflation expectations and guide the economy toward its long-run equilibrium.

European Markets End Mixed as Investors Await Fed; Delivery Hero Surges 13%
European equities delivered a **mixed closing**, with the **Stoxx 600 finishing essentially unchanged**, reflecting subdued trading and a lack of conviction across sectors. Most major regional indexes hovered near the flatline as market participants avoided taking large positions before the Fed announcement.

One of the day's standouts moves came from **Delivery Hero**, whose shares **jumped 13%** after the company announced it is undertaking a broad review of its strategic direction.

In a shareholder letter released late Tuesday, the German food-delivery platform said it is evaluating **new partnerships for selected markets**, exploring **capital allocation adjustments**, and sharpening its focus on **financial performance improvements**. The update ignited investor optimism around potential asset restructurings or strategic shifts in 2026.

Economic Data:

- **US Employment Cost Index QoQ:** fell to 0.80%, compared to 0.90% last quarter.
- **Target Federal Funds Rate Upper Limit:** fell to 3.75%, compared to 4.00% yesterday.

Eurozone Summary:

- **Stoxx 600:** Closed at 578.17, up 0.40 points or 0.07%.
- **FTSE 100:** Closed at 9,655.53, up 13.52 or 0.14%.
- **DAX Index:** Closed at 24,130.14, down 32.51 points or 0.13%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 48,057.75, up 497.46 points or 1.05%.
- **S&P 500:** closed at 6,886.68, up 46.17 points or 0.67%.
- **Nasdaq Composite:** closed at 23,654.16, up 77.67 points or 0.33%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,821.01, down 22.91 points or 0.60%.
- **Birling Capital U.S. Bank Index:** closed at 8,849.16, down 55.29 points or 0.62%.
- **U.S. Treasury 10-year note:** closed at 4.13%.
- **U.S. Treasury 2-year note:** closed at 3.54%.

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Federal Reserve Bank Dot Plot Economic Projections 2025-2028

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2025

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run
Change in real GDP	1.7	2.3	2.0	1.9	1.8	1.6-1.8	2.1-2.5	1.9-2.3	1.8-2.1	1.8-2.0	1.5-2.0	2.0-2.6	1.8-2.6	1.7-2.6	1.7-2.5
September projection	1.6	1.8	1.9	1.8	1.8	1.4-1.7	1.7-2.1	1.8-2.0	1.7-2.0	1.7-2.0	1.3-2.0	1.5-2.6	1.7-2.7	1.6-2.6	1.7-2.5
Unemployment rate	4.5	4.4	4.2	4.2	4.2	4.5-4.6	4.3-4.4	4.2-4.3	4.0-4.3	4.0-4.3	4.4-4.6	4.2-4.6	4.0-4.5	4.0-4.5	3.8-4.5
September projection	4.5	4.4	4.3	4.2	4.2	4.4-4.5	4.4-4.5	4.2-4.4	4.0-4.3	4.0-4.3	4.2-4.6	4.0-4.6	4.0-4.5	4.0-4.5	3.8-4.5
PCE inflation	2.9	2.4	2.1	2.0	2.0	2.8-2.9	2.3-2.5	2.0-2.2	2.0	2.0	2.7-2.9	2.2-2.7	2.0-2.3	2.0	2.0
September projection	3.0	2.6	2.1	2.0	2.0	2.9-3.0	2.4-2.7	2.0-2.2	2.0	2.0	2.5-3.2	2.2-2.8	2.0-2.4	2.0	2.0
Core PCE inflation[4]	3.0	2.5	2.1	2.0		2.9-3.0	2.4-2.6	2.0-2.2	2.0		2.7-3.1	2.2-2.7	2.0-2.5	2.0	
September projection	3.1	2.6	2.1	2.0		3.0-3.2	2.5-2.7	2.0-2.2	2.0		2.7-3.4	2.2-2.9	2.0-2.4	2.0-2.2	
Memo: Projected appropriate policy path															
Federal funds rate	3.6	3.4	3.1	3.1	3.0	3.6-3.9	2.9-3.6	2.9-3.6	2.8-3.6	2.8-3.5	3.4-3.9	2.1-3.9	2.4-3.9	2.6-3.9	2.6-3.9
September projection	3.6	3.4	3.1	3.1	3.0	3.6-4.1	2.9-3.6	2.9-3.6	2.8-3.6	2.8-3.5	2.9-4.4	2.6-3.9	2.4-3.9	2.6-3.9	2.6-3.9

Dow Jones, S&P 500, Nasdaq Composite, Birling Puerto Rico Stock Index & Birling US Bank Index YTD Returns 12.10.25

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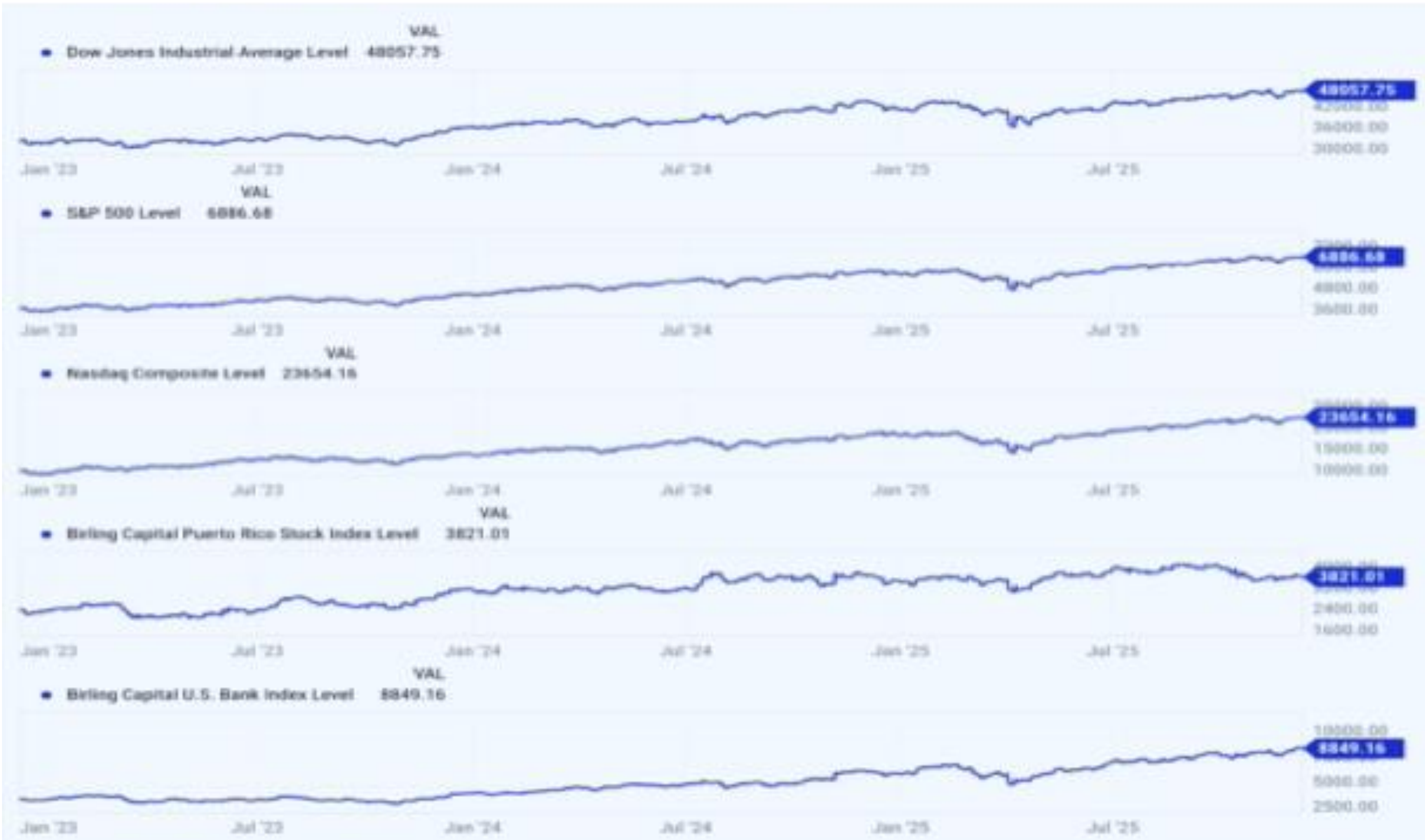
Dow Jones Industrial Average Level 48057.75
S&P 500 Level 6886.68
Nasdaq Composite Level 23654.16
Birling Capital Puerto Rico Stock Index Level 3821.01
Birling Capital U.S. Bank Index Level 8849.16