CIO expects the Fed to resume cutting in September and expect rate reductions totaling 100bps over the next four meetings. (UBS)

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2 September 2025, 12:51 UTC, written by UBS Editorial Team

The US's personal consumption expenditures (PCE) price index, the Federal Reserve's preferred inflation gauge and one of the final major data points released before the Fed's next policy decision, increased in line with expectations in July.

On an annual basis, core prices edged up slightly to 2.9% from 2.8% in June, while headline figures remained steady at 2.6%—both were in line with consensus estimates. On a monthly basis, core prices increased 0.3%, similar to the previous month, and headline prices were lower by one-tenth at 0.2%.

Consumer spending rose 0.5% in July, while personal income climbed 0.4%, both meeting expectations and pointing to continued resilience in household demand despite higher prices.

While still above the Fed's 2% target, July's inflation data suggest price pressures are not accelerating enough to prevent rate cuts, and we see multiple factors supporting the case for policy easing.

July's data point to a manageable inflation environment. The latest data indicate that while some price pressures persist, especially in services, cooling energy prices and steady goods inflation are helping to contain broader price growth. We continue to expect core inflation to trend gradually higher as businesses adjust to increased costs, but slowing shelter inflation and consumer resistance to higher prices should help offset some of these effects.

A softening labor market could provide scope to resume easing. Investors will turn their attention to the other side of the dual mandate with the US employment report set to be released on Friday, 5 September, the final major labor data before the next FOMC meeting on 16-17 September. Chair Powell has emphasized that labor conditions could deteriorate quickly if layoffs begin to mount. While the unemployment rate remains low, recent data point to softer labor demand, and

Fed meeting minutes suggest officials expect the jobless rate to rise above their estimate of the natural rate by year-end and remain elevated through 2027. We believe downside risks to employment are likely to outweigh lingering inflation concerns in the Fed's decision-making.

Fed commentary and FOMC composition signal a renewed shift toward rate cuts. Recent remarks from Fed Governors Williams and Waller underscore a more dovish tone on the rate outlook, with Powell's Jackson Hole speech also highlighting labor market softness and reinforcing expectations for policy adjustments. Notably, the July FOMC meeting saw two dissenting votes (Waller and Bowman) in favor of a cut, marking the first time in over three decades that multiple governors opposed a committee rate decision. Waller reiterated his support for a September rate cut in a speech on Thursday, stating, "So, let's get on with it," and opening the door to a larger move if labor market data continue to weaken. With Powell signaling he is leaning toward a cut, the FOMC composition and recent commentary suggest the Fed is prepared to act decisively should employment conditions deteriorate further.

So, we expect the Fed to resume cutting in September and expect rate reductions totaling 100bps over the next four meetings. We continue to recommend high-quality fixed income, which allows investors to lock in yields above those on cash, with potential for capital gains if policy becomes more accommodative. Diversifying with select medium-tenor corporate bonds can help buffer portfolios against volatility in riskier assets. Gold should also benefit from lower real rates and ongoing geopolitical risks; our target remains USD 3,700/oz by end-June 2026.

Original report: **Inflation data present no obstacle to a September Fed rate cut, 2 September 2025.**

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