



(UBS)

Cooling US inflation reinforces hopes for Fed easing this year

21 January 2025, 3:32 pm CET, written by UBS Editorial Team US Editorial Team

The S&P 500 gained 2.9% last week, its best performance since November, and the yield on the 10-year US Treasury fell 13 basis points.

The renewed optimism came following data suggesting the trend toward slower US inflation is back on track, which calmed worries that the Fed may struggle to justify rate cuts in 2025. Of course, investors should expect further swings ahead. Markets will be on the alert for policies from the incoming Trump administration that could make it harder for the Fed to hit its 2% inflation goal, including higher trade tariffs, fiscal easing, and tighter immigration controls.

But our view remains that further Fed rate cuts will take place later this year. Although the December consumer price index was only fractionally slower, with the monthly ex-food and energy measure down from 0.3% to 0.2%, this was the first decline in six months. Core inflation also slowed on an annual basis to 3.2% from 3.3% in December.

It is also worth noting that much of the current inflation is coming from shelter costs, which account for more than a third of headline CPI, and which we expect to slow further in the coming months. Excluding shelter, headline inflation was just 1.9%, while core inflation ex-shelter stood at 2.1%, consistent with the Fed's 2% target. As a result, we believe that the market pricing for only around 38 basis points of Fed easing in 2025 is too cautious, and we still expect 50 basis points of cuts.

Takeaway: Although the pace of Fed easing looks set to be slower than anticipated prior to the hawkish December meeting, US rates are still coming down. That will further erode returns on deposits and money market funds, increasing the importance of putting cash to work in fixed income and equity markets.

For more, see the [Weekly Global: Slowing US inflation calms market worries over the Fed](#), published 20 January, 2025.

Disclaimer

This document is prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland), its subsidiaries or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. In the USA, UBS Financial Services Inc. is a subsidiary of UBS AG and a member of FINRA/SIPC. Additional Disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.

This document and the information contained herein are provided solely for your information and UBS marketing purposes. Nothing in this document constitutes investment research, investment advice, a sales prospectus, or an offer or solicitation to engage in any investment activities. This document is not a recommendation to buy or sell any security, investment instrument, or product, and does not recommend any specific investment program or service.

Information contained in this document has not been tailored to the specific investment objectives, personal and financial circumstances, or particular needs of any individual client. Certain investments referred to in this document may not be suitable or appropriate for all investors. In addition, certain services and products referred to in the document may be subject to legal restrictions and/or license or permission requirements and cannot therefore be offered worldwide on an unrestricted basis. No offer of any product will be made in any jurisdiction in which the offer, solicitation, or sale is not permitted, or to any person to whom it is unlawful to make such offer, solicitation, or sale.

Although all information and opinions expressed in this document were obtained in good faith from sources believed to be reliable, no representation or warranty, express or implied, is made as to the document's accuracy, sufficiency, completeness or reliability. All information and opinions expressed in this document are subject to change without notice and may differ from opinions expressed by other business areas or divisions of UBS Group. UBS is under no obligation to update or keep current the information contained herein. **The views and opinions expressed in this material by third parties are not those of UBS.**

Accordingly, UBS does not accept any liability over the content shared by third parties or any claims, losses or damages arising from the use or reliance of all or any part thereof.

All pictures or images ("images") herein are for illustrative, informative or documentary purposes only and may depict objects or elements which are protected by third party copyright, trademarks and other intellectual property rights. Unless expressly stated, no relationship, association, sponsorship or endorsement is suggested or implied between UBS and these third parties.

Any charts and scenarios contained in the document are for illustrative purposes only. Some charts and/or performance figures may not be based on complete 12-month periods which may reduce their comparability and significance. Historical performance is no guarantee for, and is not an indication of future performance.

Nothing in this document constitutes legal or tax advice. UBS and its employees do not provide legal or tax advice. This document may not be redistributed or reproduced in whole or in part without the prior written permission of UBS. To the extent permitted by the law, neither UBS, nor any of its directors, officers, employees or agents accepts or assumes any liability, responsibility or duty of care for any consequences, including any loss or damage, of you or anyone else acting, or refraining to act, in reliance on the information contained in this document or for any decision based on it.

Additional Disclaimer relevant to Credit Suisse Wealth Management: Except as otherwise specified herein and/or depending on the local entity from which you are receiving this document, this document is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website <https://www.credit-suisse.com>. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Please visit <https://www.ubs.com/global/en/wealth-management/insights/chief-investment-office/marketing-material-disclaimer.html> to read the full legal disclaimer applicable to this document.

© UBS 2025. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.