

What do Fed rate cuts mean for investors?

UBS House View Briefcase

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Key message

The Federal Reserve delivered a widely expected 25-basis-point rate cut in October, bringing the federal funds rate to 3.75-4%. While the tone of the meeting was more hawkish than markets expected, we still expect a further 50bps of rate cuts between now and the first quarter of 2026, and with policy rates set to fall, we advise investors to put cash to work.

01 **The Fed cut rates again in October, but struck a more hawkish tone.**

- The Fed cut policy rates by a further 25bps in October, building on the 25 basis points reduction in September, its first reduction since 2024.
- But Fed Chair Powell said lowering borrowing costs again in December is "far from" a foregone conclusion, a more hawkish tilt than what the market was pricing

02 **A softening labor market gives the Fed scope to continue easing.**

- We believe concerns about a weakening labor market are likely to be the primary driver of the Fed's decision-making, given limited signs of tariff costs passing through.
- We expect US rates to fall by a further 50 basis points by the end of the first quarter of 2026.

03 **With policy rates set to fall further, investors should put cash to work now.**

- We recommend that investors phase excess liquidity into diversified portfolios.
- To achieve alternative sources of portfolio income to cash, we see medium-duration quality bonds and equity income strategies as appealing.

New this week

Private payrolls for October compiled by ADP rebounded more than expected, but the absolute level of job growth remains low. Job gains were also concentrated in a few industries, with professional business services shedding positions for a third straight month. Meanwhile, data from outplacement firm Challenger, Gray & Christmas Inc showed that US companies announced more than 153,000 job cuts last month, almost triple the number during the same month last year, and marking the largest October job cuts in more than 20 years.

One liner

With the Fed likely to cut rates further, we recommend putting excess cash to work.

Did you know?

- Soft landing rate cuts have historically been positive for stocks, and the Fed's shift from restrictive to more neutral policy should help extend the bull market.
- In a downside scenario, if labor market weakness proves to be more severe or durable, we believe the Fed could cut rates by 200-300bps by mid-2026.
- Cash tends to underperform other assets over time: Stocks have outperformed cash in 86% of all 10-year periods and 100% of all 20-year periods since 1926, with cumulative

- We also expect lower interest rates, robust corporate earnings, and AI tailwinds to support further gains for equity markets over the coming year.

returns more than 200 times higher than cash over the long term.

Investment view

We believe the resumption of the Fed's rate-cutting cycle increases the imperative for investors to put cash to work. We recommend phasing excess liquidity into diversified portfolios. We also continue to like quality bonds, which can offer a more durable source of income. Investors underallocated to equities should consider adding to stocks in CIO's preferred areas, including AI, Power and resources, and Longevity.

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