



(UBS)

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

2 December 2025, 15:11 UTC, written by UBS Editorial Team

The Federal Reserve delivered a widely expected 25-basis-point rate cut in October, bringing the federal funds rate to 3.75-4%. While some Fed policymakers have expressed doubts about reducing rates in December, we expect further Fed cuts and advise investors to put cash to work.

The Fed cut rates again in October, but some officials have cast doubt on further 2025 cuts.

- The Fed cut policy rates by a further 25 basis points in October, building on the 25bps reduction in September, which was the first cut since 2024.
- In recent weeks, some Fed officials have expressed doubts about whether a further rate cut this year is warranted, while others have said they believe a near-term reduction is appropriate.
- At the time of writing, short-term interest rate futures price around an 80% chance of a December cut.

We believe concerns about a weaker labor market give the Fed scope to continue easing.

- Concerns about a weaker labor market are likely to be the primary driver of the Fed's decision-making, in our view, given limited signs of tariff costs passing through.
- New York Fed President John Williams said he currently regards monetary policy as "moderately restrictive," and still sees room to cut rates "in the near term."

- We expect US policy rates to fall by a further 50 basis points by the end of the first quarter of 2026.

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

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.

Original report - [What do Fed rate cuts mean for investors?, 1 December 2025.](#)

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