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Will US data add to market confidence in a December rate cut by the Fed?

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The Federal Reserve has been keeping investors in suspense in recent weeks over whether there will be a final rate cut for 2025 at its December meeting.

There have been conflicting signals from top policymakers and mixed signals on the health of the labor market. But last week, the momentum shifted decisively back toward expectations for Fed easing. Markets ended the week pricing a more than 80% chance of a rate reduction on 10 December, when the policy meeting concludes. That's roughly double the probability assigned to a cut just a week earlier and much higher than the 25% ascribed 10 days ago.

The change in mood was partly triggered by comments from San Francisco Fed President Mary Daly, who described the labor market as "vulnerable," and from Governor Christopher Waller, who explicitly said he favored a cut in December. Weaker economic data added to the shift, with signs of labor market weakness and softening retail sales.

Fed officials are in the blackout period this week, so there will be no guidance on rates or the economy from policymakers. Instead, the focus for investors will be on the data. Business activity data from ISM for November will be examined for clues on whether companies are hiring, as well as for clues on inflation pressures. Following the recent weaker retail sales data, there could also be increased interest in the Michigan Consumer Sentiment survey for December. The final reading of the November survey showed Americans had the most downbeat view of their personal finances since 2009. Finally, the Fed's favorite measure of inflation—the personal consumption expenditure index—is released on Friday. This is for September, so it could seem quite outdated. However, investors and Fed officials will be hoping for reassurance that while inflation is about a percentage point above the central bank's 2% target, price pressures remain under control.

Our view is that the Fed will cut rates by 50 basis points more by the end of the first quarter of 2026. Against this backdrop, we are constructive on the outlook for quality bonds, where we see a positive risk-reward proposition due to attractive yields and the potential for even better returns if economic activity slows more than expected.

For more, see the Weekly Global report: **What to watch in the week ahead, 1 December 2025.**

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