

March 19, 2025

Fed's monetary policy: We maintain our expectation of two 25 bps cuts in 2025

- The FOMC decided to maintain the federal funds rate in a target range of 4.25% to 4.50%
- Our model suggests that the terminal rate of the Fed's easing cycle (upper range) could stand at 2% to 3% over the next 2 to 3 years
- We expect two 25 bps cuts on the federal funds rate during 2025

Fed's topics classification using NLP and ML techniques. In July 2022 we published a research note where we described a model using natural language processing (NLP) techniques that classify and interpret FOMC statements. In addition, it also **provides a methodology to confirm whether the communication made by the Central Bank is consistent with the monetary policy implemented** (refer to: [Welcome to the Machine \(Learning\): An NLP framework for analyzing the Fed's monetary policy statements](#)).

The relationship between the Fed funds rate and the semantic classification obtained was also analyzed. In this regard, the most important finding in our research note was the degree of strength in the correlation between the Fed funds rate and the semantic classification obtained, given that the latter can explain 9 out of 10 rate movements. The model also defines the range of variation of the terminal reference rate (refer to Chart 1).

The FOMC's communication stands hawkish. The Committee decided to maintain the federal funds rate in a target range of 4.25% to 4.50%. Our model classified Powell's speech following the monetary policy announcement with the same hawkish bias as January's meeting. Nevertheless, the model continues to rank the semantics of the statement with the central topic alluding to the tightening monetary cycle of 2023 (Topic 8 in Chart 2). We highlight that this topic has been the dominant one since the Fed began implementing its restrictive policy in 2022.

In this context, the same topic can give us an estimate of the terminal rate for the current Fed's easing cycle. Taking the 1st quartile for the monetary policy rates included within this topic, we forecast that the upper bound for the terminal rate will stand at 2% to 3% (refer to Chart 2). This projection does not suggest that the Fed will reach this level in 2025; rather, the model indicates that the terminal could materialize over the next 2 to 3 years, depending on macroeconomic conditions.

We maintain our expectation of two 25 bps cuts during 2025. During today's press conference, Chair Powell highlighted that the U.S economy is strong, and the labor market remains solid, but inflation remains somewhat elevated, and there are signs of moderation in consumer spending following the run in the second half of 2024. In addition, Powell reaffirmed that the following Committee's decisions will depend on incoming data, the evolving outlook, and the balance of risks. The FOMC will continue to act cautiously in recalibrating its monetary policy. In this regard, and considering Powell's hawkish rhetoric, we maintain our forecast of a gradual adjustment to the reference rate, and we estimate only two 25 bps cuts during 2025.



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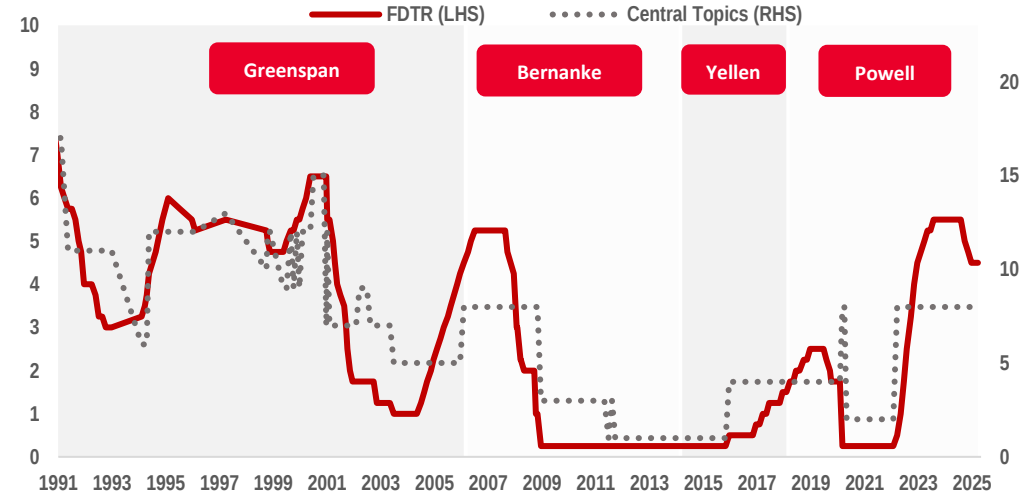
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Chart 1: Banorte's Fed Topic Index vs fed funds rate (upper range)

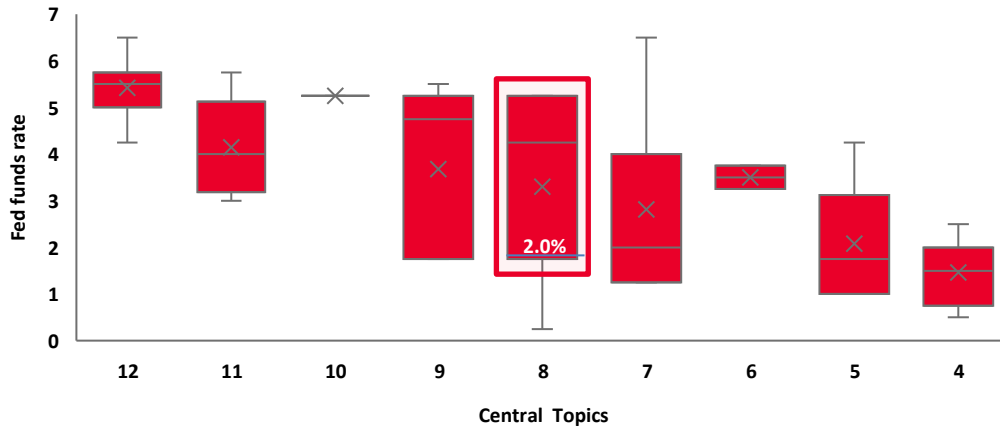
%; Central Topics



Source: Banorte, Federal Reserve

Chart 2: Range of fed funds rate by Topic

Central Topics



Source: Banorte

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, Leslie Thalia Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Marcos Saúl García Hernández, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, Ana Laura Zaragoza Félix, Jazmin Daniela Cuautencos Mora, Andrea Muñoz Sánchez and Paula Lozoya Valadez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V. for the provision of our services.

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