

May 7, 2025

## Fed's monetary policy: We expect two 25 bps cuts in the second half of 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 in September and December

**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 intensifies its hawkish rhetoric.** 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 highest hawkish bias since the beginning of the easing cycle. 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 the second half of 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. The FOMC will continue to act cautiously in recalibrating its monetary policy due to the uncertainty generated by the potential tariffs in the economic outlook. In this regard, and considering the high Powell's hawkish rhetoric, we maintain our forecast of a gradual adjustment to the reference rate, and we estimate only two 25 bps cuts in September and December.



**Alejandro Padilla Santana**  
Chief Economist and Head of Research  
[alejandro.padilla@banorte.com](mailto:alejandro.padilla@banorte.com)



**Alejandro Cervantes Llamas**  
Executive Director of Quantitative Research  
[Alejandro.cervantes@banorte.com](mailto:Alejandro.cervantes@banorte.com)



**José Luis García Casales**  
Director of Quantitative Research  
[jose.garcia.casales@banorte.com](mailto:jose.garcia.casales@banorte.com)



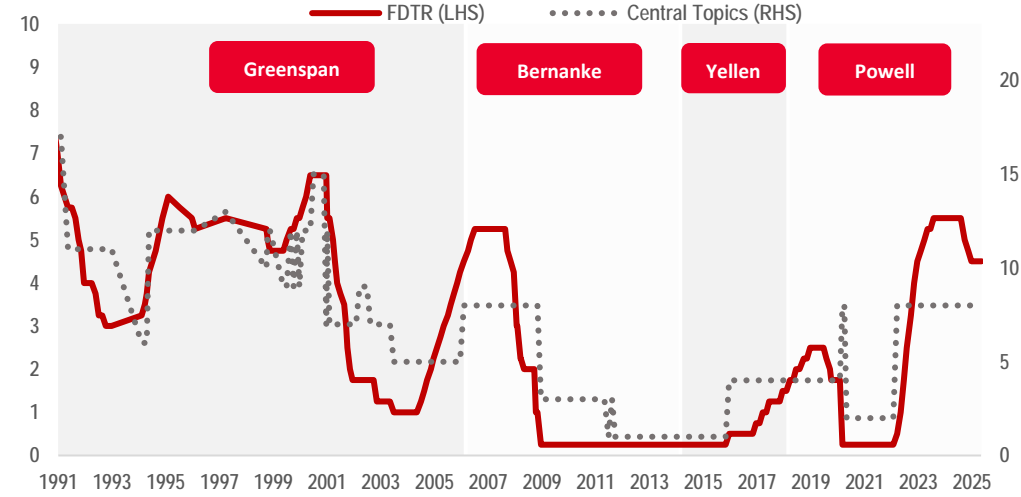
**Daniel Sebastián Sosa Aguilar**  
Senior Analyst, Quantitative Research  
[daniel.sosa@banorte.com](mailto:daniel.sosa@banorte.com)



[@analisis\\_fundam](http://www.banorte.com/analisiseconomico)

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

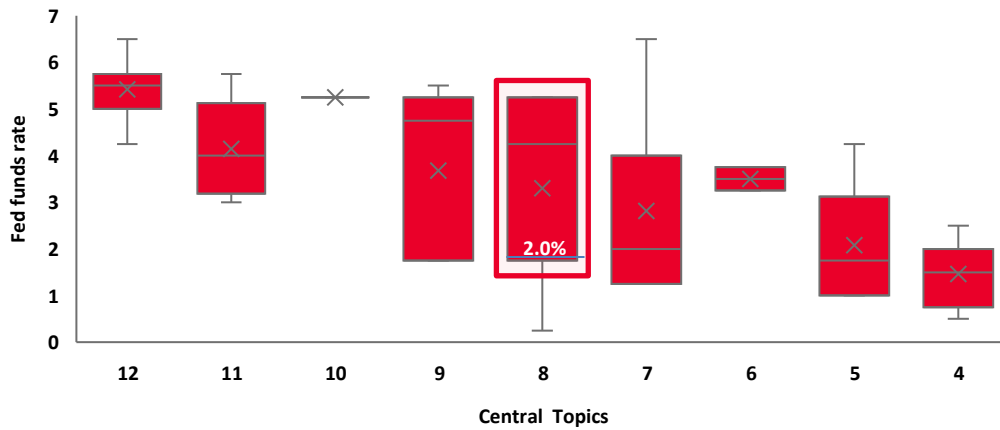
%; Central Topics



Source: Banorte, Federal Reserve

**Chart 2: Range of fed funds rate by Topic**

Central Topics



Source: Banorte

## Analyst Certification.

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 Hernandez, 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.

## Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

## Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

## Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

## Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

## Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

## Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

## Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

*The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.*



**Raquel Vázquez Godínez**  
Assistant  
raquel.vazquez@banorte.com  
(55) 1670 - 2967



**María Fernanda Vargas Santoyo**  
Analyst  
maria.vargas.santoyo@banorte.com  
(55) 1103 - 4000 x 2586

## Economic Research



**Juan Carlos Alderete Macal, CFA**  
Executive Director of Economic Research and Market Strategy  
juan.alderete.macal@banorte.com  
(55) 1103 - 4046



**Yazmín Selene Pérez Enríquez**  
Senior Economist, Mexico  
yazmin.perez.enriquez@banorte.com  
(55) 5268 - 1694

## Market Strategy



**Santiago Leal Singer**  
Director of Market Strategy  
santiago.leal@banorte.com  
(55) 1670 - 1751



**Carlos Hernández García**  
Senior Strategist, Equity  
carlos.hernandez.garcia@banorte.com  
(55) 1670 - 2250



**Marcos Saúl García Hernández**  
Analyst, Fixed Income, FX and Commodities  
marcos.garcia.hernandez@banorte.com  
(55) 1670 - 2296



**Juan Carlos Mercado Garduño**  
Strategist, Equity  
juan.mercado.garduno@banorte.com  
(55) 1103 - 4000 x 1746

## Quantitative Analysis



**Alejandro Cervantes Llamas**  
Executive Director of Quantitative Analysis  
alejandro.cervantes@banorte.com  
(55) 1670 - 2972



**Daniel Sebastián Sosa Aguilar**  
Senior Analyst, Quantitative Analysis  
daniel.sosa@banorte.com  
(55) 1103 - 4000 x 2124



**Alejandro Padilla Santana**  
Chief Economist and Head of Research  
alejandro.padilla@banorte.com  
(55) 1103 - 4043



**Itzel Martínez Rojas**  
Analyst  
itzel.martinez.rojas@banorte.com  
(55) 1670 - 2251



**Francisco José Flores Serrano**  
Director of Economic Research, Mexico  
francisco.flores.serrano@banorte.com  
(55) 1670 - 2957



**Cintia Gisela Nava Roa**  
Senior Economist, Mexico  
cintia.nava.roa@banorte.com  
(55) 1105 - 1438



**Marissa Garza Ostos**  
Director of Equity Strategy  
marissa.garza@banorte.com  
(55) 1670 - 1719



**Hugo Armando Gómez Solís**  
Senior Strategist, Equity  
hugo.gomez@banorte.com  
(55) 1670 - 2247



**Gerardo Daniel Valle Trujillo**  
Senior Analyst, Corporate Debt  
gerardo.valle.trujillo@banorte.com  
(55) 1670 - 2248



**Ana Gabriela Martínez Mosqueda**  
Strategist, Equity  
ana.martinez.mosqueda@banorte.com  
(55) 5261 - 4882



**José Luis García Casales**  
Director of Quantitative Analysis  
jose.garcia.casales@banorte.com  
(55) 8510 - 4608



**Jazmin Daniela Cuautencos Mora**  
Strategist, Quantitative Analysis  
jazmin.cuautencos.mora@banorte.com  
(55) 1670 - 2904



**Lourdes Calvo Fernández**  
Analyst (Edition)  
lourdes.calvo@banorte.com  
(55) 1103 - 4000 x 2611



**Katia Celina Goya Ostos**  
Director of Economic Research, Global  
katia.goya@banorte.com  
(55) 1670 - 1821



**Luis Leopoldo López Salinas**  
Economist, Global  
luis.lopez.salinas@banorte.com  
(55) 1103 - 4000 x 2707



**Víctor Hugo Cortes Castro**  
Senior Strategist, Technical  
victorh.cortes@banorte.com  
(55) 1670 - 1800



**Leslie Thalía Orozco Vélez**  
Senior Strategist, Fixed Income and FX  
leslie.orozco.velez@banorte.com  
(55) 5268 - 1698



**Ana Laura Zaragoza Félix**  
Strategist, Corporate Debt  
ana.zaragoza.felix@banorte.com  
(55) 1103 - 4000



**Paula Lozoya Valadez**  
Analyst, Equity  
paula.lozoya.valadez@banorte.com  
(55) 1103 - 4000 x 2060



**José De Jesús Ramírez Martínez**  
Senior Analyst, Quantitative Analysis  
jose.ramirez.martinez@banorte.com  
(55) 1103 - 4000



**Andrea Muñoz Sánchez**  
Strategist, Quantitative Analysis  
andrea.muñoz.sanchez@banorte.com  
(55) 1105 - 1430