

July 30, 2025

## Fed's monetary policy: We expect two 25 bps cuts in the last quarter 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 October 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).

**Powell's rhetoric was slightly less hawkish.** The Committee decided to maintain the federal funds rate in a target range of 4.25% to 4.50%. The classification model assigned a moderate restrictive tone to Powell's press conference speech. We highlight that our model suggests that Powell's hawkish tone decreased compared to the previous decision. Nevertheless, Powell mentioned that the committee is still not comfortable discussing rate cuts.

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 expect two 25 bps cuts during the last quarter of 2025.** During today's press conference, Chair Powell highlighted that: *"...We believe that the current stance of monetary policy leaves us well positioned to respond in a timely way to potential economic developments."* However, Powell also mentioned that the labor market remains solid, alluding to the current unemployment rate as the main key indicator that, in tandem with the moderation in payroll jobs, *"...puts the labor market in balance."* The FOMC will determine the appropriate stance and will act cautiously in recalibrating its monetary policy due to the uncertainty generated by the potential tariffs in the economic outlook, immigration and regulatory policies. In this regard, and considering Powell's slightly less hawkish rhetoric, we estimate two 25 bps cuts in October and December.



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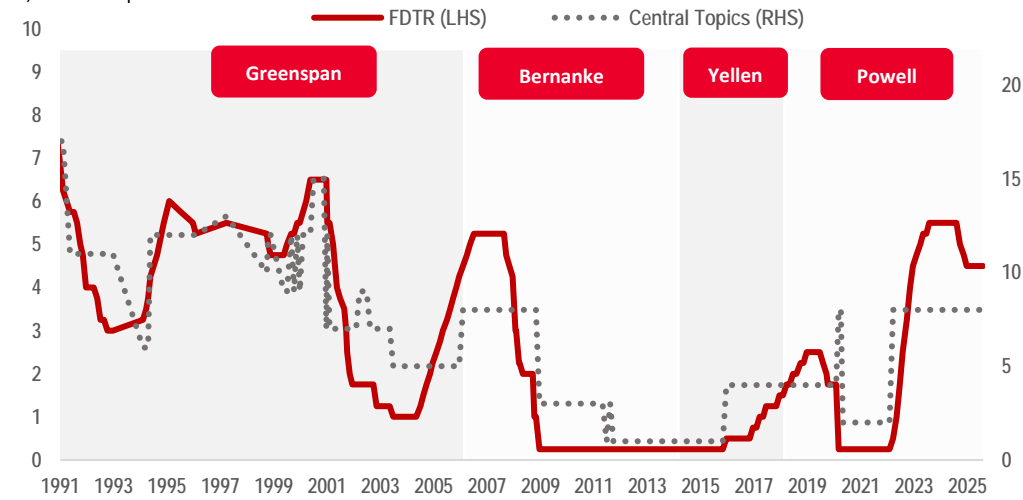
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**Chart 1: Banorte's Fed Topic Index vs fed funds rate (upper range)**

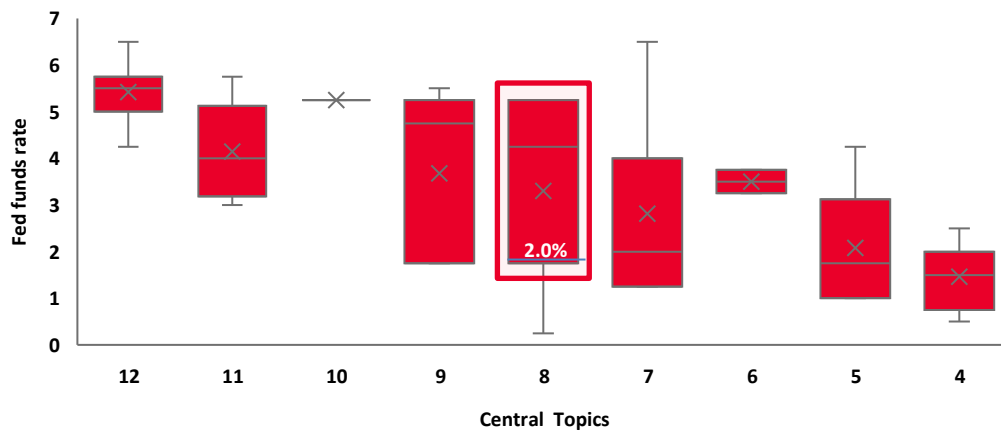
%; Central Topics



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, 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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