

Fed's monetary policy: We expect two additional 25 bps cuts in the last quarter of 2025

- The FOMC decided to lower the federal funds rate by 25 bps
- Our model suggests that the terminal rate of the Fed's easing cycle (upper range) could stand between 2% and 3% over the next 2 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).

The hawkish tone in Powell's rhetoric continues to soften. Following the Fed's decision to lower the federal funds rate to a target range between 4%–4.25%, our model classified Powell's speech delivered during the press conference as having a mildly restrictive stance. Nevertheless, it is noteworthy that the hawkish bias declined significantly compared to the previous speech. This provides confirmation that the FOMC has resumed its rate-cutting cycle.

The model continued to classify the semantics of the statement under the topic associated with the restrictive monetary cycle observed throughout 2022 (Topic 8 in Chart 2). Within this framework, the same topic also serves as a basis for estimating the terminal rate of the upcoming accommodative cycle. By considering the first quartile of rates embedded within this topic, we estimate that the terminal rate for the next Fed cycle will likely fall within the upper range of 2% to 3% (refer to Chart 2 on the following page). This does not imply that the rate will reach this level in 2025, as the model suggests that such a range could materialize over the next two years.

We anticipate two additional 25-bps rate cuts over the remainder of the year. During today's press conference, Chair Powell reaffirmed that the FOMC's current monetary stance positions the Fed to respond appropriately to any economic disruption. He also emphasized that recent economic indicators point to a deceleration in U.S. economic activity, particularly in private consumption. Moreover, job creation has slowed. Nonetheless, inflation remains slightly above target. Considering these developments—and the less hawkish tone conveyed by Powell today—we estimate two 25-bps rate cuts in the remainder of 2025 (October and December).



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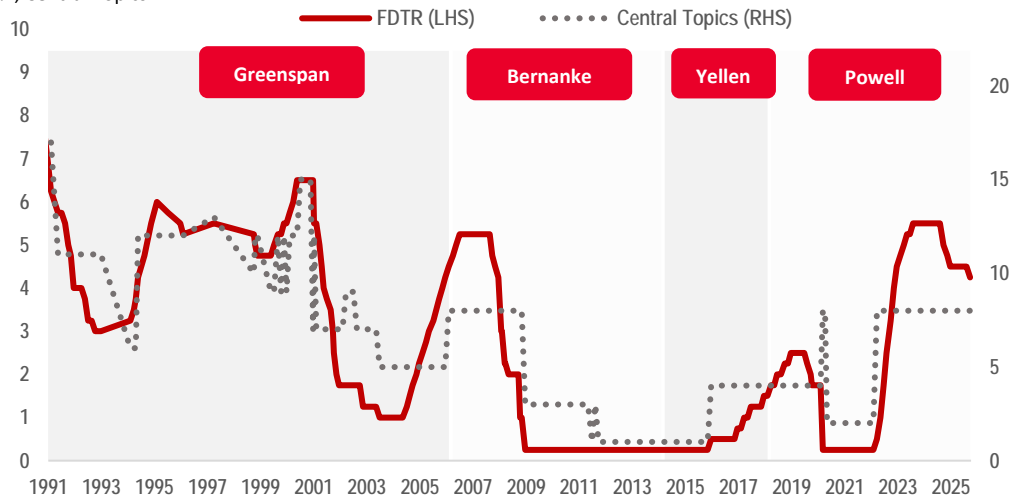
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Chart 1: Banorte's Fed Topic Index vs fed funds rate (upper range)

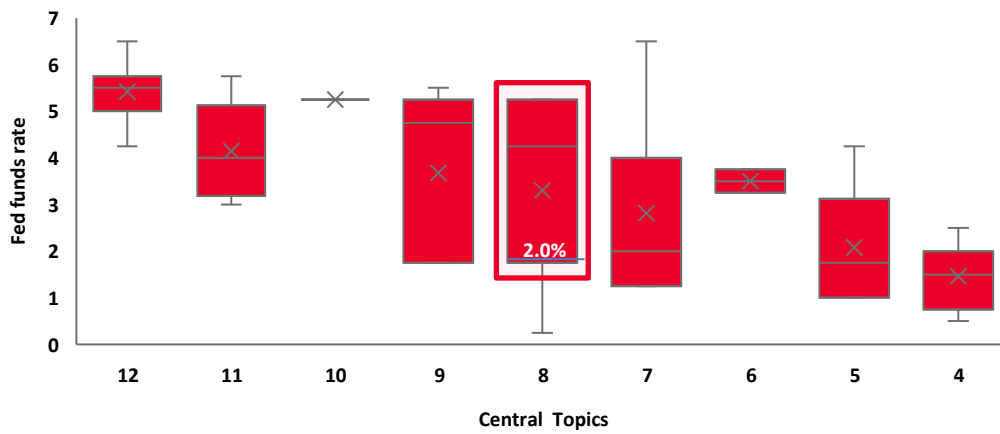
%; Central Topics



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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