

# WHAT THE FED RATE CUT MEANS FOR LONG-TERM INVESTORS

*The Fed's recent rate cut continues its easing cycle that began in 2024. For investors, it's important to focus on the overall path of rates rather than individual Fed decisions.*

As was widely expected, the Fed cut policy rates by 0.25% at its September meeting, continuing the easing cycle that first began in 2024. This decision came at a time when markets are near all-time highs, economic signals are mixed, and there is still uncertainty around tariffs and inflation. Unlike the emergency rate cuts during the 2008 global financial crisis or the 2020 pandemic, today's move is an attempt by the Fed to fine-tune policy to sustain growth, rather than responding to a crisis.

For long-term investors, understanding why the Fed is cutting rates and how this environment differs from previous cycles can provide important context for financial planning and portfolio decisions. While rate cuts generally support financial markets, the key is maintaining perspective and staying focused on long-term financial goals rather than overreacting to each policy change.

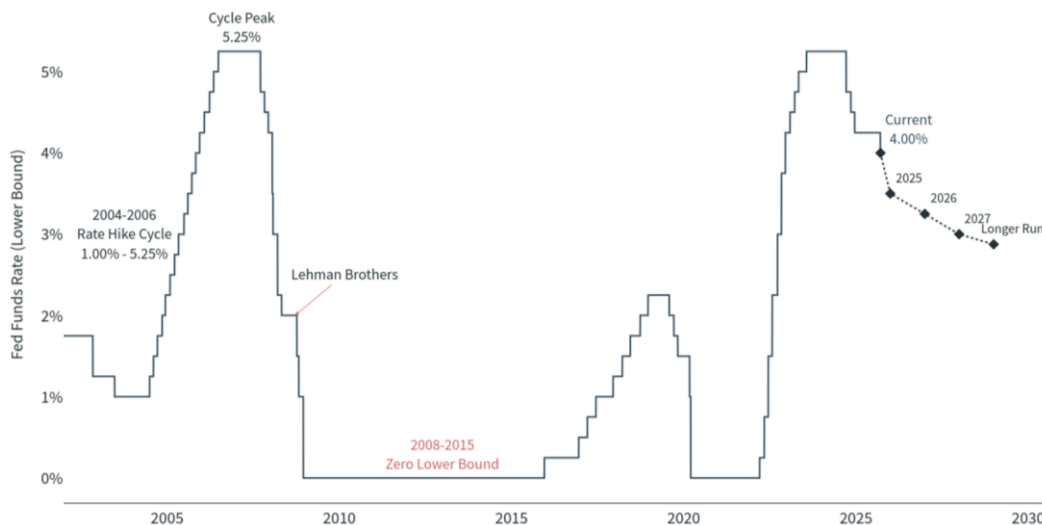
## "Why" the Fed Is Cutting Rates Matters More Than "When" or "How Much"

In making its policy decisions, Fed officials study economic data including growth, jobs, and inflation to form an outlook. When the outlook is hazy, it's natural for Fed officials and other economists to not see eye-to-eye, resulting in differing views on the path and size of upcoming rate cuts. This is the case today with wide dispersion among officials' rate forecasts.

Despite disagreements, it's important to keep a few facts in mind. First, the Fed had been anticipating that it would cut rates for quite some time. Recently published Summary of Economic Projections reports showed that cuts were likely to begin this year, even if the number and magnitude have varied. The Fed's latest projections show there could be two additional cuts this year, with an improved growth outlook.

### Federal Funds Rate

Target range lower limit



Sources: Clearnomics, Federal Reserve. Latest data point is September 19, 2025.

Second, the latest rate cut is fundamentally different from historical cutting cycles that were mostly driven by emergencies. Today's rate cuts continue to reverse the rapid increase in rates in response to inflation that began in 2022. They also occur against a softening but positive economic backdrop, even if the jobs data is potentially weakening and inflation is more stubborn than expected. In other words, the Fed cutting rates by one-quarter of one percent to help steer the economy is distinct from large emergency cuts due to problems with the financial system or an economic crisis.

Third, Fed Chair Jerome Powell's term will most likely end in May 2026. The next Fed governor will be appointed by President Trump, which means the most likely path of the federal funds rate will be lower. While this could mean that short-term interest rates will likely trend lower as well, it's important to remember that long-term interest rates are driven by market and economic forces, not Fed policy.

## Recent Economic Data Has Been Mixed

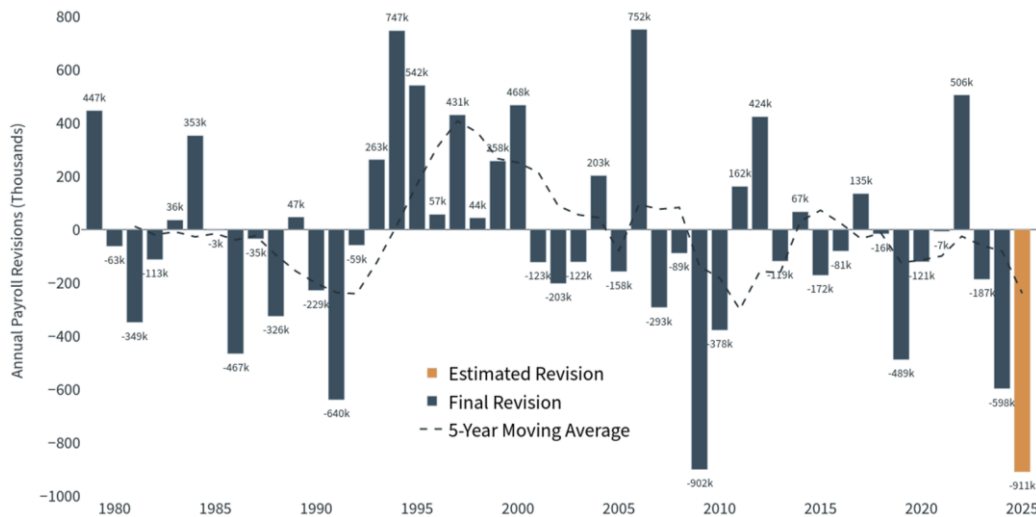
A primary driver of the Fed's decision was softening in the labor market. The economy added only 22,000 jobs in August, well below ex-

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pectations, and previous months' numbers were revised down significantly. The unemployment rate only ticked up to 4.3%, however, due to fewer workers seeking jobs. Once again, this is different from past emergency rate cut periods. During the 2008 financial crisis, unemployment spiked from 5.0% to 10.0% and in 2020, it jumped from 3.5% to 14.8%. Today, the jobs numbers suggest a more gradual cooling that may reflect a softening of labor market conditions.

## Annual Payroll Revisions

Preliminary and final payroll revisions from the Bureau of Labor Statistics



Sources: Clearnomics, Bureau of Labor Statistics. Latest data point is September 19, 2025.

Adding to concerns about labor market weakening, the Bureau of Labor Statistics' annual revision process showed 911,000 fewer new jobs were created from March 2024 to March 2025, suggesting the labor market was cooling more rapidly than the Fed realized when making earlier monetary policy decisions.

While a weakening labor market would support lowering interest rates, the Fed's concerns around inflation support keeping rates steady, or even raising them if tariffs drive prices higher. The Fed's preferred inflation gauge, the Personal Consumption Expenditures (PCE) Price Index, at 2.6%, remains well above the 2% target. Core PCE is hovering at 2.9%, while headline and core CPI have remained sticky at 2.9% and 3.1%, respectively. Earlier progress on inflation has not only slowed, but some of the trends have reversed in recent months.

The Fed's job is to balance these factors as part of its "dual mandate." The mixed signals these indicators are sending explain why there is disagreement both within the Fed and with the White House. Understanding these trends is helpful in understanding the economic and interest rate environment.

## Rate Cuts Generally Benefit Businesses and Investors

For investors, the critical distinction is whether rate cuts coincide with a recession or support continued expansion. While there are some signs of economic weakness, there are not yet signs of a recession. In these situations, rate cuts typically provide broad benefits across financial markets. Lower borrowing costs make it cheaper for companies to finance growth and reduce debt service expenses, while consumer spending can increase if mortgage and credit card rates decline.

For portfolios, rate cuts are generally positive across asset classes. While the past is no guarantee of the future, stocks typically benefit as lower rates reduce the discount rate for future earnings and improve profitability. Meanwhile, existing bonds tend to become more valuable due to their higher coupon rates.

While each economic cycle is unique, navigating policy change is a normal part of investing. Importantly, rate cuts are generally supportive for long-term investors, although balancing risk and reward requires a broad understanding of market trends.



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