AI-01941 Fed Rate Cut in September 2025

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Tags	Investing
Created time	@August 7, 2025 10:18 AM

Consider:

◦ Lower oil prices, which are down 10% year-to-date.

◦ Reduced taxation achieved through "The One Big Beautiful Bill".

◦ A less stringent regulatory environment.

◦ A weakening U.S. dollar has emerged

What will happen to S&P and the market when Fed lowers interest rate in September.

Predicting the precise market reaction to a future event like a Federal Reserve interest rate cut is inherently complex, as markets are influenced by a multitude of factors and investor sentiment. However, based on the economic conditions you've described, a hypothetical Fed rate cut in September, coupled with the other factors, would likely have a positive impact on the S&P 500 and the broader market.

Here's a breakdown of how each factor could contribute to this outcome:

1. Fed Lowers Interest Rates

- **Stimulates Economic Activity:** Lower interest rates make borrowing cheaper for both businesses and consumers. This encourages companies to invest, expand, and hire, while consumers are more likely to make large purchases like homes and cars. This increased economic activity generally boosts corporate profits, which is a key driver of stock market performance.

- **Makes Stocks More Attractive:** When interest rates fall, the returns on lower-risk assets like bonds and savings accounts also decrease. This makes stocks, which offer the potential for higher returns, more appealing to investors. The influx of capital into the stock market can drive up prices.
- **Impact on the S&P 500:** A rate cut would likely lead to a rally in the S&P 500. This is because the index is composed of large, established companies that are often sensitive to borrowing costs and consumer spending. Sectors like consumer discretionary and technology, which rely on consumer spending and business investment, could see significant gains.

2. Lower Oil Prices

- **Reduces Business Costs:** Lower oil prices are a boon for many businesses, particularly those in the transportation, manufacturing, and retail sectors. It lowers their operating costs, such as fuel and materials, which can improve profit margins.
- **Increases Consumer Spending:** Lower gas prices put more disposable income in consumers' pockets, which they can then spend on other goods and services. This supports corporate revenues and overall economic growth.
- **Caveat:** While generally positive for the broader market, lower oil prices can negatively impact the energy sector, which is a component of the S&P 500. However, the positive effects on other sectors often outweigh the negative impact on energy.

3. Reduced Taxation and Less Stringent Regulation

- **Boosts Corporate Profits:** A "One Big Beautiful Bill" that reduces taxation would directly increase corporate profits. This is a powerful catalyst for stock market growth, as higher profits make companies more valuable.
- **Encourages Business Investment:** A less stringent regulatory environment can lower compliance costs and make it easier for businesses to operate and innovate. This can lead to increased investment and expansion.
- **Favorable Business Environment:** These policies create a more business-friendly environment, which can attract both domestic and foreign investment, further supporting the stock market.

4. A Weakening U.S. Dollar

- **Helps Multinational Companies:** A weaker dollar makes U.S. exports more affordable for foreign buyers, boosting international sales for U.S. companies. It also increases the value of foreign earnings when they are converted back into U.S. dollars.
- **Benefits the S&P 500:** Many companies in the S&P 500 are multinational corporations that derive a significant portion of their revenue from overseas. A weakening dollar would directly benefit their bottom lines.
- **Inflationary Pressure:** A weaker dollar can make imports more expensive, potentially leading to some inflationary pressure. However, in the scenario you've described, with a Fed rate cut, the market is likely more focused on the stimulative effects.

Look back 30 years, who were the Fed chairman during each crises?

Looking back 30 years from today (August 7, 2025), the following Federal Reserve chairmen presided over major financial crises:

- *Alan Greenspan (1987-2006): He was the Fed chairman during the dot-com bubble burst and the ensuing recession in the early 2000s. The Fed, under his leadership, lowered interest rates to stimulate the economy after the bubble and the September 11 attacks.
- *Ben Bernanke (2006-2014): He was the chairman during the 2008 financial crisis and the subsequent Great Recession. Bernanke oversaw the Fed's response, which included aggressive interest rate cuts and unconventional measures like quantitative easing. His tenure began just as the housing bubble was starting to burst.
- *Jerome Powell (2018-present): He was the Fed chairman during the COVID-19 pandemic and the economic crisis that followed in 2020. The Fed, under his leadership, implemented a series of emergency actions to support the financial system and the economy.

Hypothetically place Greenspan and Bernanke in 2025 situations, what would they do hypothetically?

Given the hypothetical situation of placing former Fed Chairmen Alan Greenspan and Ben Bernanke in the economic climate of 2025, their approaches to monetary policy would likely differ based on their distinct philosophies and experiences.

The 2025 Economic Situation (Hypothetical)

Based on a synthesis of available economic forecasts and current trends, a hypothetical 2025 economic situation for the U.S. might look something like this:

- Inflation: Inflation has been a persistent challenge, with some forecasts suggesting it remains above the Fed's target, although declining from its peak.
- Economic Growth: Global economic growth is projected to be slow, with some regions experiencing a slowdown. In the U.S., growth may be modest and showing signs of weakening.
- Labor Market: The labor market is resilient but showing some signs of softening. Unemployment rates are stable or slightly increasing.
- Geopolitical and Trade Tensions: Ongoing geopolitical tensions and rising protectionism contribute to global uncertainty and put upward pressure on prices.

  Alan Greenspan's Hypothetical Response

  Alan Greenspan's tenure was marked by a flexible, sometimes called "hawkish," approach to inflation. His philosophy was heavily influenced by the belief that price stability is the most important foundation for long-term economic growth. He also gained a reputation for using a "Greenspan Put," where the Fed would aggressively lower interest rates to fight a decline in asset prices.

  In 2025, Greenspan would likely:

- Prioritize Fighting Inflation: Given the persistent inflation, Greenspan would likely maintain a tight monetary policy, even if it meant risking a slowdown in economic growth. He would be wary of inflation expectations becoming unanchored.
- Be Cautious on Interest Rate Cuts: He would likely be hesitant to cut interest rates too soon, preferring to see convincing evidence that inflation is under control and on a sustainable path back to the target.
- Emphasize a "Hands-Off" Approach to the Market: While he was known for intervening to prevent a market crash, his overall philosophy was one of limited government interference. He might be less inclined to engage in unconventional policies like large-scale asset purchases unless the financial system was on the brink of collapse.

- Be Mindful of Bubbles: Having presided over the dot-com bubble, he would be acutely aware of the potential for asset bubbles and might use his public speeches to caution against excessive speculation.
  Ben Bernanke's Hypothetical Response
  Ben Bernanke's legacy is defined by his decisive actions during the 2008 financial crisis. As an expert on the Great Depression, his philosophy was deeply rooted in the belief that a central bank must act aggressively to prevent a collapse of the financial system and to combat deflation. He was a pioneer of unconventional monetary policy tools like quantitative easing (QE).
  In 2025, Bernanke would likely:

- Be More Open to Stimulus: While mindful of inflation, Bernanke would be more sensitive to the signs of a weakening economy and potential for a recession. If growth were to slow significantly or if unemployment were to rise, he would likely advocate for a more accommodative stance.
- Utilize a Broader Toolkit: Having developed and implemented new tools, he would be more likely to consider a wider range of policy options beyond just interest rate adjustments. If interest rates were already low, he might consider a targeted form of QE to support a struggling sector of the economy.
- Focus on Financial Stability: With the knowledge of the 2008 crisis, Bernanke would be highly focused on the health of the banking system and broader financial markets. He would be more proactive in using the Fed's tools to provide liquidity and ensure market stability, should it be threatened by economic uncertainty.
- Communicate Clearly: Known for his clear and frequent communication, Bernanke would likely use press conferences and public speeches to explain the Fed's actions and its forward guidance, aiming to manage market expectations and provide confidence.

Tabulate hypothetical actions of Greenspan, Bernanke and contrast with Powell in 2025

This is a fascinating exercise in contrasting economic philosophies. Based on a hypothetical 2025 economic landscape characterized by persistent but declining inflation, modest economic growth, a resilient but softening labor market, and heightened geopolitical uncertainty, here's a tabulated comparison of the hypothetical actions of Greenspan, Bernanke, and the current Fed Chair, Jerome Powell.

Hypothetical Fed Actions in 2025

Aspect	Alan Greenspan (Hypothetical)	Ben Bernanke (Hypothetical)	Jerome Powell (Actual/Projected)
Primary Focus	Price Stability. Would prioritize bringing inflation down, even at the risk of a potential recession. His experience with the "Great Moderation" cemented his belief that stable prices are the bedrock of long-term growth.	Financial & Economic Stability. Would be highly sensitive to signs of a weakening economy and potential financial instability. His experience during the 2008 crisis would make him more risk-averse regarding deflationary spirals.	Dual Mandate Balance. Would seek to balance the Fed's dual mandate of maximum employment and stable prices. His approach is characterized by a data-dependent, "wait-and-see" approach to policy shifts.
Monetary Policy Stance	Hawkish. Would likely favor a restrictive monetary policy for longer. He would be cautious about cutting interest rates, waiting for clear and sustained evidence that inflation is fully under control.	Accommodative. Would be more open to easing monetary policy if economic growth and the labor market showed significant signs of weakening, even with inflation slightly above the target.	Patient. Would maintain a "patient" or "wait-and-see" stance. The Fed's decisions would be highly dependent on incoming data, and he would likely avoid pre-committing to a specific path for rate cuts.
Interest Rate Actions	Reluctant to Cut. Would likely hold interest rates at a high level. Any rate cuts would be gradual and would not be a tool to pre-emptively stimulate a slowing economy.	More Willing to Cut. Would be more inclined to cut rates to support economic growth and the labor market if data suggested a recession was on the horizon.	Cautious Cuts. The Fed, under Powell, would likely begin to cut rates gradually, but only when it is confident that inflation is on a sustained path to its 2% target. He would emphasize that the Fed is "data-dependent."

Aspect	Alan Greenspan (Hypothetical)	Ben Bernanke (Hypothetical)	Jerome Powell (Actual/Projected)
Use of Unconventional Tools	Highly Skeptical. Greenspan's era predated most unconventional tools. He would likely be skeptical of large-scale asset purchases (QE) and would only consider them in a dire emergency, preferring traditional interest rate policy.	Open & Proactive. Bernanke would be prepared to use a broad range of tools, including quantitative easing (QE), to provide liquidity and support the economy if traditional interest rate policy proved insufficient.	Measured & Responsive. Powell has demonstrated a willingness to use these tools (e.g., in 2020) but would likely not resort to them unless a severe crisis required it. The Fed's balance sheet would likely continue to shrink in 2025, a process known as quantitative tightening (QT).
Communication Style	Deliberately Ambiguous. Greenspan was known for his famously convoluted and often ambiguous public statements, which he used to avoid spooking the markets.	Clear & Direct. Bernanke's legacy includes an emphasis on clear communication, forward guidance, and press conferences to explain the Fed's actions and manage market expectations.	Direct & Data-Driven. Powell's communication style is direct and emphasizes the Fed's commitment to its dual mandate and its reliance on data. He would be transparent about the rationale behind the Fed's decisions.
Response to Geopolitical Risk	Market-Focused. Would likely view geopolitical risks primarily through the lens of their impact on financial markets and energy prices, responding with rate policy as needed to maintain stability.	Systemic-Focused. Would be more concerned with the potential for geopolitical risks to cause a systemic shock to the global financial system and would be prepared to use all available tools to prevent such a collapse.	Risk-Focused. Powell and the FOMC would be attentive to the "risks on both sides" of their dual mandate. They would closely monitor how tariffs, trade disputes, and other geopolitical events affect inflation and economic growth.

Is there a thinking-error of Powell’s action. List all

Critiques of Jerome Powell's actions as Fed chairman, often referred to as "thinking errors," can be categorized into several key areas. These criticisms have come from a variety of sources, including politicians, economists, and market analysts.

1. Mischaracterizing Inflation as "Transitory":

- During the initial stages of the high inflation period, Powell and the Fed repeatedly stated that the rise in prices was "transitory."
- This viewpoint is criticized for causing the Fed to be "behind the curve" in raising interest rates. By the time the Fed began its aggressive rate-hiking campaign, inflation had already become a significant problem, forcing them to act more forcefully later on.
- This error is often seen as a failure to recognize the persistent nature of inflation and its underlying causes, which were not just related to temporary supply chain issues.

2. Keeping Interest Rates Too Low for Too Long:

- Following the COVID-19 pandemic, the Fed kept interest rates near zero from March 2020 to early 2022.
- Critics argue that this period of ultra-low rates, combined with quantitative easing, fueled asset bubbles in housing and the stock market, benefiting wealthier households and contributing to increased wealth inequality.
- The argument is that these policies were a significant factor in the rapid increase in inflation and created an "addiction" to monetary stimulus in the markets.

3. The Banking Crisis and Rapid Rate Hikes:

- The Fed's rapid and aggressive series of interest rate hikes, the fastest since the 1980s, is seen by some as a contributing factor to the banking crisis that included the collapse of Silicon Valley Bank (SVB).
- The argument is that these rapid hikes exposed poor risk management at some banks, which had invested heavily in long-term bonds that lost value as interest rates rose.

- While some acknowledge that the banks made risky bets, critics also point to potential failures in the Fed's own supervision of these institutions.

4. Blaming External Factors for Policy Decisions:

- Powell has, at times, blamed external factors for the Fed's policy decisions. For example, he has stated that uncertainty over tariffs has prevented the Fed from cutting interest rates.
- This has been met with criticism from politicians, particularly from President Donald Trump, who has argued that Powell's decisions are "insane" and that the Fed should have cut rates more aggressively.
- Some observers believe that while these external factors are relevant, the Fed's actions should be based on its own dual mandate and not be seen as a reaction to political pressure or trade policies.

5. Failure to Meet Balance Sheet Reduction Goals:

- Some critics, such as Senator Rick Scott, have pointed to the Fed's management of its balance sheet.
- The Fed's balance sheet grew to an unprecedented $9 trillion, and while it has since begun to shrink, some have argued that the Fed has failed to meet its own self-imposed benchmarks for reduction. This is seen as a lack of accountability and a failure to manage the monetary supply effectively.