

Market Analysis: FOMC Decision Week

Market Data Snapshot (Week of September 15-19, 2025)

| Instrument | Sep 15 (Pre-FOMC) | Sep 19 (Post-FOMC) | Change | Interpretation |
|-------------------------|-------------------|--------------------|----------------|---|
| Federal Funds Rate | 4.25%-4.50% | 4.00%-4.25% | -0.25% | Clear dovish move: rate lowered as expected. |
| 2-Year Treasury Yield | 3.95% | 3.80% | -15 bps | Markets see rate cut as dovish, signaling expectation of easing. |
| 10-Year Treasury Yield | 4.10% | 4.08% | -2 bps | Slight decline; long-term outlook uncertain— inflation concerns persist. |
| Yield Curve (10yr-2yr) | +15 bps | +28 bps | +13 bps | Steepening curve: market expects near-term rate cuts, confidence in soft landing. |
| S&P 500 Index | 5,450 | 5,520 | +1.3% | Markets cheer the rate cut, signaling optimism. |
| U.S. Dollar Index (DXY) | 104.50 | 103.75 | -0.7% | Dollar weakens due to lower yields; risk appetite improves. |
| SOFR / Repo Rates | 4.31% | 4.30% | Slightly lower | Liquidity remains tight, evidence of ongoing QT's effect. |

Recent Financial News & Sentiment

Bloomberg (Sept 18):

"Fed Delivers 'Dovish Cut' but Maintains Balance Sheet Reduction—Markets Weigh Mixed Signals"

WSJ (Sept 18):

"Powell's Balance: Rate Cut and Ongoing QT Create a Cautious Optimism"

Analyst from PIMCO (CNBC):

"The yield curve steepening indicates markets believe the Fed can engineer a soft landing, but persistent inflation and QT reserves make the long-term story complex."

Bank of America (Morning Note):

"While equities rejoice, the plumbing in money markets remains tight, with SOFR still elevated. The background tightening from QT continues to exert pressure amidst the policy shift."

Summary of Market Interpretation

Dovish signals (rate cut, stock rally, bond yields decline):

Investors focus on the Fed's rate cut as supportive of growth and stability, betting on a soft landing.

Persistent hawkish signals (QT, inflation concerns):

Bond markets, especially long-term yields, show hesitation. The steady SOFR suggests reserves are being drained, preventing a full alignment with dovish expectations.

Steepening yield curve:

Indicates that markets expect short-term rates to stay lower in the near future, but long-term yields remain cautious due to inflation worries.

Dollar softness:

Reflects the reduced interest rate differentials, signaling that the market weights the easing move but remains wary of inflation persistence.

This analysis underscores the conflicting signals: while investor sentiment appears optimistic based on the rate cut and equity gains, the bond market and funding rates reveal underlying tension—highlighting the complex balance the Fed is managing between supporting growth and containing inflation via QT.