

FED SHADOW

On the October FOMC: Powell to Miran – “Take a Step Back”

Wednesday, October 29, 2025

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Powell dresses down the doves, but markets remain confident they will win.

No surprise that the FOMC cut the funds rate target by 1/4% to 3-7/8%. There were two dissents – one dovish (Governor Stephen Miran, of course, who wanted 1/2%) and one hawkish (Kansas City President Jeffrey Schmid, who wanted none).

Also, Powell announced the cessation of run-off of securities from Fed's balance sheet, starting in December. This is not a surprise. It was vaguely hinted at in [a September speech by Dallas Fed President Lorie Logan](#), and confirmed in [a speech two weeks ago by Fed Chair Jerome Powell](#). If there's any surprise here at all, it is that the cessation applies to the aggregate securities portfolio, not just Treasuries. In the [post-meeting presser](#), Powell clarified that the Fed will permit MBS to run off as they pre-pay and mature – which will potentially take decades. But as it happens, their value will be replaced with Treasuries.

- Treasury run-off was already reduced to \$5 billion per month at the March 2025 FOMC. We noted at the time that this could be interpreted as a form of easing without the Fed being seen as caving to President Donald J. Trump's demands for lower interest rates (see [“On the March FOMC: Dots in the Headlights”](#) March 19, 2025).
- But with MBS run-off glacial, and Treasury run-off already set at a mere \$5 billion since March, this is not really a change in terms of financial conditions.

[The FOMC statement](#) had few qualitative changes, because there has been substantially no new economic data since the September meeting – one CPI report for September (see [“Data Insights: CPI/PPI”](#) October 24, 2025), but no jobs report for September, thanks to the government shutdown.

[Available](#) indicators suggest that ~~growth of~~ economic activity ~~moderated in the first half of the year~~ has been expanding at a moderate pace. Job gains have slowed this year, and the unemployment rate has edged up but ~~remains~~ remained low ~~through August~~; more recent indicators are consistent with these developments. Inflation has moved up since earlier in the year and remains somewhat elevated.

Update to strategic view

FEDERAL RESERVE, US MACRO: Double-easing and a double-dissent. The funds rate target is lowered to 3-7/8%, and so-called “quantitative tightening” is over. Miran and Schmid dissent, the former dovish and the latter hawkish. Powell sounded hawkish in the presser, dressing down Miran and Waller, suggesting they “take a step back.” This was likely an attempt to shape market expectations about the certainty of a December cut, and for that matter an implied funds rate curve that has Miran's crazy-low “dot” for 2026 not so unlikely. Markets are discounting some combination of a recession and Trump packing the Board with like-minded doves. We think recession is highly unlikely, and can't guess how quickly Trump can get his doves in place. We don't disagree with Powell that the Fed is very close to neutral now, and that is confirmed by literally every canonical monetary policy “rule.”

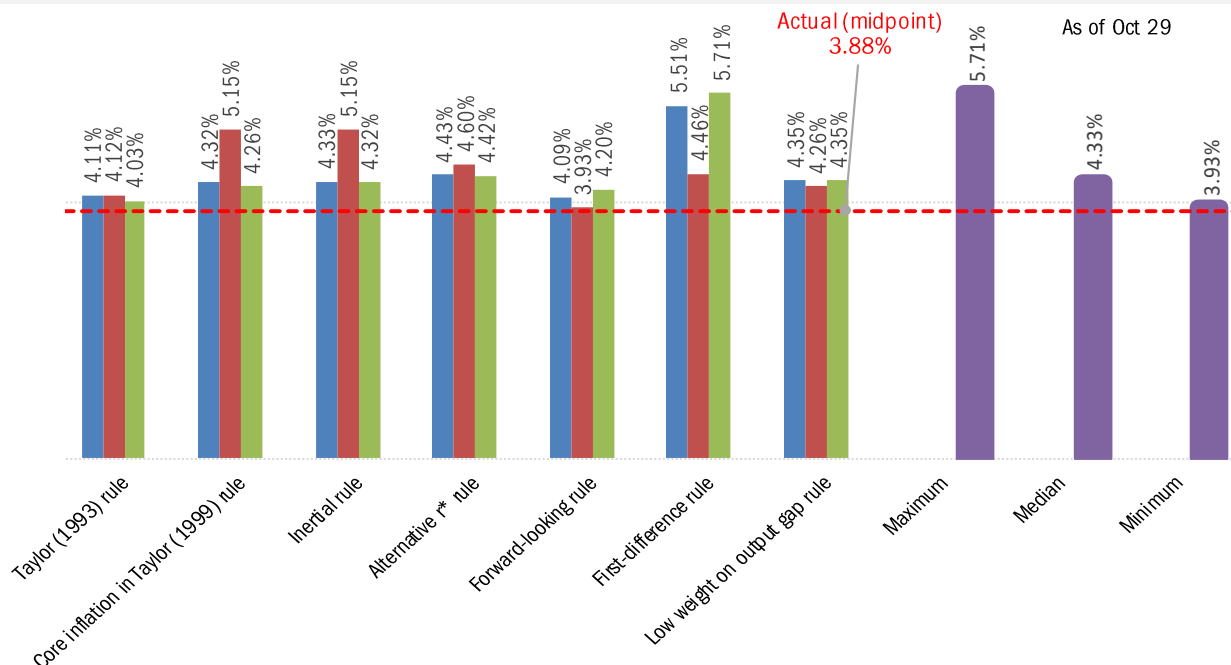
[\[Strategy dashboard\]](#)

... The Committee is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment ~~have~~ risen rose in recent months.

It's important to appreciate just how close to neutral – or below neutral – Fed policy is now, yet how much more easy it is expected to become.

- At 3-7/8% now, the funds rate is below every version of the monetary policy “rule” models [published by the Cleveland Fed](#), regardless of which model input sources are chosen (please see the chart below).

Funds rate versus various monetary policy “rules” (based on inputs from: ■ FOMC SEP ■ CBO ■ Cleveland Fed)



Source: [Cleveland Fed](#), TrendMacro calculations

- At the same time, though, markets are implying many more rate cuts to come over the coming year. Prior to today's FOMC, futures-implied funds rate for December 2026 was slightly below 3%, pointing to 3-1/2 rate cuts. That isn't far above the lowest “dot” in the September Summary of Economic Projections, at 2-5/8%, pointing to 5 cuts (there were two “dots” there, one presumably Miran). For that matter, the median dot is 3-3/8%, which itself implies 2 cuts.
- In the [post-meeting presser](#), the very first question from reporters came from our friend Nick Timiraos (see [“Video: TrendMacro conversation with Nick Timiraos on Powell's crisis response and the inflationary aftermath”](#) March 28, 2023) asked Powell to comment on whether the market was correct to take another cut at the December FOMC in six weeks as a foregone conclusion. He replied with something more than the boilerplate one would expect:

“...we haven't made a decision about December. I always say that. It is a fact that we don't make decisions, but I am saying something in addition here. That it is not to be seen as a forgone conclusion. In fact, far from it.”

- In the aftermath of that remark, the futures curve has adjusted from an implied probability of 86% for a December cut, to 68% as of this writing.
- The implied December 2026 funds rate has now risen from just *below* 3% to just *above* 3%.
- *Directionally those changes in expectations are consistent with Powell's cautionary remarks, but the magnitudes are very small.*
- *Markets seem to be unshakably convinced of some combination of future realities: either that a recession is coming, or that Trump will be able to populate the Board of Governors with like-minded doves.*
- As for those doves, Powell had some words for them in the [post-meeting presser](#):

“I think for some part of the Committee, you know, it is time to maybe take a step back and see whether there really are downside risks to the labor markets, or see whether, in fact, the growth -- the stronger growth we are seeing is real. Ordinarily the labor market is a better indicator of the momentum of the economy than the spending data. ...in this case that gives us more of a downbeat read. So people have, again -- we cut 50 basis points in the last two meetings. There was a sense, for some, let's pause here, that kind of thing.”

- *Yes, Powell just told Miran in public to “take a step back.”*
- Powell may also be addressing Governor Christopher Waller, whose worry about the labor market would seem to be so poorly grounded in reality that they can only be understood as pandering to Trump, in order to get nominated to replace Powell as chair. [Waller says](#) “any decline in labor supply is only masking weakening demand in the labor market.” Really? *Any?* How could one possibly know that, considering that one admits it is “masked”?
- And considering that Powell is always at pains to say that the next FOMC meeting is not discussed at the present meeting (“I always say that”), he is siding with the single participant who dissented in favor of “a pause here, that kind of thing.”
- It doesn't matter what Powell says. Trump will populate the Board opportunistically, and Powell can't stop him. As to the recession risk, we'll know more when he has more data. But as far as we're concerned, it's highly unlikely that we'll see economic conditions justifying the 3% funds rate implied now in markets. We think the economy is quite strong – booming, in most senses. We don't disagree with those policy “rules” we mentioned earlier. As far as we're concerned, the Fed can and should be done.
- So whether the curve is right in predicting all those cuts, as far as we're concerned, it's exclusively a question of the speed at which Trump can pack the Board.

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Bottom line

Double-easing and a double-dissent. The funds rate target is lowered to 3-7/8%, and so-called “quantitative tightening” is over. Miran and Schmid dissent, the former dovish and the latter hawkish. Powell sounded hawkish in the presser, dressing down Miran and Waller, suggesting they “take a step back.” This was likely an attempt to shape market expectations about the certainty of a December cut, and for that matter an implied funds rate curve that has Miran’s crazy-low “dot” for 2026 not so unlikely. Markets are discounting some combination of a recession and Trump packing the Board with like-minded doves. We think recession is highly unlikely, and can’t guess how quickly Trump can get his doves in place. We don’t disagree with Powell that the Fed is very close to neutral now, and that is confirmed by literally every canonical monetary policy “rule.” ▶