

Economic Situation and Strategy

19 September 2025

Powell vs. Trump: is the interest rate cut premature?

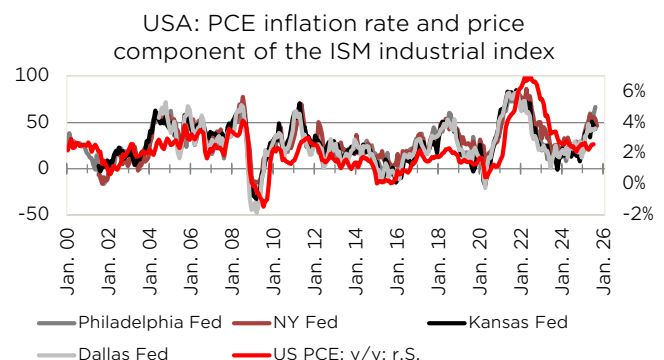
Rarely has a Federal Reserve interest rate decision been awaited with such anticipation as it was this week. As market participants had expected, the Fed cut its key interest rate by 25 basis points to a range of 4.00 to 4.25 percent. Even though the decision itself was not surprising, the meeting had a special character. Firstly, because, unlike the ECB, the Fed had paused its interest rate-cutting cycle this year, thus unusually lagging behind the ECB. Secondly, the meeting was in the spotlight because US President Donald Trump had exerted massive pressure on Fed Chairman Jerome Powell in recent months to cut interest rates significantly. The US President did not hold back from personal attacks, publicly calling Powell a "major loser" or "Mr. Too Late." These attacks, in turn, fueled fears that the independence of the Federal Reserve could be undermined and that monetary policy would be guided by political goals. Trump's goal is clear: Lower interest rates support economic growth, reduce the government's interest burden, and improve his economic performance.

Against this backdrop, the key question arises: Is the interest rate cut economically sound, or is it a monetary policy mistake that primarily serves political desires?

Is the rate cut economically justified?

A key factor in assessing the interest rate decision is a look at the objectives of the American central bank. Unlike the ECB, the Fed pursues a dual mandate: In addition to price stability, it also aims for maximum employment. From a purely inflation perspective, a cautious approach to the interest rate decision would have

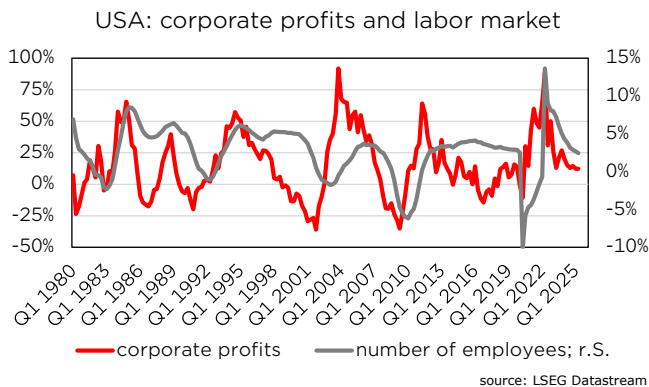
been understandable: The Fed's preferred PCE inflation rate remained above its target of two percent at 2.6 percent in July, while the core rate even rose to 2.9 percent. Energy prices had a dampening effect, but the services component in particular remained the price driver. With regard to future inflation trends, the US tariffs are fueling additional concerns: So far, the immediate impact on inflation has been limited. Firstly, the affected goods account for a comparatively small share of the basket of goods, and secondly, many companies significantly increased their inventories before the increase in import tariffs, so the increased cost base has not yet fully materialized. It remains to be seen whether a delayed effect will occur. The price components of the purchasing managers' indices also call for caution, pointing to persistent cost pressure. From an inflation perspective, a continuation of the interest rate pause would therefore have been justifiable.



However, the interest rate cut is justifiable in light of recent developments in the US labor market. It has sent clear signals of a slowdown. Only 22,000 new jobs were created in August, and employment growth had already been gradually slowing in the preceding months. At the same time, the unemployment rate rose to 4.3 percent –

Economic Situation and Strategy

the highest level since the end of 2021. However, concerns about a crisis in the US labor market and mass layoffs are unjustified, as the earnings situation of many companies remains robust. Earnings growth in the S&P 500 was 11.9 percent in the second quarter; profit margins remained high at over 12 percent. In our view, the data signal that the American economy remains fundamentally healthy, but that companies are being more cautious with hiring and that the US labor market is normalizing after years of exceptional growth.

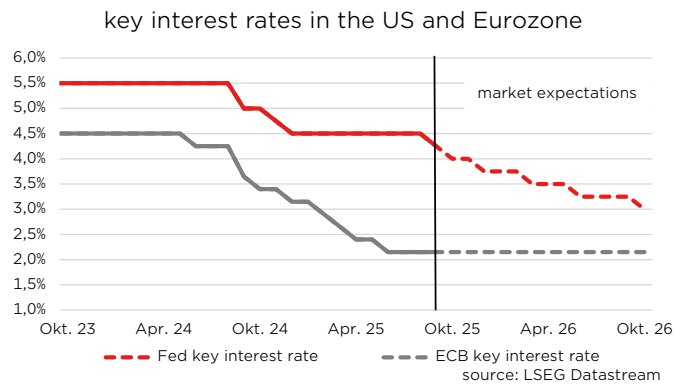


Given the economic situation and the comparatively high key interest rate level, the moderate interest rate cut appears understandable. It strikes a balancing act: financing conditions are being carefully eased and potential economic risks are being limited without counteracting the disinflation trend.

What happens next?

Following the Fed's first interest rate cut this year, attention is turning to the Fed's future monetary policy stance. Futures markets are signaling further easing steps for the Fed: Currently, five further cuts of 25 basis points each are expected by the end of October 2026. This would lower the Fed's target range to 2.75 to 3.00.

However, caution is advised regarding the Fed's future easing path. Further easing steps presuppose a further slowdown in the labor market and a slowdown in inflation. However, the price components in the purchasing managers' indices point to further price pressure, and the risk of inflation has not yet been averted against the backdrop of US import tariffs. The priced-in interest rate cut path could therefore prove to be too ambitious, even though Donald Trump would like to see interest rates drop even lower. Furthermore, the latest interest rate projections of the FOMC members ("dot plots") indicate only three further interest rate cuts by the end of 2026 (target range: 3.25 to 3.5 percent).



Things will get interesting if the divergence between labor market and inflation data increases: The labor market will continue to cool, paving the way for loose monetary policy, while the inflation rate continues to rise and moves away from the monetary authorities' target. The new Fed chair will have a significant influence on the monetary policy stance in this potential dilemma. Powell's term ends in May 2026, and Donald Trump will nominate a successor who will pursue his goals – a low interest rate level. The first potential candidates have already positioned themselves. Kevin Hassett (former Fed Governor), Kevin Warsh (Trump economic advisor), and Christopher Waller (current Fed Governor) are being considered as possible successors to Jerome Powell. The final confirmation of the new Fed chair in the US Senate is likely to be a mere formality, as the Republicans hold the majority. The headwinds for the "hawks" (proponents of higher interest rates) are therefore likely to increase in the FOMC.

Overall, the interest rate cut is economically justifiable in light of the cooling labor market and the high starting level. A double interest rate cut of 50 basis points, which was discussed beforehand, would have borne the hallmarks of Donald Trump and called into question the independence of the Fed. For the US equity markets, the combination of a less restrictive monetary policy, moderate economic growth, and robust corporate earnings represents a constructive environment.

Simon Landt

Market data

Stock marktes	As of	Change versus				
	19.09.2025 08:07	12.09.2025 -1 week	18.08.2025 -1 month	18.06.2025 -3 months	18.09.2024 -1 year	31.12.2024 YTD
Dow Jones	46142	0,7%	2,7%	9,4%	11,2%	8,5%
S&P 500	6693	1,6%	3,8%	11,9%	19,1%	13,8%
Nasdaq	22471	1,5%	3,9%	15,0%	27,9%	16,4%
DAX	23675	-0,1%	-2,6%	1,5%	26,5%	18,9%
MDAX	30471	1,0%	-1,7%	2,6%	18,1%	19,1%
TecDAX	3655	2,5%	-3,2%	-3,0%	10,5%	7,0%
EuroStoxx 50	5457	1,2%	0,4%	3,6%	12,9%	11,5%
Stoxx 50	4594	0,6%	0,7%	2,7%	4,4%	6,6%
SMI (Swiss Market Index)	12049	-1,2%	-0,2%	0,7%	0,6%	3,9%
Nikkei 225	45303	1,2%	3,6%	16,5%	24,5%	13,6%
Brasilien BOVESPA	145499	2,3%	6,0%	4,9%	8,8%	21,0%
Indien BSE 30	82567	0,8%	1,6%	1,4%	-0,5%	5,7%
China CSI 300	4499	-0,5%	6,1%	16,1%	41,9%	14,3%
MSCI Welt	4279	0,6%	2,6%	9,7%	17,9%	15,4%
MSCI Emerging Markets	1346	1,5%	5,7%	12,8%	23,7%	25,1%
Bond markets						
Bund-Future	128,51	-5	-32	-265	-581	-493
Bobl-Future	117,83	1	75	-13	-164	-3
Schatz-Future	107,01	3	-1	-26	17	3
3 Monats Euribor	2,02	2	0	1	-143	-69
3M Euribor Future, Dec 2025	2,01	1	8	20	1	12
3 Monats \$ Libor	4,03	-5	-30	-39	-81	-34
10 year US Treasuries	4,12	8	-20	-25	42	-45
10 year Bunds	2,73	5	-1	23	60	36
10 year JGB	1,64	5	7	19	81	56
10 year Swiss Government	0,23	-1	-10	-4	-22	-4
US Treas 10Y Performance	633,86	-0,3%	2,2%	3,3%	1,3%	7,1%
Bund 10Y Performance	560,52	0,0%	0,8%	-0,8%	-1,5%	-0,7%
REX Performance Index	458,55	0,1%	0,3%	-0,2%	1,0%	1,3%
IBOXX AA, €	3,11	-1	-4	4	4	8
IBOXX BBB, €	3,41	-1	-1	-1	-19	-5
Commodities						
MG Base Metal Index	439,22	-0,7%	2,9%	4,2%	4,2%	8,3%
Crude oil Brent	67,19	0,3%	0,8%	-12,5%	-8,7%	-10,1%
Gold	3652,87	0,2%	9,5%	7,9%	42,1%	39,1%
Silver	32,54	0,0%	0,0%	0,0%	7,0%	9,6%
Aluminium	2689,39	-0,2%	3,9%	5,3%	6,5%	6,4%
Copper	9868,91	-1,3%	2,4%	1,1%	6,5%	14,1%
Iron ore	105,24	-0,2%	3,6%	11,1%	14,9%	1,6%
Freight rates Baltic Dry Index	2205	3,7%	9,1%	17,7%	16,7%	121,2%
Currencies						
EUR/ USD	1,1772	0,5%	0,8%	2,3%	5,8%	13,3%
EUR/ GBP	0,8699	0,6%	0,8%	1,7%	3,4%	5,2%
EUR/ JPY	173,66	0,2%	0,8%	4,2%	10,0%	6,5%
EUR/ CHF	0,9338	-0,1%	-0,9%	-0,7%	-0,5%	-0,8%
USD/ CNY	7,1119	-0,2%	-1,1%	-1,1%	0,4%	-2,7%
USD/ JPY	148,00	0,2%	0,1%	2,0%	4,0%	-5,8%
USD/ GBP	0,74	0,2%	-0,1%	-0,6%	-2,3%	-7,4%

Source: LSEG Datastream

Carsten Klude
+49 40 3282-2572
cklude@mmwarburg.com

Dr. Rebekka Haller
+49 40 3282-2452
rhaller@mmwarburg.com

Martin Hasse
+49 40 3282-2411
mhasse@mmwarburg.com

Dr. Christian Jasperneite
+49 40 3282-2439
cjasperneite@mmwarburg.com

Simon Landt
+49 40 3282-2401
mlandt@mmwarburg.com

Jan Mooren
+49 40 3282-2132
jmooren@mmwarburg.com

This article does not constitute an offer or an invitation to submit an offer but is solely intended to provide guidance and present possible business activities. This information does not purport to be complete and is therefore not binding. The information provided should not be considered a recommendation to purchase financial instruments individually but serves only as a proposal for a possible asset allocation. The opinions expressed herein are subject to change without notice. Where statements were made with respect to prices, interest rates or other indications, these solely refer to the time when the information was prepared and do not imply any forecasts about future development, particularly regarding future gains or losses. In addition, this information does not constitute advice or a recommendation. Before completing any deal described in this information, a product-specific consultation tailored to the customer's individual needs is required. This information is confidential and exclusively intended for the addressee described herein. Any use by parties other than the addressee is not permissible without our approval. This particularly applies to reproductions, translations, microfilms, saving and processing in electronic media as well as publishing the entire contents or parts thereof.

This article is freely available on our website.