

The Fed raises the bar for lower rates

Thomas Garretson, CFA – New York

Despite a second consecutive rate cut, a hawkish turn from the U.S. central bank this week supports our view that it is now on hold until at least next year. While that might have previously caused consternation, markets taking it in stride suggests investors are content with the idea the Fed has already done enough.

If you spend any amount of time following the U.S. Federal Reserve, you learn the turns of phrase that policymakers like to rely on.

One such phrase that has been a hallmark of Fed Chair Jerome Powell's tenure, during stretches of both raising and cutting interest rates, is: "policy is not on a preset course." It has been employed as a gentle reminder for investors and markets that the Fed doesn't know—or plan—what it is going to do at any given meeting, even if investors and markets are all but certain of what the Fed is going to do.

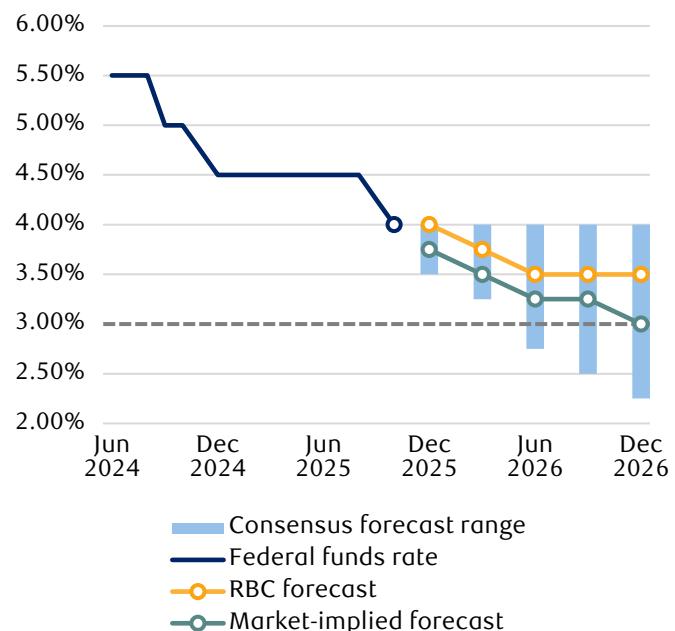
Prior to this week's meeting, markets were pricing a near 100 percent chance that the Fed would cut rates again at the December meeting. Powell could have easily noted half-heartedly once again that "policy is not on a preset course" and got on with things.

He deliberately chose not to.

...not a foregone conclusion—far from it

That, in so many words, is how Powell characterized the chances of another rate cut in December. And with that statement, the markets now see the likelihood of a December rate cut as below a 70 percent probability, while prospects for future cuts into 2026 have also dimmed.

Where do interest rates go from here?



Source - RBC Wealth Management, Bloomberg, RBC Capital Markets forecasts as of October 2025; market pricing based on federal funds futures

For perspectives on the week from our regional analysts, please see [pages 3-4](#).

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Priced (in USD) as of 10/29/25 market close (unless otherwise stated). Produced: 10/30/25, 16:15 ET; Disseminated: 10/30/25, 16:25 ET

The Fed, as widely expected, cut rates for a second consecutive meeting to a target range of 3.75 percent to 4.00 percent. But as we noted after the Fed's September meeting, which featured updated interest rate projections (this meeting did not), even though the median forecast suggested rate cuts to 3.50 percent to 3.75 percent by the end of the year, the median only masked the fact that there were two growing factions at the Fed—the hawks who saw no more rate cuts this year, and the doves who saw multiple.

We think the hawks both have the edge, and a better case to be made.

Risk management goes both ways

With another rate cut this week, the Fed has taken out even more insurance against the risk of further labor market cooling. And early signs already point to labor market stability.

This week, payroll processor ADP announced what will be a new weekly index of hiring activity, with the first report noting that: "For the four weeks ending Oct. 11, 2025, the National Employment Report pulse shows that private employers added an average of 14,250 jobs per week. This growth in employment suggests that the U.S. economy is emerging from its recent trough of job losses."

And as the chart at right shows, consumer data also released this week showed just 18 percent of those surveyed viewed jobs as "hard to get" in October. That is off the record lows seen in prior years, but largely unchanged since May and still below what could be deemed as "normal," and far below levels seen during and after past recessions.

So, if the labor market is already stabilizing, and has scope to play out a repeat of last year—when the Fed's brief rate cut cycle sparked a notable uptick in hiring—then we think the Fed's focus may shift back to the inflation side of the mandate.

On that basis, we believe the Fed would be prudent to hold rates steady into 2026.

Driving in the fog

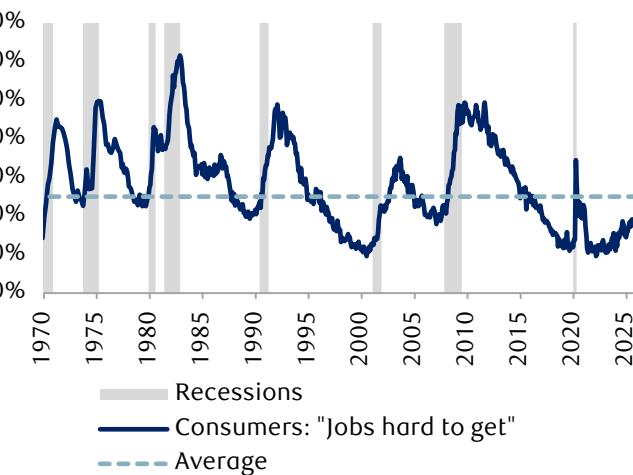
Another quotable quote from Powell this week was this: "What do you do if you are driving in the fog? Slow down... again, I am not committing to that, but I am saying it is certainly a possibility that you would say, we really can't see, so let's slow down."

It was uncertain how the Fed might approach the ongoing government shutdown and the subsequent lack of economic data. Would policymakers proceed with rate cuts on the idea that it's better to be safe than sorry?

Now we have an answer. Not only is it likely that the shutdown will last well into November, in our opinion, it will take months beyond that for any noise in the data to

Labor market still cooling, but is it cold?

Percentage of U.S. consumers reporting jobs are "hard to get"



Source - RBC Wealth Management, Bloomberg, Conference Board Consumer Survey

fade. Absent a marked downturn in labor market activity gleaned from various anecdotal data sources, we believe the Fed will likely err on the side of doing too little, rather than too much.

With rates now below four percent, and ever closer to the Fed's estimated three percent "neutral" rate for the economy, cutting rates into an economy that could ultimately prove to be stronger than the Fed might expect—a running theme in recent years—would only stoke further inflationary pressures, in our view.

Is the Fed now just a background character?

While we maintain our view that the Fed will cut more slowly, and ultimately to a higher terminal level, we now see that as less of a risk for markets broadly.

Our biggest concern with respect to risk assets was what we viewed as overly aggressive rate cut expectations on the part of traders paired with record highs for many stock market indexes and historically tight credit spreads in corporate bond markets.

Now that the gap has been narrowed, the muted reaction this week from risky assets such as equities and corporate bonds suggests that markets might be content with where the Fed stands. Rates have already been cut by 150 basis points over the past 13 months, with policymakers still at the ready to do more if needed.

The main character is now clearly AI, starring in a show about capital spending, strong earnings, and ever-higher valuations. The Fed is just a subplot.

UNITED STATES

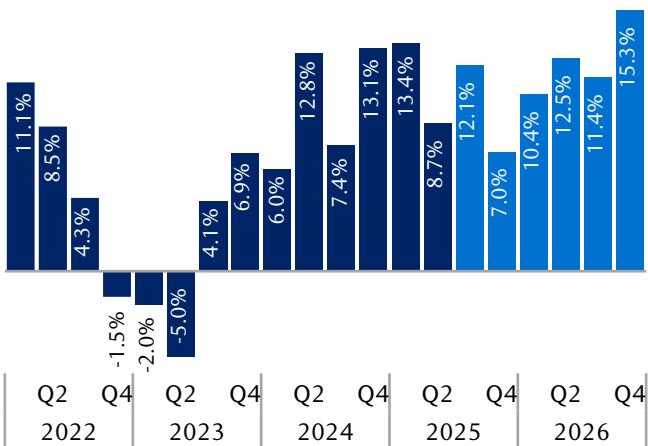
Kelly Bogdanova – San Francisco

■ **The S&P 500 has continued to advance, reaching another new all-time high earlier in the week as the corporate earnings season has exceeded consensus expectations.** With just over 50% of the market by capitalization having reported Q3 results so far, S&P 500 revenue growth is pacing at 7.3% y/y versus the 5.9% consensus forecast at the start of earnings season, according to Bloomberg data. S&P 500 earnings growth is tracking at 11.1% y/y compared to the initial 7.4% consensus forecast. If the double-digit growth rate holds—and we think it will, with growth potentially topping the 12% y/y level when all is said and done—this would mark the fourth double-digit quarter in the last six and acceleration from the Q2 2025 earnings growth rate of 8.7% y/y.

■ **Once again, results from technology-oriented companies stand out from a growth perspective, particularly those tied to AI. Even in this segment, however, there have been some blemishes.** As Alphabet, Microsoft, and Meta Platforms announced results Wednesday evening, it became clear that companies are planning to accelerate AI capital spending even further. Last quarter alone, these three companies collectively spent \$78 billion on AI investments, including data center construction and purchases of advanced semiconductor chips and equipment, up almost 90% y/y according to Bloomberg. These stocks reacted differently to quarterly results and news of higher spending, with Alphabet rallying, Microsoft easing back, and Meta Platforms selling off sharply. Meta shares were down over 11% in midday trading, partly due to Q4 guidance that was less buoyant than some institutional investors anticipated, perceived delays within its Superintelligence labs, an unexpected \$16 billion tax charge, and management's

Consensus forecast sees earnings growth continuing

S&P 500 earnings growth year over year (dark blue are actual data; light blue are consensus estimates)



Source - RBC Wealth Management, Bloomberg; quarterly data as of 10/24/25

signal that capital spending would rise “significantly faster” next year. Also, the stock decline occurred the same day the company received record orders for a corporate bond offering, according to Bloomberg’s sources. The 11% retreat in Meta’s stock would be the third largest single-session decline since January 2022.

■ **Our takeaway from stock price reactions to the continued AI capital spending surge is that investors are becoming increasingly nervous about this issue. While we don’t think all the signs of a bubble are in place right now, there are some warning signs, including those associated with circular financing (aka vendor financing).** There have been times during the multiyear AI rally when investors have embraced a “show me” attitude about capital spending on this emerging technology. We are now back in that spot. **Companies will probably face greater scrutiny of the return on AI capex in coming quarters, in our view, and this could bring forth more volatility in AI stocks.**

CANADA

Luis Castillo – Toronto

■ **The Bank of Canada (BoC) delivered its fourth rate cut of 2025.** The target for the overnight rate is now 2.25%, at the bottom end of its neutral range. Since reaching the 5% peak in 2023, the BoC has cut the policy rate by 275 basis points (bps). Whether the current monetary policy stance is appropriate going forward will depend on how the economy progresses relative to the BoC’s projections. The BoC anticipates slow growth in the second half of 2025 followed by modest acceleration in 2026, and assumes that current tariffs on Canadian exports to the U.S. will remain in place. However, the majority of exports are sheltered under the tariff protection of CUSMA exemptions. Though inflation’s upward momentum has dissipated and the BoC expects price pressures to ease moving forward, inflation is still elevated. With the geopolitical situation remaining fluid, we see the range of possible outcomes as wider than usual, warranting flexibility from the BoC on future monetary policy decisions.

■ **The BoC noted that tariff impacts are becoming more evident, dampening business sentiment and economic activity.** These effects have continued to put pressure on business investment and hiring plans, particularly in trade-sensitive sectors such as autos, steel, aluminum, and lumber. As a result, the BoC expects GDP growth to remain weak in the second half of the year. That being said, after 275 bps of rate cuts we think the central bank’s job is done. Although BoC Governor Tiff Macklem left the door open for additional rate cuts if needed, we think it is time to pass the baton to the fiscal side—the side that is better equipped to address additional weakness emanating from tariff uncertainty. On that note, the federal government is gearing up to unveil its highly

anticipated budget on Nov. 4; it is likely to come with more spending and larger deficits, with a portion targeted toward relief for trade-impacted sectors.

EUROPE

Frédérique Carrier & Rufaro Chiriseri, CFA – London

- The European Central Bank (ECB) stated that its policy continues to be “in a good place,” and the Governing Council unanimously decided to maintain the deposit rate at 2% on Thursday, Oct. 30. The central bank sees underlying inflation remaining consistent with the 2% target and “broadly unchanged.” During the press conference following the decision, ECB President Christine Lagarde characterised the shift in the balance of risks for growth to a more optimistic view. This was supported by preliminary Q3 GDP growth data for the region that surprised to the upside at 0.2% q/q. The ECB expects the economy to benefit from increased consumer spending as real incomes rise, with unemployment remaining at historical lows. The bar for further rate cuts remains high, and we continue to expect no further rate cuts this cycle. Unsurprisingly, bond market reaction was muted, with 2- and 10-year yields settling at 2.19% and 2.63%, respectively. Markets continued to price in only around 12 basis points of easing from now through to September 2026. Thursday, the euro against the U.S. dollar hit a session low of 1.1546 before bouncing a touch higher but was still down on the day, settling at 1.1566.
- Exit polls from the Dutch general election suggest a sharp decline in support for Geert Wilders’ far-right Party for Freedom, whose coalition collapsed in June after two years in power. **Polls indicate that the Party for Freedom is neck and neck with the liberal D66 party**

Markets pricing out European Central Bank cuts

Market-implied projections of cumulative ECB interest rate reductions



Note: There was no September 2025 estimate for September 2026.

Source - RBC Wealth Management, Bloomberg

led by former Energy Minister Rob Jetten. Both parties are projected to win 26 seats of the 150 in the House of Representatives. The Party for Freedom had secured 37 seats in the previous election.

- **Although final results are unknown at the time of writing, we believe a more moderate government is the most likely outcome.** The Dutch political landscape remains highly fragmented, and centrist parties have vowed not to work with Wilders again. European centrist parties widely viewed the Dutch election as a barometer of whether nationalist, anti-establishment movements are waning.

ASIA-PACIFIC

Belmen Woo – Singapore

- The focus in Asia was very much on the first summit between the leaders of the world’s two biggest economies since Donald Trump’s return to the White House. **The meeting between President Trump and Chinese President Xi Jinping yielded results that were mostly in line with market expectations, as the U.S. reduced fentanyl-related tariffs on Chinese goods, while Beijing will pause sweeping controls on rare earth magnets.** While the meeting was hailed as “amazing” by Trump and highlighted the willingness of both leaders to pursue dialogue rather than confrontation, **it still fell short of a comprehensive trade agreement** and thus we believe markets remain susceptible to any negative tariff-related news and the ensuing negative reaction.
- The next key development to watch regarding China-U.S. relations, in our view, would be Trump’s expected visit to China in April. In the leadup to that meeting, **we believe both economies could seek to reduce their dependence on each other**; i.e., China could make greater investments in technology and semiconductor chips as well as look to further increase its self-reliance in commodities, while the U.S. could seek to reduce its dependence on China for rare earth metals and magnets.

- **The Bank of Japan (BoJ) kept rates unchanged at 0.50%,** in line with market expectations, in what was the central bank’s first rate decision since Sanae Takaichi became Japan’s first female prime minister. However, **a recent uptick in inflation (consumer prices rose 2.9% y/y in September, driven by higher energy costs) has presented a new challenge to the BoJ** as it aims to balance its rate-hiking cycle and the new prime minister’s tilt towards easy monetary policy and fiscal expansion. According to Bloomberg’s interest rate probability data, the market is pricing in a nearly 45% chance of a rate hike by December and a little over 80% chance it could occur by January. Equity markets cheered the BoJ decision as **the Nikkei 225 continued to scale fresh highs, while the yen slumped to an eight-month low.**

MARKET Scorecard

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	6,890.59	3.0%	17.2%	18.1%	67.4%
Dow Industrials (DJIA)	47,632.00	2.7%	12.0%	12.8%	46.9%
Nasdaq	23,958.47	5.7%	24.1%	28.0%	89.5%
Russell 2000	2,484.81	2.0%	11.4%	11.0%	51.8%
S&P/TSX Comp	30,144.78	0.4%	21.9%	22.7%	60.9%
FTSE All-Share	5,266.17	4.0%	17.9%	17.3%	33.9%
STOXX Europe 600	575.40	3.1%	13.4%	11.1%	33.9%
EURO STOXX 50	5,705.81	3.2%	16.5%	15.3%	42.1%
Hang Seng	26,346.14	-1.9%	31.3%	27.3%	51.4%
Shanghai Comp	4,016.33	3.4%	19.8%	22.2%	33.1%
Nikkei 225	51,307.65	14.2%	28.6%	31.9%	65.6%
India Sensex	84,997.13	5.9%	8.8%	5.8%	33.3%
Singapore Straits Times	4,440.21	3.3%	17.2%	23.7%	45.0%
Brazil Ibovespa	148,632.93	1.6%	23.6%	13.7%	31.2%
Mexican Bolsa IPC	63,250.96	0.5%	27.7%	23.6%	29.2%
Gov't bonds (bps change)	Yield	MTD	YTD	1 yr	2 yr
U.S. 10-Yr Treasury	4.072%	-7.9	-49.7	-18.2	-76.3
Canada 10-Yr	3.156%	-2.7	-6.9	-9.0	-82.2
UK 10-Yr	4.392%	-30.7	-17.6	7.7	-15.2
Germany 10-Yr	2.621%	-9.0	25.4	28.4	-21.1
Fixed income (returns)	Yield	MTD	YTD	1 yr	2 yr
U.S. Aggregate	4.21%	1.4%	7.6%	6.8%	17.9%
U.S. Investment-Grade Corp	4.68%	1.4%	8.4%	7.6%	22.0%
U.S. High-Yield Corp	6.62%	0.5%	7.8%	8.4%	26.8%
Commodities (USD)	Price	MTD	YTD	1 yr	2 yr
Gold (spot \$/oz)	3,946.80	2.3%	50.4%	42.2%	96.7%
Silver (spot \$/oz)	47.71	2.3%	65.1%	38.5%	106.4%
Copper (\$/metric ton)	11,018.96	7.8%	27.3%	17.4%	37.2%
Oil (WTI spot \$/bbl)	60.39	-3.2%	-15.8%	-10.1%	-29.4%
Oil (Brent spot \$/bbl)	64.86	-3.2%	-13.1%	-8.8%	-28.3%
Natural Gas (\$/mmBtu)	3.38	2.2%	-7.1%	43.9%	6.7%
Currencies	Rate	MTD	YTD	1 yr	2 yr
U.S. Dollar Index	99.1830	1.4%	-8.6%	-4.9%	-6.9%
CAD/USD	0.7172	-0.2%	3.2%	-0.2%	-0.5%
USD/CAD	1.3943	0.2%	-3.1%	0.2%	0.5%
EUR/USD	1.1601	-1.1%	12.0%	7.2%	9.8%
GBP/USD	1.3196	-1.9%	5.4%	1.4%	8.9%
AUD/USD	0.6576	-0.6%	6.3%	0.2%	3.8%
USD/JPY	152.7000	3.2%	-2.9%	-0.4%	2.0%
EUR/JPY	177.1600	2.1%	8.8%	6.8%	12.0%
EUR/GBP	0.8792	0.7%	6.3%	5.8%	0.9%
EUR/CHF	0.9284	-0.7%	-1.2%	-1.0%	-2.7%
USD/SGD	1.2971	0.5%	-5.0%	-2.0%	-5.3%
USD/CNY	7.0985	-0.3%	-2.8%	-0.4%	-3.0%
USD/MXN	18.4730	0.9%	-11.3%	-7.9%	2.0%
USD/BRL	5.3598	0.7%	-13.2%	-7.0%	6.9%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.71 means 1 Canadian dollar will buy 0.71 U.S. dollar. CAD/USD 3.2% return means the Canadian dollar has risen 3.2% vs. the U.S. dollar year to date. USD/JPY 152.70 means 1 U.S. dollar will buy 152.70 yen. USD/JPY -2.9% return means the U.S. dollar has fallen 2.9% vs. the yen year to date.

Source - Bloomberg; data as of 10/29/25

Authors

Kelly Bogdanova – San Francisco, United States

kelly.bogdanova@cbc.com; RBC Capital Markets, LLC

Frédérique Carrier – London, United Kingdom

frederique.carrier@cbc.com; RBC Europe Limited

Luis Castillo – Toronto, Canada

luis.castillo@rbccm.com; RBC Dominion Securities Inc.

Rufaro Chiriseri, CFA – London, United Kingdom

rufaro.chiriseri@cbc.com; RBC Europe Limited

Thomas Garretson, CFA – New York, United States

tom.garretson@cbc.com; RBC Capital Markets, LLC

Belmen Woo – Singapore

belmen.woo@cbc.com; Royal Bank of Canada, Singapore Branch

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