

Fed Watcher

Close call expected

HCOB Economics
December 5, 2025

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Executive Summary: Close call expected (I)

- It could be a close call when the members of the Federal Reserve's Federal Open Market Committee (FOMC) meet next Wednesday (December 10). Our analysis of recent speeches and interviews shows: around 50% of voting FOMC members are likely to favor a rate cut, while 33% are expected to support keeping the current rate level. The stance of the remaining 17% remains unclear, and their votes could tip the balance.
- Nevertheless, we expect the Fed to cut the key interest rate, currently in the range of 3.75–4.00%, by 25 basis points at next week's meeting. After that, further rate moves are likely to be on hold for now. In the second half of 2026, we anticipate additional rate cuts due to a more politicized Fed, as it is widely assumed that U.S. President Donald Trump will appoint a dovish successor when Fed Chair Jerome Powell's term ends in May 2026 – someone who will likely pursue a much looser monetary policy.
- Currently, it is becoming increasingly clear that Kevin Hassett is Trump's favorite for the Fed chair. At a White House event on Tuesday (December 2), where Hassett was present, Trump said that among those attending was a "potential Fed chair." Previously, Trump had already stated that the number of candidates had been narrowed down to just one. This effectively crowned Hassett as the next Fed chair. According to Trump, the official announcement of the Fed succession will come in early January.
- Hassett is an economist and served as Chair of the Council of Economic Advisers during Trump's first term. Since January 2025, he has been Director of the National Economic Council, an institution that helps the U.S. government coordinate economic policy measures. Before that, from 1992 to 1997, he worked as an economist in the research and statistics division of the Fed's Board of Governors. Hassett is considered a close confidant of Trump and an advocate of growth-oriented policies, having strongly supported loose monetary policy in the past.
- Compared to previous Fed chairs such as Jay Powell, Janet Yellen, and Ben Bernanke, Hassett brings significantly less monetary policy experience and a limited understanding of financial markets. His appointment would mark a clear departure from the Fed's previous approach and put the central bank's independence more squarely in the political spotlight.

Executive Summary: Close call expected (II)

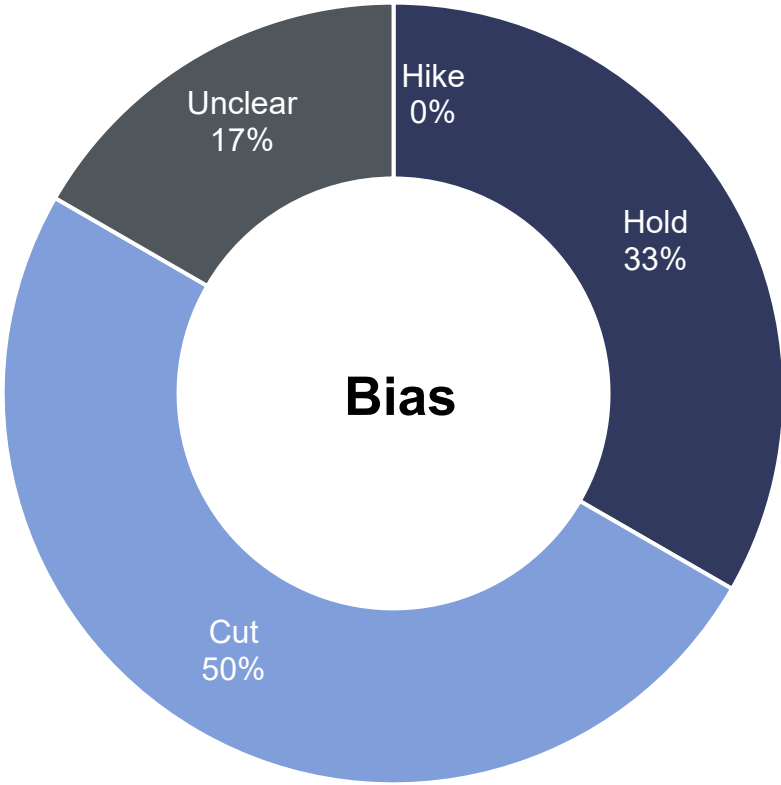
- The data situation has remained almost unchanged since the October decision. Although the government shutdown has ended, U.S. agencies are still releasing key indicators only gradually. One of the few updated figures comes from the September jobs report and is therefore already outdated: Nonfarm Payrolls came in at 119,000 new jobs, above expectations of 50,000, but still weak by historical standards.
- New labor market data (for October and November) and consumer price inflation (for November) will be released on December 16 and 18, respectively – after the Fed decision. Alternative indicators, however, reinforce the view that the U.S. labor market has continued to cool. For example, the ADP report for November shows a surprising drop in employment by 32,000 jobs (expected was an increase of 10,000), further supporting expectations of a Fed rate cut.
- Powell’s statement at the October meeting press conference that the December decision was “not a foregone conclusion” significantly dampened expectations for another rate cut: the probability of monetary easing priced into futures markets fell to 30% in the weeks after the meeting – down from nearly 100% before the press conference.
- At the end of November, however, FOMC Vice Chair John Williams reignited rate-cut speculation with some dovish remarks, pushing the probability of a rate cut back up to 90%, while the likelihood of holding rates steady fell to about 10%. In his speech, Williams argued that monetary policy was “moderately restrictive,” leaving “room for further adjustment [of interest rates] in the near future.” He also pointed to the weakening labor market.
- Of the twelve voting FOMC members, we identify Michelle Bowman, Christopher Waller, and Stephen Miran as clear supporters of a December rate cut. John Williams is also likely to join this camp. Susan Collins, Austan Goolsbee, Alberto Musalem, and Jeffrey Schmid have expressed skepticism about further easing, with Schmid already having voted against the October rate cut. Philip Jefferson and Michael Barr have been more cautious but not decisively hawkish.

Executive Summary: Close call expected (III)

- Jerome Powell and Lisa Cook have not commented on the monetary policy stance since the last meeting. Powell's silence is particularly unusual as FOMC chair. Given the sharply divided opinions within the committee, his silence is likely a deliberate strategy to avoid further polarization. Instead, Williams – who traditionally aligns with Powell – signaled with his dovish speech the rate cut Powell himself probably favors. We therefore classify Powell as a supporter of a rate cut, and Lisa Cook, who usually votes with Powell, is likely to share this position.
- If Jefferson and Barr are counted among those favoring holding rates steady, the result would be a 6:6 tie—a deadlock unprecedented in FOMC history. In fact, the official FOMC rules contain no explicit provision for a tie, and Powell has no formal tie-breaking authority. Theoretically, another vote could be held during the same meeting, though this is not required. If no majority emerges, the status quo would likely prevail, and a rate cut would not occur.
- The key question, therefore, is whether Powell can build consensus and persuade additional FOMC members. If he succeeds in bringing Jefferson and Barr to his side, the vote would be 8:4 in favor of a rate cut. Both had expressed caution about further rate moves shortly after the October meeting, when Powell's stance leaned toward holding rates steady. It remains unclear whether Jefferson and Barr have since changed their minds. They often tend to support the majority view within the board, giving Powell room to win them over for a rate cut.
- In any case, our analysis shows that the FOMC is deeply divided. This is one reason why we consider further rate cuts beyond December unlikely for now. Inflation risks also persist, making it unlikely that the Fed will aggressively loosen monetary policy.
- Our favorite quote comes from Richmond Fed President Thomas Barkin: “You may notice nothing I just said gives any guidance for our next meeting. That’s intentional, as I think we have a lot to learn between now and then.”

17% of FOMC members with voting rights did not clearly express their support for or opposition to an interest rate cut. Their votes could tip the scales.

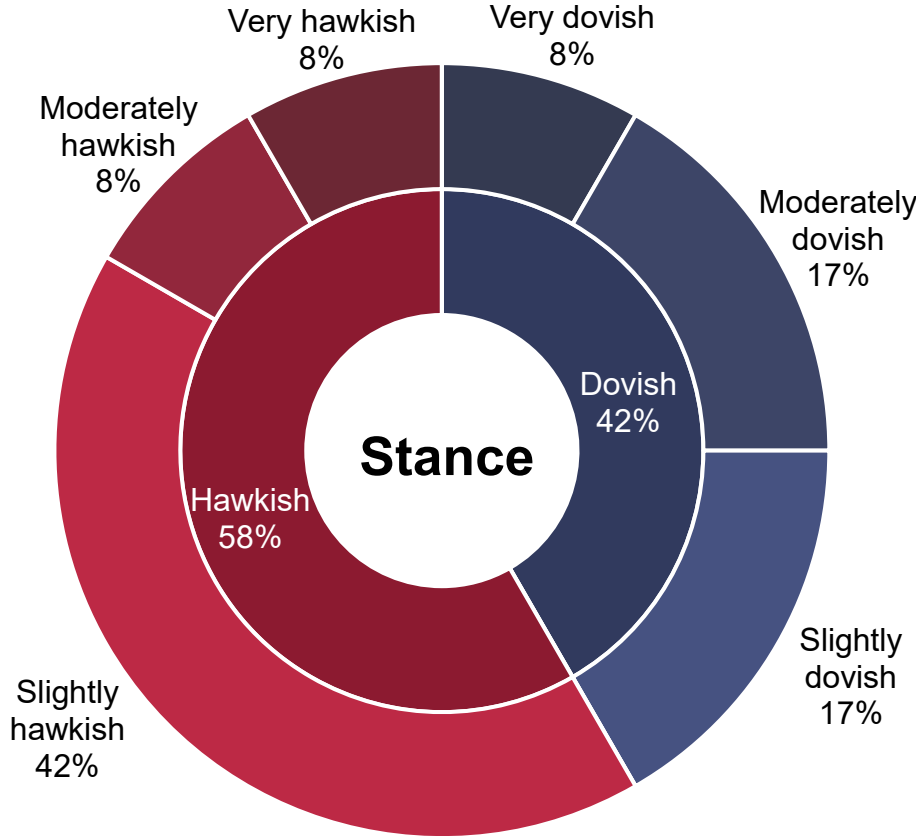
Bias for December 10, 2025



Source: HCOB Economics
Note: We take the following into account when assessing an FOMC member's bias: Statements since the last FOMC meeting, previous statements, general stance, group dynamics, and the current economic situation of the US. Only members with a voting right are considered.

In January, four FOMC members will be replaced due to the rotation principle. However, this is unlikely to change the Council's basic stance.

Doves and Hawks in the FOMC



Source: HCOB Economics

Definition of “dovish”: certain tolerance when exceeding the inflation target.

Definition of “hawkish”: very limited tolerance when exceeding the inflation target.

Note: With “stance” we mean a member’s general stance, which is rather static and likely not to change that much from meeting to meeting. The categorization of each FOMC member is based on an subjective qualitative judgement from HCOB Economics. Only members with a voting right are considered in this figure.

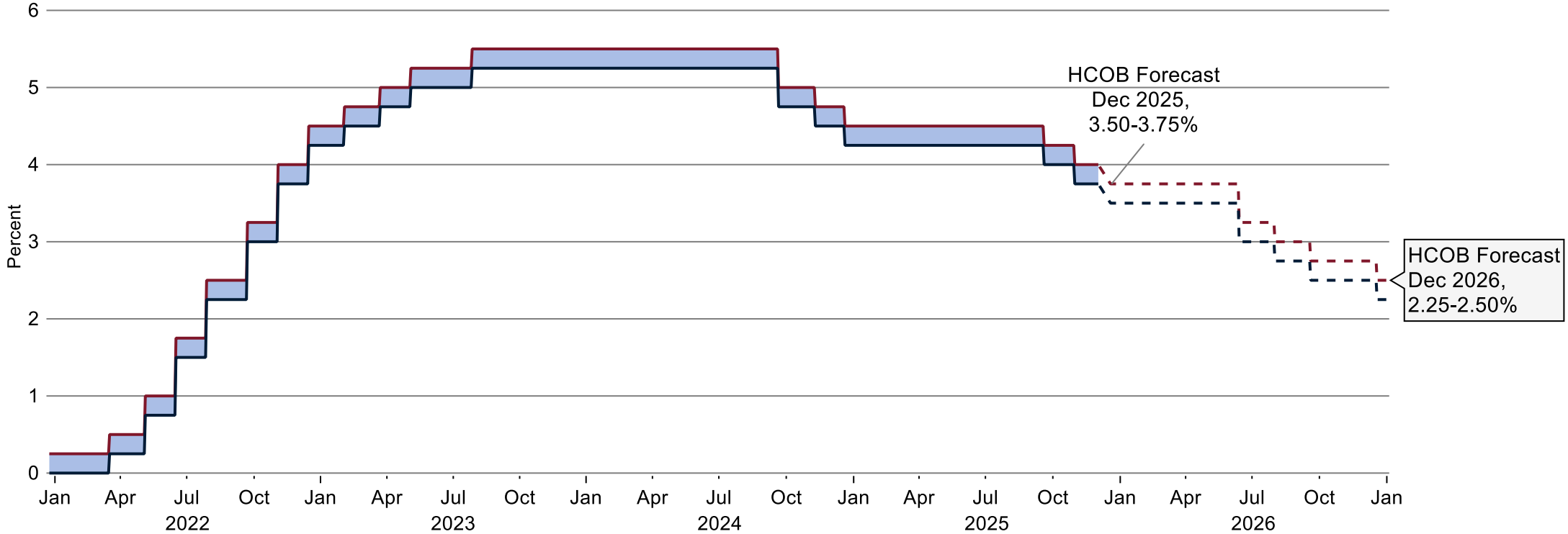
Overview of the FOMC: Powell has not commented publicly on monetary policy since the last meeting. However, Williams and he often share the same line.

FOMC Member	Position / Regional Bank	General Stance	Bias for Dec. 10, 2025	Voted for Interest Rate Decision at Last Meeting	Voting Right in 2025	Voting Right in 2026
Jerome H. Powell	Board of Governors, Chair	Slightly hawkish	Cut	Yes	Yes	Yes
John C. Williams	New York, Vice Chair of the FOMC	Slightly hawkish	Cut	Yes	Yes	Yes
Philip N. Jefferson	Board of Governors, Vice Chair of the Board	Slightly hawkish	Unclear	Yes	Yes	Yes
Michelle W. Bowman	Board of Governors, Vice Chair for Supervision	Moderately dovish	Cut	Yes	Yes	Yes
Michael S. Barr	Board of Governors	Slightly hawkish	Unclear	Yes	Yes	Yes
Lisa D. Cook	Board of Governors	Slightly dovish	Cut	Yes	Yes	Yes
Stephen I. Miran	Board of Governors	Very dovish	Cut	No*	Yes	Yes
Christopher J. Waller	Board of Governors	Moderately dovish	Cut	Yes	Yes	Yes
Regional Bank Governors						
Susan M. Collins	Boston	Slightly hawkish	Hold	Yes	Yes	No
Austan D. Goolsbee	Chicago	Slightly dovish	Hold	Yes	Yes	No
Alberto G. Musalem	St. Louis	Moderately hawkish	Hold	Yes	Yes	No
Jeffrey R. Schmid	Kansas City	Very hawkish	Hold	No*	Yes	No
Beth M. Hammack	Cleveland	Very hawkish	Hold	—	No	Yes
Anna Paulson	Philadelphia	Slightly dovish	Cut	—	No	Yes
Neel Kashkari	Minneapolis	Slightly hawkish	Hold	—	No	Yes
Lorie K. Logan	Dallas	Moderately hawkish	Hold	—	No	Yes
Sushmita Shukla	New York, First Vice President	Unclear	Unclear	—	No	No
Thomas I. Barkin	Richmond	Moderately hawkish	Unclear	—	No	No
Raphael W. Bostic	Atlanta	Moderately hawkish	Hold	—	No	No
Mary C. Daly	San Francisco	Slightly dovish	Cut	—	No	No

*Note: Stephen Miran voted in favor of a 50 basis point cut, while Jeffrey Schmid preferred no change to the target range for the federal funds rate.

HCOB interest rate forecast: Following Powell's departure as Fed chair in May 2026, we anticipate a more politicized Fed that will continue to lower interest rates.

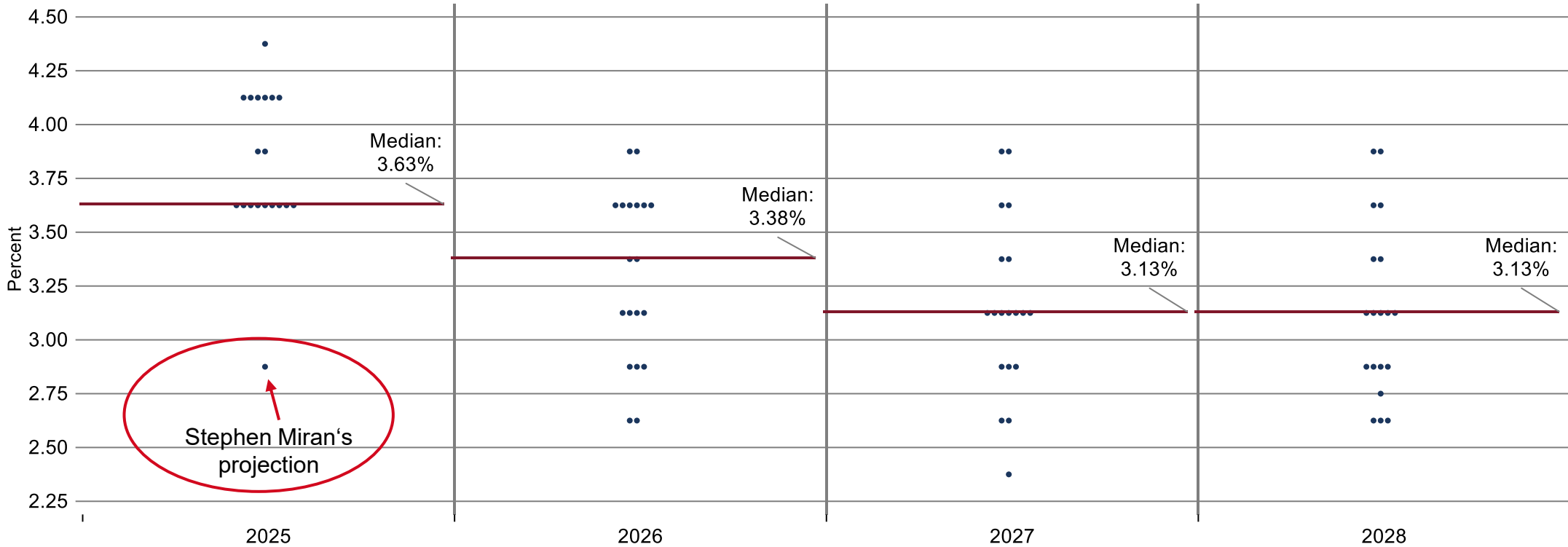
Target Range of the Federal Funds Rate and Forecast of HCOB Economics



Source: Macrobond, HCOB Economics, Federal Reserve

Dot plot of the September projections: Nine FOMC members considered a FFR range of 3.50–3.75% to be appropriate until the end of 2025.

Dot Plot: FOMC Members' Projections for the Federal Funds Rate (Midpoint of Target Range)



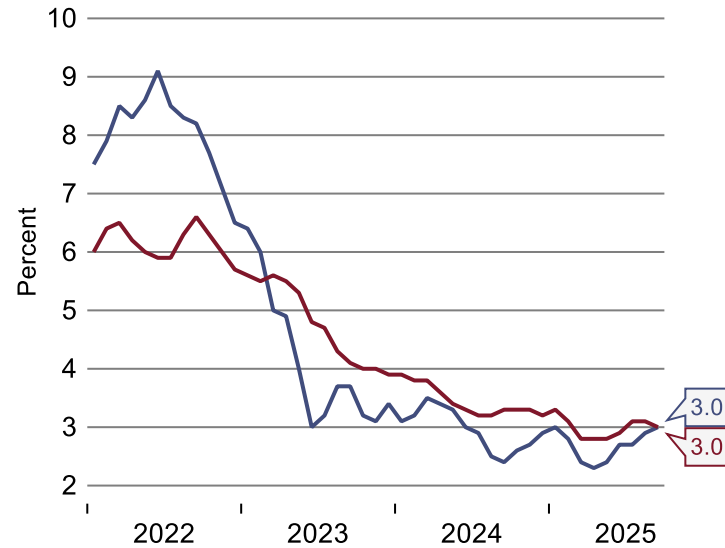
Source: Macrobond, HCOB Economics, Federal Reserve

How to read this plot: The dot plot shows each FOMC member's projection for the value of the midpoint of the projected appropriate target range of the federal funds rate at the end of each year. Each dot represents one member's forecast. The vertical axis shows the interest rate (in percent p.a.), while the horizontal axis shows the forecast years (2025, 2026, 2027, and 2028). Multiple dots at the same level indicate that several members share the same view. A red line indicates the median projection for each year. Note that the dot plot reflects individual opinions, not a consensus or official forecast.

U.S. economy at a glance: The Fed must base its decision on outdated data. New CPI and labor market data will not be released until after the December meeting.

USA, CPI Inflation, YoY, September 2025

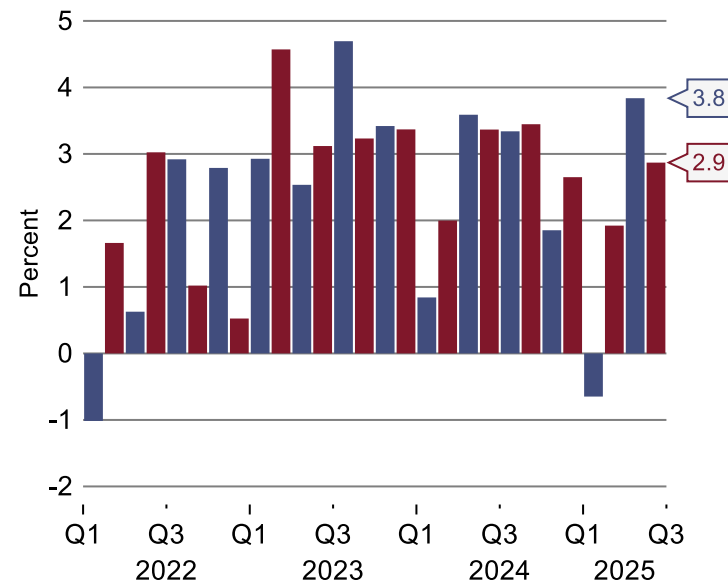
CPI Inflation



— Consumer Price Index, All Items Less Food & Energy, Change YoY
 — Consumer Price Index, All Items, Change YoY

Source: Macrobond, HCOB Economics, U.S. Bureau of Labor Statistics (BLS)

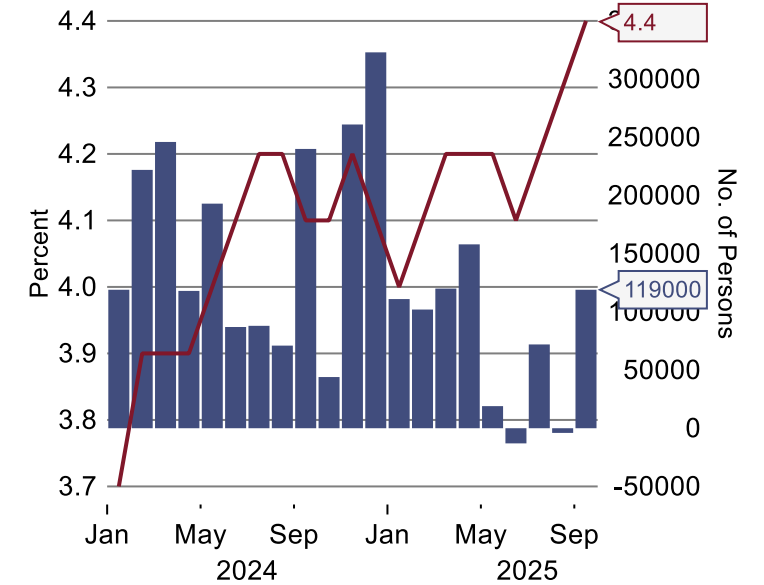
USA, GDP and Domestic Demand, QoQ Annualized Growth, 2025 Q2



■ Real Gross Domestic Product, QoQ Annualized Growth Rates
 ■ Real Final Sales to Domestic Purchasers, QoQ Annualized Growth Rates

Source: Macrobond, HCOB Economics, U.S. Bureau of Economic Analysis (BEA)

USA, Unemployment Rate and Nonfarm Payrolls, September 2025

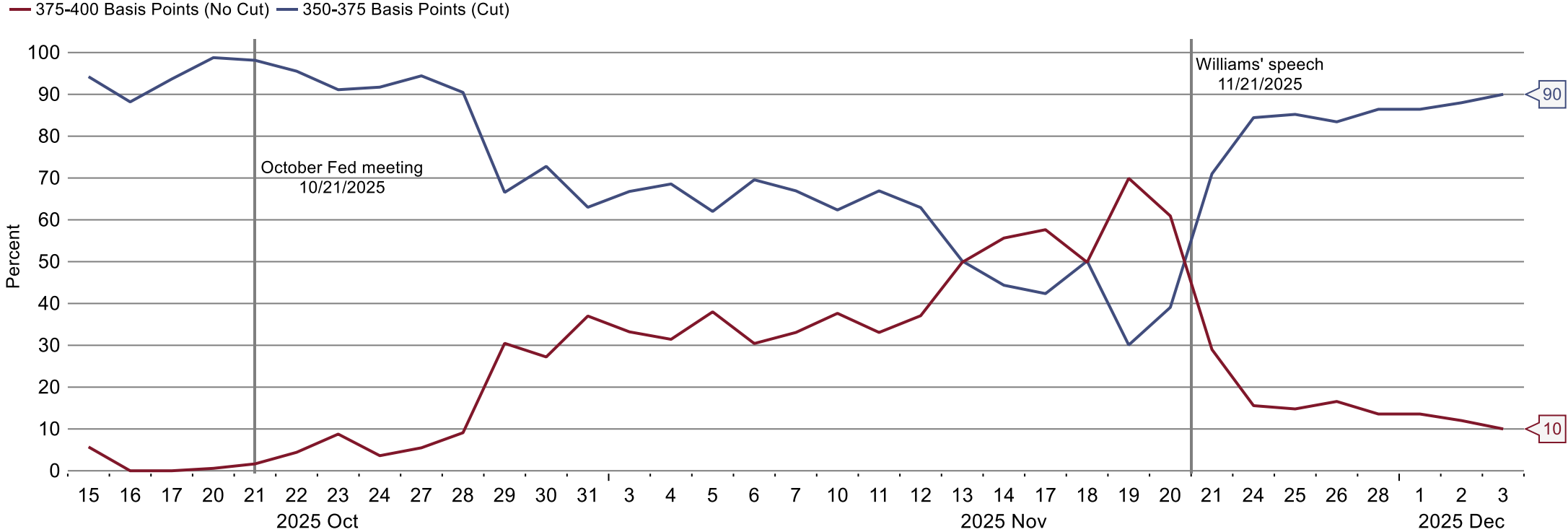


— Unemployment, National, 16 Years & Over, Rate, lhs
 ■ Employment, Payroll, Nonfarm, Payroll, Total (1-Month Net Change), rhs

Source: Macrobond, HCOB Economics, U.S. Bureau of Labor Statistics (BLS)

Powell dampened expectations of interest rate cuts at the October meeting. John Williams, Vice Chair of the FOMC, reignited them with his speech on November 21.

United States, Futures Based Probabilities, 2025/12/10 FOMC Meeting, Federal Funds Rate, Estimate



Source: Macrobond, HCOB Economics, CME Group

Appendix

- **Monetary policy instruments of the Fed and link to the last meeting**
- **Futures implied interest rate expectations**
- **“One person, one quote”**

Monetary policy instruments of the Fed and link to the last meeting

The key monetary policy instruments of the Fed at a glance:

Instrument	Function	Current rate / measure	Effective from
Federal Funds Rate	Short-term interbank interest rate	3.75–4.00 %	October 30, 2025
Interest on Reserve Balances	Interest on bank balances at the Fed	3.90 %	October 30, 2025
Primary Credit Rate	Interest rate for short-term loans to banks	4.00 %	October 30, 2025
Overnight Repurchase Agreement	Short-term liquidity provision through the purchase of securities	Minimum bid rate: 4.00 % Limit: \$500 billion	October 30, 2025
Overnight Reverse Repurchase Agreement	Short-term liquidity absorption through the sale of securities	3.75 % Limit: \$160 billion per counterparty/day	October 30, 2025
Reinvestment Policy (vollständiger Rollover)	Balance sheet stabilization through full reinvestment	Treasuries: all principal payments will be reinvested Agency MBS: reallocation to Treasury bills	December 1, 2025

Link to the documents from the last FOMC meeting, which took place on October 28–29, 2025:

- [The Fed - October 28-29, 2025 FOMC Meeting](#)

Futures implied interest rate expectations: The financial markets are pricing in a 90% probability of an interest rate cut in December.

Effective Federal Funds Rate (EFFR): Futures Implied Probabilities

FOMC meeting	Implied EFFR	225-250 bps	250-275 bps	275-300 bps	300-325 bps	325-350 bps	350-375 bps	375-400 bps
2025-12-10	3.73 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	90.0 %	10.0 %
2026-01-28	3.58 %	0.0 %	0.0 %	0.0 %	0.0 %	27.9 %	65.2 %	6.9 %
2026-03-18	3.54 %	0.0 %	0.0 %	0.0 %	10.9 %	42.5 %	42.4 %	4.2 %
2026-04-29	3.41 %	0.0 %	0.0 %	2.9 %	19.4 %	42.5 %	32.1 %	3.1 %
2026-06-17	3.35 %	0.0 %	1.7 %	12.5 %	32.7 %	36.5 %	15.3 %	1.3 %
2026-07-29	3.18 %	0.6 %	5.4 %	19.4 %	34.0 %	29.3 %	10.5 %	0.9 %
2026-09-16	3.14 %	2.4 %	10.7 %	25.0 %	32.2 %	22.1 %	6.8 %	0.5 %
2026-10-28	3.04 %	4.1 %	13.5 %	26.4 %	30.2 %	19.1 %	5.6 %	0.4 %
2026-12-09	3.00 %	6.2 %	16.4 %	27.3 %	27.7 %	16.0 %	4.4 %	0.3 %

Source: Macrobond, HCOB Economics, CME Group

How to read this table: This table presents market expectations for the future effective federal funds rate (EFFR), derived from 30-day federal funds futures. The first column shows the dates of upcoming FOMC meetings. The second column displays the implied EFFR based on futures pricing. The remaining columns represent the probabilities that the EFFR will fall within specific target ranges (e.g., 275–300 bps, 300–325 bps, etc.). Example (first row): For the FOMC meeting on December 10, 2025, the implied EFFR is 3.73% (second column). There is a 10% probability (last column) that the rate will remain in the range of 375–400 bps, while there is a 90% probability (second last column) of a 25-bps rate cut, placing the rate in the range of 350–375 bps.

“One person, one quote”: Quotes made since the October meeting (I)

- **John C. Williams (New York, Vice Chair of the FOMC):** “I view monetary policy as being modestly restrictive, although somewhat less so than before our recent actions. Therefore, I still see room for a further adjustment in the near term to the target range for the federal funds rate to move the stance of policy closer to the range of neutral, thereby maintaining the balance between the achievement of our two goals.”
- **Philip N. Jefferson (Board of Governors, Vice Chair of the Board):** “The current policy stance is still somewhat restrictive, but we have moved it closer to its neutral level that neither restricts nor stimulates the economy. Given this, it makes sense to proceed slowly as we approach the neutral rate.”
- **Michelle W. Bowman (Board of Governors, Vice Chair for Supervision):** “[...] the reduced level of jobs growth is more concerning than inflation hovering above the Fed’s goal.”
- **Michael S. Barr (Board of Governors):** “I am concerned that we’re seeing inflation still at around 3% and our target is 2%, and we’re committed to getting to that 2% target. So we need to be careful and cautious now about monetary policy, because we want to make sure that we’re achieving both sides of our mandate.”
- **Stephen I. Miran (Board of Governors):** “My concern is that if we don’t continue cutting rates and do so at a reasonably quick pace [the jobless rate will continue to rise and] we will be the source of continuing increases in unemployment, which is not a good thing.”
- **Christopher J. Waller (Board of Governors):** “[...] most of the private sector and anecdotal data that we’ve gotten is that nothing has really changed. The labor market is soft. It’s continuing to weaken [which makes a December cut appropriate].”

“One person, one quote”: Quotes made since the October meeting (II)

- **Susan M. Collins (Boston):** “My own view is that policy is currently in the kind of mildly restrictive range after the 50-basis-point easing that we did in September and October, and that’s appropriate [given the current state of the economy].”
- **Austan D. Goolsbee (Chicago):** “[...] in the near term I’m a little uneasy front loading too many rate cuts, and counting on [that] inflation will go back down. [...] There’s nothing wrong with dissenting [in case I strongly disagree with the committee at the December decision].”
- **Alberto G. Musalem (St. Louis):** “It is very important that we tread with caution, because I believe there’s limited room for further reductions without monetary policy becoming overly accommodative.”
- **Jeffrey R. Schmid (Kansas City):** “My view is that with inflation still too high, monetary policy should lean against demand growth to allow the space for supply to expand and relieve price pressures in the economy. I view the current stance of monetary policy as being only modestly restrictive.”
- **Beth M. Hammack (Cleveland):** “Inflation has been running above the Fed’s 2 percent objective for four and a half years. Lowering interest rates to support the labor market risks prolonging this period of elevated inflation, and it could also encourage risk-taking in financial markets.”
- **Anna Paulson (Philadelphia):** “[...] each rate cut raises the bar for the next cut. And that’s because each rate cut brings us closer to the level where policy flips from restraining activity a bit to the place where it is providing a boost. So, I am approaching the December FOMC cautiously. On the margin, I’m still a little more worried about the labor market than I am about inflation [...].”

“One person, one quote”: Quotes made since the October meeting (III)

- **Neel Kashkari (Minneapolis):** “[I did not support the cut in October]. The anecdotal evidence and the data we got just implied to me underlying resilience in economic activity, more than I had expected. [...] I can make a case depending on how the data goes to cut, I can make a case to hold, and we’ll have to see.”
- **Lorie K. Logan (Dallas):** “In the absence of clear evidence that justifies further easing, holding rates steady for a time would allow the FOMC to better assess the degree of restriction from current policy.”
- **Thomas I. Barkin (Richmond):** “You may notice nothing I just said gives any guidance for our next meeting. That’s intentional, as I think we have a lot to learn between now and then.”
- **Raphael W. Bostic (Atlanta):** “I view the signals from the labor market as ambiguous and difficult to interpret. They are not clear enough to warrant an aggressive monetary policy response when weighed against the more straightforward risk of ongoing inflationary pressures.”
- **Mary C. Daly (San Francisco):** “[The decision to cut rates or pause rates next month requires] a judgment call about where the risks of not moving are, and where the risks of moving are. And so, for me, I put the risks of moving [rates down] a little bit lower than others, and I put the risk of not moving a little bit higher than others.”
- **The following FOMC members made no relevant public statement with respect to monetary policy since the last FOMC meeting:**
 - Jerome H. Powell (Board of Governors, Chair)
 - Lisa D. Cook (Board of Governors)
 - Sushmita Shukla (New York, First Vice President)

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