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# PHILEQUITY CORNER

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## Hawkish cut

Last Wednesday, the US Federal Reserve (Fed) cut its benchmark rate by 25 basis points to a range of 3.50-3.75 percent. The Fed's policy statement struck a relatively hawkish tone and the dot plot signaled a tempered view for future rate cuts. Conversely, the Fed announced that it has initiated a bond-buying program despite the hawkish cut.

## Rate cut with hawkish guidance

The phrase "hawkish cut" may sound like an oxymoron composed of two contradicting words. However, in this context, market pundits use the phrase to describe a policy rate cut which is accompanied by hawkish forward guidance. This comes as a pivot after the Fed reduced its policy rate by 75 basis points since September and 175 basis points since September last year. The dot plot indicates that Fed officials expect just one more rate cut in 2026 and another one in 2027. In addition, two committee members voted against the rate cut, while four other non-voting members expressed soft dissents against the move.

## Wait-and-see

Fed Chair Jerome Powell's statement underscored the Fed's wait-and-see approach as it is less inclined to cut rates again in the near-term. Below, we share some quotes from his speech and Q&A session.

- "The fed funds rate is now within a broad range of estimates of its neutral value and we are well positioned to wait and see how the economy evolves."
- "I want inflation to be under control, coming back down to 2 percent and I want the labor market to be strong."
- "Inflation has eased significantly from its highs in mid-2022 but remains somewhat elevated relative to our 2 percent longer-run goal."
- "These readings are higher than earlier in the year, as inflation for goods has picked up, reflecting the effects of tariffs."
- "Our obligation is to make sure that a one-time increase in the price level does not become an ongoing inflation problem, but with downside risks to employment having risen in recent months, the balance of risks has shifted."
- "In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the committee will carefully assess incoming data, the evolving outlook, and the balance of risks."



## Fed resumes bond buying

Despite hawkish flavor of its latest policy statement, the Fed announced that it has initiated purchases of short-term Treasuries. This would provide more liquidity to the financial system to support economic growth. Powell said that "such increases in our securities holdings ensure that the federal funds rate remains within its target range, and are necessary because the growth of the economy leads to rising demand over time for our liabilities, including currency and reserves." The Fed's bond-buying program started with \$40 billion in bond purchases last week. Powell clarified that bond purchases "may remain elevated for a few months to alleviate expected near-term pressures in money markets."

## BSP nears end of easing cycle

Last Thursday, the Bangko Sentral ng Pilipinas (BSP) cut its policy rate by 25 basis points to 4.5 percent. This move also comes as a hawkish cut as the BSP "sees the monetary policy easing cycle nearing its end." The BSP added that "any additional easing will likely be limited and will be guided by incoming data." In a subsequent comment, BSP Governor Eli Remolona tempered the hawkish tone of the BSP's policy statement. He said that the BSP may cut its policy rate one more time in light of weaker domestic demand and a potentially slower economic recovery due to "concerns about governance issues and lingering uncertainty over global trade policy."

## Pro-growth stance

We saw both the Fed and the BSP deliver hawkish rate cuts last week. Both central banks provided guidance of a much slower and more measured pace of further easing, if needed. Despite the hawkish tone of their policy statements, the Fed and BSP maintained their pro-growth stance. This should bode well for economic growth and should continue to promote healthy stock markets. This also underscores that both the Fed and the BSP are delicately balancing their goals of managing inflation while supporting their respective economies.