TD Economics

Weekly Bottom Line

December 12, 2025

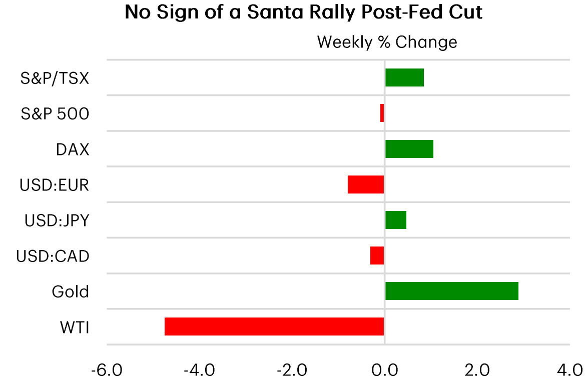
Highlights

- The Federal Reserve delivered a third consecutive quarter-point rate cut this week, bringing the target range to 3.50%-3.75%.
- Three voters dissented on December's decision and there was considerable dispersion on the expected rate path for 2026, underscoring the growing divide among FOMC members.
- The median FOMC projection on the federal funds rate suggests just one additional cut in 2026. For now, we think the Fed is on hold until June.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	6863	6870	6901	4983
S&P/TSX Comp.	31567	31311	31661	22507
DAX	24282	24028	24611	19671
FTSE 100	9664	9667	9911	7679
Nikkei	50837	50492	52411	31137
Fixed Income Yields				
U.S. 10-yr Treasury	4.19	4.14	4.79	3.95
Canada 10-yr Bond	3.44	3.42	3.60	2.83
Germany 10-yr Bund	2.87	2.80	2.90	2.21
UK 10-yr Gilt	4.52	4.48	4.89	4.36
Japan 10-yr Bond	1.95	1.95	1.98	1.04
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.73	0.72	0.74	0.69
Euro (USD per EUR)	1.17	1.16	1.19	1.02
Pound (USD per GBP)	1.34	1.33	1.37	1.22
Yen (JPY per USD)	156.1	155.3	158.4	140.9
Commodity Spot Prices**				
Crude Oil ($US/bbl)	57.2	60.1	80.0	57.1
Natural Gas ($US/MMBtu)	4.35	5.19	9.33	2.65
Copper ($US/met. tonne)	11896.8	11643.6	11896.8	8571.4
Gold ($US/troy oz.)	4317.6	4197.8	4356.3	2585.4

*As of 10:45 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

No Sign of a Santa Rally Post-Fed Cut



Note: Data as of 10:45 AM ET, Friday, December 12, 2025.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	3.50 - 3.75%
Bank of Canada (Overnight Rate)	2.25%
European Central Bank (Refi Rate)	2.15%
Bank of England (Repo Rate)	4.00%
Bank of Japan (Overnight Rate)	0.50%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
	Current Rate	2024				2025				2026			
	12/12/25	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	3.75	5.50	5.50	5.00	4.50	4.50	4.50	4.25	3.75	3.75	3.50	3.25	3.25
2-yr Govt. Bond Yield	3.54	4.59	4.71	3.66	4.25	3.89	3.72	3.60	3.60	3.50	3.35	3.35	3.35
10-yr Govt. Bond Yield	4.19	4.20	4.36	3.81	4.58	4.23	4.24	4.16	4.15	4.05	4.00	4.00	4.00
30-yr Govt. Bond Yield	4.85	4.34	4.51	4.14	4.78	4.59	4.78	4.73	4.75	4.60	4.50	4.50	4.50

Forecast by TD Economics as of December 2025; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

Fed Delivers on December Cut, But Signals Slower Pace Ahead

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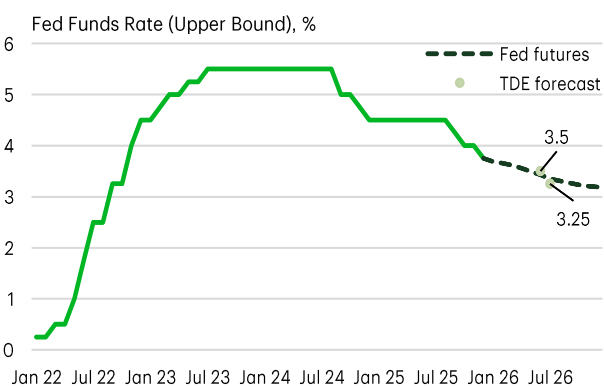
The main event this week was the Federal Reserve's much anticipated interest rate announcement. While policymakers elected to push ahead with a third consecutive quarter-point rate cut – bringing the target range to 3.50%-3.75% – the move came amid an increasingly divided FOMC (Chart 1). Uncertainty over the extent and timing of future rate cuts didn't stop the S&P 500 from briefly notching a new all-time high but pared those gains towards the end of the week. The yield curve steepened by roughly 10 bps, with the 10-year currently sitting at 4.19%.

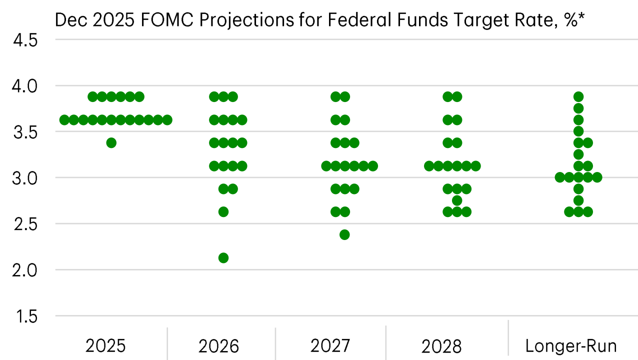
Accompanying the statement, the FOMC also released a revised set of economic forecasts, known as the Summary of Economic Projections (SEP). The SEP represents the median of the individual forecasts submitted by FOMC participant. Relative to the September projection, economic growth for 2025 saw a very modest upgrade (1.7% vs. 1.6%), while there was a notable upward revision to 2026 (2.3% vs. 1.8%). The expected trajectory for the unemployment rate was unchanged, while the inflation forecast is expected to remain above the 2% target through 2027 despite being nudged a tick lower in both 2025 and 2026. Importantly, the median projection on the federal funds rate remained unchanged at 3.6% for 2026 and 3.1% for 2027 – suggesting just one additional cut in each of the next two years (Chart 2). However, there was considerable dispersion across those projections, with the range of estimates for the appropriate level of the policy rate by the end of 2026 spanning 175 bps – a wider range than in September.

Chart 1: Fed Futures See Fed on Pause Until June 2026



Source: Federal Reserve, TD Economics.

Chart 2: Median FOMC Projection Shows One More Cut in 2026



*Midpoint of Target Range. Source: Federal Reserve Board, TD Economics.

The growing divide among policymakers was further underscored by the fact that three participants dissented against December's decision. Regional Fed Presidents Schmid and Goolsbee favored keeping the policy rate unchanged, while Governor Miran voted for a larger 50 bps cut. But as seen in Chart 2, there were a total of four Fed members who came into the meeting thinking a cut was not required.

The subtle shift in the dots wasn't lost on market participants. Come January, the four regional presidents who are currently voting FOMC members (Goolsbee, Schmid, Collins, and Musalem) will be replaced by Paulson of Philadelphia, Hammack of Cleveland, Kashkari of Minneapolis and Logan of Dallas. While we don't know for certain if any of the incoming Fed Presidents 'quietly' opposed the December cut, recent speeches by both Logan and Hammack have struck a more hawkish tone. Moreover, Kashkari had advocated for a pause on rate cuts ahead of the October meeting. This suggests that the hawkish tilt from Fed presidents isn't going away despite the turnover in voting members.

However, this needs to be balanced against a new Fed Chair, who will be in seat May 2026, and is likely to have a more dovish policy stance. Moreover, should Chair Powell elect to not serve out the remaining two years of his term on the board of governors, it will create another vacancy for which President Trump can appoint a new board member. The takeaway from all this is that the division among FOMC members is only likely to deepen next year, putting in question both the timing and extent of further policy easing.

Exhibits

Recent Key Economic Indicators: Dec 8 - 12, 2025							
Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior
United States						
Dec 09		NFIB Small Business Optimism	Nov	Index	99.0	98.2
Dec 10		Employment Cost Index	3Q	Q/Q % Chg.	0.8	0.9
Dec 10		FOMC Rate Decision (Upper Bound)	Dec 10	%	3.8	4.0
Dec 11		Initial Jobless Claims	Dec 06	Thsd	236.0	192.0
Dec 11		Trade Balance	Sep	Blns	-52.8	-59.3
Dec 11		Wholesale Trade Sales	Sep	M/M % Chg.	-0.2	-0.2
Canada						
Dec 10		Bank of Canada Rate Decision	Dec 10	%	2.25	2.25
Dec 11		Int'l Merchandise Trade	Sep	Blns	0.15	-6.43
International						
Dec 09	CH	Consumer Price Index	Nov	Y/Y % Chg.	0.7	0.2
Dec 12	UK	Gross Domestic Product	Oct	M/M % Chg.	-0.1	-0.1

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Dec 15 - 19, 2025							
Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States							
Dec 15	8:30		Empire Manufacturing	Dec	Index	9.7	18.7
Dec 15	9:30		*Fed's Miran Delivers Talk on Inflation Outlook*				
Dec 15	10:00		NAHB Housing Market Index	Dec	Index	38.0	38.0
Dec 15	10:30		*Fed's Williams delivers Keynote Remarks*				
Dec 16	8:30		Change in Nonfarm Payrolls	Nov	Thsd	50.0	-
Dec 16	8:30		Average Hourly Earnings	Nov	M/M % Chg.	0.3	-
Dec 16	8:30		Unemployment Rate	Nov	%	4.4	-
Dec 16	8:30		Retail Sales Advance	Oct	M/M % Chg.	0.2	0.2
Dec 16	8:30		Retail Sales Ex Auto and Gas	Oct	M/M % Chg.	0.4	0.1
Dec 16	9:45		S&P Global US Manufacturing PMI	Dec	Index	-	52.2
Dec 16	9:45		S&P Global US Services PMI	Dec	Index	-	54.1
Dec 16	9:45		S&P Global US Composite PMI	Dec	Index	-	54.2
Dec 16	10:00		Business Inventories	Sep	M/M % Chg.	-	0.0
Dec 17	8:15		*Fed's Waller Speaks on Economic Outlook*				
Dec 17	9:05		*Fed's Williams Delivers Opening Remarks*				
Dec 17	12:30		*Fed's Bostic Participates in Moderated Discussion*				
Dec 18	8:30		Initial Jobless Claims	Dec 13	Thsd	-	236.0
Dec 18	8:30		Consumer Price Index	Nov	Y/Y % Chg.	3.1	-
Dec 19	10:00		Existing Home Sales	Nov	Mlns	4.15	4.10
Canada							
Dec 15	5:00		Existing Home Sales	Nov	M/M % Chg.	-	0.9
Dec 15	8:15		Housing Starts	Nov	Thsd	250.0	232.8
Dec 15	8:30		Manufacturing Sales	Oct	M/M % Chg.	-1.1	3.3
Dec 15	8:30		Consumer Price Index NSA	Nov	M/M % Chg.	0.1	0.2
Dec 15	8:30		Consumer Price Index	Nov	Y/Y % Chg.	2.3	2.2
Dec 16	13:00		*Speech by BoC Governor Tiff Macklem*				
Dec 18	7:00		CFIB Business Barometer	Dec	Index	-	55.5
Dec 18	8:30		Payroll Employment Change - SEPH	Oct	Thsd	-	-58.0
Dec 19	8:30		Retail Sales	Oct	M/M % Chg.	0.0	-0.7
Dec 19	8:30		Retail Sales Ex Auto	Oct	M/M % Chg.	0.0	0.2
International							
Dec 16	2:00	UK	ILO Unemployment Rate	Oct	%	5.1	5.0
Dec 17	2:00	UK	Consumer Price Index	Nov	Y/Y % Chg.	3.5	3.6
Dec 17	5:00	EC	Consumer Price Index	Nov	Y/Y % Chg.	2.2	2.2
Dec 18	7:00	UK	Bank of England Bank Rate	Dec 18	%	3.8	4.0
Dec 18	8:15	EC	ECB Main Refinancing Rate	Dec 18	%	2.2	2.2
Dec 18	18:30	JN	Natl Consumer Price Index	Nov	Y/Y % Chg.	2.9	3.0
Dec 19	2:00	UK	Retail Sales Ex Auto Fuel	Nov	Y/Y % Chg.	1.5	1.2

*Eastern Standard Time. Source: Bloomberg, TD Economics.