WEEKLY STRATEGY
Perspectives

BMO | Private Wealth

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The Fed's Duel(ing) Mandate

"In 1977, when I started my first job at the Federal Reserve Board as a staff economist in the Division of International Finance, it was an article of faith in central banking that secrecy about monetary policy decisions was the best policy. Central banks, as a rule, did not discuss these decisions, let alone their future policy intentions."

– Janet Yellen

The Through Line: The Fed's next interest rate decision has been hotly debated among finance types for weeks. Unlike other central banks whose only objective is controlling inflation, the U.S. Federal Reserve has been congressionally mandated to focus on both price stability and full employment, a.k.a. the dual mandate. The problem: these two objectives may require contradictory policy responses. Messy and missing data (courtesy of the record-breaking government shut down) heighten the tension. We outline the issues and our prognosis for the period ahead.

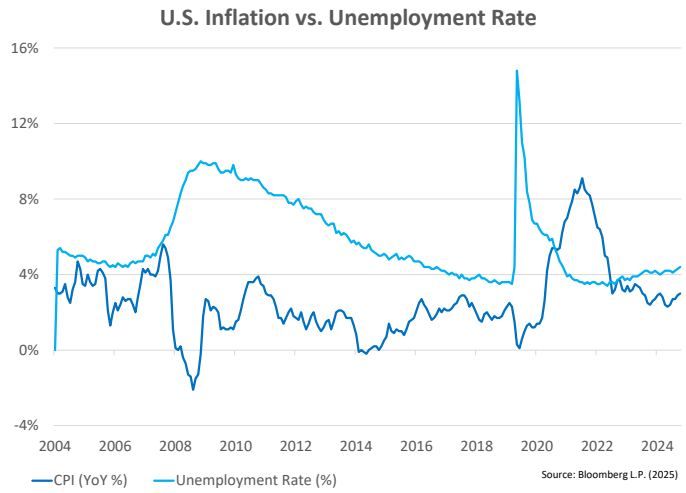
The Fed as an open book

Life has clearly changed at the U.S. Federal Reserve over recent decades. In Janet Yellen's early days there (before she was chair), the central bank took the position that "secrecy... was the best policy." However, recent chairs have made it a point to signal markets which way the policy winds were blowing. The current theory is that markets are less likely to be surprised (and overreact) if they get clear directional hints.

The last few chairs – starting with Alan Greenspan in the 1990s – encouraged the central bank's rate setting body, the Federal Open Market Committee, to unanimously agree on whether to cut, hold or hike the bank's policy rate. **Contrary to popular belief, the Fed doesn't control interest rates broadly. The only interest rate that the FOMC *directly* influences is the fed funds rate,** a.k.a. the policy rate, currently pegged between 3.75% and 4.00%. (The fed funds rate is the amount that commercial banks charge to borrow from each other in the overnight markets.)

Fed policy in action

Both of these concepts – foreshadowing and unanimity – have been put to the test this year. When 2025 began, inflation was trending down (from over 9% in 2022) toward the Fed's stated goal of 2%. The unemployment rate, which had been at near record lows (below 4%) for many quarters, was starting to gradually drift up.



The incoming Trump administration brought new immigration and trade policy plus wide-ranging cuts to government payrolls. These broad and deep changes prompted the Fed to shift into pause mode (after cutting several times last fall) while awaiting more clarity from fresh data. Differing schools of thought emerged. For example, one debate centered around whether tariffs are inflationary (potentially prompting a persistent rise in prices) or deflationary (leading to a contraction in economic activity and slower growth). Another debate centered around whether reduced demand for workers would be adequately offset by reduced supply – or would a mismatch cause an inflationary wage-price spiral?

Employment data reflect shifts

Then came the longest government shutdown on record, bringing data collection to a standstill. Both investors and FOMC members were forced to rely on a mixture of state-level and private data to piece together a reading on employment. Evidence seemed to mount that softness in the labor market, which had begun earlier in the year, was actually a trend. A recent report from employment consultancy Challenger, Gray & Christmas, for example, showed modest hiring increases in healthcare and education but decreased hiring in manufacturing and distribution (perhaps from deployment of robots) and technology (presumably exacerbated by AI and cloud efficiency). Similarly, the ADP national employment report showed a modest uptick in October after two months of decline; the three-month average run rate came in lower than it was in the spring.[i]

Earlier this week, the Bureau of Labor Statistics announced that, due to the government shut down, the November unemployment report and CPI (Consumer Price Index) won't be released until a week or more after the December 10 FOMC rate setting meeting. Fed governors who express more concern over softening unemployment focus on the fact that once unemployment starts to rise, it tends to rise quickly and is hard to contain. This makes intuitive sense since individuals who lose their jobs (or fear they are about to) rein in spending on goods and services. In a domino effect, affected businesses must find ways to reduce costs via hiring freezes, headcount reductions and/or accelerated implementation of labor-saving technology.

Putting the inflation genie back in the bottle

For inflation data, we have fewer sources in the private sector or at the state level compared to sources for employment data. Inflation sources primarily focus on goods inflation, yet the bulk of economic activity is from the services sector (think healthcare, education, financial services). The Bureau of Economic Analysis announced this week that it will not release the October CPI report until mid-December – again after the FOMC's rate setting meeting. The Personal Consumption Expenditures series, a separate survey of prices paid and spending, *will* be released on December 6. The PCE is the Fed's preferred inflation measure, so Fed watchers were cheered by the news that rate-setters will have this critical piece of information.

It is becoming clearer that tariff passthrough is lethargic and very strategic – if it happens at all. Companies are doing everything in their power to avoid passing along price increases. They are keenly aware that consumers are upset about absolute price levels, which are substantially higher in aggregate than they were just a few years ago – even if the pace of those increases is moderating.

The Fed formally adopted a 2% inflation target in 2012 under then-chair Ben Bernanke.[ii] The intent was to officially anchor expectations to a consistent level – despite the fact that the average during preceding decades was over 3%. For much of the early 2000s to the 2010s, the Fed struggled to get inflation *up* toward 2%. Low inflation was mainly due to the productivity-enhancing aspects of earlier technological advances and largely muted commodity prices.

WWJD? *(what will Jerome do?)*

At the press conference after the last (October) FOMC meeting, Fed Chair Jerome Powell took great pains to emphasize that voting members did not agree on the prospect of a December rate cut or the path of rate cuts going into 2026. It was clear from his remarks (plus the meeting minutes and subsequent commentary from individual governors on the talk circuit) that some are more worried about unemployment getting out of hand and are willing to tolerate sticky inflation. The argument for holding rates steady is based on inflation that is still under 4%, less than half the run rate of over 9% just a few years ago.

There is a growing sense that dissent could become the new norm, prompting a bit of consternation among watchers. Basically, we may now need to handicap potential votes similar to the way we calculate yay/nay votes for bills in Congress or cases before the Supreme Court. Markets – especially bond markets – will be watching who votes to cut (or hold) *and why*. Are they deciding based on perceived political affiliation or cogent economic/data-based argument? This will be especially true moving into next year, when the central bank will be influenced by more Trump Fed appointees.

We noted above that the FOMC doesn't directly influence anything other than the fed funds rate. The absolute rate (as well as the trend of cuts or hikes and the implications that holds for the growth outlook) is an important contributor in many corners of the fixed income markets. Longer-dated bonds, for instance, are also influenced by fiscal policy, growth and inflation expectations, the aggregate debt position of the underlying entity, and the perceived independence of the central bank. Case in point: at the start of 2023, futures markets were discounting six 0.25% rate cuts that would begin early in the year. Instead, the fed funds rate was only reduced by 1.00% via three cuts that did not start until September. Interestingly, stocks rallied most of the year – and longer bond yields actually rose close to 100 basis points (1.00%) even though the Fed cut overnight rates by a similar amount. Markets were factoring in healthy growth plus continuing low inflation.

Moving forward, undue pressure to cut rates without sufficient economic underpinnings could well lead to a repeat of such a disconnect (policy rate down but longer rates rising). FUNDAMENTALS are what matter. In this highly competitive landscape, expanding a plant, buying a competitor or accelerating a drug discovery plan aren't going to hinge on a cut in December versus January.

Implications for investors

Based on a number of factors (corporate and personal tax benefits from the OBBB, reduced regulation, accelerating M&A, market tailwinds) we expect the economy may well surprise with stronger growth than the consensus currently calls for in 2026. Further, we think there are enough deflationary forces at work (technological advances, accelerating productivity, stabilization of supply chains and tariff issues) to suggest growth can happen without an increase in inflation. We also anticipate the Fed will be increasingly willing to engage in public dissent, which could prompt continued near-term volatility, especially around data releases. If the arguments are economically coherent we think investors will adjust to – perhaps even embrace – the more nuanced policy delivery.

In focus in North America

Jon Borchardt, Sr. Analyst
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This week

U.S. consumers' picky mood – Now that the Q3 earnings season is wrapping up, consumers remain top of mind as we head into the formal kickoff of the holiday selling season (Black Friday, Small Business Saturday and Cyber Monday). Results from Walmart (WMT), Target (TGT), and Home Depot (HD) give a useful read on current spending patterns, though they are notably light on holiday-specific commentary. **The key takeaway is that bifurcation continues within income cohorts, but overall sales trends remained relatively stable.** A new survey from the National Retail Federation struck an optimistic tone, indicating spending levels during the Thanksgiving five-day shopping period will draw a record 186.9 million shoppers. An earlier NRF report projects that total November–December retail sales will top $1 trillion, up 3.7% year over year, growth that largely reflects inflation rather than stronger unit demand. The retail association estimates that average spend per person will fall to $890, a $12 drop from 2024 levels. While the gift-giving outlook appears solid, BMO Financial Group's recent Real Financial Progress Survey indicates Americans on average will spend $2,800 this holiday season, up roughly 40% from 2024 levels. The BMO survey broadens the definition of seasonal expenditure to include travel and dining out. Just over half (53%) of respondents indicated this higher expected spend is causing financial anxiety. Looking ahead to 2026, OBBB tax refunds on state and local property taxes, tips, overtime and Social Security should provide a cash stimulus that improves the backdrop for retailers in the new year.

The upcoming FOMC rate setting vote looks close – On Monday, the odds of a December rate cut had risen to around 75% from a low of around 33% last week according to the CME's FedWatch tool. Traders pushed those odds higher after Fed Governor John Williams indicated he could be open to a policy rate adjustment in December. In a Friday speech, Mr. Williams said the job of "bringing inflation sustainably back to target is not yet complete," while the labor market has "gradually cooled." Current policy is considered "modestly restrictive," and he sees "room for a further near-term rate adjustment." Boston Fed President Susan Collins said she views the current stance as "mildly restrictive," making her hesitant to consider a cut in December. The contrast between openness to a cut from Governor Williams and hesitation from Governor Collins highlights how a once-unified committee has become more divided in recent months. (The FOMC committee comprises 12 voting members – seven appointed by the President, four rotating regional fed presidents and the New York Federal Reserve president.) Based on public comments from voting members, four appear inclined to support a cut while four lean firmly against. The remaining four seem to be true undecideds, teeing up a tight vote that could go either way. Chair Powell has recently made comments seemingly in favor of another cut, perhaps adding an influential thumb to the scale.

Consumption remains soft in Canada – Canadian retail sales fell 0.7% in September, in line with expectations. Most sectors reported lower sales, led by a 2.9% slump in autos. Spending ex-autos edged up 0.2%, boosted by a 1.9% increase at gasoline stations. That left sales ex-autos and gas flat. Meantime, the flash estimate for October was flat, which could be a touch firmer in volume terms as goods prices ticked down in the month. Canadian retail sales remain in a holding pattern as support from lower interest rates faces headwinds caused by trade uncertainty. The bigger picture is one of mild economic growth that will do little to move the needle for the Bank of Canada heading into its December meeting.

Housing shows stability – Canada's housing market remained balanced overall in October, and the market appears to be settling into its new post-pandemic/post-correction normal. With the exception of a few select areas that are still struggling (e.g., Southern Ontario, namely condos, and parts of B.C.), and others that are very strong, national sales volumes are at normal levels. Mortgage rates are back around neutral (3.75%-to-4.25% range) and national prices stable. Existing home sales rose 0.9% in seasonally adjusted terms in October but were still down 4.3% from year-ago levels. Balanced conditions have left the national benchmark price effectively flat for the last six months. On a seasonally adjusted basis, prices were up 0.2% in October, but still down 3% from a year ago, and more than 17% below peak early-2022 levels. This has transitioned from a steep correction to a long and slow grind for Canadian home prices; that will likely continue into 2026. Separately, new home prices declined in October for the seventh straight month, keeping the year-over-year decrease at 1.8%.

Next week

Announcements on the timing for the release of U.S. government statistics should continue to filter out. In the meantime, core manufacturing and services survey results from both countries will be published. Expect each data point to be parsed in both countries while traders await central bank decisions the following week (December 10).

- **Monday 12/1 –** U.S. S&P final manufacturing PMI and ISM | Canada S&P Global manufacturing PMI
- **Wednesday 12/3 –** U.S. ADP employment, Import price index, S&P final services PMI and ISMs | Canada Productivity, S&P Global Services PMI
- **Thursday 12/4 –** U.S. Initial jobless claims, U.S. trade deficit | Canada Balance of Trade
- **Friday 12/5 –** U.S. Consumer sentiment | Canada Unemployment reports

Data scorecard as of November 25, 2025

Equity Market Total Returns						
	11/25/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,766	2.5%	16.4%	25.0%	26.3%	-18.1%
NASDAQ	23,026	3.4%	20.0%	29.6%	44.7%	-32.5%
DOW	47,112	1.9%	12.4%	15.0%	16.2%	-6.9%
Russell 2000	2,466	4.1%	11.9%	11.5%	16.9%	-20.5%
S&P/TSX	30,901	2.5%	27.9%	21.7%	11.8%	-5.8%
MSCI EAFE	10,090	1.2%	24.8%	3.8%	18.2%	-14.5%
MSCI EM	737	1.5%	28.4%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.4%	7.5%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.3%	6.7%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.6%	7.9%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		0.4%	7.6%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.1%	4.7%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		0.4%	3.5%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		0.3%	2.7%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.3%	4.9%	6.9%	8.2%	-9.5%
Government Bond Yields						
	11/25/2025	Last,Month,End	Last,Quarter,End	2024	2023	2022
U.S. 10-Year Treasury	4.00%	4.08%	4.15%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.15%	3.12%	3.18%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.49%	4.41%	4.70%	4.56%	3.53%	3.66%
German 10-Year Bund	2.67%	2.63%	2.71%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.80%	1.66%	1.64%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	11/25/2025,Level	WTD	YTD	2024	2023	2022
USD Index	99.66	-0.5%	-8.1%	7.1%	-2.1%	8.2%
CAD:USD	$0.71	0.0%	2.0%	-7.9%	2.3%	-6.7%
Bitcoin	$87,002.26	2.2%	-7.2%	120.5%	157.0%	-64.3%
Gold	$4,130.69	1.6%	57.4%	27.2%	13.1%	-0.3%
Oil (WTI)	$57.95	-0.2%	-19.2%	0.1%	-10.7%	6.7%

**Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index. Index definitions can be found at the end of this publication.*

Index Definitions

Equity indices

S&P 500® Index is an index of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

NASDAQ Composite Index is a market-cap weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.

Dow Jones Industrial Average ("DOW") is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

Russell 2000® Index (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

S&P/TSX Index is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada's primary stock exchange, the Toronto Stock Exchange (TSX).

MSCI EAFE Index (Developed Markets —Europe, Australasia, and Far East Index) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. The index captures large and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a market capitalization weighted index representative of the market structure of the emerging markets countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

Fixed income indices

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

Bloomberg U.S. Treasury Index is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall.

Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Corporate High Yield Index is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+ or below.

Bloomberg 1-10 Year Blend Municipal Bond Index is a market value-weighted index which covers the short and intermediate components of the Bloomberg Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

Bloomberg Canada Aggregate Bond Index measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market. It includes treasuries, government-related, and corporate issuers.

Bloomberg Canada Aggregate Bond Index - Treasury is the treasury sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

Bloomberg Canada Aggregate Bond Index - Corporate is the Corporate sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

BMO Private Wealth

[i] ADP National Employment Report: Private Sector Employment Increased by 42,000 Jobs in October; Annual Pay was Up 4.5%

[ii] The Origins of the 2 Percent Inflation Target | Richmond Fed