

Global Markets Shake as US Federal Reserve Signals Pause on Rate Cuts

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Lead

Today's financial landscape is in flux, with markets reacting sharply to the Federal Reserve's indication that December's interest rate cut is no longer a certainty. This shift, driven by concerns over inflation, geopolitical tensions, and economic fragility, has introduced renewed volatility and uncertainty at a pivotal juncture for investors worldwide.

Key Developments

- **Federal Reserve** - Pauses rate cuts, citing divided opinions and inflation risks, causing major stock indices to tumble and bond yields to spike.
- **Powell** - Explicitly states that a December rate cut is "not a foregone conclusion," raising doubts about the Fed's next move and unsettling markets.
- **US Stock Markets** - S&P 500 and NASDAQ experience significant declines, with breadth reaching historic lows on up

days; tech giants like Nvidia and Microsoft remain volatile amid valuation concerns.

- **Global Impact** – Asian and European markets follow Wall Street's lead, with currencies and bond markets reflecting increased risk aversion amid geopolitical strain and economic slowdown fears.
- **US Economy** – Signs of stagnation with persistent layoffs, sluggish wage growth, and a shrinking manufacturing sector; inflation remains sticky at around 2.7%, complicating monetary policy.
- **Geopolitical Tensions** – U.S.-China relations remain fraught, with trade and security issues intensifying, prompting investors to reassess supply chain resilience and regional stability.
- **Artificial Intelligence Bubble** – The AI sector, driven by companies like Nvidia and emerging Chinese AI firms, faces scrutiny as valuations soar-today's cautious stance signals possible market correction ahead.

Narrative

Today's markets echo a landscape in ambush. After weeks of bullish exuberance, investors found themselves jolted by the Federal Reserve's stark admission that their plans to cut interest rates in December are no longer set in stone. Jerome Powell's blunt declaration - "not a foregone conclusion" - sent shockwaves through the financial arteries. Wall Street responded with swift, sharp declines; the S&P 500 and NASDAQ's recent rally momentum faltered, revealing the fragility beneath the apparent euphoria.

The central bank's hesitation reflects a broader concern: inflation is stubbornly persistent, wage growth remains elevated at 4%, and unemployment, while low, shows signs of edging upward. With CPI still

at 2.7%, the Fed is caught between a rock and a hard place - fighting inflation without derailing the fragile recovery. Their division-just as policymakers signal pause-highlighted by dissenting voices like Stephen Miran and Jeff Schmid-underscores the difficulty of future policy paths. The market's response was visceral: bond yields spiked, risk premiums widened, and equity valuations, especially in the AI-driven tech sector, experienced jitters.

This volatility isn't confined to the US. Asian equities traded lower, with Chinese tech giants like Nvidia and Microsoft showing signs of valuation fatigue. Investors are increasingly cautious about overexposure to a sector whose sky-high valuations are now under fire, with many questioning whether the AI hype bubble has finally begun to deflate. Chinese AI enterprises, despite making strides in quantum computing and BCI tech, are tethered to international restrictions and geopolitical tensions-highlighting that sophistication doesn't guarantee immunity from global shifts.

Meanwhile, the US economy shows signs of stagnation. Persistent layoffs, sluggish consumer spending, and manufacturing contractions point to a delicate balance: disequilibrium where inflationary pressures clash with growth constraints. The geopolitical backdrop-heightened U.S.-China rivalry over tech, rare earths, and supply chains-further caps potential upside. The risk of a sustained slowdown, compounded by a deteriorating global security environment, has investors rethinking risk models and sharpening their focus on safety.

The sector most under scrutiny today is artificial intelligence. Nvidia's meteoric rise to over \$5 trillion is now met with market scepticism. Valuations that once seemed justified by revolutionary potential now appear alarmingly disconnected from fundamentals. The sector's bubble-like nature is becoming painfully evident as regulators and investors alike weigh the sustainability of these exponential gains. The recent market gyrations serve as a warning: inflated valuations are vulnerable

to swift corrections, especially amid broader macroeconomic uncertainties.

For everyday investors and institutional players, this turbulence underscores an important reality: markets are shifting away from the era of unbridled optimism. The days when central banks could simply cut rates to rejuvenate risk assets appear to be over. Now, patience and prudence are paramount. As inflation remains sticky, geopolitical risks escalate, and valuations recalibrate, the window for easy gains narrows. The question today is not just about the Fed's next move but whether the broader economic and geopolitical shifts have permanently altered the risk landscape.

Forward Indicators

- - High - A sustained inflation rate above 2.5% will pressure the Fed to hold rates, limiting liquidity.
 - - Medium - Escalating trade restrictions or security confrontations could trigger further market volatility.
 - - High - A correction in high-flying tech stocks could ripple across markets, revealing vulnerabilities in the bubble.
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Source: Field reporting and analysis.