Market Outlook: The Next Move: Lowering Federal Interest Rates

From Pandemic Stimulus to Policy Restraint

In March 2020, as COVID-19 rattled global markets and brought the U.S. economy to a standstill, the Federal Reserve swiftly slashed the federal funds rate to near-zero and launched a series of quantitative easing programs to provide liquidity and stabilize financial markets. These emergency measures helped avert a prolonged recession, but they also laid the groundwork for inflationary pressures that emerged by mid-2021.

From early 2022 through mid-2023, the Fed pursued its most aggressive rate-hiking campaign in four decades–raising the benchmark rate from 0.25% to a peak target range of **5.25%-5.50%**. The objective was clear: to bring down inflation, which had reached over 9% in 2022, and restore price stability. The policy succeeded in taming inflation, but not without side effects:

- Higher borrowing costs,
- Tighter credit conditions, and
- Growing concerns over a slowdown in economic growth.

In the latter half of 2024, as inflation moderated and recession risks mounted, the Fed pivoted. Two rate cuts–one in September and another in November–lowered the federal funds rate to **4.50%-4.75%** by year-end. However, progress stalled in early 2025 as inflation proved stickier than expected, forcing the Fed to adopt a "wait-and-see" approach.

At its late July 2025 meeting, the Federal Reserve held the federal funds rate steady at 4.25%-4.50% for a **seventh consecutive meeting**, signaling that while inflation is easing, policymakers want **more confidence** before initiating cuts.

What Comes Next: Rate Cuts on the Horizon?

With inflation gradually drifting toward the Fed's 2% target and GDP growth slowing to a crawl, attention has turned to **when–and how aggressively–the Federal Reserve may resume rate cuts.**

- Inflation Outlook: Core Personal Consumption Expenditures (PCE)–the Fed's preferred inflation gauge–was at 2.8% in June 2025, unchanged from May 2025, but down from 5.4% in early 2023. If the disinflation trend holds, many analysts believe a September 2025 rate cut is likely.
- Market Pricing: Futures markets are now assigning an 85-90% probability of at least one rate cut in September, with expectations for an additional cut by year-end–potentially lowering rates by a total of 50 bps in 2025. Fed Vice Chair for Supervision Michelle Bowman has even suggested the possibility of three cuts before the end of 2025. Looking ahead, forecasts for 2026 are even more dovish, projecting a federal funds rate below 3.5% by mid-year.
- Fed Commentary: FOMC members continue to emphasize a data-driven approach, citing the need for further progress on inflation and confirmation that labor market strength is not reigniting price pressures.
- Bond Market Reaction: The 10-Year Treasury yield rose to approximately 4.37% following the Fed's late July meeting, as investors weighed Powell's cautious remarks on inflation persistence and policy stability, alongside stronger-than-expected second-quarter GDP growth.

While timing remains uncertain, the direction is becoming clearer: **the next move is likely down**–the only question is when.

What This Means for the Broader U.S. Economy

Lower interest rates would help reinvigorate key areas of the economy that have cooled under the weight of tighter policy.

GDP AND CONSUMPTION

- Real GDP growth grew 3% in Q2 2025, unchanged from Q1 2025 but above economists' forecasts.
- Consumer spending rose 1.4% year-over-year, marking a solid rebound from the sluggish 0.5% growth recorded in the first quarter

LABOR MARKET

- Job growth remains modest but steady, with unemployment holding near 4.2%.
- Wage growth, as measured by the Atlanta Fed's Wage Growth Tracker, eased to 4.1% in July. While slightly below the prior month's pace, the level remains elevated relative to pre-pandemic norms, indicating ongoing upward pressure on labor costs that could influence inflation dynamics and the Federal Reserve's policy outlook.

RECESSION RISK

- The New York Fed's yield curve-based recession probability model now places the risk of a recession in the next 12 months at 28%, down from over 50% last year.
- Private forecasts remain mixed: while Goldman Sachs and Barclays have dialed back recession expectations, S&P Global and the Conference Board continue to warn of potential contraction by early 2026.

The challenge for the Fed is finding the right moment to pivot without reigniting inflation or allowing the economy to slip into stagnation. With monetary policy already restrictive, even modest easing could provide meaningful relief to consumers, borrowers, and markets.

Housing Market Implications: Unlocking Homebuyer Demand

Perhaps no sector is more sensitive to interest rate shifts than housing. The past three years have made that abundantly clear. As mortgage rates surged alongside Fed policy, affordability cratered, inventory froze, and would-be buyers stepped back.

But with the tide of monetary policy poised to turn, the housing market may be on the verge of **a cyclical reset.**

MORTGAGE RATES AND AFFORDABILITY

- The 30-Year Fixed Mortgage Rate, according to Freddie Mac, is averaging 6.72% as of July 31–down from a peak near 8% in 2023 but still elevated compared to pre-pandemic norms.
- If the Fed delivers one or more cuts by year-end, analysts expect mortgage rates could retreat to the 5.75%-6.25% range by mid-2026.
- Every 100-basis point drop in mortgage rates increases affordability by roughly 10%, expanding the pool of qualified buyers and reducing monthly payments by several hundreds of dollars in many markets.
- The National Association of Realtors estimates that a decline in the 30-year fixed mortgage rate to 6% would enable roughly 5.5 million additional households, including 1.6 million renters, to afford the median-priced U.S. home. Of these, approximately 10%–or about 550,000 households–are projected to purchase a home within the next 12 to 18 months.

BUILDER STRATEGY AND MARKET DYNAMICS

- Builder sentiment, as measured by the NAHB Housing Market Index on a 0-100 scale with readings below 50 considered negative territory, has ticked up modestly to 36 points in July, supported by rate buydowns, incentives, and continued demand for new inventory.
- Homebuilders continue to rely on "land-light" strategies–including land banking and option contracts–to minimize capital exposure while maintaining flexibility.
- Inventory remains historically tight, with industry experts and economists estimating the U.S. housing undersupply to be between 2 and 6 million units. A decline in rates could reawaken sidelined demand and stimulate new construction pipelines across key growth corridors.

HOMEBUYER BEHAVIOR AND INVESTOR SENTIMENT

- First-time buyers, having been the most affected by affordability challenges, are expected to re-enter the market in significantly greater numbers in 2026. Estimates suggest an influx of 300,000 to 500,000 additional first-time homebuyers during that year.
- Investors–especially institutional capital–may reallocate to residential real estate, favoring the relative stability and inflation-hedging attributes of land and housing during late-cycle recovery phases.

Real Estate and Land Investment: Preparing for the Next Cycle

Historically, downturns and late-cycle pauses have proven to be **strategic entry points** for long-term real estate investment. Land values may experience temporary softness in the face of higher rates and slower sales–but as interest rates fall and demand returns, **entitled land and shovel-ready development sites tend to appreciate rapidly.**

- During the 2020–2021 recovery, land prices in high-growth metros surged 25–40%, driven by falling rates and strong builder absorption.
- Private equity and institutional investors are once again eyeing land acquisition as a long-duration play aligned with demographic tailwinds and a structural housing shortage.

Walton Global's **asset-light, builder-aligned model** is well positioned to capitalize on this next phase. Our entitlement expertise, builder partnerships, and capital-efficient approach offer an advantage as the housing market moves from recovery to expansion.

The Road Ahead

The Federal Reserve's monetary policy is at a crossroads. With inflation easing and economic growth losing momentum, the conditions are aligning for a shift in strategy. While no pivot has been formally announced, all eyes are on the Fed's upcoming meetings, beginning with their late July meeting, for signals of easing ahead.

For the U.S. economy, and particularly the housing market, **the implications of lower interest rates are significant:**

- Improved affordability and homebuyer sentiment
- Renewed construction and land development activity
- Increased investment appetite for residential real estate

The window for strategic land positioning is opening. At Walton Global, we remain focused on long-term fundamentals: demographic-driven demand, persistent housing undersupply, and the long-term wealth-building power of homeownership. With potential interest rate relief on the horizon, we believe the second half of 2025 will present compelling opportunities across the housing and land investment landscape.

Sources: Federal Reserve Board (FOMC Meeting Statements, March 2020 – July 2025) | U.S. Bureau of Economic Analysis, Q1 2025 GDP Report | U.S. Bureau of Labor Statistics, July 2025 Employment Summary | Freddie Mac PMMS Data, July 2025 | John Burns Research & Consulting, Mortgage Affordability Tracker | National Association of Home Builders (NAHB), HMI Survey – July 2025 | CoreLogic Land Price Index, 2020–2024 | MSCI Real Assets Quarterly Trends Report, 2025 | The Conference Board, Leading Economic Index, June 2025 | Goldman Sachs & Barclays U.S. Outlooks, June 2025 | U.S. Treasury, Daily Treasury Yield Curve Rates, July 2025 | Preqin & NCREIF Institutional Allocations to Real Assets – Midyear 2025 | Harvard Joint Center for Housing Studies, Housing Supply Report 2024 | Realtor.com | Housing Supply Gap Reaches Nearly 4 Million in 2024