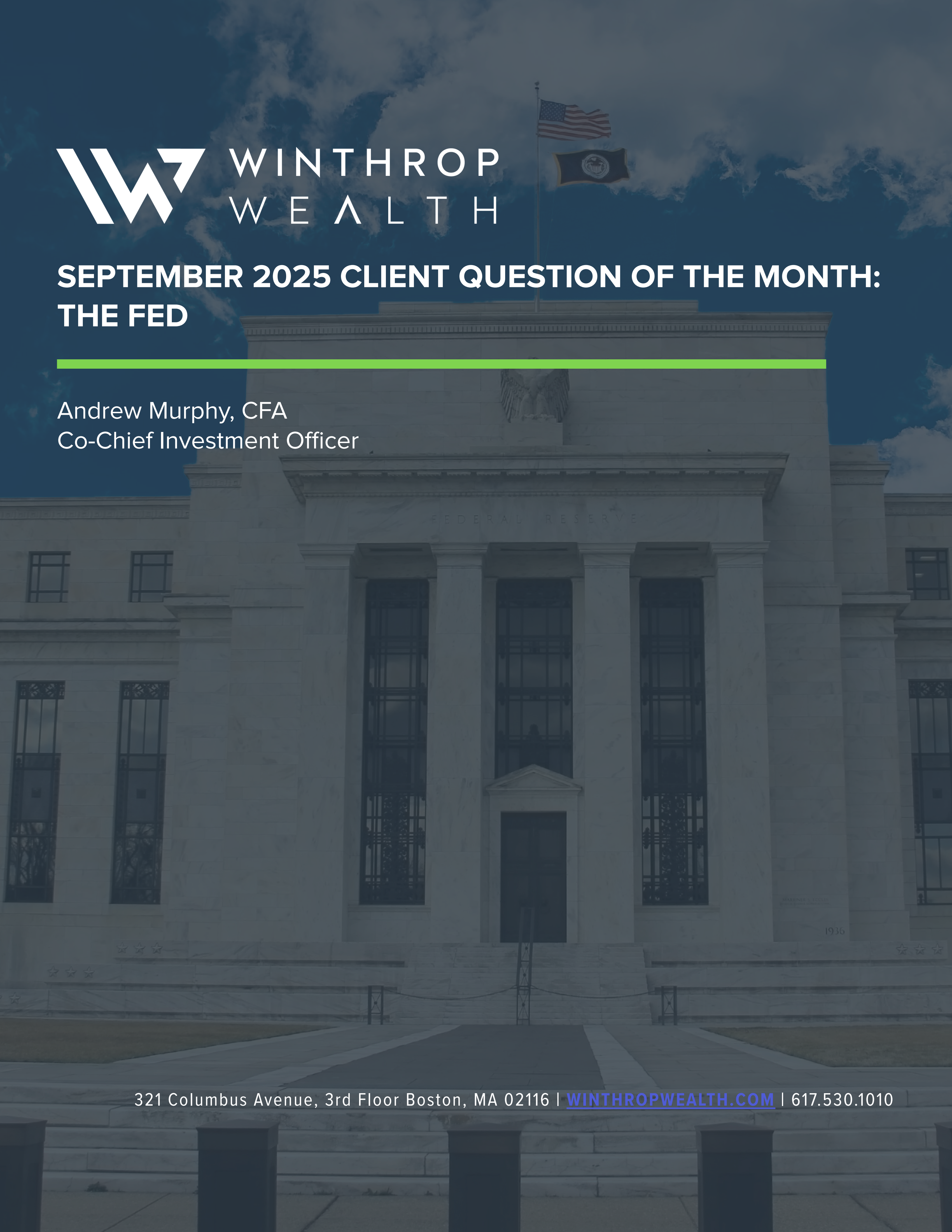

WINTHROP WEALTH

SEPTEMBER 2025 CLIENT QUESTION OF THE MONTH: THE FED

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Overview

The Federal Reserve, or simply the Fed, is the central bank of the United States. After the Financial Panic of 1907 and a wave of bank failures, Congress concluded that the country needed a central bank to serve as the lender of last resort. The Federal Reserve Act was passed in 1913 and signed into law by President Woodrow Wilson, creating the Federal Reserve System. The goal was to provide the nation with a safe, flexible, and stable monetary and financial system. The Fed is an independent government agency, but they are ultimately accountable to the public and to Congress. While the President or members of Congress are sometimes openly critical, politics are not supposed to influence Federal Reserve decisions.

The Fed performs five key function to promote the effective operation of the US economy:

Conduct monetary policy for the United States	Help maintain the stability of the financial system	Supervise and regulate financial institutions	Foster payment and settlement system safety and efficiency	Promote consumer protection and community development

Key Entities

The three key entities of the Federal Reserve are the Board of Governors, the Federal Reserve Banks, and the Federal Open Market Committee (FOMC).

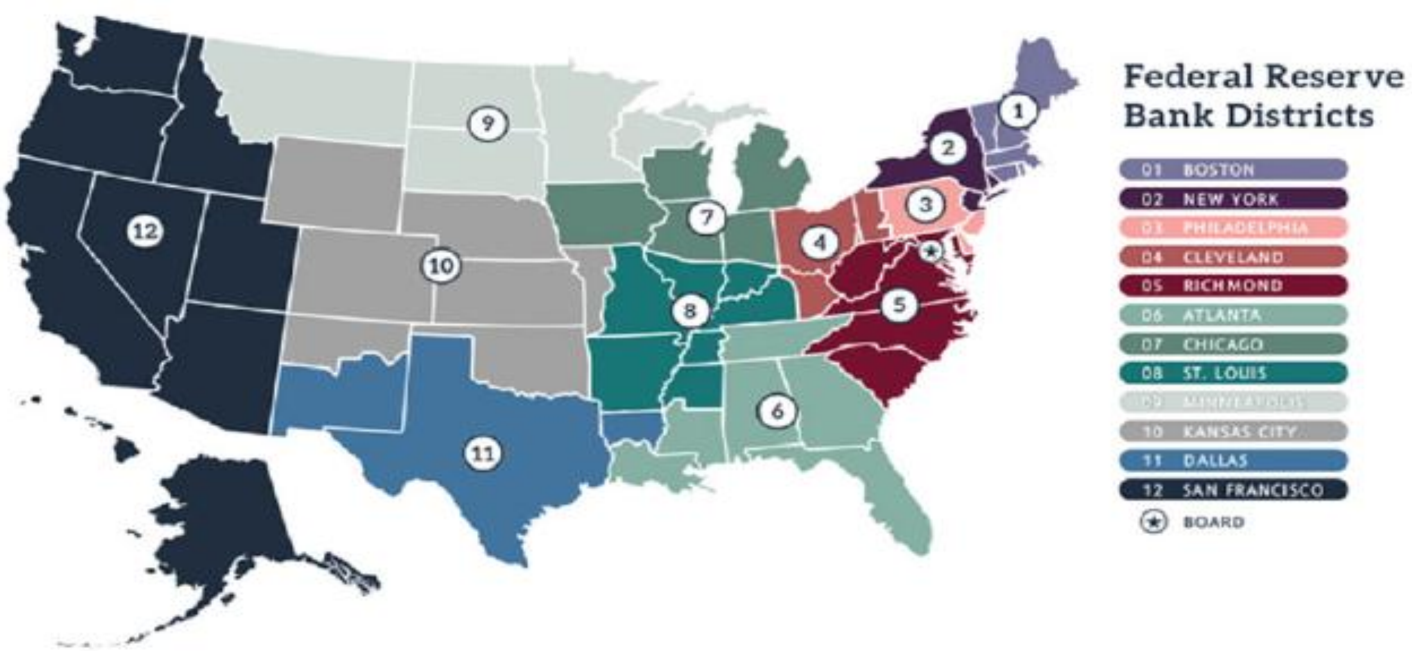
Federal Reserve Board of Governors

The Board of Governors serves as the governing body for the Federal Reserve System. The Board is composed of seven members, each nominated by the President and confirmed by the Senate. Members are appointed to staggered 14-year terms, with one term expiring on January 31st of every even-numbered year. After serving a full 14-year term, a Board member cannot be reappointed.

The Fed Chair and Vice Chair are also appointed by the President and confirmed by the Senate. Both serve 4-year terms and may be reappointed. **Fed Chair:** Jerome Powell. **Fed Vice Chair:** Philip Jefferson.

Federal Reserve Banks

The twelve Federal Reserve Banks serve as the operating arm of the Federal Reserve System. Each Reserve Bank works within a specific geographic region, or district. Core functions include supervising financial institutions, offering lending services, examining certain banks, and providing payment system functions to financial institutions within the district. The Reserve Banks also collect data and insights from their local communities and share this information with the FOMC as input for monetary policy decisions. Each Reserve Bank effectively serves as a "bank for banks" in their district.



Source: Federal Reserve

Federal Open Market Committee (FOMC)

The FOMC sets national monetary policy on behalf of the Federal Reserve System. Monetary policy refers to the actions the FOMC undertakes to promote maximum employment and price stability. When fully staffed, the FOMC is composed of twelve voting members: the seven members of the Board of Governors, the President of the Federal Reserve Bank of New York, and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis. All twelve Reserve Bank presidents attend FOMC meetings, but only voting members determine policy decisions.

The committee holds eight regularly scheduled meetings per year to review economic and financial conditions, assess risks to the economic outlook, and determine the appropriate stance of monetary policy.

The FOMC implements monetary policy through a combination of traditional and nontraditional tools to achieve the goals outlined in the statutory mandate from Congress.

The Federal Reserve's Statutory Mandate

1. Maximum Employment
2. Stable Prices

Traditional Monetary Policy			Nontraditional Monetary Policy		
Open Market Operations	**Reserve Requirements**	**Discount Window Lending**	**Forward Guidance**	**Large-Scale Asset Purchases**	**Lending Facilities**
Open market operations keep the Federal Funds Rate at the target set by the FOMC, which is the interest rate for overnight borrowing between banks. The Fed's most frequently used monetary policy tool consists of buying and selling US government securities on the open market, with the aim of aligning the Federal Funds Rate with that publicly announced target set by the FOMC.	All depository institutions must hold a portion of their deposits as reserves, in the form of physical currency on hand or as balances at a Federal Reserve Bank. In January 2019, the FOMC announced its intention to implement monetary policy in an ample reserves regime. Reserve requirements do not play a significant role in this operating framework.	The interest rate a Federal Reserve Bank charges eligible financial institutions to borrow funds on a short-term basis. The level is set above the Federal Funds Rate target. As such, the discount window serves as a backup source of funding for depository institutions. Lender of last resort: the discount window can become the primary source of funds during unusual circumstances.	Forward guidance is the Fed's communication about the state of the economy and likely future course of monetary policy. The Fed expects this communication will influence financial and economic conditions. The most widely followed examples of forward guidance are contained in the post-meeting FOMC statement or comments from the Chair.	The Fed purchases US Treasuries and government sponsored agency mortgage backed securities (MBS) in the private market through a competitive process. Also known as Quantitative Easing (QE), the asset purchases are designed to support the economy by putting downward pressure on long-term interest rates, including mortgage rates.	Under section 13(3) of the Federal Reserve Act, the Fed can create lending facilities with the approval of the US Treasury. The facilities typically fall into two categories: stabilizing short-term funding markets and providing more direct support for credit across the economy. The Fed launched several facilities in 2020 using funding from the CARES Act.
Current Policy					
Federal Funds Rate: 4.25% to 4.50%. Last Changed: December 18, 2024.	Required Reserve Ratio: 0% Last Changed: March 26, 2020	Primary Credit Rate: 4.50% Last Changed: December 19, 2024.	Fed Chair Powell: With policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance. Last Updated: August 22, 2025.	Quantitative Tightening or reducing the size of the balance sheet is ongoing. As of March 2025, the Fed is allowing the balance sheet to decrease by a maximum of $40 billion each month.	The 13(3) facilities are generally no longer operating and were closed once financial markets stabilized after the pandemic. The Fed also launched and subsequently closed the Bank Term Funding Program (BTFP) after the banking sector turmoil in March 2023.

Source: Federal Reserve, Bloomberg, Winthrop Wealth.

FOMC Meetings

The FOMC considers three key questions at each of their meetings:

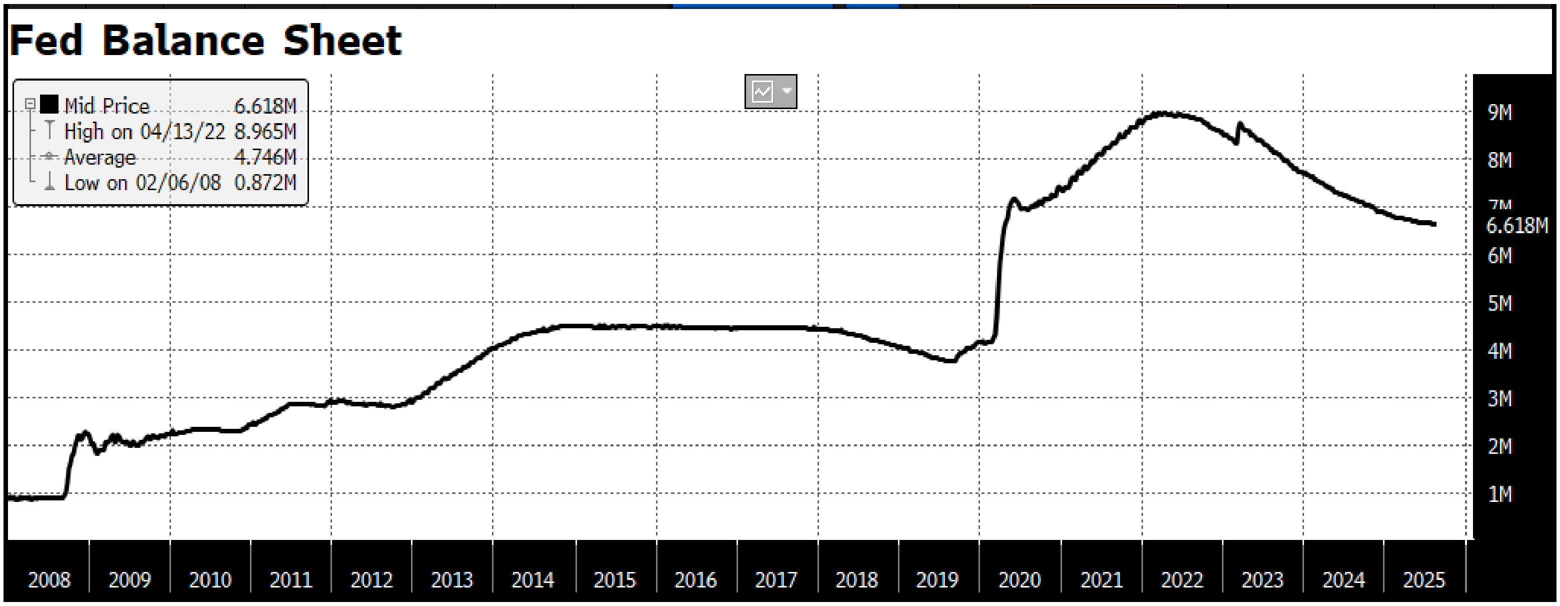
1. How is the US economy likely to evolve in the near and medium term?
2. What is the appropriate monetary policy setting to help the economy achieve the goal of 2% inflation and maximum employment over the medium term?
3. How can the FOMC effectively communicate their economic outlook and policy decisions?

The Fed's Balance Sheet

The Federal Reserve's balance sheet is the consolidated statement of assets and liabilities for all twelve Federal Reserve Banks. Assets include holdings of US Treasuries and mortgage-backed securities (MBS), loans to financial institutions, and amounts lent through the Fed's emergency lending facilities. Liabilities include currency in circulation and bank reserves - the deposits commercial banks hold at the Fed. Monetary policy directly influences the size of the balance sheet: accommodative policy generally results in a larger balance sheet, while restrictive policy generally results in a smaller balance sheet.

Before the 2008 financial crisis, the Fed's balance sheet drew little attention from investors. That changed when the Fed launched large-scale asset purchase programs - known as quantitative easing (QE) - to support the economic recovery. The Fed's quantitative easing programs also helped to monetize a lot of the debt issued by the Treasury for fiscal stimulus programs (please see our [Client Question on the Federal Debt]). Here is a brief history of the Fed's recent quantitative earning and tightening programs:

Time Period	Quantitative Easing/Tightening FOMC Actions
2008 - 2015	Three separate Quantitative Easing (QE) programs expanded the balance sheet from about $900 billion to over $4.5 trillion.
2015 - 2019	Quantitative Tightening (QT) reduced the balance sheet to under $4 trillion.
2020 - 2022	In response to COVID-19, the Fed launched an open-ended QE program and several lending facilities, growing the balance sheet to nearly $9 trillion.
2022 -	QT aimed to reduce the balance sheet. In March 2025, the monthly runoff cap was lowered to $40 billion.



Source: Federal Reserve, Bloomberg, Winthrop Wealth.

Controlling the Monetary Base – Printing Money

The Fed has direct control over the monetary base, which is the sum of currency in circulation plus bank reserves. When the Fed wants to inject liquidity into the financial system, they can increase the monetary base by printing money, either physically or digitally. Physical currency is produced and distributed through the Federal Reserve Banks. Digital money creation occurs when the Fed buys securities and credits bank reserve accounts. For example, if the Fed purchases a Treasury bond from a bank, they take ownership of the bond and credit the bank's reserve account for the purchase amount.

Bank reserves are cash held in the vault or deposits at regional Federal Reserve banks. The Fed started to pay interest on reserves on October 1, 2008. The interest rate on reserve balances (IORB rate) has been 4.40% since December 2024. Banks can hold excess reserves to earn interest, use them to settle payments, or maintain liquidity buffers.

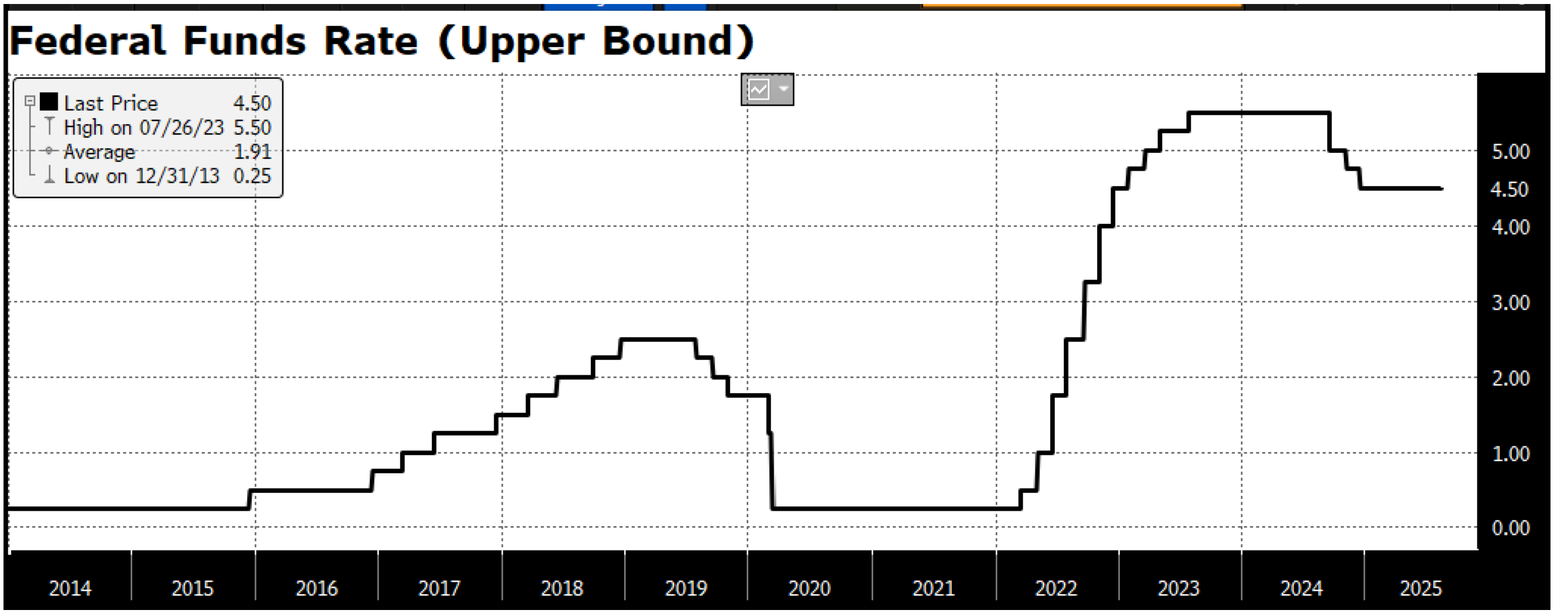
How Monetary Policy Impacts the Economy, Interest Rates, and Stock Prices

"My job continues to be to predict the financial markets, particularly the major stock, bond, commodity, and foreign exchange markets around the world. To do this job well, I've learned that nothing is more important than to anticipate the actions of the Federal Reserve System's Federal Open Market Committee (FOMC), which sets the course of monetary policy in the United States."

- Ed Yardeni, Market Strategist

The FOMC sets monetary policy to establish the financial conditions believed to best achieve the mandated goals of maximum employment and stable prices. As economic conditions change, the FOMC adjusts policy accordingly. The Fed's most common monetary policy tool is setting the Federal Funds Rate, currently 4.5%. Policy is considered accommodative when the FOMC is trying to boost the economy, and restrictive when it is trying to slow the economy, typically because inflation is running higher than preferred.

According to the Fed, monetary policy directly affects interest rates; it indirectly affects stock prices, wealth, and currency exchange rates. Through these channels, monetary policy influences spending, investment, production, employment, and inflation in the United States. Effective monetary policy complements fiscal policy to support economic growth.



Source: Bloomberg.

Economy

The Fed states that monetary policy affects the US economy primarily through its influence on the availability and cost of money and credit. The Fed's decisions impact a wide range of spending by individuals and corporations. When the Fed shifts to accommodative monetary policy and lowers the Federal Funds Rate, lower interest rates stimulate spending on goods and services. Since consumer spending accounts for about 70% of GDP, a decrease in interest rates that prompts increased spending will boost the economy.

The Fed also notes that higher stock prices can lead to increased spending through the wealth effect. When stock prices rise, shareholders' overall wealth increases. Intuitively, when individuals feel wealthier, they tend to spend more.

Interest Rates

Short-Term

The FOMC influences short term interest rates by setting the Federal Funds Rate. As the Federal Funds Rate increases or decreases, US Treasury bills, commercial paper, and other short-term bonds typically move in the same direction.

Long-Term

Normally, the FOMC has an indirect impact on long-term interest rates. The market determines long-term yields based on supply dynamics and investor demand, which vary with expectations of future inflation and economic growth. However, if the FOMC wants a more direct impact, it can use quantitative easing/tightening to purchase or sell bonds in the open market.

Stock Prices

"The most direct and immediate effects of monetary policy actions, such as changes in the Federal Funds Rate, are on the financial markets."

- Ben Bernanke, Former Fed Chair (2006 – 2014)

Monetary policy has a significant impact on interest rates and, in turn, equity prices. Accommodative monetary policy generally leads to lower interest rates and higher stock prices, while restrictive policy has the opposite effect.

When you buy a share of stock, you are purchasing an ownership stake in the underlying company. Your ownership stake represents a claim on the firm's cash flows, earnings (profits), and dividends.

Stock prices reflect the present value of a company's expected future earnings. Interest rates affect both the present value calculation and the expected amount of future earnings by influencing the discount rate, the relative value trade-off with other asset classes, and the cost at which the company can borrow or refinance. These factors are not mutually exclusive—they occur simultaneously, though their impact varies based on company-specific circumstances.

Interest rates impact stock prices by changing:

1. The discount rate used to calculate the present value of future cash flows.
2. The relative value tradeoff between stocks and other asset classes (i.e. bonds or cash).
3. The amount at which corporations can borrow or refinance.

Interest Rates ↓	
Discount Rate Decreases	Present value of future cash flows increases
Relative Value of Stocks Increases	Lower expected future returns on fixed income make equities more attractive; investors shift toward riskier assets
Corporate Cash Flows Increase	Cheaper borrowing lowers debt costs and supports stronger household and business spending
Stock Prices ↑	

Interest Rates ↑	
Discount Rate Increases	Present value of future cash flows decreases
Relative Value of Stocks Decreases	Higher expected future returns on fixed income make equities less attractive; investors shift toward safer assets
Corporate Cash Flows Decrease	More expensive borrowing raises debt costs and slows household and business spending
Stock Prices ↓	

Source: Winthrop Wealth.

Fed Independence

The Federal Reserve is structured to operate as an independent, nonpartisan government agency. This independence is critical for maintaining credibility and sustaining market confidence, allowing the Fed to make policy decisions based on economic conditions rather than political pressures.

In recent months, President Trump has alternated between suggesting he might remove Chair Jerome Powell and tempering that stance after market sell-offs. In mid-July, rumors circulated that the President was preparing to fire Powell imminently. He quickly dismissed the speculation, stating, "I don't rule out anything, but I think it's highly unlikely." Powell's term runs through May 2026, and the White House has openly stated he will not be renominated, with the search for a successor already underway.

We anticipate that President Trump will continue criticizing Powell until the Federal Reserve begins lowering interest rates. Our hope is that the negative market reaction to perceived threats against Fed independence will be sufficient to deter any attempt to remove Powell before his term expires.

Monetary Policy: Recap and Road Ahead

"Don't fight the Fed."

- Martin Zweig, Market Strategist

The Fed and their monetary policy decisions have a significant impact on the economy and financial markets. Since the Financial Crisis, the Fed has grown even more impactful as they have become more willing to use nontraditional monetary policy tools to boost the economy.

During the pandemic, the Fed launched the most accommodative monetary policy environment in United States history by lowering the Federal Funds Rate to zero, starting an open-ended quantitative easing program, and launching several new lending facilities designed to increase the flow of credit to households and businesses. Massive fiscal and monetary stimulus fueled a surge in inflation that the Fed initially deemed "transitory," but by 2022 they pivoted sharply, hiking rates by more than 500 basis points through mid-2023.

Inflation moderated but remained above target, prompting the Fed to keep rates steady through most of 2024. In the Fall of 2024, the FOMC delivered its first cut of the cycle, lowering the Federal Funds Rate by 100 basis points to 4.50%. Since then, the Fed has held rates unchanged amid concern that new tariffs could push goods prices and overall inflation higher.

At the 2025 Jackson Hole Economic Symposium on August 22nd, Fed Chair Powell opened the door to lower interest rates, citing a weakening labor market. He noted that "risks to inflation are tilted to the upside, and risks to employment to the downside—a challenging situation. Nonetheless, with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance." This is about as close as the Fed Chair will come to saying "we're cutting rates." With the next FOMC meeting on September 17th, markets are fully expecting a rate cut.

Whether the FOMC opts for a single rate cut followed by a pause, or initiates a broader easing cycle, will ultimately depend on the trajectory of both inflation and the labor market. The latest Core PCE Inflation reading - the Fed's preferred measure - was 2.9% year-over-year in July, still above the 2% target and drifting higher in recent months. Under normal circumstances, the FOMC would be unlikely to cut rates with inflation moving further from their goal, but growing concern about the labor market is shifting the calculus. According to the Bureau of Labor Statistics, the economy has added an average of just 35,000 jobs per month over the past three months, highlighting a clear slowdown in hiring. With inflation rising and job growth slowing, the Fed faces a difficult tradeoff that will define the future path of interest rates, while markets remain highly sensitive to each new data release.

At Winthrop Wealth, monetary policy is a vital component to our market outlook and portfolio positioning. We continue to believe that analyzing the impact of current Fed policy and anticipating the potential implications of future policy are critical to successful portfolio management.

At Winthrop Wealth, we follow a Total Net Worth Approach to wealth management that combines both comprehensive financial planning and investment management. The financial plan helps define cash flow needs, seeks to optimize account structures, considers tax mitigation strategies, and determines the appropriate asset allocation based on the client's willingness and ability to take risk. Based on the output of the financial plan, our investment management process designs a well-diversified portfolio constructed with a long-term methodology based on prudent risk management, asset allocation, and security selection. *For clients who receive both financial planning and investment advisory services under agreement. No strategy assures success or protects against loss. Investing involves risk, including loss of principle.*

Disclosures

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

Stock investing includes risks, including fluctuating prices and loss of principal.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals. Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.