HARMONY
NONPROFIT

Insights:

Fed Rate Cuts: Impacts and Considerations for Nonprofits

On September 17th, 2025, the Fed cut interest rates for the first time since December 2024. Yesterday, October 29th, 2025, there was another 0.25% cut. There *may* be a cut in December and potentially additional cuts in 2026 to reach the final target rate of 3.25% - 3.50%.

Nonprofit organizations must thoughtfully evaluate the cuts in relation to their cash and fixed income investments, asking themselves "how might we be impacted" and "what should we consider doing to mitigate a potential loss of investment income?"

Harmony NonProfit offers the following observations and possible actions to consider:

1. **Impact on Fixed-Income Yields:**
   As the Fed lowers interest rates, investors must anticipate yields on fixed-income investments typically decline. Nonprofits relying on conservative, income-generating assets with short-dated (high-yield savings accounts, money market funds and short-term Treasuries) to support operations or spending can lead to a significant drop in investment income. Finance and investment committees must understand that new debt instruments purchased in a lower-rate environment may offer reduced coupon payments, impacting cash flow projections.

2. **Portfolio Rebalancing Considerations:**
   A rate-cutting environment may also shift asset performance, with equities potentially rising due to lower borrowing costs and increased consumer spending. Nonprofits should review their asset allocation to ensure it remains aligned with their risk tolerance, time horizon, and spending needs. It should be noted that moving slightly up the risk curve, for instance, moving from short-term bonds (into the belly of the yield curve) to intermediate-term bonds (3 – 7 years), may be necessary to maintain income levels. If such a measure were taken, it must be done with clear governance and a long-term view to avoid excessive volatility.

3. **Liquidity and Spending Policy Adjustments:**
   Lower investment income may force organizations to rethink their spending policies, particularly if they follow a percentage-based draw from endowment funds.

4. Consider stress-testing budgets and evaluating liquidity needs under different market scenarios. Ensuring access to short-term reserves or a line of credit could help buffer against the mismatch between lower investment returns and ongoing operating needs.

5. **Exploring Alternative Income Strategies:**
   To offset lower traditional yields, nonprofits might explore diversified sources of income, such as real estate investment trusts (REITs), infrastructure funds, or dividend-paying equities. These options may provide higher yields but come with different risk and liquidity profiles. Nonprofit investment committees and their investment manager should assess suitability, and potentially update investment policy statements (IPS), which can help nonprofits pursue enhanced income without jeopardizing their fiduciary responsibilities.

The Fed may keep investors on their toes in the near future, but at the very least, it is critical that nonprofits are actively thinking about what is happening economically and are prepared to meet their fiduciary duties, by taking necessary steps that would best support their organizations. Harmony NonProfit is always here to help. Please message us directly if we can support.

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