

1 August 2024

U.S. Fed holds rates steady, signals possible rate cut in September

Key Highlights:

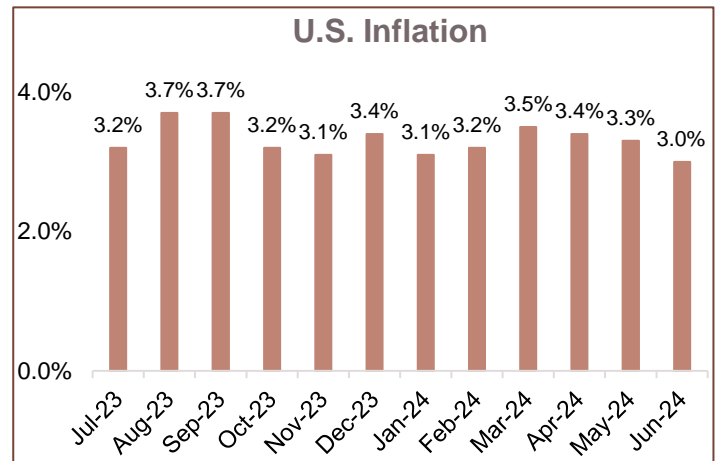
- The U.S. Federal Reserve (Fed) kept interest **rates unchanged at 5.25%-5.50% range in August-24 policy meet.**
- Fed **maintained pause for the eight consecutive meeting** signalling ‘progress on inflation’.
- Fed chair Powell flags possible rate cuts in September if inflation moves further to the 2% inflation target.
- **FOMC will continue reducing its holdings of Treasury securities, agency debt and agency mortgage– backed securities.**
- While noting further progress on inflation targets, **FOMC is “attentive to risks to both sides of its dual mandate.”**

Current Update:

- ❖ Fed kept the policy rates unchanged at 5.25 - 5.50% range and switched to a less hawkish outlook for 2024.
- ❖ The Fed kept its benchmark rate unchanged, its highest level in 23 years.
- ❖ The Fed’s assessments will consider a wide range of information, including readings on labour market conditions, inflation pressures and expectations along with financial and international developments.
- ❖ The Fed has said that rates would remain unchanged and signalled only one rate reduction this year.

U.S. Inflation:

- ❖ Inflation has eased notbaly over the past year but remains above the longer-run goal of 2%.
- ❖ The annual inflation rate was at 3% for the 12 months ending in June, compared to previous rate increase of 3.3%.
- ❖ Inflation remains elevated amid expanding economic activities, strong job gains and a low unemployment rate. Moreover, there is a risk of a further rise in inflation due to the evolving geopolitical scenarios.
- ❖ Total Personal Consumption Expenditure (PCE) which excludes food and energy rose 2.5% over the 12 months ending in June.



Source: Trading Economics

Impact on U.S. Stock & Bond Markets:

- ❖ U.S. major indices rose on Wednesday; 31 July 2024 after the Fed kept policy rate unchanged. **The S&P 500 and the tech-rich Nasdaq Composite rose by 1.6% and 2.6%, respectively.**
- ❖ Between the late trade Wednesday and early trade on Thursday, **the 10-year US Treasury yields were at 4.06%.** The benchmark U.S. 10-year US Treasury bond yields rose above the 5.0% mark for the first time since 2007 in late October 2023 since then it has been spiralling down.

Fed Rate Hikes 2022-2024: Taming Inflation

FOMC Meeting Date	Rate Change (bps)	Interest Rate
31-July-24		5.25% to 5.50%
12-June-24		
01-May-24	-	
20-Mar-24	-	
31-Jan-24	-	
13-Dec-23	-	
01-Nov-23	-	
20-Sep-23	-	
26-Jul-23	+25	
14-Jun-23	-	
03-May-23	+25	5.00% to 5.25%
22-Mar-23	+25	4.75% to 5.00%
01-Feb-23	+25	4.50% to 4.75%
14-Dec-22	+50	4.25% to 4.50%
02-Nov-22	+75	3.75% to 4.00%
21-Sep-22	+75	3.00% to 3.25%
27-Jul-22	+75	2.25% to 2.50%
16-Jun-22	+75	1.50% to 1.75%
05-May-22	+50	0.75% to 1.00%

Source: US Federal Reserve website

To Conclude:

Despite discussions about potential rate cuts, the majority of the committee supported maintaining the status quo. Powell hinted that while a 50 basis-point cut is not anticipated, the Fed is weighing future decisions. US economic activity has been expanding at a solid pace while job gains have remained strong and while unemployment has moved up but remains low. Inflation has eased over the past year but remains elevated. While markets have digested six months of good data; however, uncertainties linger, and risks could reaccelerate inflation. Fed hinted that a rate cut could be imminent, stating, "A reduction in our policy rate could be on the table as soon as the next meeting in September." While the Fed maintained the current rates, this statement sets the stage for potential changes in the near future.

Investment Approach:

While India's structural story remains intact, geopolitical tensions pose some risks to the growth prospects of the domestic economy. Macros remain strong with an easing inflation cycle, progress of monsoons and robust economic growth.

However, looking at the volatility, investors may look at Large cap oriented funds along with Multi Asset, Balanced Advantage and Balanced Hybrid categories as these categories shall assist to manage the near term risks..

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