1 February 2024

# U.S. Fed holds rates steady, indicates it is not ready to start cutting

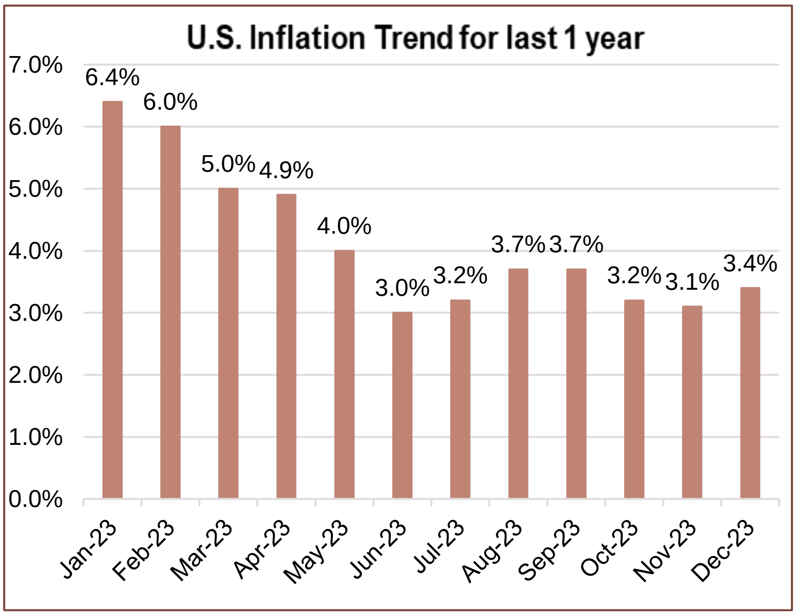
**Key Highlights:**

- The U.S. Federal Reserve (Fed) kept interest **rates unchanged at 5.25%-5.50% range in Jan-24 policy meet**.
- Fed **maintained pause for the fourth consecutive meeting** signalling a commitment to the current rate policy.
- Fed announced that it will only **cut interest rates when it has greater confidence of inflation moving sustainably to the 2% level.**
- In addition, the committee will continue **reducing its holdings of treasury securities and agency debt securities.**

## Current Update:

- Fed **kept the policy rates unchanged at 5.25 - 5.50%** range and **switched to a 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 policymakers dashed hopes for an interest rate cut as early as Mar'24, indicating it was moving to future cuts, but probably not before May'24 at the earliest.

## U.S. Inflation:




*Source: Trading Economics*

- **Inflation has eased notbaly over the past year** but remains above the longer-run goal of 2%.
- U.S. inflation data had shown a significant decrease till June 2023 to 3.0%. **In December 2023**, CPI inflation rose to 3.4%, from a 5-month low of **3.1% in November** as energy prices went down at a slower pace.
- The total Private Consumption Expenditure (PCE) **rose 2.6% over the 12 months ending in Dec'23;** exclduing volatile food and energy categories, core PCE prices rose 2.9%. The Committee also signalled its strong commitment to returning inflation to its 2% objective.
- Fed estimates **U.S. inflation** reaching **2.1% by the end of 2025**, before finally attaining the **2.0% goal in 2026**.

## Impact on U.S. Stock & Bond Markets:

- U.S. major indices closed lower on Wednesday, 31 January 2024 after the Fed kept policy rate unchanged. **The S&P 500 and the Nasdaq Composite fell by 1.6% and 2.3%, respectively.**

- Between the late trade Wednesday and early trade on Thursday, **the 10-year US Treasury yields broke below 4%.** 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 2022-2023: Taming Inflation**

| FOMC Meeting Date | Rate Change (bps) | Interest Rate |
|---|---|---|
| 31-Jan-24 | - | 5.25% to 5.50% |
| 13-Dec-23 | - | |
| 01-Nov-23 | - | |
| 20-Sep-23 | - | |
| 26-Jul-23 | +25 | 5.25% to 5.50% |
| 14-Jun-23 | - | 5.00% to 5.25% |
| 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:**

**Fed kept the policy rate unchanged,** and the decision was widely expected given the Fed's stated goal of slowing inflation to its long-term target of 2%. The Federal Reserve is keeping options open while evaluating the future course of interest rates and when to enact reductions. The Fed Chairman Jerome Powell stated that **labour market tightness has eased and progress on inflation has continued**, the risk of achieving employment and inflation goals are better balanced though **inflation has eased but remains elevated.** For the month of Dec '23 unemployment remained low at 3.7%. While markets have digested six months of good data; however, uncertainties linger, and risks could reaccelerate inflation. **Restoring price stability is essential to set the stage for achieving maximum employment and stable prices over the long run.**

**Investment Approach:**

With the equity markets in India touching an all-time high, the U.S. stocks tumbled on the last trading day after the Federal Reserve held interest rates steady. We believe **global equity markets, including the Indian markets may stay volatile in near term. Interest rates remaining higher for longer will impact global growth which will have negative implications for global markets.**

Investors should not try to time the market and **investors should follow the prescirbed asset allocation** to avoid unfavourable portfolio outcomes in case of any volatility that flows in the Indian markets due to tapering.

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