21 March 2024

U.S. Fed keeps rates steady, with three cuts expected later this year

Key Highlights:

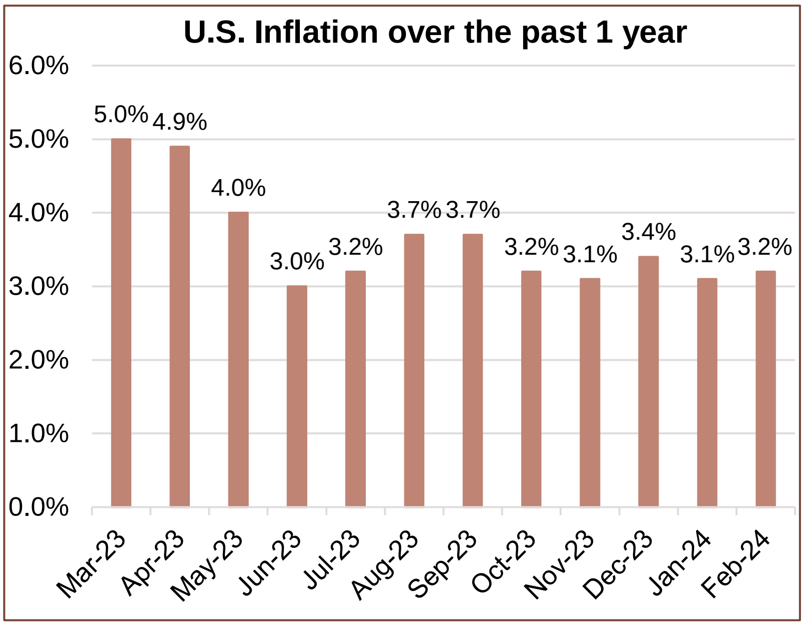
- The U.S. Federal Reserve (Fed) kept interest **rates unchanged at 5.25%-5.50% range in Mar-24 policy meet**.
- Fed **maintained pause for the fifth consecutive meeting** signalling a commitment to the current rate policy.
- Fed announced that it will only **cut interest rates when it has greater confidence of inflation moving sustainably to the 2% level.**
- In addition, the Fed policymakers also updated their economic forecasts, sharply upgrading the growth outlook for the current year to 2.1% from 1.4%.

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 foresee fewer rate cuts in 2025 and slightly raised the US inflation forecasts.

U.S. Inflation:

- **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**. **CPI inflation rose slightly to 3.2% in February 2024** as compared to 3.1% in January.
- The updated economic projections showed the Personal Consumption Expenditure price index excluding food and energy rising at 2.6% rate by the end of the year.



Source: Trading Economics

- 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 rallied on Wednesday; 20 March 2024 after the Fed kept policy rate unchanged. **The S&P 500 and the Nasdaq Composite rose by 0.9% and 1.2%, respectively.**

- Between the late trade Wednesday and early trade on Thursday, **the 10-year US Treasury yields were at 4.3%.** 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
20-Mar-24	-	5.25% to 5.50%
31-Jan-24	-	
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%. US economic activity has been expanding at a solid pace while job gains have remained strong and unemployment rate has remained low. **Inflation has eased but remains elevated.** For the month of Feb '24 unemployment was seen at 3.9%. 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:

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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