14 December 2023

U.S. Fed keeps rates unchanged and switched to a dovish outlook

Key Highlights:

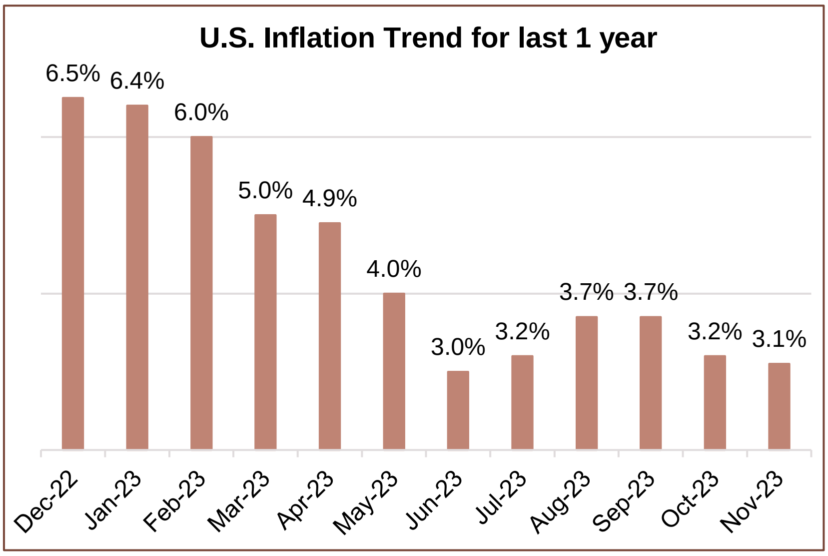
- The U.S. Federal Reserve (Fed) keept interest **rates unchanged at 5.25%-5.50% range in Dec-23 policy meet**.
- Fed **maintained pause for the third consecutive meeting** allowing the economy to absorb the effects of higher borrowing costs.
- **Signalled that it is likely done raising rates** after having imposed the fastest string of increases in four decades to fight painfully high inflation.

Current Update:

- Fed **kept the policy rates unchanged at 5.25 - 5.50%** range and **switched to a dovish outlook for 2024**.
- The Fed kept its **benchmark rate at about 5.4%, its highest level in 22 years**.
- The Fed predicted rate cuts to come, with interest rates expected to tick down to 4.6% in 2024 from a median of 5.4% in 2023, thus meaning that there are **three rate cuts summing up to 75 bps to come in 2024**.
- The Fed policymakers expect the **US economy to grow by 2.6% this year**, up from 2.1% in projected in September, before slowing down to **1.4% in 2024** and gearing up again to **1.8% in 2025 and 1.9% in 2026**.

U.S. Inflation:

- **Last year, inflation remained high,** soaring to record-breaking levels in June, **hitting a high of 9.1%.**
- Now, U.S. inflation data had shown a significant decrease till June 2023 to 3.0%. In August and September 2023, CPI inflation rose to 3.7%, before cooling down back to **3.1% in November**.
- **Headline inflation** is expected to slow more than previously expected to **2.8% in 2023**, before easing to **2.4% in 2024**. The Committee also signalled its strong commitment to returning inflation to its 2% objective.



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**.
- There is a **"long way to go" in bringing inflation sustainably down** to policymakers' 2.0% target.

Impact on U.S. Stock & Bond Markets:

- U.S. major indices closed higher on Wednesday, 13 December 2023 after the Fed kept policy rated steady. **The S&P 500 and the Nasdaq Composite rose by 1.37% and 1.38%, respectively.**

14 December 2023

- 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
13-Dec-23	-	5.25% to 5.50%
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%
17-Mar-22	+25	0.25% to 0.50%

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%. Further, it gave its clearest signal that its aggressive hiking campaign is finished, by **forecasting a series of three quarter-point cuts next year**, which was more than economists expected. Nevertheless, it **hasn’t ruled out the possibility of another hike if the data calls for it**. The committee is looking for a **soft landing for the US economy, not a recession,** with unemployment forecast to rise only slightly over the next few years. The Fed Chairman Jerome Powell stated that though **inflation has eased but remains elevated**, data suggests **economic activity has slowed** from third quarter's strong pace, job gains have moderated but remain strong and **unemployment rate remains low**; thus, **tighter financial and credit conditions are likely to weigh on economic activity, hiring and inflation, but extent of effects remains uncertain.**

Investment Approach:

With the equity markets in India touching an all-time high and the U.S. markets being buoyant, 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.

The content in the article does not construe to be any investment, legal or taxation advice.

For Client Circulation.

14 December 2023

Disclaimer

Tata Capital Financial Services Limited ("TCFSL") is registered with The Association of Mutual Funds in India as a Mutual Fund Distributor bearing ARN No.84894 and Tata Capital Wealth is a service offering by TCFSL.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. TCFSL is not soliciting any action based upon it. Nothing in this report shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of the reader.

This report has been prepared for the general use of the clients of the TCFSL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this report in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. TCFSL will not treat recipients as customers by virtue of their receiving this report. Neither this document nor any copy of it may be taken or transmitted into the United States (to US Persons), Canada or Japan or distributed, directly or indirectly, in the United States or Canada or distributed, or redistributed in Japan to any residents thereof. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

It is confirmed that, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. No part of the compensation of the report creator was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this report The author, principally responsible for the preparation of this report, receives compensation based on overall revenues of TCFSL and TCFSL has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Neither TCFSL nor its directors, employees, agents, representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

The report is based upon information obtained from sources believed to be reliable, but TCFSL does not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. It does not have any obligation to correct or update the information or opinions in it. TCFSL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. TCFSL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations. This information is subject to change without any prior notice. TCFSL reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, TCFSL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Certain products -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Before making an investment decision on the basis of this report, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Neither TCFSL nor the director or the employee of TCFSL accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this report and/or further communication in relation to this report.

We and our affiliates, officers, directors, and employees worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. Investments in securities are subject to market risk; please read the SEBI prescribed Combined Risk Disclosure Document prior to investing. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts. Our report should not be considered as an advertisement or advice, professional or otherwise.

General Disclosure

Tata Capital Financial Services Limited ("TCFSL") is registered with the Reserve Bank of India as a Non Deposit Accepting Systemically Important Non-Banking Finance Company ("NBFC-ND-SI").

Tata Capital Financial Services Limited ("TCFSL") bearing License no. CA0076 valid till 31st Mar 2022, acts as a composite Corporate Agent for TATA AIA Life Insurance Company Limited, HDFC Life Insurance Company Limited, TATA AIG General Insurance Company Limited and New India Assurance Company Limited. Please note that, TCFSL does not underwrite the risk or act as an insurer. For more details on the risk factors, terms & conditions please read sales brochure carefully of the Insurance Company before concluding the sale. Participation to buy insurance is purely voluntary.

TCFSL is also engaged in Mutual Fund Distribution business and is registered with The Association of Mutual Funds in India ("AMFI") bearing ARN No. 84894 and Tata Capital Wealth is a service offering by TCFSL. Please note that all Mutual Fund Investments are subject to market risks, read all scheme related documents carefully before investing for full understanding and details.

TCFSL distributes:

(a) Mutual Fund Schemes of TATA Mutual Fund

(b) Life Insurance Policies of Tata AIA Life Insurance Company Limited

(c) General Insurance Policies of TATA AIG General Insurance Company Limited

TCFSL receives commission ranging from 0.00% to 2.00% p.a. from the Asset Management Companies ("AMC") towards investments in mutual funds made through TCFSL. TCFSL receives commission ranging from 0.00% to 40.00% as First year commission and renewal commission ranging from 0.00% to 5.00% on Life Insurance Policies bought through TCFSL. TCFSL receives commission ranging from 0.00% to 25.00% on General Insurance Policies bought through TCFSL. TCFSL receives commission ranging from 0.00% to 2.00% on Corporate Fixed deposit made through TCFSL.

Please note that the above commission may change from time to time and are exclusive of statutory levies like GST, Security Transaction tax, Stamp Duty, Exchange transaction charges, SEBI turnover fee etc. TCFSL does not recommend any transaction which is required to be dealt with on a Principal to Principal basis.

Registered office: 11th Floor, Tower A, Peninsula Business Park, Ganpatrao Kadam Marg, Lower Parel, Mumbai 400 013, India.