02 May 2024

U.S. Fed keeps rates unchanged, flags 'lack of further progress' on inflation

Key Highlights:

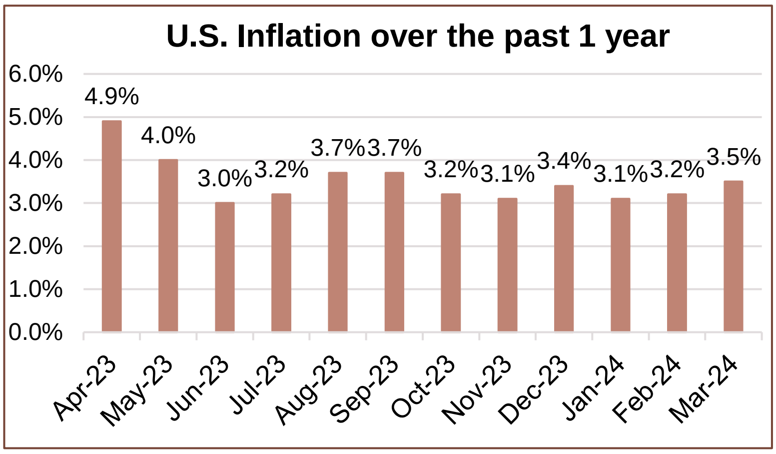
- The U.S. Federal Reserve (Fed) kept interest **rates unchanged at 5.25%-5.50% range in May-24 policy meet**.
- Fed **maintained pause for the sixth consecutive meeting** signalling lack of progress on inflation.
- Fed announced that it will only **cut interest rates when it has greater confidence of inflation moving sustainably to the 2% level.**
- Beginning in June, **the Fed will slow down the pace of decline of its securities holdings by reducing the monthly redemption cap on treasury securities from $60 billion to $23 billion.**

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 it is unlikely that the next policy rate move will be a hike.**

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%. However, **since July 2023, inflation has been above 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.**



Source: Trading Economics

- **Monthly Personal Consumption Expenditure (PCE) which excludes food and energy was steady at 0.3% in March 2024.**

Impact on U.S. Stock & Bond Markets:

- U.S. major indices fell on Wednesday; 1 May 2024 after the Fed kept policy rate unchanged. **The S&P 500 and the tech-rich Nasdaq Composite fell by 0.34% and 0.33%, respectively.**
- Between the late trade Wednesday and early trade on Thursday, **the 10-year US Treasury yields were at 4.6%.** 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.

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Fed Rate Hikes 2022-2024: Taming Inflation

FOMC Meeting Date	Rate Change (bps)	Interest Rate
01-May-24	-	5.25% to 5.50%
20-Mar-24	-	
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 over the past year but remains elevated.** For the month of **Mar '24 unemployment was seen at 3.8%**. While markets have digested six months of good data; however, uncertainties linger, and risks could reaccelerate inflation. In assessing the appropriate stance of monetary policy, **the committee will continue to monitor the implications of incoming information for the economic outlook**. **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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