

## U.S. Fed slashes rates by 50 bps for the first time in 4 years

### Key Highlights:

- The U.S. Federal Reserve (Fed) lowered **interest rates by 50 bps to 4.75%-5.00% range in Sept-24 policy meet.**
- Fed **cited greater confidence that inflation will keep receding to its 2% annual target.**
- Fed sees benchmark rates falling by another half of a percentage point by the end of this year.
- While noting further progress on inflation targets, **FOMC is “attentive to risks to both sides of its dual mandate.”**

### Current Update:

- ❖ **Policymakers voted 11-to-1 in favor of lowering the U.S. central bank’s benchmark lending rate to between 4.75%-5.00%. The Fed reduced interest rates for the first time in four 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 committee would **be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the committee’s goals.**

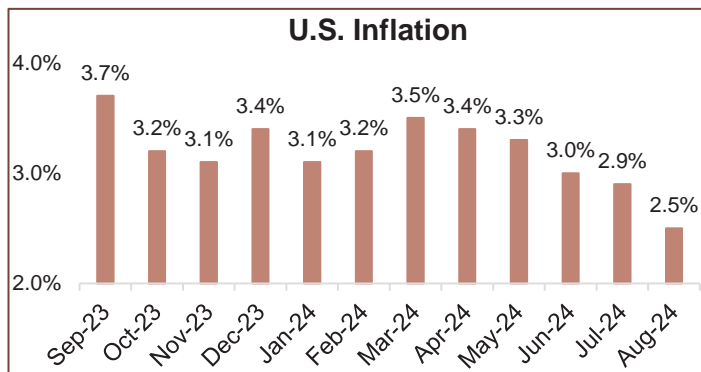
### Impact on Markets and Commodities:

<b>Markets</b>	<b>Impact</b>
<b>U.S markets</b>	The Dow Jones had initially jumped after Wednesday's cut before erasing 479 points from its intraday high to close 0.25% lower at 41,503.10.
<b>Indian markets</b>	The Indian stock market hit at an all-time high on Thursday morning, hours after the US Federal Reserve delivered a 50 bps interest rate cut.
<b>Asian markets</b>	Asian markets also traded higher on Thursday led by a rally in Japan's Nikkei, South Korea's Kospi and Hong Kong's Hang Seng.
<b>US Treasury Bond</b>	The yield on the 10-year Treasury rose following the first rate cut in four years from the Fed. The 10-year Treasury was up 6 basis points to 3.70% on Wednesday.
<b>Indian Government Bond</b>	The benchmark 10-year government bond yield fell below the psychologically crucial mark of 6.75% post the rate cut.
<b>US Dollar</b>	The US dollar recovered broadly on Thursday, after hitting 14-month low post the announcement of 50 bps rate cut by the US Fed.
<b>Indian Rupee</b>	The rupee opened stronger at Rs 83.68 against the US dollar on Thursday as the greenback weakened following the US Federal Reserve's first interest rate cut since 2020.
<b>International Gold</b>	Gold prices traded flat on Thursday as investors digested US Fed comments after bigger rate cut by the US central bank. Spot gold was little changed at \$2,558.00 per ounce. Bullion rose to a record high of \$2,599.92 on Wednesday before closing lower.
<b>Crude Oil</b>	Crude oil prices fell after a larger-than-expected US Fed rate cut sparked concerns about the US economy.

Source: Media articles. Data updated as on Sep 19 2024, 1PM IST.

**U.S. Inflation:**

- ❖ **US inflation has tumbled from a peak of 9.1% in mid-2022 to a three-year low of 2.5% in August.**
- ❖ **Inflation has made further progress towards committee’s objective** while unemployment rate has moved up but remains low.



Source: Trading Economics

**Fed Rate Hikes 2022-2024: Taming Inflation**

**After raising the policy rate by 5.25% since March 2022 in one of the swiftest Fed reactions to combat the worst outbreak of inflation in 40 years, the central bank held the rate on hold since July 2023 to anchor in high inflation and consistently bring it down toward the 2% target range.**

FOMC Meeting Date	Rate Change (bps)	Interest Rate
19-Sept-24	-25	4.75% to 5.00%
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	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:**

Despite the sizable cut, Chair Powell reassured that the US economy remains strong and indicated that 50 basis points should not be seen as the standard pace of future cuts. Powell-led FOMC dot plot reveals another 50-bps rate cut in 2024 with more in 2025 and gradually ending in a range of 2.75%-3.00% in 2026. Fed have been shifting their focus towards supporting a weakening job market and achieving a rare “soft landing”, which curbs inflation without causing a sharp recession.

It is believed that **volatility in global equity markets is likely to stay elevated, given the uncertainty around the upcoming US elections, ongoing concerns of an economic slowdown in the US, as well as other geopolitical factors.**

While, it is expected that rate cut would be positive for emerging markets such as India, which could attract higher foreign inflows over time. YTD, FIIs have pumped Rs.73,782 crore into Indian stocks while DIIs have net invested Rs. 3.2 trillion.

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