UOB Investment Insights

Thinking Ahead

26 August 2024

Key takeaways

- United States Federal Reserve (Fed) Chairman Jerome Powell signalled the time has come for the Fed to cut interest rates, but emphasised the future rate cut path will depend on economic data.
- We think the Fed will start the easing cycle with a 25 basis points (bps) reduction in September.
- There may be some market volatility heading into the US presidential election, so stay nimble, review your investment portfolio and avoid concentration risks.

Jackson Hole Economic Symposium: Powell signals the time has come for rate cuts

At the annual meeting of global central bankers and policymakers that concluded on 24 August 2024, in Jackson Hole, Wyoming, Fed Chair Powell delivered a closely watched speech on the Fed's interest rate outlook.

Key takeaways from Fed Chairman Jerome Powell's speech

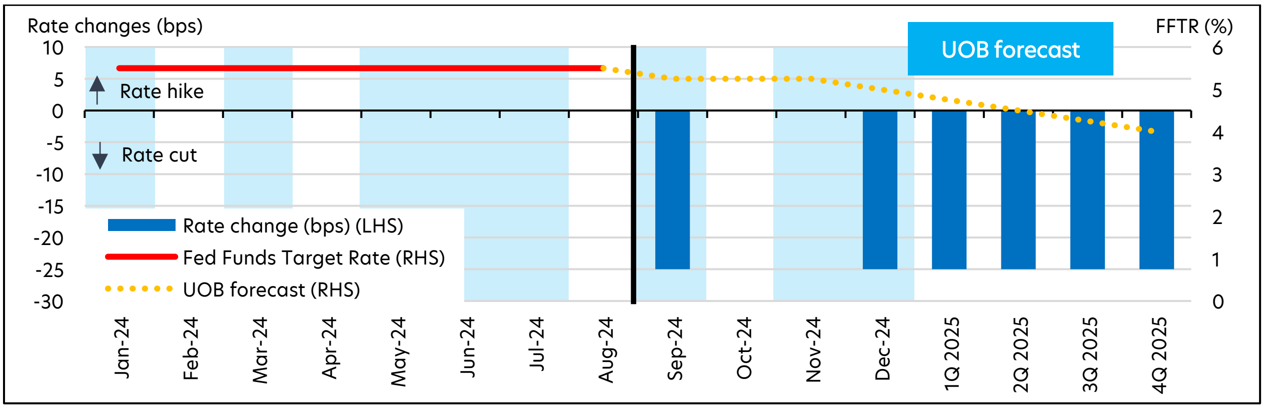
- The biggest takeaway from Fed Chair Powell's speech is the time has come for rate cuts, affirming investor expectations that the rate cut cycle will begin in September.
    - This reinforced the July Federal Open Market Committee (FOMC) meeting minutes where a "vast majority" of Fed officials felt a September rate cut is appropriate if economic data falls in line with expectations.
- There are two reasons for this clear shift in policy guidance.
    - Inflation has been slowing since June 2022 and the Fed is increasingly confident that inflation is on a sustainable path down to the 2% target.
    - The Fed has now shifted its policy focus to the other mandate of employment and is looking to prevent a further cooling in labour market conditions where downside risks have increased.
    - Powell mentioned the Fed will do everything they can to support the labour market as further progress has been made towards the inflation target.
- The timing and pace of rate cuts remain data dependent.
    - While the Fed is on the verge of cutting interest rates, Powell intentionally kept the future policy path vague.
    - Notably, Powell did not commit to the size of the first rate cut or the projected policy path, emphasising "the timing and pace of rate cuts will depend on incoming data, the evolving outlook and the balance of risks".
    - Keeping all options open and not pre-committing to a specific policy path is prudent, as it will allow the Fed to respond accordingly to economic developments.

- Investors expect a 25bps rate cut in September although some are still predicting a 50bps move.
- Beyond the expected rate cut, the 17-18 September FOMC meeting will be closely watched for the Fed's updated interest rate forecasts and their economic projections.

Our view: Fed will cut interest rates by 25bps in both September and December.

- We reaffirm our view that the Fed will deliver a total of 50bps of interest rate cuts this year, 25bps each in September and December.
- We expect this to be followed up by another 100bps of cuts in 2025 via 25bps reductions each quarter.
- We do not expect 50bps rate cut increments for now as the overall economic and labour market data does not necessitate aggressive policy easing.

UOB's Projected US Federal Funds Target Rate Trajectory (as of 26 Aug 2024)



Source: UOB PFS Investment Strategists, UOB Global Economics & Markets Research

What you can do

- In our mid-year market outlook, we highlighted reasons for both optimism and caution, and investors should not lose sight of the fundamentals.
- In the next few months, there may be some market volatility heading into the US presidential election, so stay nimble, review your investment portfolio and avoid concentration risks.
- As Fed rate cuts are expected later this year, you should enhance your investment income.
- You can do so by complementing investment grade bond funds and investment grade bonds where yields remain attractive, with quality dividend-paying stocks that can also provide potential capital growth. In particular, Asia ex-Japan offers attractive stock dividend yields.
- The market sell-off in early August was a technical correction, and the robust outlook for corporate earnings will continue to support global stock markets.
- Nonetheless, market trends may change in the coming months, so diversify your portfolio to capture opportunities across different asset classes, regions, and sectors.
- Focus on quality stocks that have resilient revenues and cash flows.
- Speak to a UOB Advisor on how to position your portfolio according to your risk appetite and goals.

Right By You

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