What the Federal Reserve rate cuts mean for investors

19 September 2024

Overview

- The Federal Reserve delivered a 50bp rate cut on 18 September 2024
- This move should be positive for risk assets
- An unprecedented soft landing is in sight if the Federal Reserve's forecast turns out to be right
- Stock and credit markets will be supported
- The USD should have a relief rally but should trade weak in the longer term
- Gold should outperform the rest of the industrial complex

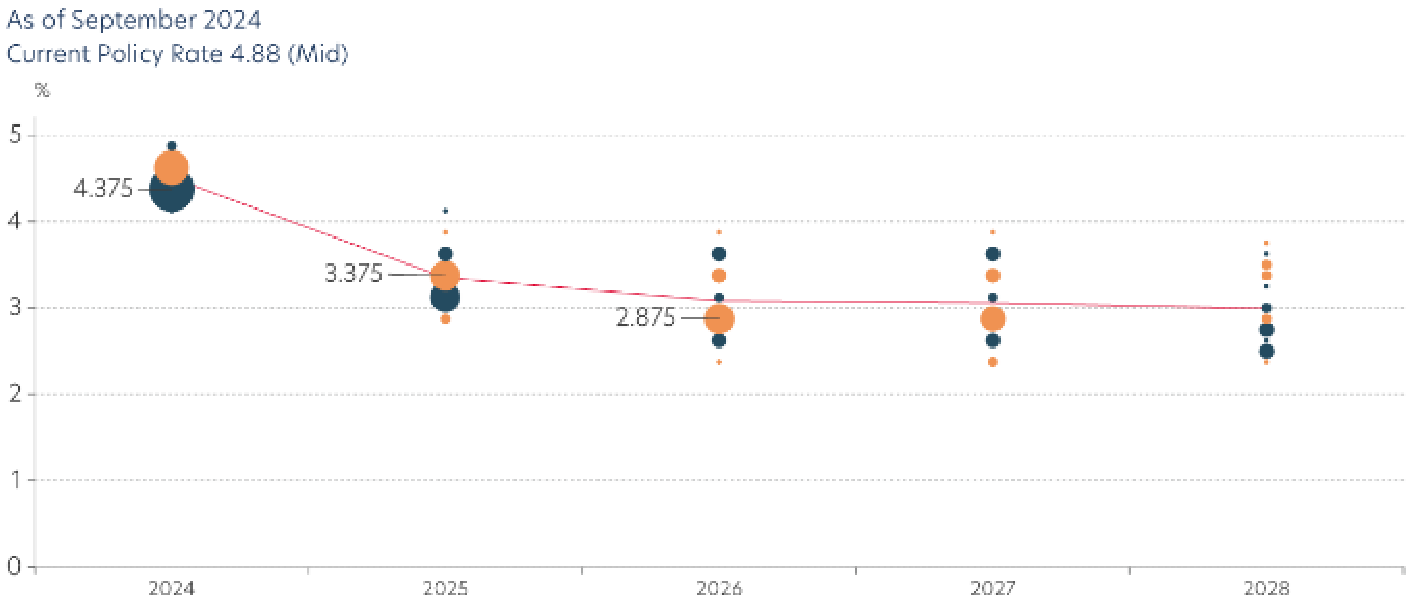
Market commentary

The Federal Reserve delivered a 50bp rate cut last night and projected another 50bp for the rest of the year ending at 4.375%. The dot median further suggests a 100bp cut in 2025 ending the year at 3.375%, reaching 2.875% in 2026 (Fig. 1). The Federal Reserve positioned the cut not as something ominous about the economy but rather in response to lower inflation and a fine-tuning of policy. While the Federal Reserve Chair Powell acknowledged that cuts should have started in July, he does not believe that the Federal Reserve is behind the curve.

This move should be positive for risk assets even though the initial equity market reaction was slightly negative as the market was expecting a more aggressive 50bp pacing in the coming FOMC meetings. The Federal Reserve believes that the economy will land at roughly 2.0% without a major risk of recession despite forecasting unemployment rate to rise to 4.4%. Growth is estimated to be at roughly 2.0% for the coming years and inflation is expected to downshift to 2.2% by end of the year. If the Federal Reserve's forecast turns out to be right, this is indeed an unprecedented soft-landing in view of the starting level of inflation. This has always been our view on the US economy.

The 10-3m curve steepened in view of the easing and a more upbeat assessment of the economy. We expect the equity and credit markets to be supported. The USD should have a relief rally but should trade weak longer term. Within the commodities complex, Gold should outperform the rest of the industrial complex.

Figure 1: FOMC Policy Dot Plot



Source: Macrobond, UOB Private Bank, Federal Reserve
Note: Values indicated on the chart are the dot medians by the end of each year.

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