

Fed, Interest Rates, and way ahead!!!

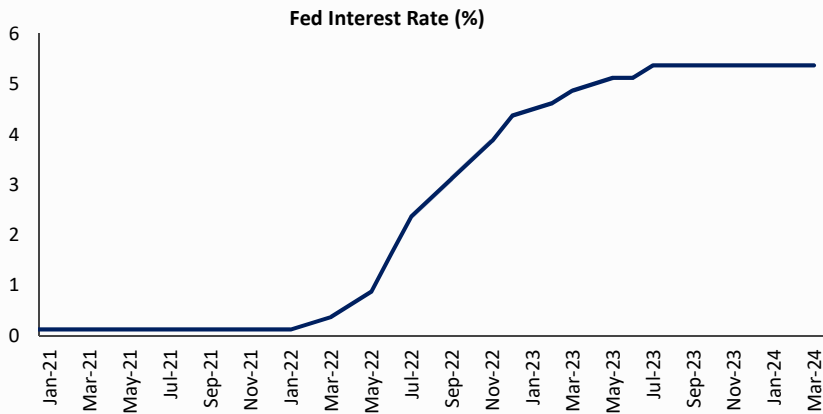
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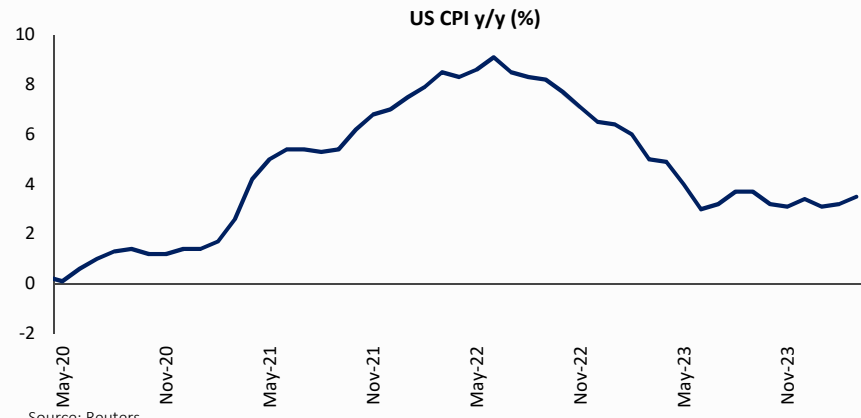
Current Economic Scenario

Fed interest rate plateaus at 5%



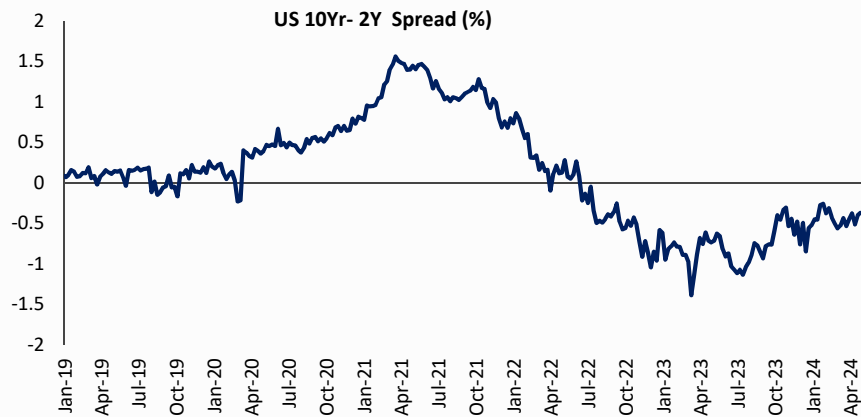
Source: Reuters

Inflation has receded sharply from highs of 2022



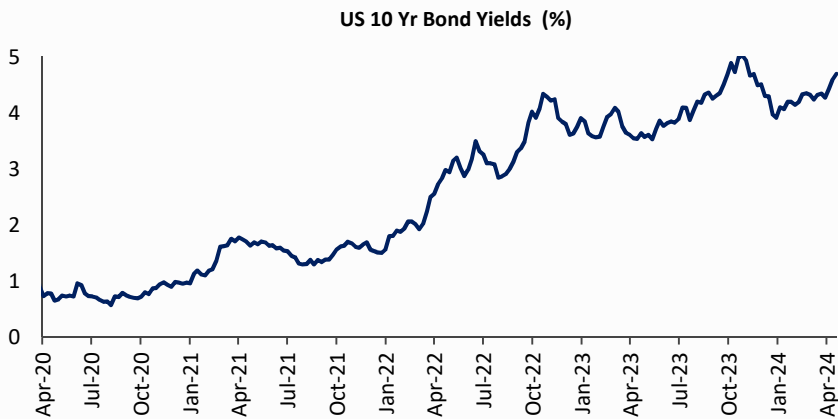
Source: Reuters

US 10-2 year spread not indicating sharp contraction of economy



Source: Reuters

US treasury yield has been on the rise as Fed rate cut expectation trim

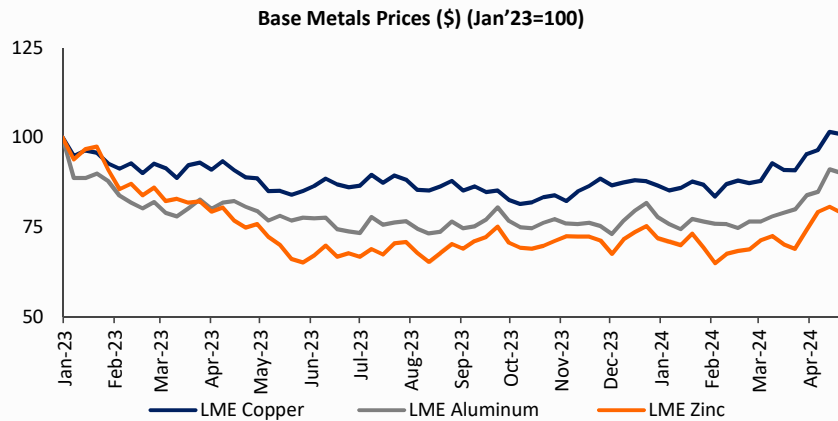


Source: Reuters

“Reasons for a Fed Pause”

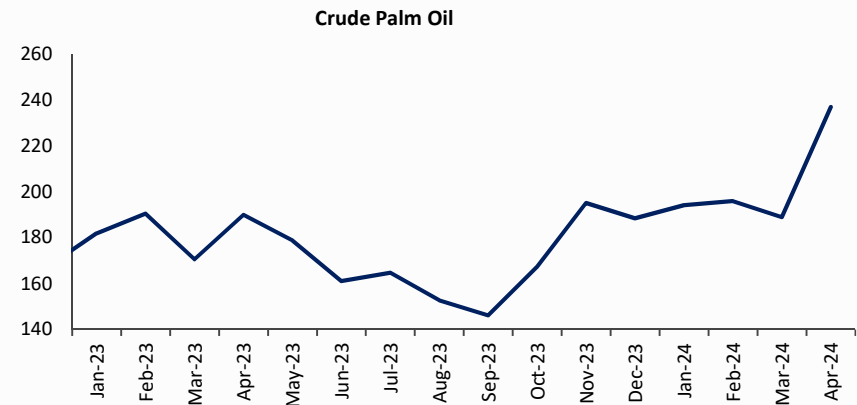
Inflation still sticky

Base Metal showing strength after a lacklustre performance in 2023



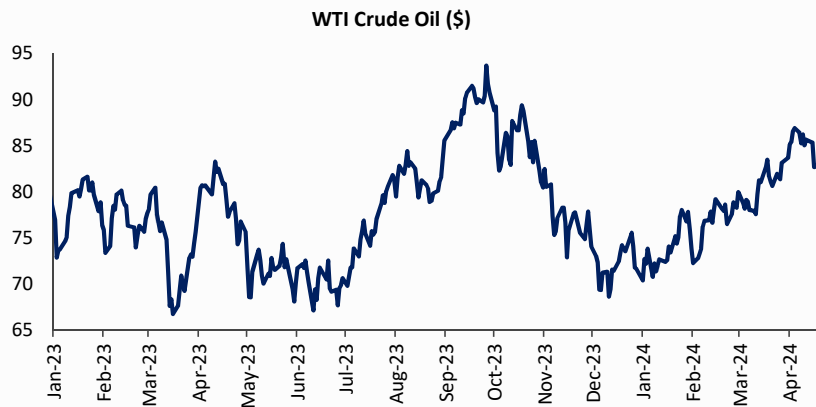
Source: Reuters

CPO jumped by more than 60% last six months



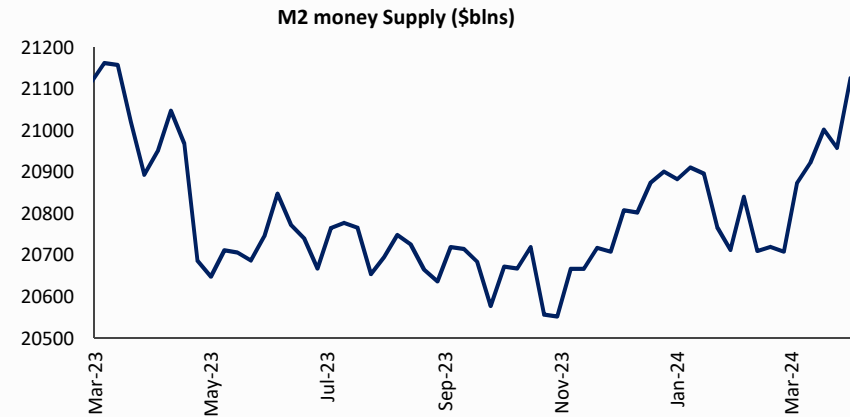
Source: Reuters

Geo-political tension & Higher demand to keep prices elevated



Source: Reuters

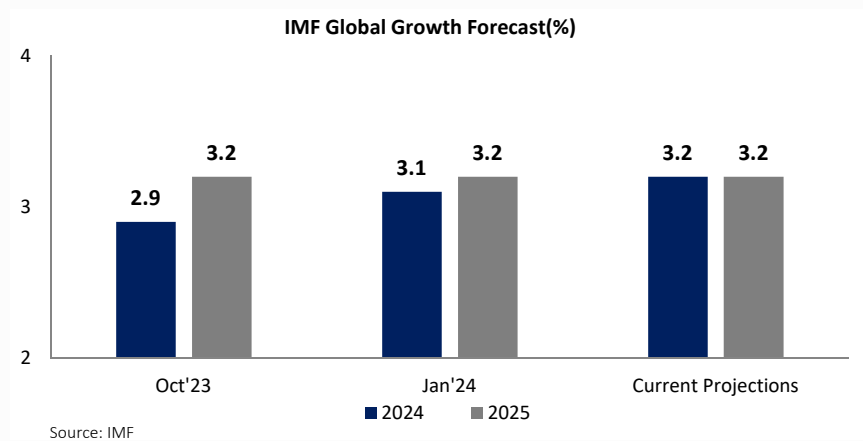
US M2 money supply picking up pace once again



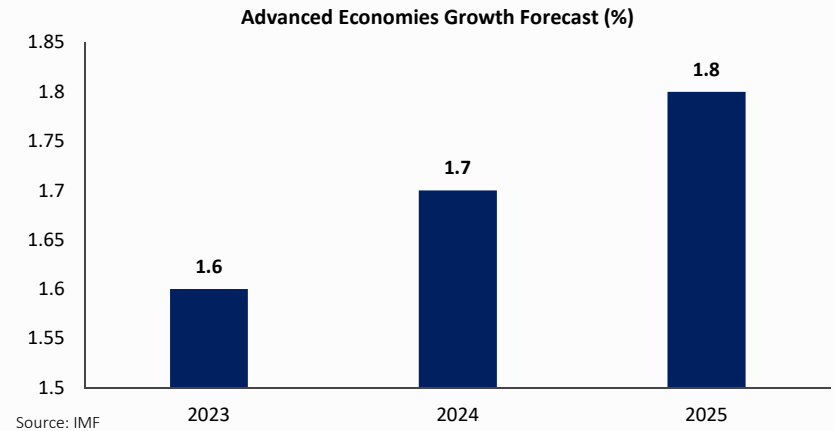
Source: FRED

Growth forecast strong, except in Asia

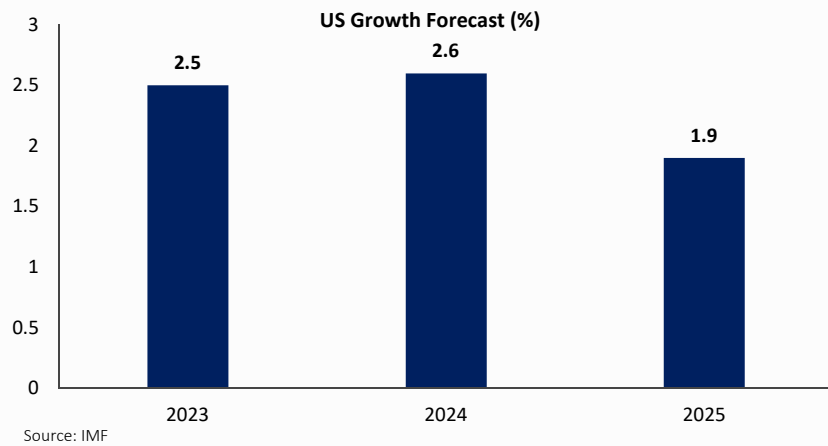
IMF increased global growth forecast for 2024



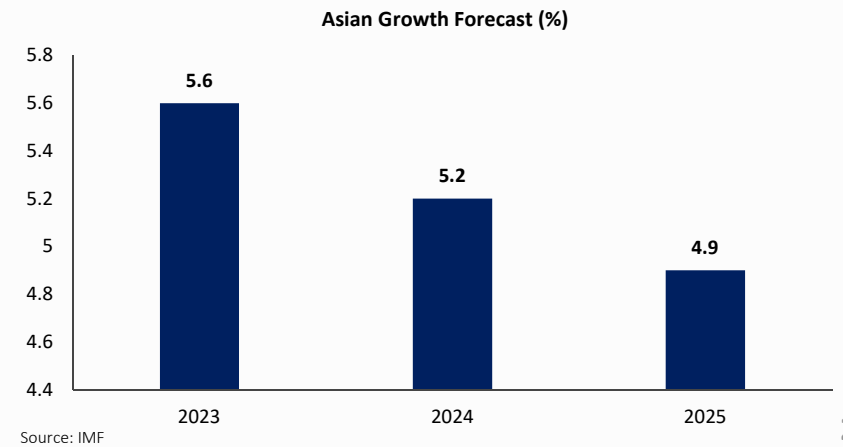
Advanced Economies expected to grow by 0.1% every year



Possible growth concerns to start for the US in 2025

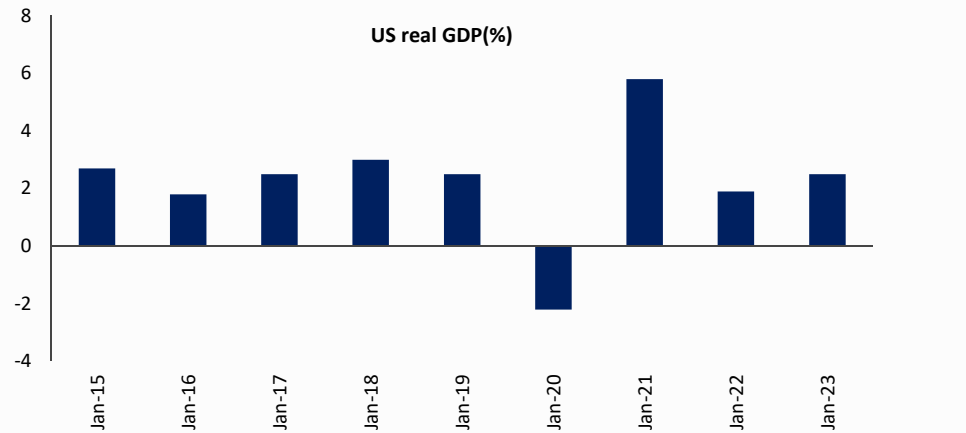


Asia growth expectation shows a significant drop in 2024 and 2025



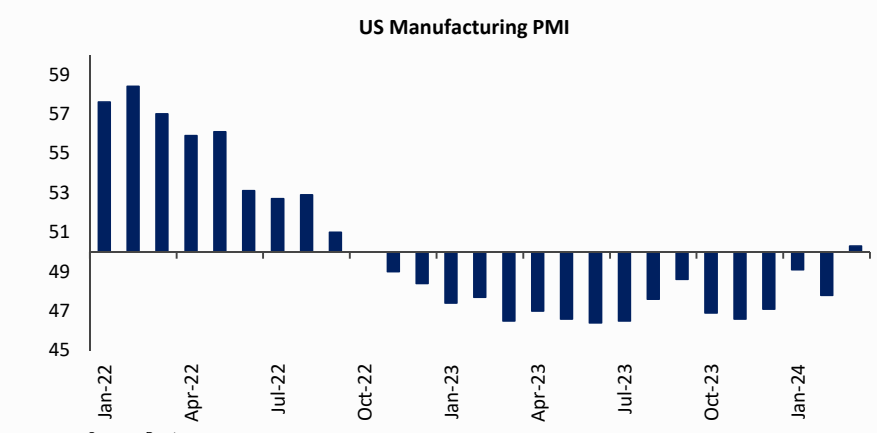
US economy points towards solid growth

US GDP continues to expand at a steady pace



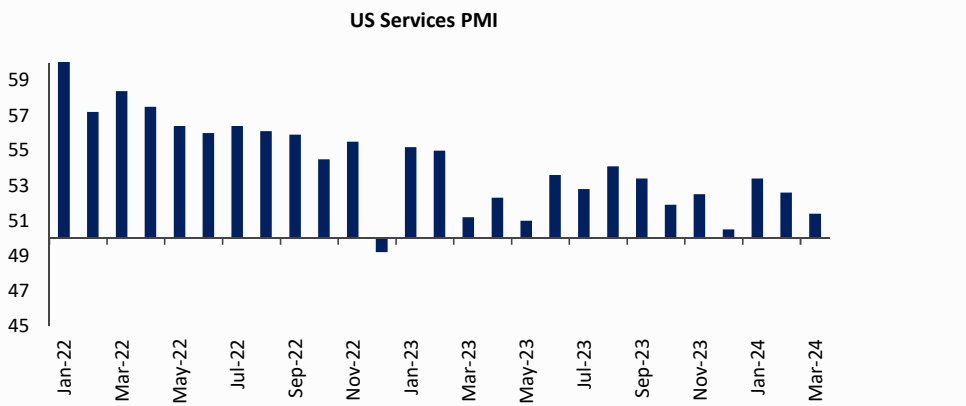
Source: Reuters

US Manufacturing PMI struggling to pick up pace



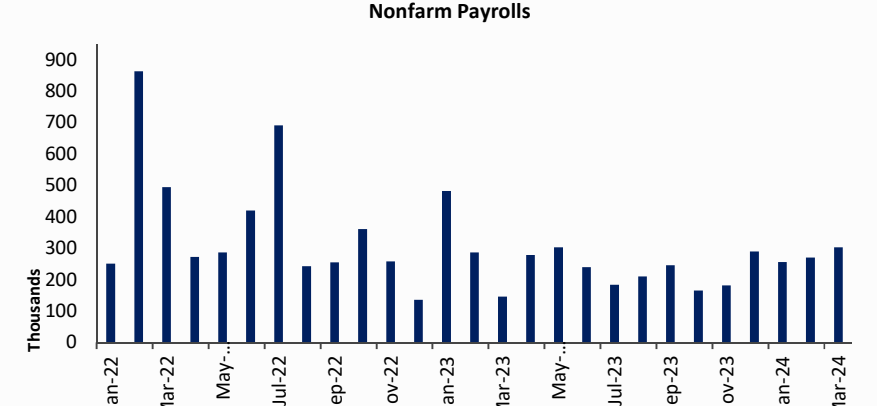
Source: Reuters

US Services PMI holding steady above 50 mark



Source: Reuters

US Labour market shows persistent Job additions

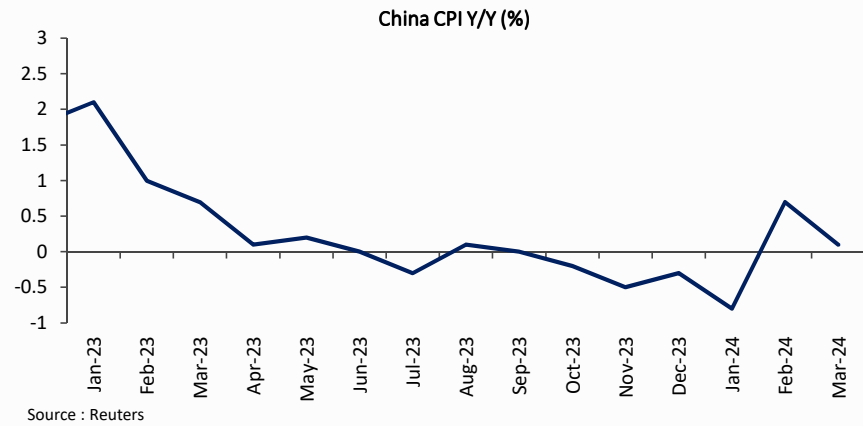


Source: Reuters

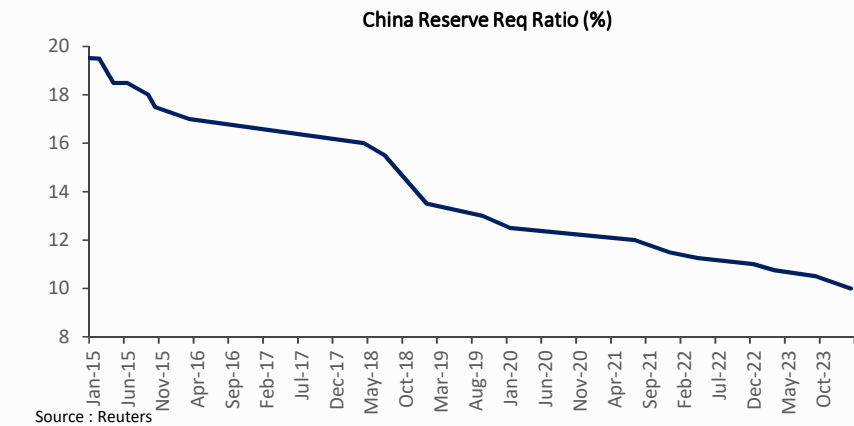
“Reasons for a Fed Cut”

China and geopolitics – the Unknowns

China facing a deflationary scenario



Sharp rate cut by PBoC in more than a decade



Geo-political tensions continue to increase distress in the market

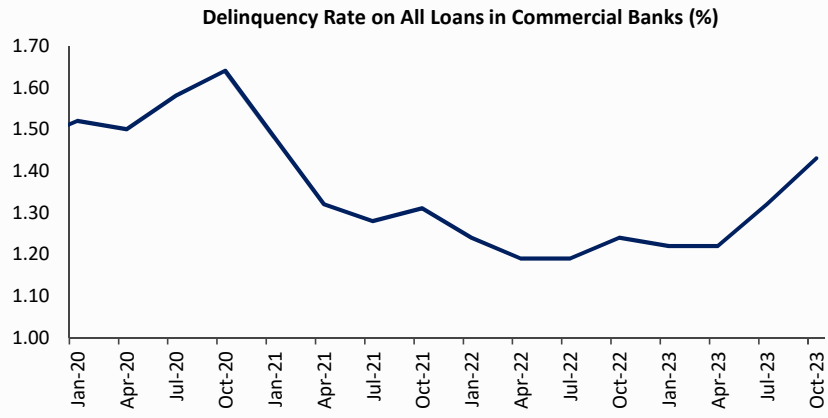


US- China trade tensions are once again picking up momentum



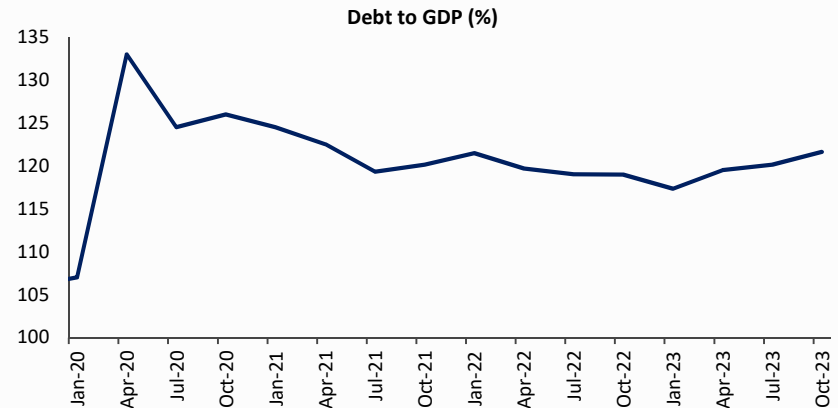
US Debt Troubleshoot!!

Rise in Delinquency rate shows stress in the Financial market



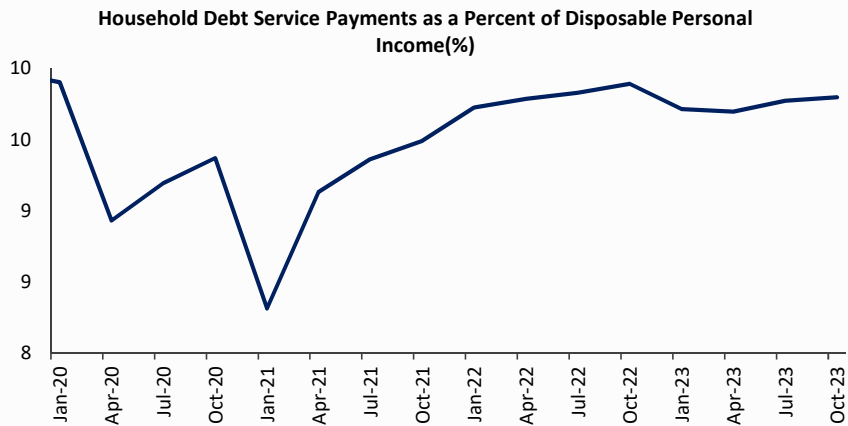
Source: FRED

US Debt – GDP Ratio hovers near the all time high of 130%



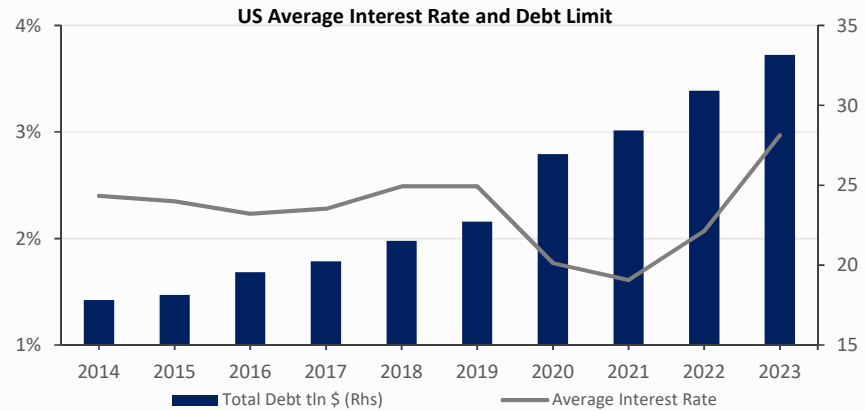
Source: FRED

US House hold debt is back to pre-pandemic levels



Source: FRED

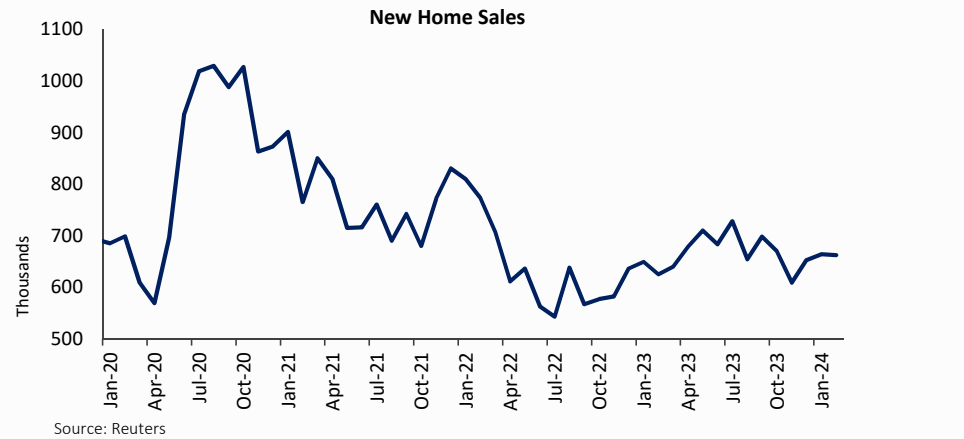
Higher interest cost adding more pressure on Debt servicing



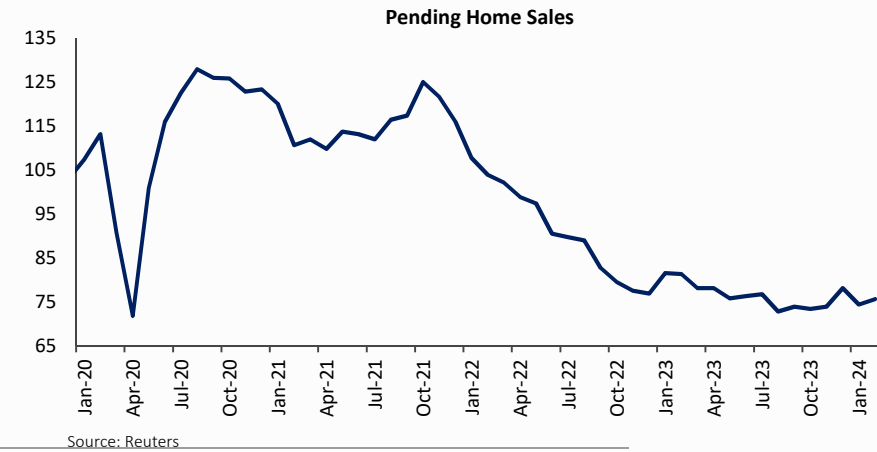
Source: policyuncertainty.com

US Housing Market remains subdued

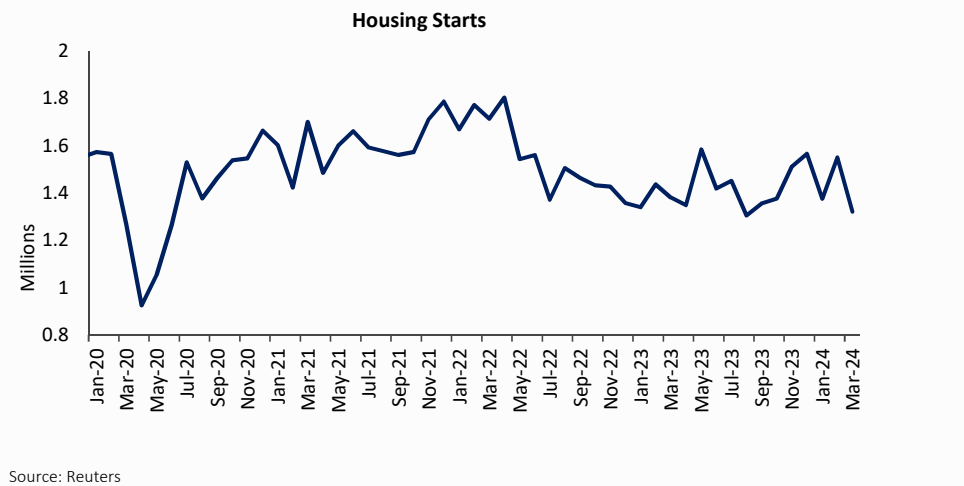
New home sales have languished from the peak in pandemic



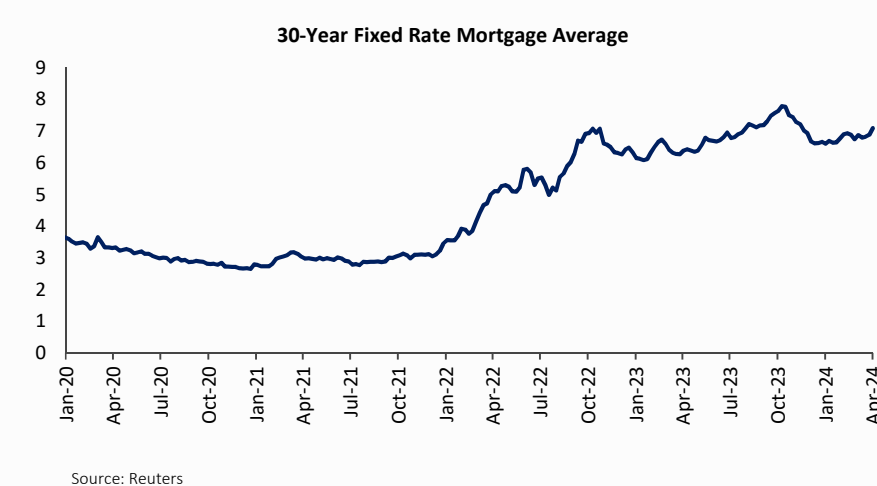
Homes under contract to be sold have also dropped significantly



Construction of new buildings has been steady since past few years



Rise in 30 Year Fixed Rate Mortgage signals a possible stress in US housing market



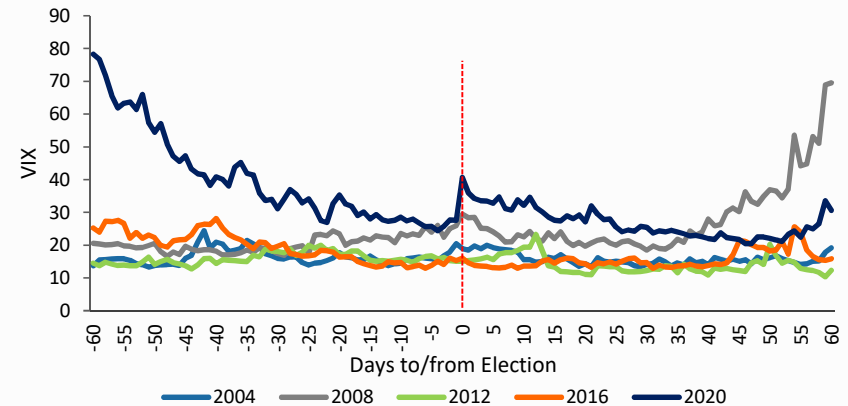
US Election and its impact on other assets classes

Returns in respective President's Term of various asset classes

Election Year	President elected	S&P 500 Index Total Returns	Comex Gold	Dollar Index
2020-2024*	Biden	45.0%	22.7%	14.8%
2016-2020	Trump	12.0%	44.0%	-3.1%
2012-2016	Obama	16.0%	-23.9%	22.0%
2008-2012	Obama	-37.0%	132.4%	-6.8%
2004-2008	Bush W	10.9%	66.9%	1.9%
2000-2004	Bush W	-9.1%	61.6%	-26.1%

*Active Election Year Source: Reuters

Change in VIX, 60 days before and after the Election date



Source: Daily FX

US Election popular polls- 2024

Candidate	Popular Polling Averages (%)
Biden	41.4
Trump	41
Others	17.6

Source: 538interactives

- Apart from reviewing the economic health of the US economy, this year investors are going to keenly keep an eye on the US elections
- Wherein Joe Biden and Donald Trump will fight it out, the former faced no viable competition from the Democratic nomination and the latter easily saw-off a crowded field
- Traders are pricing out that the election VIX bump way earlier than in the past years and in the last one-month VIX has risen sharply
- Recent polls suggest that both Biden and Trump are moving neck to neck, it will be important to see how dynamics change just a month before election as that is when we witness a jump in volatility

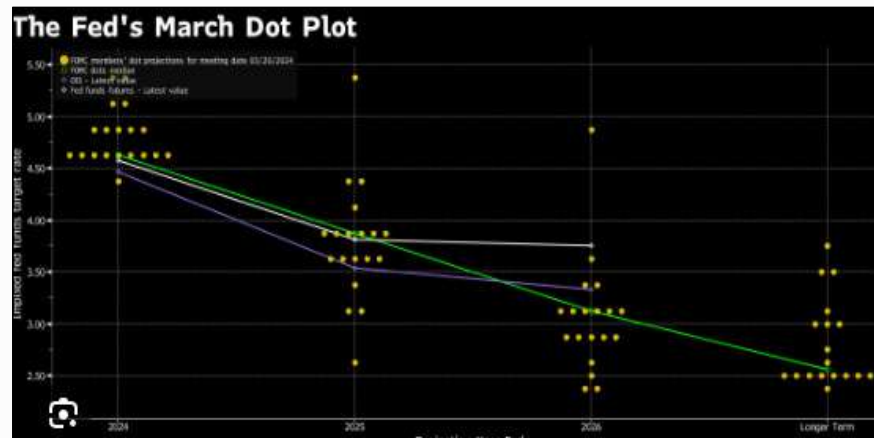
Outlook

- In this report we have compared scenarios, regarding Fed’s rate decision for 2024
- Inflation has been on the forefront for the Fed to decide on cutting rates and that too has receded in the last one year
- However, economic data points, comments from Fed officials and sticky inflation are pouring cold water on these expectations
- Probability for number of rate cuts have trimmed down significantly, from four now down to two
- US economy has been performing well but, uncertainty over escalating geopolitical tension prevails
- Apart from geopolitics, US debt related concerns and slowing housing market could lead the Fed to a rate cut
- On the other hand, case for a pause are sticky inflation and higher growth forecast
- We believe that scenario for a sustained pause looks much likely until July’24 Fed meeting
- In another possible scenario, a maximum of two rate cuts in this year could be seen, if inflation eases or growth expectations deteriorates

CME Fed watch-tool - Conditional Meeting Probabilities						
Meeting Date	425-450	450-475	475-500	500-525	525-550	550-575
May'24	0.0%	0.0%	0.0%	0.0%	99.4%	0.6%
June'24	0.0%	0.0%	0.0%	14.3%	85.2%	0.5%
July'24	0.0%	0.0%	3.2%	30.4%	66.0%	0.4%
Sep'24	0.0%	1.3%	41.1%	44.5%	39.7%	0.2%
Nov'24	0.3%	4.2%	21.0%	43.5%	30.8%	0.2%
Dec'24	1.9%	11.0%	30.2%	38.3%	18.3%	0.1%

Source: CME Fed watch tool

Pause
 Cut



Source: Bloomberg

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