

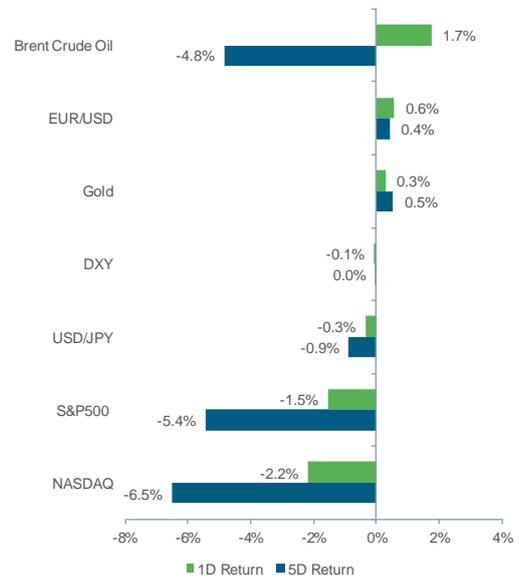
Fed signals a slower pace of rate hikes

SUMMARY

- Fed to slow rate hiking path.** The US central bank raised its benchmark interest rate by 25bps to 2.25-2.5% as expected, but now expects two rate hikes in 2019, instead of three it forecast earlier. It also cut its median estimate for the long-run 'neutral rate' to 2.75% from 3.0%, indicating interest rates are already close to the level consistent with balancing growth and inflation objectives.
- US stocks fall below key technical support level after Fed rate hike.** The S&P 500 index fell 1.5% at close to a 15-month low, falling below the February intra-day low of 2533. The 10-year US bond yield fell 5 bps to 2.77%, while the USD bounced to close flat.
- Stay diversified and prepare for tactical opportunities.** The S&P500 index's next support is 3.6% below current levels, indicating the possibility of further downside. We believe further declines would present an opportunity to build exposure in US equities, our preferred regional equity market globally. Meantime, we prefer holding cash and raising exposure to government bonds.

US S&P500 index fell to a 15-month low yesterday

Performance of selected asset classes on 19-Dec and over the past five trading sessions



Source: Bloomberg, Standard Chartered

The Fed cut its forecast for US growth, inflation and interest rates for 2019

Fed and market expectations of US growth, inflation and rates

Fed Forecast	2018	2019	2020
Real GDP Growth (%)	3.0 (3.1)	2.3 (2.5)	2.0
PCE inflation	1.9 (2.1)	1.9 (2.0)	2.1
Core PCE inflation	1.9 (2.0)	2.0 (2.1)	2.0 (2.1)
Unemployment	3.7	3.5	3.6 (3.5)
Fed rate expectation	2.38 (2.38)	2.88 (3.13)	3.13 (3.38)
Market implied rate	2.41	2.40	2.17

Source: Bloomberg, Standard Chartered

S&P 500 fell below the February intra-day low of 2533, a crucial short-term support; the next support is 3.6% lower

S&P 500, 200-day moving average (dma)



Source: Bloomberg, Standard Chartered

BACKGROUND

- Fed marginally lowers US growth, inflation and long-term rate estimates.** Fed Chair Jerome Powell, citing strong activity data, said risks to the economy are "roughly balanced". However, there is "significant uncertainty about both the path and the ultimate destination of any further rate increases" as inflation remains close to its target and risks to global growth increase. The Fed lowered its median projection for the benchmark rate to end at 3.1% in 2020 vs. previous estimate of 3.4% (see table for other projections).
- US stocks break below support levels.** The S&P500 index fell below the February intra-day low of 2533. The index has fallen 14.4% in the latest correction, broadly in line with the 11-14% range experienced in the previous three corrections since 2015. Next support is at 2417, around 3.6% below current levels, followed by 2375.

WHAT DOES THIS MEAN FOR INVESTORS?

- Increase allocation to USD cash, bonds; stay diversified.** As we argued in our 2019 Outlook, yields on USD deposits and bonds have become increasingly attractive for investors. We expect the growing rate differential between the US and other major economies to support the USD near-term.
- Stay alert for tactical opportunities.** We would look to tactically deploy some of the cash into our preferred areas in equities (US stocks) and bonds (Emerging Market USD government bonds) as the ongoing correction make these riskier assets increasingly attractive. We see only a 30% probability of a US recession in the next 12 months and our central scenario remains for positive equity market returns, albeit with occasional bouts of volatility. This argues for a still significant allocation to global and US equities.

WHAT NEXT?

- US-China trade pact.** The two sides aim to resolve their dispute by 1 March. A resolution would ease a key risk for global risk assets.

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