

FUNDAMENTAL FLASH

Fed Raises Rates by 25 bps

Prepared by AHAM Asset Management

What happened?

In line with market expectations, the US Federal Reserve (Fed) voted unanimously to hike interest rates by 25 bps to 5% at its FOMC meeting yesterday.

In a news conference, US Fed Chair Jerome Powell expressed caution about the recent banking turmoil engulfing markets and said that the FOMC initially considered a pause in rate hikes.

However, strong inflation data and resilience in the labour market led the FOMC to ultimately decide to raise rates at its recent meeting.

Powell signalled that the Fed's battle to contain inflation isn't over yet and added that further interest rate hikes may yet to come. He further adds that there will be no changes in plans to shrink its balance sheet.

The Fed continued to reiterate their commitment to achieve price stability and are prepared to raise rates higher if needed.

Powell emphasised that the banking system remains sound and resilient, and that the Fed would be prepared to use everything in its monetary policy toolkit to maintain stability.

Flashpoints

- Fed raised interest rates by 25bps to 5% at its FOMC meeting.
- US Fed Chair Jerome Powell expressed caution about the recent banking turmoil engulfing markets.
- However, strong inflation data and resilience in the labour market led the FOMC to ultimately decide to raise rates at its recent meeting.
- Market expectations are that the Federal Funds Rate has peaked at 5% and that the Fed would take a wait and see stance from hereon.

Market Implications

The recent banking turmoil would likely result in tighter financial conditions for households and businesses which could in turn impact the US economy. Though, it's possibly too soon for monetary policy to respond.

We think that inflation and economic data will continue to weaken as ripples from the US banking system turmoil continue. Market expectations are that the Federal Funds Rate has peaked at 5% and that the Fed would take a wait and see stance from hereon.

Portfolio Positioning

On fixed income side, we are raising cash and reducing credits exposure as we expect credit spreads to rise and look to increase exposures in US and Malaysia government bonds.

On equities, we expect tailwinds from China's recovery will continue to spill over to the rest of the Asian region and buoy stock markets.

However, we are conscious of the rising risk of a recession and financial dislocation in the US. As such, while we are positioned for China's recovery, we are taking a cautious stance by holding a cash buffer for our Asian equity funds.

Disclaimer

This material has been prepared by AHAM Asset Management Berhad (hereinafter referred to as "AHAM Capital") (formerly known as Affin Hwang Asset Management Berhad) specific for its use, a specific target audience, and for discussion purposes only. All information contained within this presentation belongs to AHAM Capital and may not be copied, distributed or otherwise disseminated in whole or in part without written consent of AHAM Capital. The information contained in this presentation may include, but is not limited to opinions, analysis, forecasts, projections and expectations (collectively referred to as "Opinions"). Such information has been obtained from various sources including those in the public domain, are merely expressions of belief. Although this presentation has been prepared on the basis of information and/or Opinions that are believed to be correct at the time the presentation was prepared, AHAM Capital makes no expressed or implied warranty as to the accuracy and completeness of any such information and/or Opinions. As with any forms of financial products, the financial product mentioned herein (if any) carries with it various risks. Although attempts have been made to disclose all possible risks involved, the financial product may still be subject to inherent risk that may arise beyond our reasonable contemplation. The financial product may be wholly unsuited for you, if you are adverse to the risk arising out of and/or in connection with the financial product. AHAM Capital is not acting as an advisor or agent to any person to whom this presentation is directed. Such persons must make their own independent assessments of the contents of this presentation, should not treat such content as advice relating to legal, accounting, taxation or investment matters and should consult their own advisers. AHAM Capital and its affiliates may act as a principal and agent in any transaction contemplated by this presentation, or any other transaction connected with any such transaction, and may as a result earn brokerage, commission or other income. Nothing in this presentation is intended to be, or should be construed as an offer to buy or sell, or invitation to subscribe for, any securities. Neither AHAM Capital nor any of its directors, employees or representatives are to have any liability (including liability to any person by reason of negligence or negligent misstatement) from any statement, opinion, information or matter (expressed or implied) arising out of, contained in or derived from or any omission from this presentation, except liability under statute that cannot be excluded.