AHAM CAPITAL
ASSET MANAGEMENT

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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.