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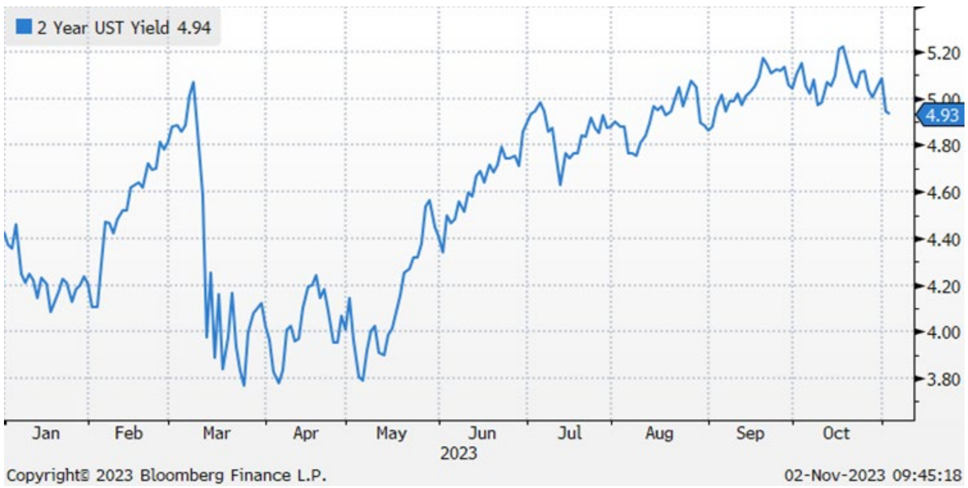
The FED



- The Fed's decision at yesterday's meeting to keep rates on hold at 5.25-5.50% was in-line with market expectations.

- Although Chair Powell acknowledged that economic data has remained strong, he believes that the tighter financial conditions (such as higher borrowing costs (e.g. mortgage rates), a stronger U.S. Dollar, the contraction of bank lending, e.g.) will "likely" weigh on the economy over time, suggesting that the recent tightening is a possible substitute for additional rate hikes.

- Despite softening his tone, Powell reemphasized that the Fed is committed to getting inflation back to its 2% target.

- To achieve this, the economic growth backdrop will have to normalize to a level that is more in sync with this inflation goal. Indeed, Powell noted once again that below-trend growth for a number of quarters is likely a necessary condition for inflation normalization

- The main takeaway, is that the Fed is comfortable taking a wait and see approach with Powell stating that the Fed is "proceeding carefully" in determining the next policy steps amid an environment of increasing uncertainty.

- At this stage, a rate hike in December is unlikely. Currently, the market is pricing in just a 15% probability of a hike. The path of Fed policy in 2024 will be determined by inflation.

- Markets reacted positively to the message of 'patience' from the Fed with bond yields falling sharply (yields down / price up) and equities also rising. The yield on the policy-sensitive 2y U.S. Treasury declined by 13 basis points on the day driven by a combination of the Fed's more dovish stance and the announcement that the Treasury's announcement that they expect to halt auction size increases in May 2024.

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