



# Phillip Macro Update

## Key points for Dec FOMC Meeting

UNITED STATES | MACRO | UPDATE

14 December 2023

### Event

The U.S. Federal Open Market Committee (FOMC) concluded its two-day meeting on the 13<sup>th</sup> of December 2023. The meeting discussed the Fed's monetary policy stance and economic projection.

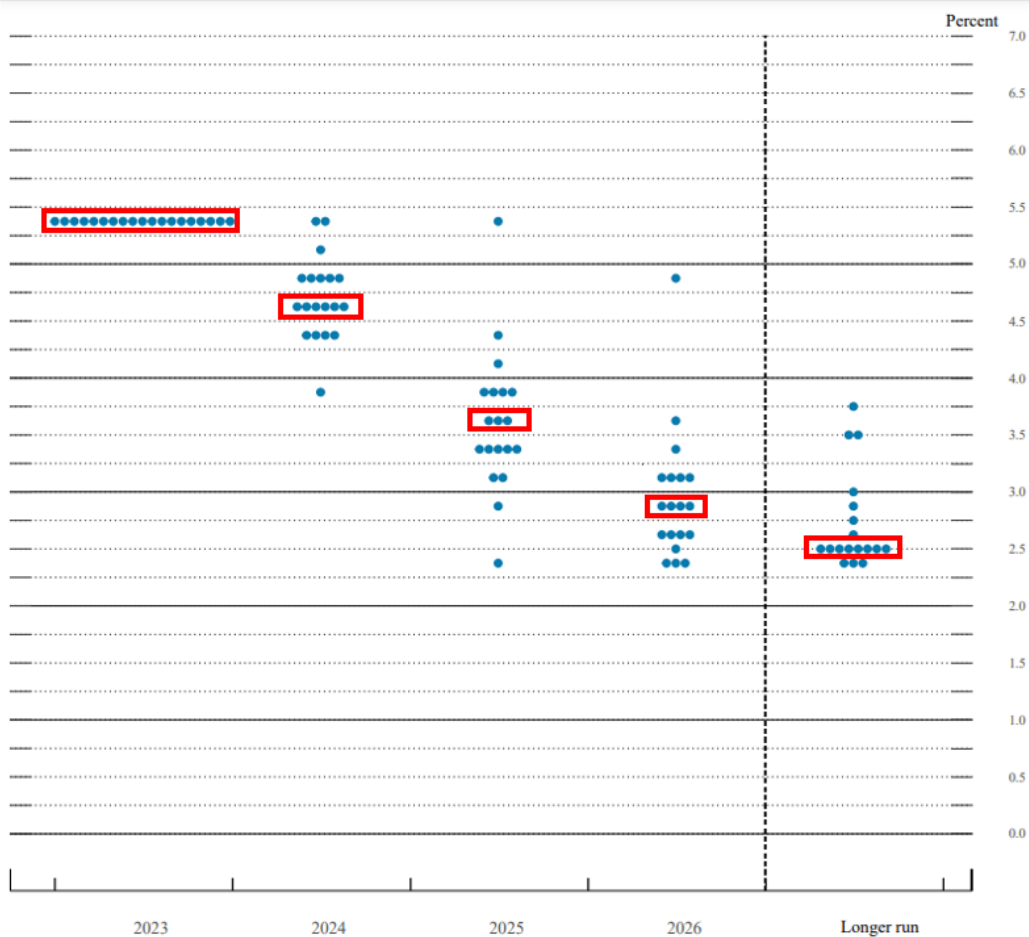
### Key pointers to note in this meeting

- Maintained rates, discussed rate cuts** – During the latest FOMC meeting, the U.S. Federal Reserve (Fed) committee acknowledged a notable deceleration in economic activity compared to the robust pace observed in the third quarter of the year. The slowdown was attributed to elevated interest rates, which have adversely affected both business fixed investment and contributed to a deceleration in the housing sector. As a result, all committee members unanimously decided to keep the benchmark federal funds rate within the range of 5.25-5.50%. This marks the third consecutive meeting where the rate remains unchanged, concluding the year as anticipated by the market.
- Inching towards the targeted range of 2%** – In the latest data releases, including indicators such as the Consumer Price Index (CPI) and Personal Consumption Expenditure (PCE), there are consistent indications of progress toward the 2% range. The most recent figures for November show the headline CPI and Core CPI at 3.1% YoY and 4% YoY, respectively, slightly lower than October's readings of 3.2% and 4.1%, primarily due to a decline in energy prices. Furthermore, October's Total PCE and Core PCE also posted lower numbers at 3.0% YoY and 3.5% YoY, respectively, compared with September's figures of 3.4% and 3.7%. These positive data sets portray that the economy is indeed slowing down and it is slowly but surely moving in the right direction. Despite these encouraging results, the committee notes that it will still require some time before it reaches its targeted range of 2% and further rebalancing of the labour market would ease the upward inflation pressure.
- Federal Reserve Projection/Guidance** – In the December Summary of Economic Projections (SEP), the dot plot as depicted in Figure 1, indicates that the central bank policy rate is likely at or near its peak for this tightening cycle. Regarding rate cut expectations, the projections for Fed funds rate for 2024 is lowered from 5.1% (September Projection) to 4.6%, while that for 2025 also declined from 3.9% (September Projection) to 3.6%. This signifies a notably more dovish outlook for rates in the upcoming years and investors should be able to expect a probable 75 basis point (bp) cut (or three cuts) by 2024. This is a bigger cut compared with 25 bp cut assumed in the September SEP. However, that said, it's crucial to note that any black swan event such as a geopolitical event that may cause a spike in inflation, may lead to rates remaining elevated for an extended period or even trending higher as the committee has always emphasized its readiness to tighten monetary policy if deemed appropriate under such circumstances.

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4. **Dovish Sentiments within the Market** – A 3rd consecutive rate pause alongside a more encouraging SEP has led investors to remain sanguine and rallied the market to climb even higher after the meeting. All three major indices surged higher with the Dow Jones Industrial Average +1.4% to 37,090.24, S&P500 +1.37% to 4,707.09 and lastly NASDAQ +1.27% to 16,562.37.
  
5. **Movement on US Treasury Yields** - US treasury yields slid lower on a more optimistic outlook for rates where the US 2-year Treasury bond yield fell -25.2bps to 4.47% after the meeting concluded. The yields for the US 10-year Treasury were not spared as well falling by 17.3bps to 4.032%. Despite the tapering off in yields, investors are still actively looking to lock in their rates before they taper off even further going into 2024 can do so with us as US treasury bills are tradable on our POEMS platform. For more information please visit <https://www.poems.com.sg/bonds/>.

**Figure 1: Dot Plot Expects Rates likely to have Peaked and Revised 2024 back to 4.6%**



Source: FOMC Summary of Economic Projections

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