BBGI GROUP Global Investments

Investments - Flash

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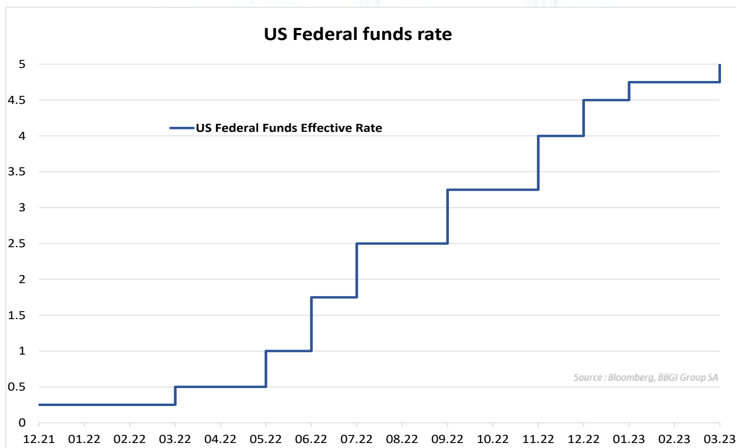
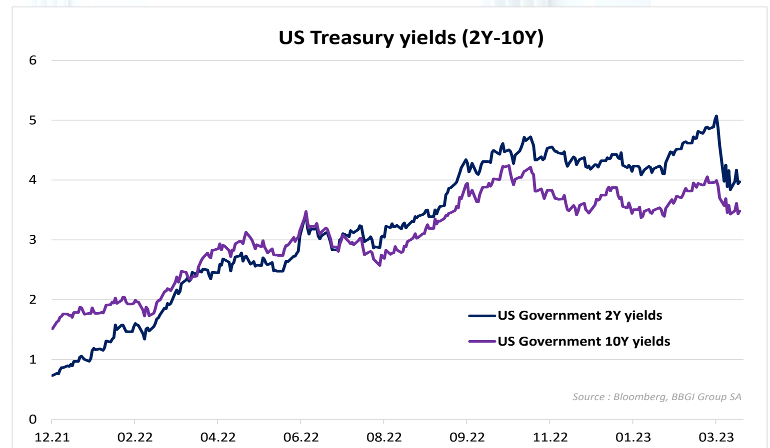
THE FED ADOPTS A MODERATELY DOVISH SPEECH

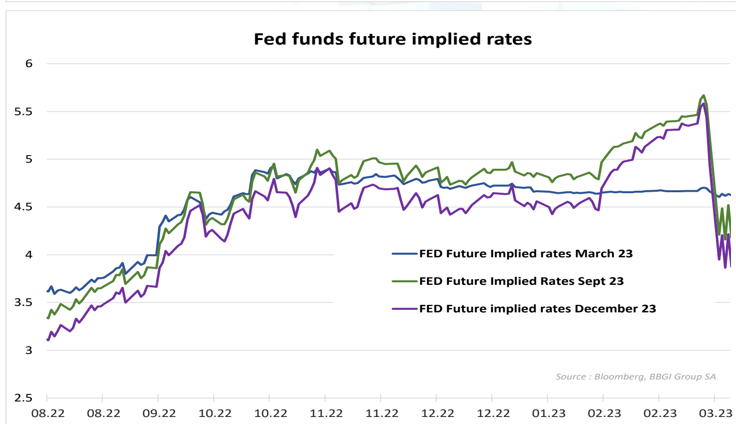
Markets still betting on rate cuts in 2023

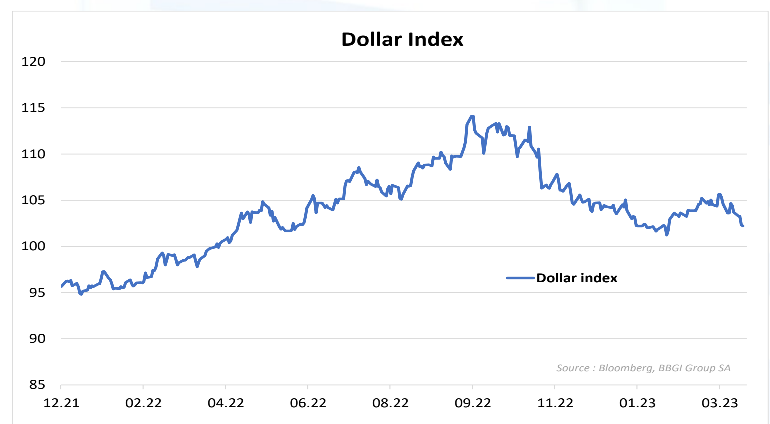
The US Federal Reserve meeting ended with a 0.25% increase in key rates. This may well mark the end of the monetary tightening cycle that began twelve months ago, despite the door being left open to further possible increases by Chairman J. Powell. We believe that the Fed is taking into account the restrictive effects on financing conditions caused by the banking crises in the United States and Europe, which change the parameters for assessing the need for a continued rate hike cycle. The markets seemed to expect adjustments in the outlook for key rates, which were lowered by 120 bps compared to their previous expectations for the September and December maturities, lowering the expected level at the end of the year to 4.3%.

The new rate expectations of the committee members for 2023 (Dots) do not confirm the current market expectations. Indeed, J. Powell's comments ruled out any rate cuts in 2023, even though they were expected by him. However, following these announcements, Fed Funds futures confirmed their trend, in clear contradiction with the Fed's message, sliding again from 4.425% to 4.24%. Only two weeks ago, the Fed's rate expectations for the end of December were still 5.6%. The bond markets also reacted by dropping 20 bps, lowering 10-year rates from 4.06% (March top) to 3.4% (today) and 2-year rates from 5.1% to 3.9%, thus making the yield spread fall significantly. This context still supports a rise in financial assets while the dollar will bear the brunt of this new paradigm which will benefit more risky assets.









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