

US Market: What Fed's rate-cut delay means?

EQUITY STRATEGY TEAM

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TRADING MATTERS SERIES:
NEWS FOCUS

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a major news event*

Fed's Rate-Cut Delay

The US Federal Reserve (Fed) and its extensive global audience initially believed that 2024 would bring a significant number of rate cuts.¹ However, the persistence of price inflation has proven to be more challenging than anticipated, causing these expectations to diminish rapidly.¹ Fed Chair Jerome Powell confirmed this on 16 Apr 2024 by indicating that policymakers would delay rate cuts for a longer period due to unexpectedly high inflation readings.² Currently, traders anticipate only one or two rate cuts occurring this year, which is a significant disappointment compared to the approximately three cuts projected by Fed officials in Mar 2024.³

Some traders even suggest that there is a possibility of no rate cuts happening at all this year.⁴ This delay in implementing looser monetary policies carries substantial implications for the US economy.

Upcoming FOMC Meeting	Probability of Rate Cuts
12 Jun 24	9.2%
31 Jul 24	20.2%
18 Sep 24	40.0%
07 Nov 24	22.2%
18 Dec 24	40.1%
29 Jan 2025	27.7%

Source: Bloomberg, extracted on 29 Apr 2024

What are the domestic implications of "higher for longer" rates?

The Federal Reserve's key interest rate has a broad impact on borrowing costs across various loan categories. Powell's indication that the Fed may maintain the rate at its current level of 5.25% to 5.50% for an extended period means that loans for purchasing homes and cars will continue to be significantly more expensive than they were before the Fed began raising rates in 2022.¹ In fact, average mortgage rates in the US surpassed 7% for the first time this year.⁵ The high cost of financing has impeded the housing market's recent momentum, as potential buyers are choosing to wait on the sidelines until financing costs become more favourable.¹ Additionally, the limited inventory is a result of many homeowners unwilling to give up their low-interest mortgages obtained when benchmark rates were near zero, which has contributed to keeping listing prices elevated.¹

What is laid ahead in the US?

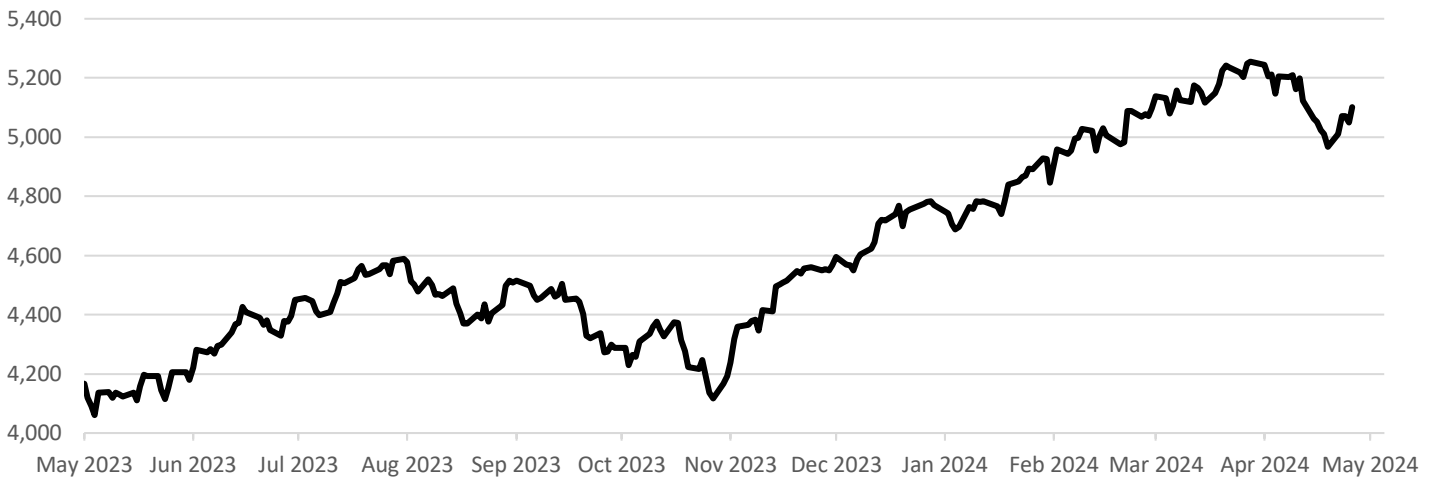
Moderate vulnerabilities were observed in household debt, while credit risks associated with consumer debt showed a slight increase, particularly among borrowers with low credit scores.⁶ Housing prices continued to rise, resulting in high residential real estate valuations compared to rents.⁶ Liquidity in the treasury cash market remained low, and valuations in corporate bond markets appeared stretched.⁶

Stock prices were at the upper end of historical averages in terms of valuation measures.⁶ Despite the recent pullback, the broad fundamentals of the equity rally remain intact given the peak of the global rate cycle, declining hard-landing risks and still broadly easing Personal Consumption Expenditures, the primary measure of consumer spending on goods and services in the US economy and the Fed's preferred measure of inflation.⁷ The market continues to focus on prominent US technology stocks, which are expected to maintain their position as market leaders.^{7,8} Many technology giants, especially those involved in artificial intelligence, are anticipated to sustain strong earnings growth regardless of the interest rate environment.⁸ Most top tech firms possess significant cash reserves and minimal debt.⁸ These big tech companies are also well-equipped to withstand macroeconomic volatility and higher interest rates due to their strong financial positions.⁸



United States

Below are the **index stocks** with **market cap of more than USD 5B**



Top 30 index stocks based on Cash and Cash Equivalents

Ticker	Name	Market Cap	Price [USD]	Cash & Cash Equivalents	Analysts' Consensus 12M Target Price [USD]	Potential returns from Analyst Consensus	Dividend Yield
BABA US	ALIBABA GROUP HOLDING	183.86B	75.55	254.80B	104.77	38.68%	1.32%
GS US	GOLDMAN SACHS GROUP	143.70B	427.57	209.00B	447.43	4.65%	2.57%
BRK/A US	BERKSHIRE HATHAWAY INC	869.26B	606,920	167.64B	655,744.69	8.04%	N/A
BK US	BANK OF NEW YORK MELLON	42.86B	57.32	124.50B	64.13	11.88%	2.93%
LI US	LI AUTO INC	26.57B	25.04	103.26B	50.09	100.06%	N/A
MS US	MORGAN STANLEY	151.03B	92.83	89.23B	99.86	7.57%	3.66%
USB US	US BANCORP	64.06B	41.12	76.98B	47.17	14.72%	4.77%
AMZN US	AMAZON.COM	1.87T	179.62	73.39B	212.45	18.28%	N/A
JD US	JD.COM INC-ADR	46.43B	30.34	71.89B	36.77	21.19%	2.50%
PDD US	PDD HOLDINGS INC	179.58B	129.31	59.79B	180.90	39.90%	N/A
AXP US	AMERICAN EXPRESS CO	169.50B	235.64	54.21B	229.81	-2.48%	1.19%
TCOM US	TRIP.COM GROUP LTD	32.70B	50.60	43.98B	55.55	9.78%	N/A
STLA US	STELLANTIS NV	78.31B	24.74	43.67B	30.70	24.10%	6.67%
AAPL US	APPLE INC	2.61T	169.30	40.76B	198.82	17.44%	0.57%
FNMA US	FANNIE MAE	8.41B	1.46	35.82B	2.00	36.99%	N/A
XOM US	EXXON MOBIL CORP	466.92B	117.96	32.94B	130.20	10.38%	3.22%
NIO US	NIO INC - ADR	9.37B	4.49	32.71B	7.14	59.04%	N/A
UNH US	UNITEDHEALTH GROUP INC	455.76B	495.35	32.31B	563.88	13.84%	1.52%
META US	META PLATFORMS INC	1.12T	443.29	31.80B	528.01	19.11%	0.45%
SCHW US	SCHWAB [CHARLES] CORP	136.81B	74.99	31.54B	80.41	7.23%	1.33%
WFC US	WELLS FARGO & CO	209.79B	59.91	30.18B	62.56	4.42%	2.34%
DFS US	DISCOVER FINANCIAL SERVICE	32.05B	127.70	27.96B	136.56	6.94%	2.19%
DIDIY US	DIDI GLOBAL INC	24.31B	5.02	27.31B	5.50	9.56%	N/A
VIPS US	VIPSHOP HOLDINGS LTD	8.53B	15.73	25.41B	22.00	39.87%	2.73%
BIDU US	BAIDU INC - SPON ADR	35.25B	100.52	25.23B	155.49	54.69%	N/A
C US	CITIGROUP INC	119.77B	62.66	25.17B	66.77	6.56%	3.38%
GOOGL US	ALPHABET INC	2.15T	171.95	24.49B	188.94	9.88%	0.47%
BAC US	BANK OF AMERICA CORP	297.60B	37.83	23.55B	39.42	4.20%	2.54%
JPM US	JPMORGAN CHASE & CO	555.72B	193.49	22.75B	208.44	7.73%	2.38%
JNJ US	JOHNSON & JOHNSON	352.17B	146.14	21.86B	172.43	17.99%	3.39%

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