Fed cuts rates by a quarter point

The US Federal Reserve (Fed) has lowered the benchmark federal funds rate by 25 basis points (bps). The move was largely expected by financial markets and is the third interest rate cut from the central bank for 2019. This is in line with our house view that the Fed would enact three interest rates reductions for the year. Benchmark federal funds rate are now in a range between 1.50-1.75%.

Compared to the previous Federal Open Market Committee (FOMC) statement, the language communicated has shifted slightly. With regard to future monetary policy, the Fed said it would monitor implications of incoming information, a change from “acting as appropriately to sustain the expansion”.

We are of the view that the overnight decision also implies there will be no more further cuts at the upcoming December meeting. This is because the FOMC has reached the historical threshold for a mid-cycle adjustment, as well as the typical time lag between policy adjustment and economic effects.

House view

We move to be less underweight on equities, (though not neutral) as global risks such as trade policy and Brexit uncertainties have eased. These developments reduce downside risks, although they continue to weigh on global activity. Hence, fixed income remains on an overweight position as uncertainties remain.

We would recommend moving duration closer to benchmarks, and continue to focus on good quality investment grade names over high yield.

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