



CIO OFFICE MORNING MARKET WRAP

18 September 2024

From Jeffrey Gundlach's predictions of a 50-bps cut to Ray Dalio saying 25 bps would be enough and Jamie Dimon not expecting any earth shattering moves from the Fed, opinions are dime-a-dozen today. We would get to know the Fed decision at 10 pm UAE time following a 14-month on-hold period, the second longest on hold period after the 2006-2007 pause. However, yesterday's Retail Sales (0.1% act. Vs -0.2% est.) and Industrial Production (0.8% act. Vs 0.2% est.) both surprised on the upside. Front-end yields rose 4bp and the broad curve flattened amid the strong data and a weak 20-year auction. Markets are pricing a 40 bps cut and are well poised.

On a longer horizon the estimation of 275 bps cut by the next summer seems excessive and yields would only rally further if the market pricing of cuts moves higher to show a 2% Fed rate by next July. If we take the 1995 and 1998 rate cut cycles both of which happened during non-recessionary times, only 75 bps rate cut happened in the 12 months following the first rate cut. In fact, in both of these cases the 10-year yield was higher by 68 and 135 bps within a year of the first rate cut. It would be interesting to listen how Chairman Powell orchestrates the future rate path movement given a largely prevalent soft-landing paradigm among investors.

Equity markets were flat to slightly positive last night with S&P 500 and Nasdaq generating +0.03% and +0.2% returns. Russell 2000 was up 0.74%. Energy continued to rule the top post among sectors whereas Health care and Consumer Staples were the bottom two performers. This morning Asian stocks are in the green with Hang Seng up by 1.4% and Nikkei delivering +0.71%. Japanese Exports (5.6% act. Vs 10.6% est.) and Imports (2.3% act Vs 15% est) both underwhelmed. 10-year US Treasuries hover around 3.64%. Gold trades above \$2,575. Brent Crude has dropped slightly to trade below \$73.5.

Apart from the crucial Fed decision, we have the European CPI due today with expectations of the Headline number at 2.2% similar to the previous print. We also get the UK CPI, which is expected to accelerate to 0.3% from a prior print of -0.2% making BoE's job tougher for tomorrow's rate decision.

Have a great day.

Chief Investment Office
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