



# Phillip Macro Update

## Key points for March FOMC Meeting

UNITED STATES | MACRO | UPDATE

23 March 2023

### Event

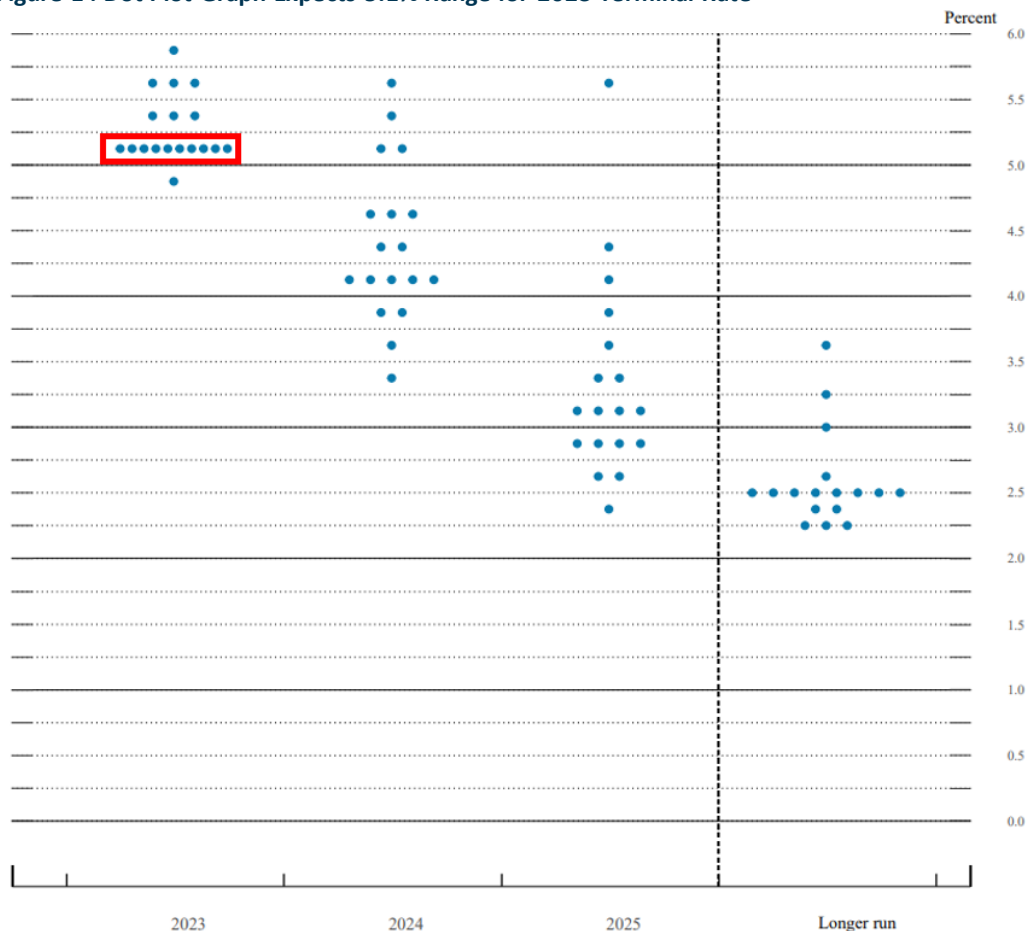
The U.S. Federal Open Market Committee (FOMC) concluded its two-day meeting on the 23<sup>rd</sup> of March 2023. The meeting discussed the Fed's monetary policy stance and economic projection.

### Key pointers to note in this meeting

- Interest rates** – In this FOMC meeting, the U.S. Federal Reserve (Fed) raised its benchmark interest rate by 25bps to a range of 4.75% - 5%. This is the ninth consecutive hike since March 2022. The quarter percentage hike was in line with market expectations, although a handful of investors were hoping for a pause in the hike cycle in this meeting. Though the pause in the rate hikes was considered in light of what had transpired in the banking sector, the recent inflationary data point coupled with a strong labour market took precedence. The members voted unanimously to raise rates to stay in line with achieving their targeted inflationary goal of 2%.
- Inflation remain elevated** – Inflation remains persistent – Inflationary data points such as the PCE and CPI index which the Federal Reserve monitors closely have shown that inflation still remains sticky. (January Total PCE rose by 5.4% YoY; 0.6% MoM while Core PCE that excludes food and energy increased by 4.7% YoY; 0.6% MoM. February's CPI index was in line with market expectations but is still elevated at 6% YoY for annual inflation rate and 5.5% YoY for Core CPI respectively)
- Guidance** – In terms of guidance, chairman Jerome Powell changed the guidance from “ongoing rate hikes” to “some additional hikes for policy firming may be appropriate” in view of potential credit tightening resulting from the recent events in the banking sector which would also contribute to disinflationary effects in the economy. This signals that the central bank may be nearing the end of its hike cycle.
- Possible rate cuts later on this year?** – Despite the market pricing in potential rate cuts later on this year, Chairman Powell remained hawkish stating that for the participants of the FOMC, the possibility of rate cuts happening this year was not their base case, dampening the market's optimism of potential rate cuts later this year.
- Federal Reserve Projections** – A dot plot graph is a projections for the future path of interest rates and dot represents an individual FOMC member's projection. In Figure 1, 10 Fed officials are expecting the terminal rate be around the range of 5.1% while 7 estimates are for it to be higher than 5.1%. The projection for the Fed Funds Rate for 2023 to stay firm at 5.1% is similar to the projection given back in December's meeting last year. This further cements the fact that a rate cut in 2023 is very unlikely.
- Cautious approach to further monetary tightening** – Considering the recent turmoil in the banking sector, we should expect 1 more 25bps hike to bring it to the projected level of 5.1% and be prepared for rates to remain elevated until the end of this year unless significant data points that the Federal Reserve has achieved the targeted inflationary range of 2%. The central bank will also be trading cautiously as a too hawkish approach may potentially trigger another spiral of fragility in the economy. However, an untimely relaxation of the monetary policy may result in unravelling the earlier efforts that were put in place.

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Figure 1 : Dot Plot Graph Expects 5.1% Range for 2023 Terminal Rate



Source: FOMC Summary of Economic Projections

**Sentiment on Perpetual notes**

Currently the market is likely to be a little spooked with the recent banking saga and the write-off of Credit Suisse’s AT1 bonds. It would be ideal to hold off investments in perpetual notes for the banking sector at the moment. In terms of the sentiment for perpetual bonds, it is still a viable option that investors may look at despite the recent events. Companies with robust financial health, sound capital management, and clarity on their revenue stream can still provide perpetual bonds with yields that may be attractive to investors. These positive factors can also give the investors the conviction and confidence that is needed to hold the perpetuals of these companies. US treasury bills are tradable on the POEMS platform. For more information please visit <https://www.poems.com.sg/bonds/>.

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