

Special Coverage:

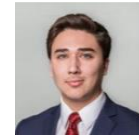
FOMC stands still but dovish comments from Powell lift markets

Key takeaways

- ◆ For the sixth consecutive meeting (since July 2023), the FOMC voted unanimously to leave the benchmark rate unchanged. We had been noting that the risk of delayed cuts was rising, and given the bumpy inflation path, we have revised our forecasts to only one 0.25% rate cut in September 2024, which is still earlier than what markets price in.
- ◆ The Fed announced it will slow its pace of quantitative tightening beginning 1 June 2024, lowering the cap on the amount of Treasury securities rolling off the balance sheet to USD25 billion each month from USD60 billion. This was earlier than some commentators thought and therefore seen as a mildly dovish measure.
- ◆ Bonds rallied especially as Mr. Powell much reduced any remaining concerns of a rate hike by stating the next move in his mind would be a cut. We believe the 10-year yield is now at the top of its range. For equities, they remain supported by better-than-expected earnings, while more stability in the bond markets should also help. The USD weakened slightly on the Mr Powell's dovish comments. But looking ahead, we continue to look for USD support if other central banks, most notably in Europe, cut rates ahead of September.



Jose Rasco
Chief Investment Officer,
Americas, HSBC Global Private
Banking and Wealth



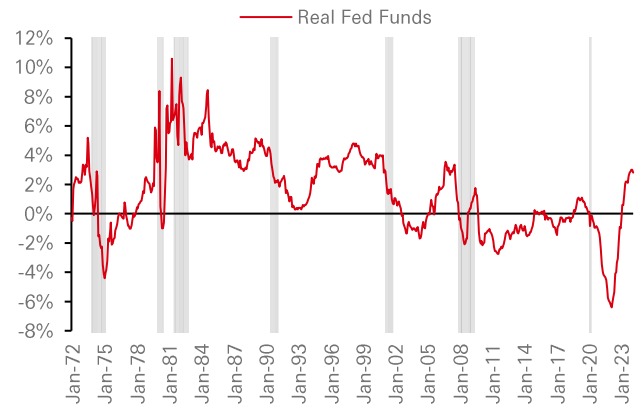
Michael Zervos
Investment Strategy Analyst,
HSBC Global Private Banking
and Wealth

What happened?

- As widely expected at its May meeting, the FOMC voted unanimously to leave the benchmark rate unchanged in the target range of 5.25%-5.5%. This is the sixth straight meeting that the Fed left rates unchanged.
- The most notable addition to the FOMC statement being "In recent months, there has been a lack of further progress toward the Committee's 2% inflation objective.". The Fed also tweaked the language to say that the risks to achieving employment and inflation goals "have moved toward better balance over the past year;" with the statement previously stating risks were "moving into better balance" (so a change from present to past tense). The May statement repeated prior language saying the FOMC doesn't expect to cut rates "until it has gained greater confidence that inflation is moving sustainably toward 2%."
- At the May meeting, the Fed also announced it will slow its pace of quantitative tightening beginning 1 June 2024, lowering the cap on the amount of Treasury securities rolling off the balance sheet by more than half, to USD25 billion each month from USD60 billion. Officials maintained the pace of runoff for mortgage-backed securities at a maximum of USD35 billion per month, and the Fed will reinvest any principal payments above the cap into Treasuries instead of MBS.
- Powell noted in his opening statement that "Inflation is still too high" and further progress in bringing it down isn't assured and the path forward is uncertain. Powell also stated that inflation has eased notably over the past year but remains above the longer-run goal of 2%. He said "Inflation data received so far this year have been higher than expected. Some measures of short-term inflation expectations have increased in recent months. Longer-term inflation expectations appear to be more anchored, as reflected in a broad range of surveys of households, businesses and forecasters."

- Powell stated, “I do think that the evidence shows pretty clearly that policy is restrictive and is weighing on demand.”. We believe over time it will be sufficiently restrictive.”.
- Inflation has remained stubborn as the headline PCE inflation remained at 0.3% m-o-m while y-o-y headline PCE inflation rose to 2.7% vs. 2.5% in prior month.
- Core PCE inflation rose 0.3% m-o-m, while February’s and January’s prints were revised higher by 0.01% and 0.05% to 0.27% and 0.5%, respectively. Supercore PCE inflation rose 0.4% m-o-m vs. 0.2% m-o-m prior, driven by transportation services and other services prices. Nevertheless, Powell was confident that inflation will return to 2%.
- Regarding the economy, Powell stated that recent indicators suggest economic activity has continued to expand at a solid pace and consumer spending has been robust over the past several quarters. For those worrying that 1Q GDP was on the weak side, he pointed to the domestic demand component of GDP, which stands at a quite resilient 3.1% level. The labour market remains relatively tight, but supply and demand conditions have come into better balance.
- Payroll job gains averaged 276k jobs per month in the first quarter, while the unemployment rate remains low at 3.8%. Powell said that “Strong job creation over the past year has been accompanied by an increase in the supply of workers, reflecting increases in participation among individuals aged 25 to 54 years and the continued strong pace of immigration.”

Real rates remain restrictive



Source: Bloomberg, HSBC Global Private Banking and Wealth as at 1 May 2024.

Investment implications

- Given stronger-than-anticipated economic growth and somewhat higher-than-anticipated core inflation over recent months, we have revised our forecast to only one 0.25% rate cut in September 2024 and retained our view for a potential 0.75% rate cut in 2025. The timing remains highly uncertain but is still before the market expectation (December) and broadly consistent with the view that y-o-y core PCE inflation may fall modestly this summer but then increase somewhat into year-end.
- US equities have surpassed all-time highs while the economy and inflation are broadly expected to slow. As a counterweight, the Fed is expected to begin to become less restrictive in its monetary policy by reducing nominal policy rates, and lower interest rates have historically been quite accretive to earnings. Slower inflation should help maintain corporate margins. While many cyclical drivers of economic growth are showing limited signs of strain, the tailwinds provided by secular themes like the technology revolution, innovation in healthcare and other sectors, near/onshoring, and the re-industrialisation of the US should boost economic activity, maintain margins, increase productivity, and most significantly, increase the return on invested capital.
- For fixed income, the peak in policy rates should help bonds stabilise and, with time, lead bond yields lower from here. We believe that the 10-year yield is at the top of its recent range and continue to lock in attractive yield levels on both Treasuries and investment grade bonds.
- The Fed’s decision and comments suggest that the USD is likely to be on the back foot in the very near term. Looking ahead, relative rates should offer some support to the USD if other central banks, most notably in Europe, show more dovish momentum in the weeks and months ahead.

Disclaimer

This document or video is prepared by The Hongkong and Shanghai Banking Corporation Limited ("HBAP"), 1 Queen's Road Central, Hong Kong. HBAP is incorporated in Hong Kong and is part of the HSBC Group. This document or video is distributed and/or made available, HSBC Bank (China) Company Limited, HSBC Bank (Singapore) Limited, HSBC Bank Middle East Limited (UAE), HSBC UK Bank Plc, HSBC Bank Malaysia Berhad (198401015221 (127776-V))/HSBC Amanah Malaysia Berhad (20080100642 1 (807705-X)), HSBC Bank (Taiwan) Limited, HSBC Bank plc, Jersey Branch, HSBC Bank plc, Guernsey Branch, HSBC Bank plc in the Isle of Man, HSBC Continental Europe, Greece, The Hongkong and Shanghai Banking Corporation Limited, India (HSBC India), HSBC Bank (Vietnam) Limited, PT Bank HSBC Indonesia (HBID), HSBC Bank (Uruguay) S.A. (HSBC Uruguay is authorised and oversought by Banco Central del Uruguay), HBAP Sri Lanka Branch, The Hongkong and Shanghai Banking Corporation Limited – Philippine Branch, HSBC Investment and Insurance Brokerage, Philippines Inc, and HSBC FinTech Services (Shanghai) Company Limited and HSBC Mexico, S.A. Multiple Banking Institution HSBC Financial Group (collectively, the "Distributors") to their respective clients. This document or video is for general circulation and information purposes only.

The contents of this document or video may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. This document or video must not be distributed in any jurisdiction where its distribution is unlawful. All non-authorised reproduction or use of this document or video will be the responsibility of the user and may lead to legal proceedings. The material contained in this document or video is for general information purposes only and does not constitute investment research or advice or a recommendation to buy or sell investments. Some of the statements contained in this document or video may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. HBAP and the Distributors do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document or video has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed are based on the HSBC Global Investment Committee at the time of preparation and are subject to change at any time. **These views may not necessarily indicate HSBC Asset Management's current portfolios' composition. Individual portfolios managed by HSBC Asset Management primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity.**

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance contained in this document or video is not a reliable indicator of future performance whilst any forecasts, projections and simulations contained herein should not be relied upon as an indication of future results. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in emerging markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries in which they trade. Investments are subject to market risks, read all investment related documents carefully.

This document or video provides a high-level overview of the recent economic environment and has been prepared for information purposes only. The views presented are those of HBAP and are based on HBAP's global views and may not necessarily align with the Distributors' local views. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It is not intended to provide and should not be relied on for accounting, legal or tax advice. Before you make any investment decision, you may wish to consult an independent financial adviser. In the event that you choose not to seek advice from a financial adviser, you should carefully consider whether the investment product is suitable for you. You are advised to obtain appropriate professional advice where necessary.

The accuracy and/or completeness of any third-party information obtained from sources which we believe to be reliable might have not been independently verified, hence Customer must seek from several sources prior to making investment decision.

The following statement is only applicable to HSBC Mexico, S.A. Multiple Banking Institution HSBC Financial Group with regard to how the publication is distributed to its customers: This publication is distributed by Wealth Insights of HSBC México, and its objective is for informational purposes only and should not be interpreted as an offer or invitation to buy or sell any security related to financial instruments, investments or other financial product. This communication is not intended to contain an exhaustive description of the considerations that may be important in making a decision to make any change and/or modification to any product, and what is contained or reflected in this report does not constitute, and is not intended to constitute, nor should it be construed as advice, investment advice or a recommendation, offer or solicitation to buy or sell any service, product, security, merchandise, currency or any other asset.

Receiving parties should not consider this document as a substitute for their own judgment. The past performance of the securities or financial instruments mentioned herein is not necessarily indicative of future results. All information, as well as prices indicated, are subject to change without prior notice; Wealth Insights of HSBC Mexico is not obliged to update or keep it current or to give any notification in the event that the information presented here undergoes any update or change. The securities and investment products described herein may not be suitable for sale in all jurisdictions or may not be suitable for some categories of investors.

The information contained in this communication is derived from a variety of sources deemed reliable; however, its accuracy or completeness cannot be guaranteed. HSBC México will not be responsible for any loss or damage of any kind that may arise from transmission errors, inaccuracies, omissions, changes in market factors or conditions, or any other circumstance beyond the control of HSBC. Different HSBC legal entities may carry out distribution of Wealth Insights internationally in accordance with local regulatory requirements.

Important Information about the Hongkong and Shanghai Banking Corporation Limited, India ("HSBC India")

HSBC India is a branch of The Hongkong and Shanghai Banking Corporation Limited. HSBC India is a distributor of mutual funds and referrer of investment products from third party entities registered and regulated in India. HSBC India does not distribute investment products to those persons who are either the citizens or residents of United States of America (USA), Canada, Australia or New Zealand or any other jurisdiction where such distribution would be contrary to law or regulation.

The following statement is only applicable to HSBC Bank (Taiwan) Limited with regard to how the publication is distributed to its customers: HSBC Bank (Taiwan) Limited ("the Bank") shall fulfill the fiduciary duty act as a reasonable person once in exercising offering/conducting ordinary care in offering trust services/business. However, the Bank disclaims any guarantee on the management or operation performance of the trust business.

The following statement is only applicable to PT Bank HSBC Indonesia ("HBID"): PT Bank HSBC Indonesia ("HBID") is licensed and supervised by Indonesia Financial Services Authority ("OJK"). Customer must understand that historical performance does not guarantee future performance. Investment product that are offered in HBID is third party products, HBID is a selling agent for third party product such as Mutual Fund and Bonds. HBID and HSBC Group (HSBC Holdings Plc and its subsidiaries and associates company or any of its branches) does not guarantee the underlying investment, principal or return on customer investment. Investment in Mutual Funds and Bonds is not covered by the deposit insurance program of the Indonesian Deposit Insurance Corporation (LPS).

Important information on ESG and sustainable investing

In broad terms "ESG and sustainable investing" products include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors to varying degrees. Certain instruments we classify as sustainable may be in the process of changing to deliver sustainability outcomes. There is no guarantee that ESG and Sustainable investing products will produce returns similar to those which don't consider these factors. ESG and Sustainable investing products may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for, ESG and Sustainable investing or the impact of ESG and Sustainable investing products. ESG and Sustainable investing and related impact measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

HSBC may rely on measurement criteria devised and reported by third party providers or issuers. HSBC does not always conduct its own specific due diligence in relation to measurement criteria. There is no guarantee: (a) that the nature of the ESG / sustainability impact or measurement criteria of an investment will be aligned with any particular investor's sustainability goals; or (b) that the stated level or target level of ESG / sustainability impact will be achieved. ESG and Sustainable investing is an evolving area and new regulations are being developed which will affect how investments can be categorised or labelled. An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future.

THE CONTENTS OF THIS DOCUMENT OR VIDEO HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG OR ANY OTHER JURISDICTION.

YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE INVESTMENT AND THIS DOCUMENT OR VIDEO. IF YOU ARE IN DOUBT ABOUT ANY OF THE CONTENTS OF THIS DOCUMENT OR VIDEO, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

© Copyright 2024. The Hongkong and Shanghai Banking Corporation Limited, ALL RIGHTS RESERVED.

No part of this document or video may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited.

PUBLIC