Fed cuts rates and signals pause

At its October meeting, the Federal Open Market Committee of the US Federal Reserve cut the funds target range by 25bp to 1.50-1.75%

The Federal Reserve cuts interest rates again
At its October meeting, the Federal Open Market Committee (FOMC) of the US Federal Reserve (Fed) cut the target range for the fed funds rate to 1.50-1.75%, in line with market expectations. The accompanying statement showed two committee members (Esther L. George and Eric S. Rosengren) voted to keep policy on hold, as they did at the September meeting.

Keeping its options open
The rate cut was delivered in order to keep the economy strong in the face of soft global growth and to take out further insurance against downside risks. However, the key takeaway from the meeting came during Chair Jerome Powell’s press conference, in which he noted that having cut for a third time this year, the FOMC now views the “current stance of policy as likely to remain appropriate” if the economy and events evolve broadly as the Fed expects. The policy stance itself was described as accommodative. The Fed, therefore, looks likely to remain on hold while it assesses whether incoming data and events evolve in line with its central outlook.

The Fed’s central case is that the economy continues to grow at a moderate pace of around 2%, supported by recent policy easing and with strong consumer spending offsetting weakness in other areas, particularly exports, investment and manufacturing. This is consistent with the performance of the economy seen in the Q3 data, released earlier in the day, showing GDP growth of 1.9% qoq annualised but consumer spending rising by almost 3% qoq annualised.

Indeed, Chair Powell highlighted that the consumer remains in good shape, supported by strong job gains and that the Fed had not seen any evidence that the weakness in manufacturing and investment is seeping into the labour market.

Importantly, Powell also noted that risks to the outlook – specifically trade developments and Brexit – while still to the downside, had moved in a “positive direction” lately. Chair Powell did, however, emphasise that “if developments emerge that cause a material reassessment of our outlook, we would respond accordingly. Policy is not on a pre-set course”.

On prices, the Fed’s outlook remains one in which inflation runs close to its 2% target. Nonetheless, Powell acknowledged the committee was “mindful that continued below-target inflation could lead to an unwelcome downward slide in long-term inflation expectations” and that inflation expectations were very important in driving actual inflation. Moreover, the Chair said that “We would need to see a really significant move up in inflation that’s persistent before we would consider raising rates to address inflation concerns”. This appears consistent with the view that the Fed has become more committed to ensuring its inflation target is implemented in a symmetric way.

Our views
Policy action can help stabilise global economic conditions and equity valuations remain relatively attractive. Amid persistent downside risks we therefore retain a pro-risk but conservative investment strategy in our multi-asset portfolios.

Investments, annuity and insurance products

<table>
<thead>
<tr>
<th>ARE NOT A BANK DEPOSIT OR OBLIGATION OF THE BANK OR ANY OF ITS AFFILIATES</th>
<th>ARE NOT FDIC INSURED</th>
<th>ARE NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY</th>
<th>ARE NOT GUARANTEED BY THE BANK OR ANY OF ITS AFFILIATES</th>
<th>MAY LOSE VALUE</th>
</tr>
</thead>
</table>

This commentary provides a high level overview of the recent economic environment, and is for information purposes only. It is a marketing communication and does not constitute investment advice or a recommendation to any reader of this content to buy or sell investments nor should it be regarded as investment research. 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.
Market considerations

We remain comfortable with an underweight position in DM government bonds in our multi-asset portfolios, given that we continue to estimate low prospective returns. Moreover, if US growth remains solid, there is some scope for market rate expectations to retrace higher. Such a scenario would likely weigh on US fixed income assets.

The current level of bond yields means equity valuations remain relatively attractive. The Fed’s apparent willingness to ease policy, if needed, to support still-solid US growth, also argues for maintaining an overweight position in US equities. However, given persistent downside risks to global growth and elevated uncertainty, we think the current outlook is consistent with a “pro-risk, but conservative” investment strategy in our multi-asset portfolios.
Important information:

The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. All non-authorized reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings. The material contained in this document is for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Some of the statements contained in this document 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. We 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 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 herein are those of HSBC Global Asset Management Global Investment Strategy Unit and HSBC Securities (USA) Inc. at the time of preparation, and are subject to change at any time. These views may not necessarily indicate current portfolios’ composition. Individual portfolios managed by HSBC Global 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 is not a reliable indicator of future performance while 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. Mutual fund investments are subject to market risks, read all related documents carefully. Please consider the investment objectives, risks, charges and expenses carefully before investing. The prospectus, which contains this and other information, can be obtained by calling an HSBC Securities (USA) Inc. Financial Advisor or call 888-525-5757. Read it carefully before you invest.

Investment and certain insurance products, including annuities, are offered by HSBC Securities (USA) Inc. (HSI), member NYSE/FINRA/SIPC. In California, HSI conducts insurance business as HSBC Securities Insurance Services. License #: OE67746. HSI is an affiliate of HSBC Bank USA, N.A. Whole life, universal life, term life, and other types of insurance are provided by unaffiliated third parties and offered through HSBC Insurance Agency (USA) Inc., a wholly owned subsidiary of HSBC Bank USA, N.A. Products and services may vary by state and are not available in all states. California license #: OD36843. Investments, Annuity and Insurance Products: Are not a deposit or other obligation of the bank or any of its affiliates; Not FDIC insured or insured by any federal government agency of the United States; Not guaranteed by the bank or any of its affiliates; and subject to investment risk, including possible loss of principal invested.

All decisions regarding the tax implications of your investment(s) should be made in consultation with your independent tax advisor.