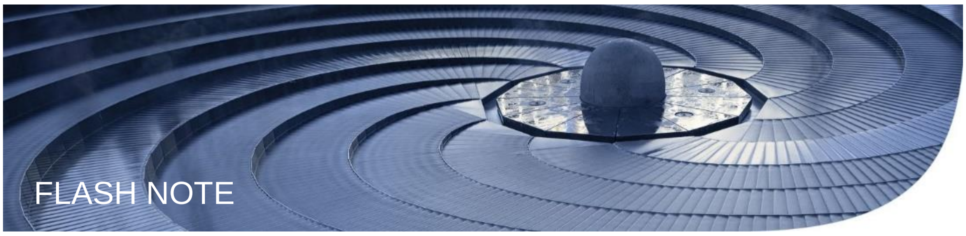

MIRABAUD 1819
Asset Management

An optimistic message from the Fed Chair

28 February 2018

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Jerome Powell painted an upbeat picture of US economic activity during his first testimony before a US House of Representatives committee.

Powell revised up his own personal outlook and **seemed to link this improvement with a potential upward revision to his projected increase in interest rates this year** — the famous "dot plot" — at the Federal Reserve meeting in March.

These developments confirm our scenario of four interest rate hikes in 2018. We expect investor anticipations to converge at this level.

> The speech: Jerome Powell, the Federal Reserve's new chairman since 5 February 2018, painted a positive picture of the US economy during his first testimony to a US House of Representatives committee. In particular, some of the headwinds that had previously been hampering the economy—such as fiscal policy and global growth—have now turned to tailwinds. In his view, **the recent increase in volatility on the markets is not likely to weigh on economic activity, the labour market or inflation**. On the subject of inflation, he expects it to increase this year, with a convergence towards the 2% target in the medium term.

> Q&A session: **Powell confirmed that he revised up his own economic outlook following the December meeting and that it would have an impact on the projections he expected to provide at the 21 March meeting**.

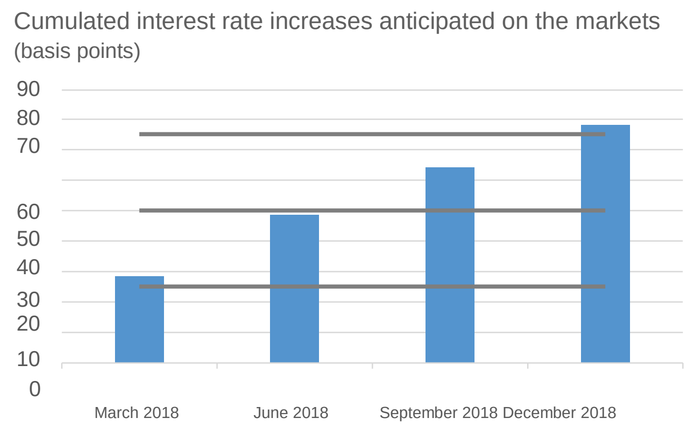
The Federal Reserve will present its latest growth and inflation forecasts and a new "dot plot" during the meeting. At the same time, we expect to see a significant revision to its growth forecasts and interest rate increases. Also of note are the comments on a rules-based approach, such as the Taylor Rule, in assessing monetary policy direction, which underpin the analysis of a less accommodative Federal Reserve.

> Market reaction: the market reacted immediately to Powell's comments on his own person outlook. The yield curve steepened; 2-year yields rose by 4 basis points to 2.27% while 10-year yields rose by 5 basis points to 2.91%. **The market now anticipates an interest rate increase of 75.5 basis points this year (three fed fund rate hikes of 25 basis points)**.

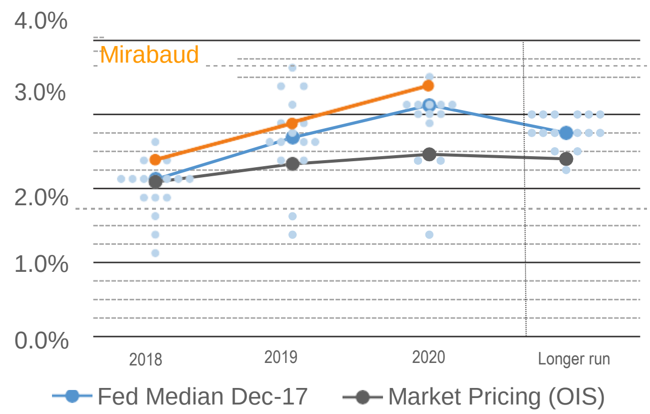
The US equity markets fell by more than 1% while the dollar index appreciated to its highest level since mid-January.

> Our allocation: we are maintaining a significant underweighting of US sovereign bonds given the normalisation of interest rates, with a preference for variable rate bonds. The scenario of an increase in inflation in a dynamic economic environment should continue to underpin the US equity markets.

INVESTORS NOW ANTICIPATE 3 INTEREST RATE HIKES



WE EXPECT ANTICIPATIONS TO CONVERGE



Sources: Federal Reserve, Bloomberg, Mirabaud Asset Management