FLASH NOTE

FEDERAL RESERVES CONFIRMS ITS ULTRA-DOVISH OUTLOOK

STRATEGY TEAM

While keeping policy rates unchanged, the US Federal Reserve announced a much more accommodative future policy path, by signaling:

- No policy rate changes in 2019, with less hikes foreseen in coming years (0-1-0)
- The end of balance sheet reduction will be concluded in September 2019
- Lower economic growth projections in 2019/20

The Facts

The Federal Reserve **kept interest rates unchanged** at yesterday's meeting—the target federal funds rate remains at 2.25-2.50%. The interest rate on excess reserves remains at 2.4%.

The average interest rate path projection (the 'dots') now signals a **0-1-0 path for rate changes in 2019-2021**. This is a significant change from the 2-1-0 path foreseen in December 2018. In particular, the fact that **11 out of 17 member now expect no rate hike this year is a dovish surprise**. The median estimate of the neutral rate remains stable at 2.75%

Economic projections—despite lower interest rates over the projected horizon and easier financial conditions—were revised downward, while inflation is expected to remain anchored at 2%. **Real GDP growth is expected to slow to 2.1% this year**.

Regarding the central bank's **balance sheet normalization,** the FOMC intends to slow the reduction of its holdings of Treasury securities by reducing the cap on monthly redemptions from the current level of $30bn to $15bn, beginning in May 2019. The reduction of its aggregate securities holdings is expected to conclude at the end of September 2019. At that time, the balance sheet will stabilize at around $3'700bn or 17% of US GDP. Beginning in October 2019, the Federal Reserve will reinvest in Treasury securities the principal payments from MBS with a cap of $20bn per month.

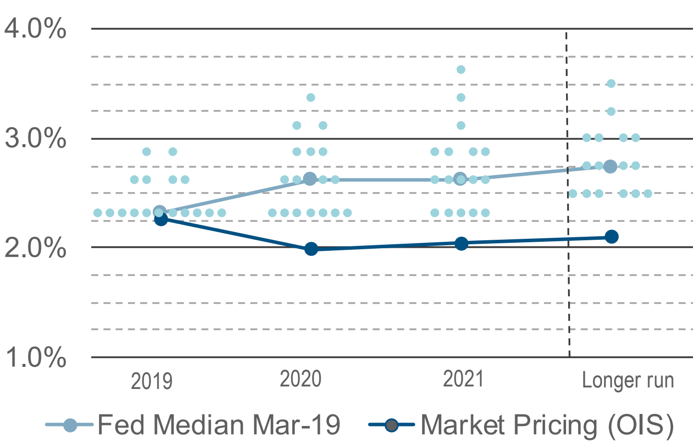
Our Take

Via its latest decisions, the Fed confirmed its ultra-dovishness, unwilling to hike policy rates this year. We continue to believe that no rate changes are forthcoming this semester, while the likeliness of a rate move in the second semester has clearly declined. **We change our baseline scenario and expect no rate move this year**, but see a high risk of a 25 basis point hike in Q4 this year. We continue to see the probability of a rate cut as lower than current market pricing suggests.

Impact on Asset Allocation

With the main central bank not wanting to move policy rates, emerging market assets will be the main beneficiary. We reiterate our **favorable view on emerging market assets**, with an overweight on both emerging market equities and fixed income securities, both in local and hard currencies.

FED EXPECTS ONLY ONE RATE HIKE UNTIUL 2021



Sources: Federal Reserve, Mirabaud Asset Management

NO INFLATION OVERSHOOT EXPECTED IN 2020 AND 2021

	2019	2020	2021	Longer
Change in Real GDP	**2.1%**	**1.9%**	**1.8%**	**1.9%**
Dec. Projections	*2.3%*	*2.0%*	*1.8%*	*1.9%*
Unemployment rate	**3.7%**	**3.8%**	**3.9%**	**4.3%**
Dec. Projections	*3.5%*	*3.6%*	*3.8%*	*4.4%*
PCE Inflation	**1.8%**	**2.0%**	**2.0%**	**2.0%**
Dec. Projections	*1.9%*	*2.1%*	*2.1%*	*2.0%*
Core PCE Inflation	**2.0%**	**2.0%**	**2.0%**	
Dec. projections	*2.0%*	*2.0%*	*2.0%*	

Source: Federal Reserve

Mirabaud Asset Management (Suisse) SA

29, boulevard Georges-Favon CH-1204 Geneva T +41 58 200 60 00 F +41 58 200 60 01
www.mirabaud-am.com