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Fed supports markets

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The US central bank signalled the continuation of its loose monetary policy at its FOMC meeting on 27 April. This is remarkable given that along with the short-term stabilisation of the Chinese economy, this Fed policy is one of the most important reasons for the price rises of risky assets since February.

Tendency for interest rate hikes remains in place

The Fed funds rate is kept within a range of 0.25% to 0.50%. At the same time the FOMC retains its intention to gradually raise the Fed funds rate. It may, however, take its time doing so.

Worries regarding the global economy have decreased

In the press release the central bank has expressed slight relief with regard to the global economy and the financial market even though both areas have to be monitored closely, along with inflation pressure.

Weakening economic growth in the USA

Instead, economic growth has declined in the USA on the back of all important partial components of economic activity, i.e. consumer spending, corporate investments, and net exports. In addition, industrial production is shrinking. “Only” the labour market continues to improve. However, leading indicators suggest deterioration on that front, too.

Low inflation pressure

In view of the low inflation pressure in the USA the central bank can leave the monetary policy very loose. This generally facilitates a depreciating US dollar relative to the currency basket. This combination of factors keeps the yields of safe Treasury bonds very low and supports risky asset classes such as equities, corporate bonds, emerging markets bonds, and commodities. In addition it increases the leeway for other central banks, particularly in the emerging countries, to cut key-lending rates if need be.

No imminent rate hike

In summary: the Fed has not (yet) put an end to the rally on the markets by announcing any imminent rate hike. For this reason we continue to prefer corporate bonds from the USA, among other instruments.

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