

# Fixed Income Flash Commentary

## Update on October Federal Reserve Meeting

### What happened and why?

The Fed remained on hold at yesterday's meeting, in line with expectations. Modifications to the statement were perceived as slightly more hawkish by the market. Specifically, the Fed tempered concerns about China and emerging markets by removing the September statement that "recent global economic and financial developments may restrain economic activity somewhat". In new language to the statement, the Fed noted it would determine whether it would be "appropriate to raise the target range at its next meeting" adding for the first time a 'time element' to this statement. While they noted that "the pace of job gains slowed and the unemployment rate held steady", they reiterated that "underutilization of labor resources has diminished since early this year".

**We think the December 15-16<sup>th</sup> meeting remains a possibility for Fed "lift-off".** There are a few key data releases in advance of that meeting that will likely inform their decision-making. The releases include the Employment Cost Index (ECI), due on October 30<sup>th</sup>, and the two payroll reports due for release on November 6<sup>th</sup> and December 4<sup>th</sup>. Markets will closely watch for indications that inflation pressures have increased and job gains continue at a healthy pace.

### What was the market reaction?

US interest rates moved higher following the release of the Fed statement. The yield on the 2-year Treasury jumped 8 basis points to 0.70% while the yield on the 10-year Treasury rose 6 basis points to 2.10%. The odds of a December interest rate hike, as measured by federal fund futures markets, increased to 46%.

After initially dipping, US equities ended the day higher as a rally in financials and energy stocks lifted broader indices.

### Implications for our Fixed Income portfolios

Market reaction was relatively contained as participants digested the contents of the post-meeting statement. Notwithstanding a slightly more hawkish bent from the Fed, over the last few days we have seen interest rates in core and peripheral European markets move even lower in anticipation of future additional easing from the ECB.

We continue to maintain a near-neutral duration position in many traditional core and regional strategies. Thus the impact from active duration positioning has been relatively muted.

Please see this week's [Economist Insights](#) for additional information regarding our expectations for global central bank activity heading into year-end.

### Implications for our multi-asset portfolios

As expected, the Fed kept the US policy interest rate stable between 0 and 0.25% yesterday. Some changes in the statement suggest that, unless the macroeconomic data disappoint greatly in the next month and a half, the rate will be increased by a bit (e.g., to 0.5%) in December. This development would likely reduce market uncertainty and have negligible effects on the real economy (GDP and unemployment).

From our multi-asset perspective, we continue to prefer equities to bonds and, within equities, we still prefer non-US developed markets. Recent weak earnings data in the US confirm this view, while European earnings have been more positive for the first time in quite a while. We expect volatility to continue at least until a Fed rate increase and some guidance in the statement will clarify the path.

For details on specific portfolios please contact your usual client relationship manager.



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