



Investment Note

14 December 2017



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Short view on Fed rate hike

Yesterday, the Fed raised interest rates for a third time this year and predicted more increases to follow in 2018. In this short note, our Senior Asia Strategist Geoff Lewis shares his thoughts on the investment implications and what Asian investors should watch for.

At the December Federal Open Market Committee (FOMC) meeting yesterday on 13 December (US time), the US central bank raised its target range for the Fed funds rate to “1.25% to 1.5%”¹. As the decision was widely expected, there was very little impact on either US or global financial markets. Nor were there any significant changes to the wording of the accompanying FOMC Statement.

The most significant development yesterday concerned the Fed's economic projections. The forecast for GDP growth in 2018 was increased from 2.1% to 2.5%², presumably in response to the tax cuts that Congress is about to pass.

Few investment implications for Asian and EM equities

We see few if any implications from yesterday's Fed rate hike for Asian and emerging market (EM) equities. The Fed's commitment to a path of gradually increasing interest rates and balance sheet reduction has not changed and was well communicated in advance.

While higher US short term interest rate could support a technical rebound in the US dollar, it will do little to support further secular dollar strength. For 2018 overall, we expect the global synchronised upturn and greater potential for earnings growth to attract capital out of the US into non-US equity markets.

US dollar will likely peak in the first half of 2018

We expect the US dollar trade-weighted index to peak in the first half of 2018 before gradually depreciating in the second half of the year. The superior growth and earnings prospects of Asian and EM equities are not threatened by the Fed's policy of gradually normalising US short-term interest rates. In our view, any dip in response to future Fed rate hikes that are less well discounted by regional markets would be a buying opportunity.

¹ Federal Reserve [Press Release](#), 13 December 2017.

² [Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy](#), Federal Reserve, December 2017.

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