UOB Investment Insights
Thinking Ahead

29 August 2022

Key Takeaways from the Jackson Hole Symposium

- US Federal Reserve Chairman Jerome Powell delivered a highly-anticipated update last Friday (26 Aug) on the Fed's interest rate outlook at its annual meeting of global central bankers and policymakers in Jackson Hole, Wyoming. US stock markets interpreted his remarks as bearish and sold off heavily as a result.

Key points from Chairman Powell's speech

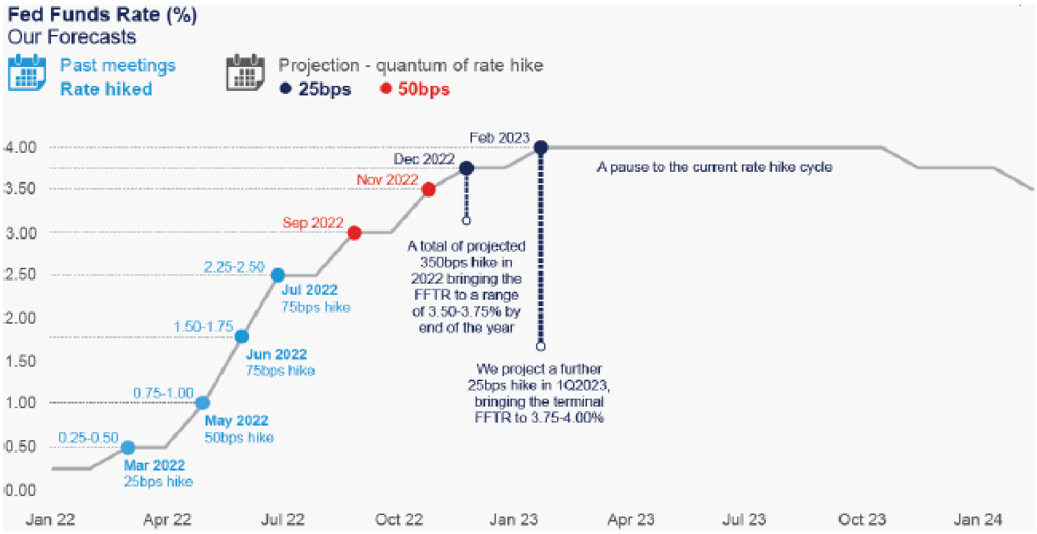
- Powell emphasised that the role of the central bank is to deliver price stability, even if inflation is driven by supply constraints. Controlling inflation is unconditional.
- He emphasised that interest rates will likely stay elevated for some time, even if this causes "some pain" to households and businesses. His remarks came amid signs that inflation may have peaked, even though inflation levels have not shown clear indication they are declining.
- Powell said the Fed will not be swayed by a month or two of inflation data. By acting with resolve now, the Fed hopes to avoid more drastic action down the road.

The Fed Chairman's speech was not entirely unexpected. As the Fed is still some way off its inflation objective of 2.0%, it was expected to talk down recent rallies in stock and corporate bond markets.

UOB's view is consistent with the market's forward rate hike expectations and stays unchanged after the Jackson Hole speech.

- Our economists expect another two 0.50% rate hikes in September and November, before ending the year with a 0.25% hike in December. This is expected to be followed by a final 0.25% hike in 2023.
- The potential of the Fed changing its path is more likely to come in the second half of 2023 when inflation is expected to trend closer to the Fed's objective of 2.0%.

Figure 1: UOB's Forecast for Upcoming Fed Interest Rate Hikes



Source: UOB Global Economics & Markets Research Estimates (as of Aug 2022)

What should investors do?

- Do not chase the rally. The Fed's interest rate policy is expected to be based on actual inflation rather than projected inflation, and the Fed has more work to do to bring inflation down to its 2% target. More volatility is expected as a result of further rate hikes and slower growth brought on by higher rates.

- Balance your stock exposure with quality growth stocks as well as those in defensive sectors. We expect the market to stay range bound in the short-term, meaning stock prices should stay within a particular range, with some downside risk from rising rates and slower growth.

- Seek safety in investment grade bonds which can buffer your investment portfolio during an economic slowdown.

- Consider Asian stocks and bonds. With less pressure on interest rates in Asia and China stepping up its economic stimulus, the region could weather Fed rate hikes better than in the past.

- Speak to a UOB advisor on how best to position your portfolio according to your risk appetite.

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