

# The Fed paused citing improving economic outlook

29 January 2026

## Key takeaways

- Reaction across the financial markets was muted after the United States (US) Federal Reserve (Fed) kept interest rates unchanged as widely expected.
- While a near-term policy pause is anticipated, we still expect two additional rate cuts this year starting from the second quarter.
- Go global and diversify to capture opportunities. Those with higher risk appetite can consider Tactical opportunities in quality dividend stocks, the technology sector, developed market financials, Asia ex-Japan stocks, and Chinese stocks.

## The Fed takes an interim policy pause

At the 27-28 January policy meeting, the Fed held the Federal Funds Target Rate (FFTR) unchanged at the range of 3.50% - 3.75%. The vote count to keep policy unchanged was 10-2, with Governors Waller and Miran dissenting in favour of a 25 basis points (bps) rate cut.

Despite ongoing pressure from US President Trump, the Fed retains a data dependent approach to setting interest rates. In keeping policy unchanged, Fed officials cited an improving outlook for US economic activity, mentioned the labour market is showing signs of stabilisation and removed mention of downside risks to employment which was prevalent in the prior three policy statements.

The reaction across stock markets, US Treasury bonds, and the US dollar was muted as the policy decision was widely expected.

## A near-term pause

- After reducing interest rates three times in 2025 by a cumulative total of 75bps, most Fed officials favour a cautious wait and see approach given the improved economic outlook while inflation remains above the 2% target.
- Fed Chairman Powell kept his options open and refrained from committing to a timing for the next policy change, saying the Fed is "well positioned" to assess incoming economic data and make decisions "meeting-by-meeting".
- Market expectations are for the Fed to keep interest rates unchanged in the first quarter of 2026.

## Further rate cuts remain likely for this year though

- With the effective Federal Funds rate still modestly above most estimates of the neutral rate, the level at which interest rates neither stimulates nor restricts economic activity by itself, monetary policy remains restrictive.
- While the Fed does not feel the urgency to act now, the door remains open to further policy easing ahead if the labour market and inflation cools.
- The last dot plot in December showed that the median expectation of Fed officials is for one rate cut in 2026 and another in 2027 so long as inflation eases over time.

- Looking ahead, the White House is expected to announce its nominee for the next Fed Chairman soon, with the leading candidates sharing President Trump's preference for lower borrowing costs.

#### **UOB's view: Two more rate cuts this year**

- We anticipate the Fed will keep policy on hold in the early part of 2026 but retain the outlook of two more rate cuts, 25bps each in 2Q and 3Q 2026 respectively, as the labour market cools further.

### **What can you do?**

- We maintain a positive outlook on risk assets for the first half of 2026 given the expectation of additional Fed rate cuts.
- Nonetheless, investors will need to be selective given uneven economic growth, technological disruption, geopolitical tensions, and uncertain US policies.
- Go global and diversify to capture opportunities, with a particular focus on Asia ex-Japan and Chinese stocks that offer attractive valuations, competitive advantages, and structural reforms.
  - We hold a positive outlook on Chinese stocks as corporate earnings growth is expected to strengthen this year.
    - Chinese companies have strengthened their global competitiveness, particularly as a leading producer of technologically advanced goods, and are increasingly pursuing international growth opportunities that are less correlated with the domestic economy.
  - Singapore stocks could also benefit from market reforms like the Monetary Authority of Singapore (MAS) Value Unlock Programme and the broader SGD5 billion Equity Market Development Programme (EQDP).
- Artificial intelligence (AI) remains a secular trend but focus on companies that demonstrate the ability to monetise and capitalise on the next phase of "Physical AI". Investors should also look beyond mega-cap companies and explore other areas within the technology sector.
  - Opportunities are seen in supply chain bottlenecks like AI chips, high-bandwidth memory chips, and energy grid and power infrastructure.
  - Asian technology companies are also likely to benefit from their role in the AI supply chain, while there are opportunities that align with China's coordinated government-led AI strategy.
- Investors should continue to seek income through quality bonds and dividend-paying stocks.
- For conservative investors:
  - Build Core investments with multi-asset strategies to diversify across different asset classes, regions, and sectors.
  - Lock in income with quality investment grade bonds and investment grade bond funds.
  - Consider a 5% - 10% allocation in Gold as a portfolio diversifier.
- For investors with higher risk appetite:
  - Consider Tactical opportunities in Chinese stocks, Asia ex-Japan stocks, the broader technology sector, quality dividend stocks, and developed market financials.
- Speak to a UOB Advisor on how to position your portfolio according to your risk appetite and goals.



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