

DECEMBER 2020 FOMC MEETING

17.12.2020

Backdrop

Market expectations ahead of yesterday's FOMC meeting were lower than for previous meetings. The Fed, as well as other central banks around the world, have done so much this year to cushion the significant macro and liquidity shocks that it has become hard to expect much more now that growth has normalised.

The current situation is delicate. First, considering the recent evolution of our Growth Nowcaster, the macroeconomic picture for the US economy has markedly improved since its trough in March 2020. Even since the September meeting, our US Growth Nowcaster has remained high and so has its media newsflow-based counterpart (our US Newscaster).

Of equal importance, Q4 has been a period of improvement or stabilisation for most countries. In the meantime, the pandemic's second wave has been hitting Europe and now the US: the Fed had to balance both elements in its assessment of monetary policy. No one was expecting the Fed to become more hawkish, but the revision of its forecasts and dot plot was due to be scrutinised.

Market Impact

The overall still-dovish tone was well received by risky markets, while the US dollar and inflation breakeven edged higher. Following the statement's release, the 10-year yield rose, reaching about 95 bps, while stocks remained steady. The 2y10y curve steepened to 82bps, the highest level since October 2017. All-in-all, the statement and projection seemed well anticipated by markets.

Asset Allocation Consequences

Monetary and fiscal responses following the COVID-19 crisis have been unprecedented in size and scale. Yesterday's Fed meeting was further evidence that central banks will continue to do "whatever it takes," supporting risk premia broadly. The Fed is ahead of its peers with its balance sheet now in excess of USD 7tn, paving the way for other central banks. The "qualitative outcome-based guidance" announced yesterday is another indication that, in spite of the apparent recovery in macro numbers, the Fed is firmly acting as a risk manager. With this in mind, our current dynamic assessment articulates around three dimensions:

Macro: Growth remains solid and inflation has now started to recover. The longer-term picture is supportive for growth assets while being increasingly more positive for inflation assets.

Market Sentiment: Sentiment remains positive for growth assets broadly. In the shorter term, we see this sentiment potentially at risk. For the medium term and given the level of the VIX, we are still of the opinion that the sentiment recovery is far from over.

Valuation: Valuations reflect lower rates and ongoing macro trends. We now need earnings to recover strongly to justify the expensive levels reached by equities.

From these three elements, our current dynamic allocation highlights that we should remain positive on growth-oriented assets while adding inflation assets and becoming cautious on duration.



Important Information

This document is provided to you on a confidential basis and must not be distributed, published, reproduced or disclosed, in whole or part, to any other person.

The information and data presented in this document may discuss general market activity or industry trends but is not intended to be relied upon as a forecast, research or investment advice. It is not a financial promotion and represents no offer, solicitation or recommendation of any kind, to invest in the strategies or in the investment vehicles it refers to. Some of the investment strategies described or alluded to herein may be construed as high risk and not readily realisable investments, which may experience substantial and sudden losses including total loss of investment.

The investment views, economic and market opinions or analysis expressed in this document present Unigestion's judgement as at the date of publication without regard to the date on which you may access the information. There is no guarantee that these views and opinions expressed will be correct nor do they purport to be a complete description of the securities, markets and developments referred to in it. All information provided here is subject to change without notice. To the extent that this report contains statements about the future, such statements are forward-looking and subject to a number of risks and uncertainties, including, but not limited to, the impact of competitive products, market acceptance risks and other risks.

Data and graphical information herein are for information only and may have been derived from third party sources. Although we believe that the information obtained from public and third party sources to be reliable, we have not independently verified it and we therefore cannot guarantee its accuracy or completeness. As a result, no representation or warranty, expressed or implied, is or will be made by Unigestion in this respect and no responsibility or liability is or will be accepted. Unless otherwise stated, source is Unigestion.

Past performance is not a guide to future performance. All investments contain risks, including total loss for the investor.