



THE FUTURE IS YOURS

AIP

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Positioning after the Fed cut

The US interest rate cut, and Powell's comments show a clear shift in focus towards supporting the US job market, which Fed Chair Powell characterised as 'no longer solid'. We expect two further Fed cuts this year. The gap between Fed projections for one rate cut in 2026 and market expectations for three cuts poses the risk that the fall in 10- and 30-year US bond yields in recent weeks will reverse near term. Fed rate cuts also support soft-landing view for the US economy, which is why use any consolidation or pullback to add to Asia ex-Japan equities, to reduce any excessive exposure to US markets, and to the technology sector within the US.

Equities

Are US equities set to rally after the Fed cut? How do US-China negotiations impact your view on the US tech sector?

While equity markets may be vulnerable to a modest pullback as markets normalise from excessively dovish Fed expectations. Investors should rotate excessive exposures from the US to Asia ex-Japan equities, which can benefit from a weak USD environment. Within the US, technology sector on pullbacks.

Bonds

Are bond yields attractive in context of the Fed cut? Do you expect corporate bonds to outperform government bonds?

Expect US bond yields to rise in the near-term; Corporate bond yield premiums are set to remain tight, but cash yields are more directly at risk from Fed rate cuts. Opportunities to lock in bond yields for longer. Anticipated 10-year yields to surge towards 4.20-4.30% or 30-year yields towards 4.80-4.90% resistance ranges. Technical supports sit at 4.00% (10yr) and 4.64% (30yr), respectively.

Currencies

Will the USD fall further after the Fed decision? What does diverging Fed-ECB policy mean for EUR/USD?

The Fed's focus has shifted from fighting inflation to protecting jobs. The weak labour data is likely to put pressure on the USD. In contrast, the EUR is showing signs of resilience. Rate cuts are not on the ECB's immediate horizon, and the resulting narrowing rate differential supports the EUR. Upside in EUR/USD with resistance at 1.20.

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