

Fed raises rates to 22-year high

Update from the Cash and Liquidity Management team
UBS Asset Management

26 July 2023

On Wednesday, July 26, 2023 the Fed raised rates to the highest level in 22 years and signaled more hikes may come.

The Federal Open Market Committee (FOMC) of the US Federal Reserve hiked rates at their 26th July meeting by 25 bps, as was expected by the market, moving the fed funds target range to 525 bps – 550 bps from 500 bps – 525 bps. The vote for the rate hike was unanimous at 11-0.

There were very minimal changes to the meeting statement compared with the June meeting. The Fed marginally upgraded their assessment of economic growth from a “modest” to “moderate” pace. Notably, the Fed did maintain the language that “additional policy firming” may be needed, which keeps the door open for additional policy tightening. They also kept the description of inflation as “elevated.”

During his press conference, Fed Chair Powell tried to impress upon the market that there is no pre-set policy for upcoming meetings, but rather, the Fed will make a decision on policy on a meeting-by-meeting basis and be data dependent. He mentioned that the Fed could hike in September or it may elect to pause depending on how the data comes in during the inter-meeting period. He did acknowledge that June’s CPI report came in softer than expectations, which is an encouraging sign. However, it was only one month and the Fed needs to continue

to see inflation move durably lower over time. On the topic of rate cuts, Chair Powell mentioned that he does not anticipate the need to cut rates this year.

Fed funds futures are now pricing in 5.4 bps worth of hikes for the next FOMC meeting on 20th September, with 10.7 bps of cumulative hikes priced by the 1st November meeting. The year-end implied rate is 5.39%, which remains below the Fed’s median dot of 5.625%. The S&P 500 finished the day only marginally down (-0.01%) with the 2yr Treasury lower by 2 bps to 4.85%.

We continue to position our UBS money market funds to take advantage of this rate hike and for the broader market environment.

For daily yields and additional information about our offerings, please visit www.ubs.com/usliquidity



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AMT-4434 C 7/23

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