## First US rate cut since 2008 and implications for markets

**- The US Fed cut interest rates by 25 bps. This has largely been priced in by the markets.**

**- Fed Chair Powell's comments were taken as being hawkish.**

**- Asian equity markets may see weakness in next 2-3 months, in our view. Taiwan is an opportunity. For Singapore stocks, wait for ex-dividend dates to buy at lower levels.**

**First US rate cut since 2008.** It was a momentous day as the US Federal Reserve reduced the fed funds rate by 25bp, the first cut since 2008. However, even before July's FOMC meeting, interest rate-sensitive sectors such as Singapore REITs have priced in the rate cuts going by how they have outperformed the broader market in 2019. In other asset classes, decelerations in global economic growth have historically been positive for the US Dollar, despite the monetary easing by the US Federal Reserve. The expectations of declining real interest rates are also positive for precious metals such as gold and silver, which have recently been in an upward trend.

**Hawk.** Powell's comments were hawkish and caused a sell-off in US equities, as Fed fund futures just before the Fed's decision had indicated that some market participants had held hopes of a 50bp cut. The hawkish tilt by the Fed chair could translate to a slower pace of rate cuts in 2019, therefore leading to a repricing of risk-assets in the next few months. Furthermore, given the good performance of equities year-to-date, we think investors may take the opportunity to take profits off the table.

**Taiwan is an opportunity.** We would prefer Taiwan stocks for now given how their markets tend to rally before presidential elections, which is scheduled on 11 January 2020. Furthermore, TSMC, the biggest company in Taiwan by market capitalisation and a market bellwether, gave positive guidance for 2H 2019. TSMC's guidance is expected to support a solid rebound in Taiwan tech stocks as 2H19 peak seasonality for tech has now shifted from 'uncertain' to 'confirmed'.

**Singapore equity market may see weakness in next 2-3 months.** First, second quarter earnings season has largely been disappointing for most SGX-listed companies. Second, the effect or rate cuts will take time to filter to the real economy, and the potential impact may be limited in an environment where interest rates are already near historical lows.

**Singapore – wait for pullback.** There's no rush to buy Singapore equities now. It is better to wait for a pullback when companies go ex-dividend. For example, SingTel dropped by 17.0 Sing cents, more than the 10.7 Sing cents dividend after it went ex-dividend on 26 July.

### Figure 1: SingTel share price performance. Its shares dropped more than the dividend amount after it went ex-div.


***Source: KGI Research***

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