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Fed's January meeting

Key takeaways and impacts on the stock markets

The Fed kept interest rates steady as anticipated

- Concluding the policy meeting, the Federal Open Market Committee (FOMC) has unanimously decided to keep interest rates steady for the fourth consecutive time, ranging from 5.25% to 5.5%, in line with market expectations. The Fed also hinted that it is done raising interest rates and cuts are possible but not imminent.
- However, the FOMC statement indicates that a March rate cut is unlikely as anticipated, and the Fed has not yet declared victory in the fight against inflation. FOMC wants to see the continuation of the good data to ensure that the personal consumption expenditures (PCE) price index stays below the 2% target before considering the first rate cut.

The US stock market slid in response to the Fed's move

- At the close of the trading session on January 31st, the US stock market experienced a decline, with the Dow Jones index (DJI) falling by 0.82%, the S&P 500 index decreasing by 1.61%, and the NASDAQ index losing 2.23% of its points. This session marked the worst trading day for Dow Jones since December 2023, for S&P since September 2023, and for NASDAQ since October 2023.
- US treasury yields fluctuated around 3.9%, experiencing volatility following the Fed's meeting.

KBSV assesses that the first interest rate cut is unlikely to occur in the upcoming March meeting

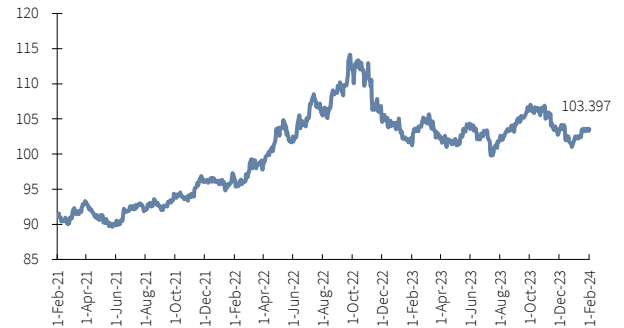
- We believe that the Fed will unlikely implement an interest rate cut in its March meeting, given that economic indicators suggest the US economy remains 'healthier' than market estimates. The GDP for the entire year 2023 is projected to be 2.5%, higher than 2022's 1.9% and market expectations of 2%. December's new job creation figures indicate continued robust demand for hiring, reaching the highest level in the past three months. Additionally, although the PCE price index is trending downward (2.9% in December 2023, the lowest since March 2021), it is still running above the Fed's target of 2%. Therefore, KBSV assesses that any interest rate reduction by the Fed is likely to occur at the earliest during the May meeting, aligning with market forecasts.
- The Fed's January meeting has had an insignificant impact on the Vietnamese stock market, as the key US stock indices have retreated from their historical peaks. Meanwhile, the VN-Index is perceived to be moving in an attractive range, anticipating the prospects of business recovery and the current low-interest-rate environment. Although there is increased pressure on the USD/VND exchange rate, short-term risks do not indicate immediate intervention by the State Bank of Vietnam (SBV).

Fig 1. US – Probability of interest rate cuts based on futures contracts

CME FEDWATCH TOOL - MEETING PROBABILITIES									
MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
3/20/2024				0.0%	0.0%	0.0%	0.0%	35.5%	64.5%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	31.8%	61.5%	6.6%
6/12/2024	0.0%	0.0%	0.0%	0.0%	2.0%	33.7%	58.1%	6.2%	0.0%
7/31/2024	0.0%	0.0%	0.0%	1.9%	31.8%	56.6%	9.3%	0.4%	0.0%
9/18/2024	0.0%	0.0%	1.8%	31.2%	56.1%	10.3%	0.6%	0.0%	0.0%
11/7/2024	0.0%	1.1%	19.5%	46.2%	28.5%	4.4%	0.2%	0.0%	0.0%
12/18/2024	1.0%	16.9%	42.4%	31.0%	7.8%	0.8%	0.0%	0.0%	0.0%

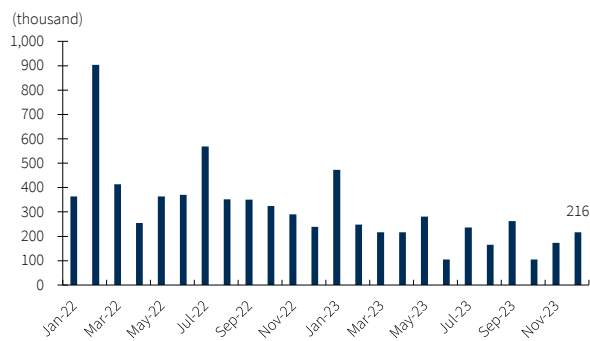
Source: CME Group

Fig 2. US – DXY



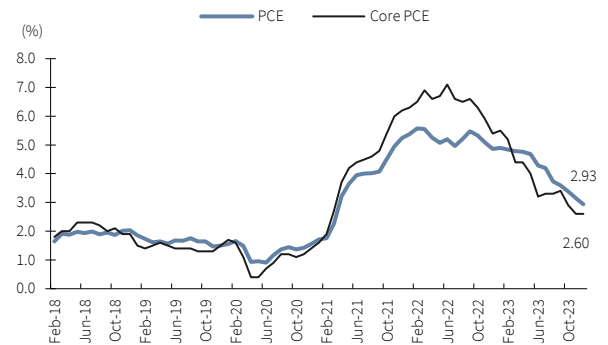
Source: Bloomberg

Fig 3. US – New non-farm job openings



Source: Bloomberg

Fig 4. US – PCE, core PCE



Source: Bloomberg

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Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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