

## US stocks and Treasury yields ended lower after FOMC

**US stocks and Treasury yields ended lower in choppy trading after Fed policy decision**

**European equities and bonds closed lower; UK gilts underperformed amid upbeat wage data**

**Most Asian shares dropped ahead of the Fed interest rate decision and despite higher oil prices**

### Markets

- ▶ **US stocks** ended lower in a volatile trading session on Wednesday, as investors digested the Fed's 25bp rate hike, the latest FOMC statement and rate path projections, and Fed Chair Jerome Powell's press conference. The S&P 500 finished 0.2% lower, though a rally in energy shares on the back of higher oil prices helped limit losses.
- ▶ **US Treasuries** initially fell (yields rose), after the FOMC hiked the funds rate by 25bs, as widely expected, and steepened the median rate path for 2019-20 (unchanged at 3 hikes for 2018) in response to an improved economic outlook. However, Treasuries reversed losses and yields retreated during the press conference as Chair Powell acknowledged that the longer-term dots could and would change with the evolution of the economy. Traders also shifted focus onto the unchanged 2018 rate path, against some expectations for a more hawkish outcome. The curve bull steepened, with 2-year yields, most sensitive to Fed rate moves, fell 3bp to 2.31%, while 10-year yields ended 2bp lower at 2.88% and 30-year yields edged 1bp lower.
- ▶ Most **European equity markets** declined on Wednesday amid investor caution ahead of the FOMC interest rate decision. The regional Euro Stoxx 50 ended 0.3% lower with the largest drag coming from financials and consumer staples. Similarly, the UK's FTSE 100 shed 0.3% weighed by a stronger sterling following a faster than anticipated acceleration in average weekly earnings.
- ▶ **European government bonds** closed lower (yields rose) with 10-year UK gilts underperforming in the core (yields up 4bp to 1.53%) following the upbeat labour market report. Equivalent maturity German bund yields edged up 1bp to 0.59% whilst, in the periphery, 10-year Portuguese bonds led the losses.
- ▶ Most **Asian equities** fell slightly on Wednesday as investors awaited the Fed's interest rate decision and

potential changes in its Summary of Economic Projections. Fears of tighter US monetary policy continued to weigh on the Philippines with the PSEi closing 1.9% lower, at its lowest level since August 2017. Onshore Chinese shares also fell, with the Shanghai Composite shedding 0.3%. Indian equities bucked the regional trend as the Sensex closed up 0.4%. The Japanese market was closed for a bank holiday.

- ▶ **Crude oil** prices climbed on Wednesday, after US crude inventories unexpectedly dropped for the first time in a month. WTI for May delivery jumped 2.6% to settle at USD65.2 a barrel.

## Key Data Releases and Events

### Yesterday

- ▶ The **UK unemployment rate** in the three months to January unexpectedly declined to 4.3%, bringing it back down to the lowest rate since 1975. Total wage growth over the same period also rose to a higher than anticipated 2.8% yoy, the strongest print since September 2015. Overall, the continuing strength of the labour market is likely to see the Bank of England maintain its current hawkish rhetoric.
- ▶ **US existing home sales** rose 3.0% mom (expectations: 0.4% mom) to 5.54m annualised in February, after falling 3.2% mom in the previous month. The rebound was driven by sales in the single family home category, which rose 4.2% mom, while sales of condos/co-ops fell 6.5% mom.
- ▶ **The monetary policy committee of the Central Bank of Brazil (COPOM)** cut the Selic policy rate by 25bps to a new record low of 6.50%, in a unanimous decision. The decision came on the back of tame inflation (below the floor of the central bank's target range in both January and February) and tepid growth and was in line with the broad market consensus. The forward guidance was dovish, as the COPOM signaled another rate cut at the May meeting.
- ▶ As widely expected, the **FOMC raised the target range** for fed funds rates by 25bp to 1.50-1.75%. The parameters of the "cap" system via which the Fed shrinks its balance sheet were left unchanged. The latest Fed quarterly projections continue to highlight an improving economic outlook. GDP growth for this year and next is revised higher to 2.7% and 2.4% (2.5% and 2.1% previously). In his press conference, Fed Chairman Jerome Powell said that there

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will be “meaningful increases in demand from the new fiscal policies for at least [...] three years”. Unemployment rates for these two years were revised downwards. The new Fed “dot plot” signals two more rate hikes in 2018, consistent with the December forecast. However, three more rate hikes are now pencilled in for 2019 instead of two. The estimate of the “terminal” fed funds rate was also revised up from 2.8% to 2.9%.

## Releases due today (22 March 2018)

Country	Indicator	Period	Survey	Prior
Eurozone	Markit Composite PMI	Mar P	56.8	57.1
Germany	Ifo Business Climate Index	Mar	114.6	115.4
UK	Retail Sales, ex Auto Fuel (yoy)	Feb	1.20%	1.50%
UK	Bank of England Interest Rate Decision	Mar	0.50%	0.50%
Europe	European Council Summit (22-23 March)			

P- Preliminary, A - Advance

- ▶ It is anticipated that leaders at the **European Council meeting** on 22-23 March will approve a draft agreement on the UK’s withdrawal from the European Union. Importantly, this includes the terms of a transition period following the end of the UK’s official departure from the bloc on 29 March 2019. The transition period will last until 31 December 2020, during which time the UK will remain in the customs union and single market. However, the UK will be able to negotiate new trade deals with other countries.
- ▶ Following a sharp correction in February, the **eurozone PMIs** are expected to dip again in the preliminary March release, with the composite index seen declining by 0.3 points to 56.8. However, this is not necessarily a cause for concern. Survey numbers remain elevated (above 2017 levels) and are consistent with strong GDP growth. Meanwhile, the underlying trend in hard data is stable.
- ▶ The **German Ifos** are also likely to have moderated further in March. Consensus forecasts suggest the headline index is expected to fall 0.8 points to 114.6 with both the expectations and current assessment gauges expected to decline 1.0 and 0.7 points to 104.4 and 125.6, respectively.
- ▶ **UK retail sales** have been on a downward trend since early 2017, mainly on the back of a squeeze in household disposable incomes. Against this backdrop, sales over February (excluding auto fuel) are expected to stagnate, also weighed down by poor weather over the month.
- ▶ In the UK, the combination of above target inflation and better than expected growth relative to the **Bank of England’s** projections has led the Monetary Policy Committee (MPC) to turn more hawkish. In particular, the minutes to the February meeting stated that “*monetary policy would need to be tightened somewhat earlier and by a somewhat greater extent... than anticipated*” in November. This raises the probability that more hawkish MPC members will vote for policy tightening at the **March meeting**, although a rate hike is more likely in May when the next Inflation Report is released.

# Market Snapshot

	Close	1-day Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
<b>Equity Indices</b>									
<b>World</b>									
MSCI AC World Index (USD)	517	-0.1	-0.4	1.1	15.4	0.8	551	444	15.6
<b>North America</b>									
US Dow Jones Industrial Average	24,682	-0.2	-0.5	-0.4	19.4	-0.1	26,617	20,380	16.7
US S&P 500 Index	2,712	-0.2	0.4	1.0	15.7	1.4	2,873	2,322	17.4
US NASDAQ Composite Index	7,345	-0.3	1.8	5.5	26.8	6.4	7,637	5,769	22.4
Canada S&P/TSX Composite Index	15,675	0.4	1.0	-3.1	2.4	-3.3	16,421	14,786	15.5
<b>Europe</b>									
MSCI AC Europe (USD)	480	-0.1	-2.1	-0.7	13.0	-1.6	524	419	13.9
Euro STOXX 50 Index	3,401	-0.3	-0.8	-4.8	-0.8	-2.9	3,709	3,307	13.6
UK FTSE 100 Index	7,039	-0.3	-3.3	-7.4	-4.6	-8.4	7,793	7,017	13.4
Germany DAX Index*	12,309	0.0	-1.3	-6.1	2.9	-4.7	13,597	11,831	12.8
France CAC-40 Index	5,240	-0.2	-1.2	-2.7	4.7	-1.4	5,567	4,954	14.4
Spain IBEX 35 Index	9,631	-0.5	-2.0	-6.5	-5.7	-4.1	11,184	9,495	12.7
<b>Asia Pacific</b>									
MSCI AC Asia Pacific ex Japan (USD)	583	-0.2	0.4	4.4	20.8	2.4	617	473	13.8
Japan Nikkei-225 Stock Average	21,381	0.0	-2.7	-6.5	9.9	-6.1	24,129	18,225	16.0
Australian Stock Exchange 200	5,950	0.2	0.1	-1.8	3.0	-1.9	6,150	5,630	16.0
Hong Kong Hang Seng Index	31,415	-0.4	-0.1	7.0	27.7	5.0	33,484	23,724	12.3
Shanghai Composite Index	3,281	-0.3	2.6	-0.6	0.6	-0.8	3,587	3,017	12.8
Hang Seng China Enterprises Index	12,522	-0.6	-1.3	8.0	17.6	6.9	13,963	9,882	8.3
Taiwan TAIEX Index	11,011	0.0	2.8	5.0	10.4	3.5	11,270	9,622	14.2
Korea KOSPI Index	2,485	0.0	2.3	2.3	14.1	0.7	2,607	2,118	9.6
India SENSEX 30 Index	33,136	0.4	-2.1	-1.8	12.4	-2.7	36,444	29,137	21.8
Indonesia Jakarta Stock Price Index	6,313	1.1	-5.0	2.1	13.9	-0.7	6,693	5,487	16.1
Malaysia Kuala Lumpur Composite Index	1,866	0.5	0.4	6.5	6.3	3.8	1,881	1,708	16.6
Philippines Stock Exchange PSE Index	7,909	-1.9	-8.2	-5.6	8.0	-7.6	9,078	7,222	17.5
Singapore FTSE Straits Times Index	3,511	-0.1	-0.1	3.8	11.2	3.2	3,612	3,112	14.1
Thailand SET Index	1,801	0.1	0.0	3.7	14.8	2.7	1,853	1,532	16.2
<b>Latam</b>									
Argentina Merval Index	32,370	1.8	-2.0	13.7	65.7	7.7	35,462	19,509	10.0
Brazil Bovespa Index*	84,977	1.0	-1.2	13.1	34.9	11.2	88,318	60,315	12.9
Chile IPSA Index	5,535	-0.1	-3.0	1.6	18.5	-0.5	5,895	4,637	18.0
Colombia COLCAP Index	1,486	0.6	-2.6	-0.2	10.6	-1.8	1,598	1,340	14.0
Mexico Index	47,522	0.9	-2.1	-2.0	-2.2	-3.7	51,772	46,897	16.3
<b>EEMEA</b>									
Russia MICEX Index	2,291	0.8	-0.5	10.3	12.8	9.5	2,377	1,775	6.5
South Africa JSE Index	58,289	0.0	-0.5	-0.8	10.5	-2.0	61,777	50,750	16.1
Turkey ISE 100 Index*	116,432	1.0	1.1	5.7	29.8	2.0	121,532	87,998	8.5

\*Indices expressed as total returns. All others are price returns.

	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)
<b>Equity Indices - Total Return</b>					
Global equities	1.5	1.1	17.6	27.0	59.7
US equities	1.6	2.0	17.5	33.8	88.3
Europe equities	-0.2	-1.1	16.1	14.1	33.8
Asia Pacific ex Japan equities	4.9	2.8	24.0	30.6	43.7
Japan equities	0.7	0.3	16.6	24.5	51.9
Latam equities	10.3	8.5	20.7	33.5	-7.3
Emerging Markets equities	7.1	4.7	27.1	33.8	33.3

All total return data quoted in USD terms. Data sourced from MSCI AC World Total Return Index, MSCI USA Total Return Index, MSCI AC Europe Total Return Index, MSCI AC Asia Pacific ex Japan Total Return Index, MSCI Japan Total Return Index, MSCI Latam Total Return Index and MSCI Emerging Markets Total Return Index. Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period.

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Source: Bloomberg, HSBC Global Asset Management.  
Data as of previous trading day's respective market close, except for BarCap GlobalAgg, BarCap US Corporate Index, BarCap Global High Yield and LME copper which are as of previous two trading days' market close.  
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## Market Snapshot 2

Bond indices - Total Return	Close	1-day Change (Index Pts.)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	511	-0.5	0.5	-0.5	2.2	-0.8
JPM EMBI Global	788	0.0	0.0	-2.2	2.9	-2.5
BarCap US Corporate Index (USD)	2,807	-5.7	-0.3	-2.6	2.0	-3.3
BarCap Euro Corporate Index (Eur)	245	-0.1	-0.2	-0.7	2.0	-0.6
BarCap Global High Yield (Hedged in USD)	465	0.2	-0.2	-0.6	5.0	-0.8
Markit iBoxx Asia ex-Japan Bond Index (USD)	193	0.0	-0.2	-1.4	1.5	-1.7
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	250	0.0	-0.5	-0.6	3.0	-0.8

Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period.

Bonds	Close	1-day Ago	1-month Ago	3-months Ago	1-year Ago	Year End 2017
<b>US Treasury yields (%)</b>						
3-month	1.74	1.79	1.64	1.34	0.76	1.38
2-Year	2.31	2.34	2.27	1.88	1.26	1.88
5-Year	2.67	2.70	2.69	2.25	1.95	2.21
10-Year	2.88	2.90	2.95	2.48	2.42	2.41
30-Year	3.12	3.13	3.22	2.84	3.03	2.74
<b>Developed market 10-year bond yields (%)</b>						
Japan	0.04	0.04	0.05	0.06	0.06	0.04
UK	1.53	1.49	1.55	1.26	1.25	1.19
Germany	0.59	0.58	0.72	0.42	0.46	0.42
France	0.83	0.82	0.99	0.73	1.10	0.78
Italy	1.93	1.89	2.05	1.90	2.31	2.01
Spain	1.33	1.30	1.51	1.46	1.80	1.56

Currencies (vs USD)	Latest	1-day Ago	1-month Ago	3-months Ago	1-year Ago	Year End 2017	52-week High	52-week Low
<b>Developed markets</b>								
EUR/USD	1.23	1.22	1.23	1.19	1.08	1.20	1.26	1.06
GBP/USD	1.41	1.40	1.39	1.34	1.25	1.35	1.43	1.24
CHF/USD	1.05	1.05	1.07	1.01	1.01	1.03	1.09	0.99
CAD	1.29	1.31	1.27	1.27	1.34	1.26	1.38	1.21
JPY	106.05	106.53	107.78	113.33	111.71	112.69	114.73	105.25
AUD	1.29	1.30	1.28	1.30	1.30	1.28	1.36	1.23
NZD	1.38	1.39	1.37	1.42	1.42	1.41	1.47	1.32
<b>Asia</b>								
HKD	7.85	7.84	7.83	7.82	7.77	7.81	7.85	7.77
CNY	6.32	6.33	6.34	6.58	6.89	6.51	6.91	6.25
INR	65.21	65.20	64.77	64.06	65.28	63.87	65.89	63.25
MYR	3.93	3.92	3.91	4.08	4.43	4.05	4.44	3.87
KRW	1,072.32	1,068.65	1,076.20	1,082.64	1,120.23	1,067.40	1,157.90	1,057.88
TWD	29.19	29.16	29.20	29.98	30.45	29.73	30.69	28.96
<b>Latam</b>								
BRL	3.27	3.31	3.27	3.31	3.09	3.31	3.41	3.08
COP	2,851.02	2,870.29	2,882.78	2,965.98	2,917.87	2,985.78	3,102.62	2,760.05
MXN	18.44	18.77	18.84	19.46	19.10	19.66	19.91	17.45
<b>EEMEA</b>								
RUB	56.87	57.58	56.75	58.44	57.69	57.69	61.01	55.56
ZAR	11.83	11.96	11.66	12.76	12.68	12.38	14.57	11.51
TRY	3.91	3.93	3.79	3.82	3.63	3.80	3.98	3.39

Commodities	Latest	1-day ago	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,332	1,311	0.6	5.2	7.1	2.3	1,366	1,205
Brent Oil	69.5	67.4	6.2	7.0	36.3	3.9	71	44
WTI Crude Oil	65.2	63.4	5.7	11.7	37.7	7.9	67	42
R/J CRB Futures Index	196	194	1.0	4.4	6.4	1.1	201	166
LME Copper	6,793	6,755	-4.6	-4.1	17.6	-6.3	7,313	5,463

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Source: Bloomberg, HSBC Global Asset Management.

Data as of previous trading day's respective market close, except for BarCap GlobalAgg, BarCap US Corporate Index, BarCap Global High Yield and LME copper which are as of previous two trading days' market close.

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