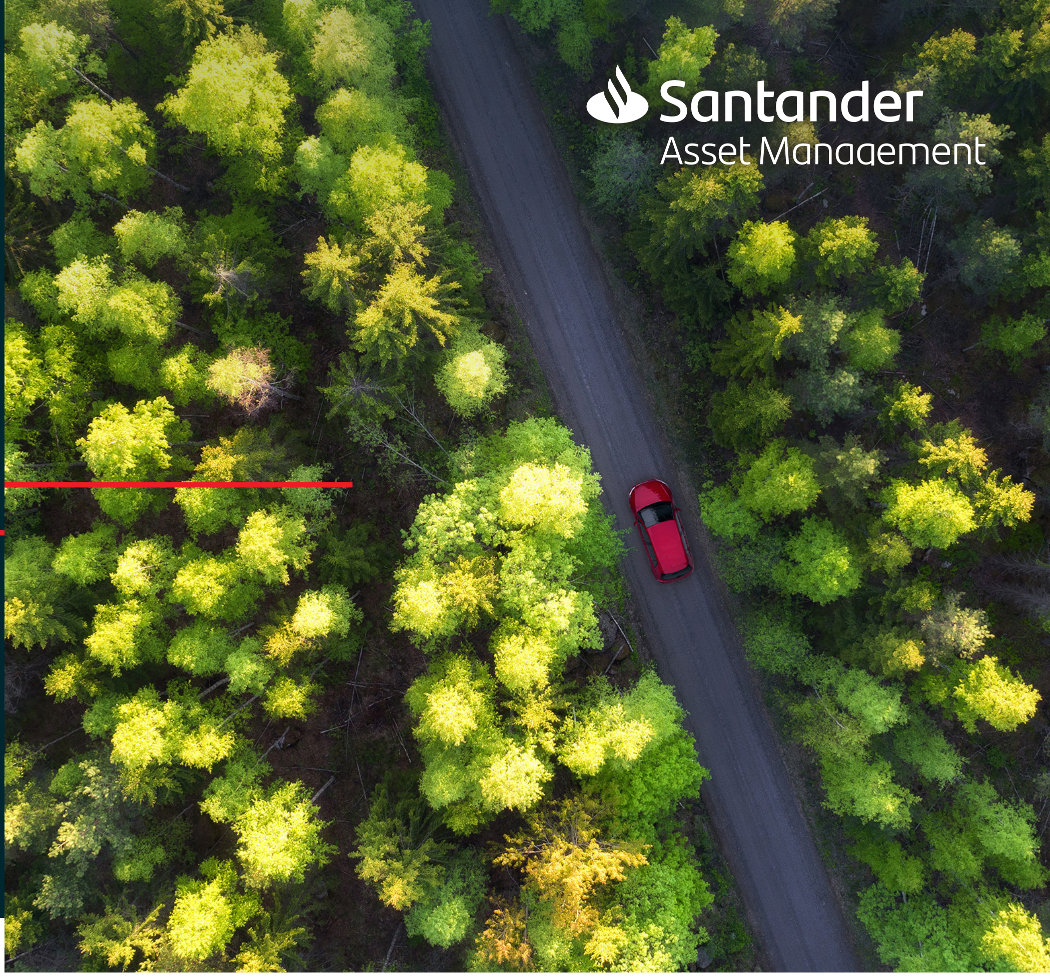
State of Play

Finally



26 September 2024

Last week, the US Federal Reserve (Fed) finally cut rates for the first time in over four years, lowering its benchmark interest rate to a target range between 4.75% and 5.00%. An interest rate cut was expected, however, the Fed decided to cut by half a point instead of a quarter as many predicted. The Bank of England (BoE) also met last week but this time they decided to keep interest rates unchanged. Santander Asset Management digs deeper into the announcements in this week's State of Play.

The Fed

The decision by the Fed was made considering the progress made on inflation, which has now come close to the Fed's target of 2%, after hitting a 40-year high of 9.1% in mid-2022.[1] The rate had been in the 5.25% to 5.5% range since July 2023.

While the rate cut was larger than anticipated and will be welcomed by financial markets, most mortgage holders are unlikely to see immediate benefits, as over 90% of borrowers have fixed-rate loans.[2] For those with variable-rate mortgages or student loans, the impact will take some time to be felt, as the terms of repayment typically reset only once every six months or a year. However, prospective homebuyers may be among the biggest beneficiaries of the rate cut. The average rate on a 30-year fixed-rate mortgage has dropped to 6.09% from a high of nearly 8% last October, fuelled by expectations of lower interest rates.[3]

The Fed's latest forecasts indicate that its key lending rate is expected to drop to around 4.4% by the end of this year and further decline to 3.4% by the end of 2025.[4] This represents a significant decrease from previous projections made as recently as June, which is welcome news for borrowers in the US.

In a press conference following the Fed's meeting, Chair Jerome Powell discussed the central bank's move toward rate cuts. He stated, 'Our patient approach over the past year has paid dividends' and 'the upside risks to inflation have diminished, and the downside risks to unemployment have increased.' Despite this, Powell maintained that the US economy remains in a strong position, as it is 'growing at a solid pace, inflation is coming down, the labour market is in a strong place. We want to keep it there.'[5]

The BoE

The BoE decided to maintain interest rates at 5% following its latest monetary policy review last week. The Bank's Monetary Policy Committee (MPC) voted 8-1, with only one member advocating for a rate cut to 4.75%.

BoE Governor Andrew Bailey emphasised the importance of keeping inflation low, stating that they must be cautious not to reduce rates too quickly or significantly. This decision comes a day after the UK's latest inflation figures remained steady at 2.2% for the year ending in August.[6] While price growth in the services sector accelerated, reaching 5.6% compared to 5.2% in July,[6] the BoE remains focused on this area as it accounts for a substantial portion of the UK economy. They will need to see a downward trend in service sector inflation before considering future rate cuts.

The value of seeking guidance and advice

It is important to seek advice and guidance from a professional financial adviser who can help to explain how to build an appropriate financial plan to match your time horizons, financial ambitions and risk comfort. If you already have a plan in place or have already invested, it is important to allocate time to review this to ensure this remains on track and appropriate for your needs.

Learn more!

Investing can feel complex and overwhelming, but our educational insights can help you cut through the noise. Learn more about the Principles of Investing here.

Note: Data as at 24 September 2024

[1]US Bureau of Labor Statistics, 11 September 2024
[2]Fitch Ratings, 24 September 2024
[3]Reuters, 19 September 2024
[4]CBS News, 24 September 2024
[5]Federal Reserve, 18 September 2024
[6]Office for National Statistics, 18 September 2024