



6th May 2022

Global Market – US FOMC – Surprise ends & Action begins @ RBI & BOE – ECB to follow

Last week we have mentioned in our opening remarks, RBI MPC meeting minutes on 8 – 10 April 2022, indicated rate hike coming as soon as June 2022 meeting. We have discussed about US FOMC policy outcome which was as per expected line. We also discussed “Double whammy” – Increase in interest rate + Inflation led by supply constrain.

It all started in from 3-Nov-21 US FOMC policy and with last policy outcome on 4-May-22, US Fed have announced all financial tools and focus is purely to bring inflation at manageable level, as we say it now – Surprise ends – Action begins.

Surprise ends – Action begins

Central banks across the world are now clearly & boldly moving towards tighter monetary policy and focus remains to bring inflation to manageable level. ECB had earlier guided for rate hike in September 2022, but recent development – market participants are expecting rate hike as early as July and could hike rate 3 times in 2022.

US Fed is expected to hike 50 bps in another 3 scheduled meetings, bringing rate to 2.25 – 2.5% by September 2022 and 3% by end of 2022. US Fed announces balance sheet downsizing (QE withdrawal) by \$ 47.5 billion per month starting 1st June 2022 and will reach \$95 billion per month by September 2022.

Bank of England have raised interest by 25 bps to 1%. BOE sees risk of recession in U.K. with inflation above 10%. The minutes also exposed a growing split among the MPC, with the votes for an outsized hike contrasting with two officials dissenting from the view that more tightening was needed. That forced the BOE to changed its guidance on further rate moves to say “most members judged that some degree of further tightening in monetary policy might still be appropriate in coming months.”

RBI came up with surprise on 4th May 2022, RBI Governor announced MPC decision to hike repo rate by 40 bps and CRR by 50 bps. BOE (Bank of England) have raised inflation target for 2022 to 10% from earlier 5.75%. After RBI's surprise rate, US Fed scheduled hike, BOE have triggered fresh worry for financial market globally.

Equichain Wealth Advisors: Key points & Opinion

- Globally market witness impact on change in policy by central banks. Nifty was down 4% on week basis closing at 16411 & Banknifty closed at 34591.
- US Fed policy was in-line with market estimate, US Fed chairman ruled out 75 bps rate hike in upcoming US FOMC policy. Market reacted positively post this comment.
- BOE decision and revised inflation target at 10%, sends another shock wave in global financial market.



- As many market experts believe, market is usually advance by 4 – 6 months, all this started in October 2021 and we could now be at the end of this cycle?
- Answer to above question according to our view remains – NO. Russia-Ukraine crisis have triggered commodity prices sky rocket and this have changed the dynamics of global financial market.
- Globally market have witness turmoil in first week on May and we believe this month could throw in more surprise.

We continue to maintain our view and believe, global market is in for a testing time ahead, as for stock prices performance depends on earnings and inflation without growth which is termed as stagflation is biggest challenge for corporate earnings globally.

If we summarize, its economic war going on to retain financial supremacy at a time of stagflation and politician globally are facing heat of high inflation from the people of their respective countries. We believe next 3 – 6 months will be critical for government and central banks across the world.

We keep concluding opinion unchanged as actions have started and market do have a tendency to show extreme move and May 2022 could well be that critical month. Focus on capital protection and capital allocation strategy.

Equichain Wealth Advisors – SEBI registration number (RIA): INA000016472

Telegram channel: <https://t.me/Equichain>

Nikunj Vithlani