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# **THE US FED RATE CUT- STORY BEHIND-ITS IMPLICATIONS-IMPACT ON INDIAN MARKETS**



**The US Federal Reserve in its FOMC meet yesterday initiated its long-awaited "pivot," cutting interest rates by 50 basis points to 4.75 to 5%, the first reduction in 4 years since 2020.**

This marks a shift in monetary policy, with the Fed expressing greater confidence in reaching the 2% inflation target and the need to boost economic growth.

As we advance, the Fed expects to implement two additional 25 basis point cuts before the year ends, followed by 100 basis points of cuts in 2025 and another 50 in 2026. Powell reassured that the 50 basis point cut isn't due to economic stress, but rather because the risks to inflation have increased significantly.

The US economy so far has averted recession, even as inflation by the Consumer Price Index dropped to 2.5% from a mid-2022 peak of over 9%. Employers kept hiring, and the unemployment rate, even with its recent rise to 4.2%, is still low by historical standards.

The US markets though saw a jump initially after the rate cut announcement, witnessed high volatility following that and ended lower. The selling pressure may have emerged considering the run-up that was already seen in the lead-up to the Fed announcement.

The Fed Chair, Jerome Powell sounded optimistic about the long-term outlook for the US market remains promising. So long as the economy holds up and inflation doesn't roar back to life, lower rates and strong earnings growth can continue to drive stocks higher over the long term. The S&P 500 is up nearly 18% so far this year.

**The rate cut in the US makes the US bonds unfavourable and might channelise monies towards other markets like India.**

## Expectations from the forthcoming RBI MPC meet

Back in India, **the next RBI MPC meet is scheduled for 7-9 October** and all eyes will be directed towards the announcement of the decision on the rates. The concerning uncertainty around food inflation may prompt the RBI to delay any rate cut announcement here. Some quarters don't expect any rate cut in India in 2024 and see that happening only in the first quarter of 2025.

The RBI kept the repo rate unchanged for the ninth consecutive time since February 2023 at 6.5 per cent in its August bi-monthly review amid risks from higher food inflation.

## Impact on the US rate cut on India

Despite the US Fed rate cut, inflows of foreign investments into Indian markets will depend largely on valuation, potential earnings growth, and sector-specific opportunities. Foreign investors are expected to carefully consider their next moves in Indian equities and other emerging markets following the US Federal Reserve's aggressive interest rate cut delivered on September 18th.

The current bull market in Indian equities, driven by domestic retail participation, has largely overlooked global developments. This market upswing is the longest in over two decades.

Meanwhile, markets in Indonesia are experiencing record highs and are on track for their best returns in three years. On the other hand, the Kospi in South Korea is down 22% from its peak, and the Shanghai Composite has lost more than half of its value from its 2007 peak.



Among emerging markets, **South Korea attracted the highest foreign inflows in 2024. Between January and now, South Korea received inflows worth \$12.6 billion, followed by India at \$8.6 billion.**

**India's might among Emerging markets has further strengthened and has replaced China as the largest emerging market (EM) stock market** in global index management services firm MSCI's index that tracks large, mid and small-caps. The MSCI index data also showed that India is now the sixth largest market globally, narrowly behind France. **According to the report, currently, India's weight in MSCI's AC World IMI(All Country World Investable Market Index) Index is 2.35%, compared to China's 2.24%.** This increase in weightage of India in the MSCI AC World IMI and emergence as the largest emerging market can attract more investments. (The MSCI ACWI Investable Market Index (IMI) captures large, mid and small cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries).

While the market valuations are at a high in India, the compelling growth prospects and the significant edge over other global markets, fuel hope which can continue to attract more inflows to maintain the momentum in the stock market.