State of Play

Are we there yet?

21 March 2024

This week, both the Federal Reserve (Fed) and the Bank of England (BoE) announced in their respective meetings that they are making no changes to the current interest rates. Prior to the meetings, markets and economists expected the Fed to make cuts in June[1] and the BoE to make cuts sometime in the summer.[1] With inflation proving tricky to tame, have either of the central banks hinted of a change in course? Santander Asset Management shares their insights in this week's State of Play.

The Fed

As expected, Chair Jerome Powell and his fellow Fed officials voted to keep rates the same when they met this week, keeping their rate unchanged for a fifth straight time. They signalled their need for further evidence that inflation is returning sustainably to their 2% target.[1]

Their sentiment comes on the back of US inflation proving sticky. Whilst it has come down from the highs of 9.1% in June[2], it's struggling to come down further in the 'last mile'. Most recent reports show that inflation hasn't moved significantly and has been around 3% - 3.7% since June 2023. US inflation was at 3.2% In February, which was slightly higher than expected.

Fuelling this sticky inflation is the remarkably healthy US economy. Companies are hiring, unemployment is low, and the S&P 500 is hovering at near record highs.[2] The Fed said that they expect inflation to continue to fall this year, although, this will likely be at a slow pace when compared to

2022. They maintained their previous forecast of three rate cuts in 2024[3] and markets reacted positively to this news, with the S&P 500 rising 0.8% after the meeting.[4]

By June, the Fed will have in hand three more inflation readings and three more jobs reports and should have a clear indication as to the direction of inflation. If these reports do not go as expected and do not support interest rate cuts, it could mean that cuts arrive later than currently predicted.

The BoE

The UK and the BoE received some positive news on Wednesday (20 March 2024), with inflation falling to 3.4%, the lowest rate in over two years.[5] The drop in inflation was partly driven by a slowdown in the pace of food and restaurant price rises. This was slightly better than the 3.5% consensus forecast from economists.[6] However, the BoE policymakers decided to leave the base interest rate unchanged at 5.25% when they met on Thursday (21 March 2024).[7]

Inflation is going the way the BoE expected and is moving in line with the path that the BoE has hinted would warrant interest rate cuts. However, like the Fed, they are still being cautious in their approach to bringing inflation down to their 2% target and will monitor future inflation reports closely. They are still concerned about wage growth, which is currently above 6%[8] and services sector inflation (education, hospitality and culture).

Following the decision, BoE governor Andrew Bailey said: ‘We’ve held rates again today at 5.25% because we need to be sure that inflation will fall back to our 2% target and stay there. We’re not yet at the point where we can cut interest rates, but things are moving in the right direction.’[9] Not a single member of the BoE's Monetary Policy Committee voted to raise interest rates. That's the first time this has happened since September 2021 - two and a half years ago. The sentiment from Andrew Bailey and the voting from the Monetary Policy Committee bode well for the predictions of a rate cut in the summer.

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 21 March 2024.

[1] AP News, 18 March 2024
[2] Reuters, 12 March 2024
[3] Market Watch, 20 March 2024
[4] New York Times, 20 March 2024
[5] GB News, 20 March 2024
[6] The Guardian, 20 March 2024
[7] Bank of England, 21 March 2024
[8] Morningstar, 20 March 2024
[9] The Guardian, 21 March 2024