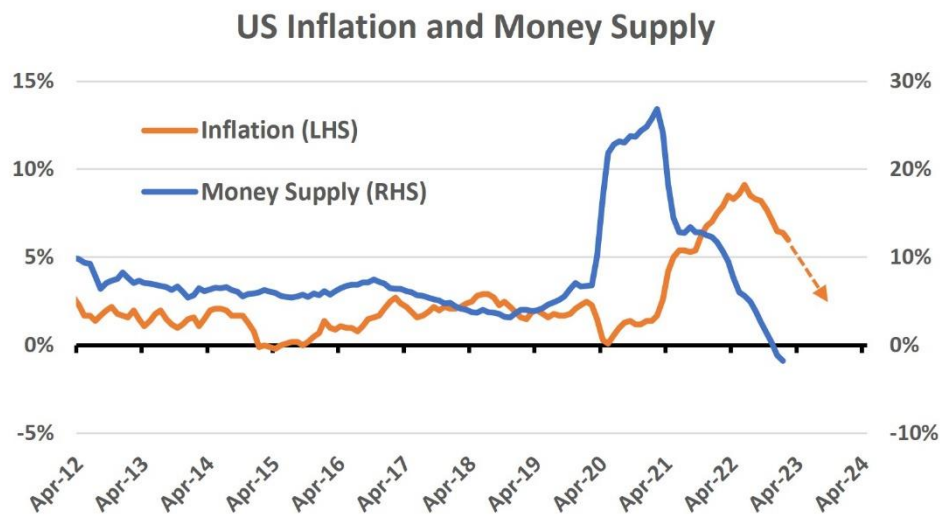


Two roads diverged in a wood

“Two roads diverged in a wood, and I—
I took the one less traveled by,
And that has made all the difference.”
By Robert Frost

The outcome of the US Federal Reserve board meeting this week carries greater significance than usual. Markets are currently evenly split between a further 25-basis point increase and no change. On one hand they have been steadfast in their determination to bring inflation under control. On the other hand, sizeable cracks in the dam wall have started to show.

Over the last 8 months headline inflation is running at an annualised rate of 2.7% and falling. All leading indicators confirm this. Oil, freight rates, lumber prices and natural gas have experienced substantial declines while money supply growth has turned negative (see chart below). Based on this alone, no further rate rises are required.



Source: Sintra Capital, Refinitiv

Bank collapses are nothing new. Authorities had no option other than to guarantee deposits for the sake of the entire banking system. We take some consolation in the knowledge that equity and bond holders have been wiped out. The trade-off must be increased regulation. US regional banks will continue to disappear through takeovers and mergers albeit at a much faster rate.

In the short-term, for as long as uncertainty persists, liquidity will be tight. Small business in particular, the life blood of the US economy, will be hardest hit. Their ability to access funding will be severely restricted as market forces determine which banks survive. Raising interest rates in this environment is not necessary. For now, we believe it is best to let the dust settle.