



Markets are anticipating continuous Fed rate hikes going forward, certain section including us believe that this is overdone. So there are two scenarios going ahead one where there would be continuous rate hikes and the other where there would be a pause in the hikes after probably one – two hikes.

Let us look at how markets behave during different regimes.

1) Pause in Rate Hikes

We feel that the anticipation of continuous Rate hike is overdone and it will pause after couple of hikes. As shown in the chart below from March 1997 to Sept 98 when interest rates are flat, markets remain sideways with positive bias. Similar trend was observed from Sept 05 to Sept 07 and from Jan 19 to Sept 19. As an exceptional case, from the March 2000 to December 2000 when the FED rate was flat market trend was negative. As we have seen historically unless the economy regrows during this period the markets remain sideways with positive bias to bullish.

2) Continuous Rate Hikes

During Rising Interest Rate as economy is growing and the anticipation of growing economy is maintained markets continue to perform well as shown in the graph below from year Dec 98 to Dec 99, Jan 03 to Jan 05, Sept 15 to Sept 18. Inspite of contrary expectation, periods of flat rate Nifty has become sideways with upward bias or trended as shown below in the year 1999, 2007 and 2019.

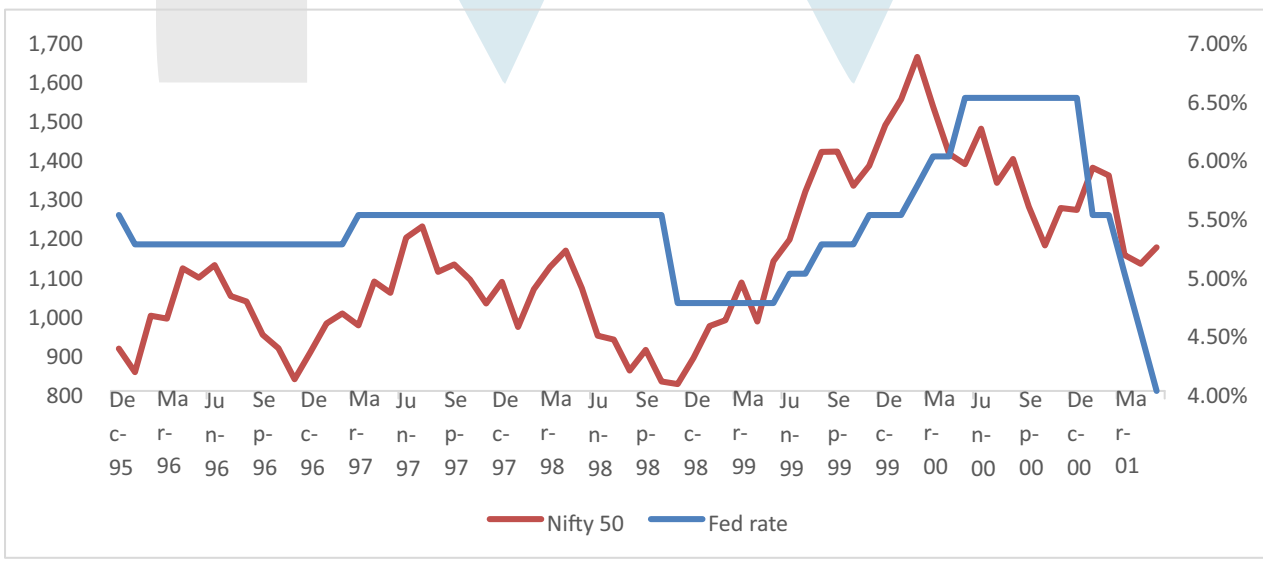


Exhibit 1



FED Rate & Market Response

5th May 2022

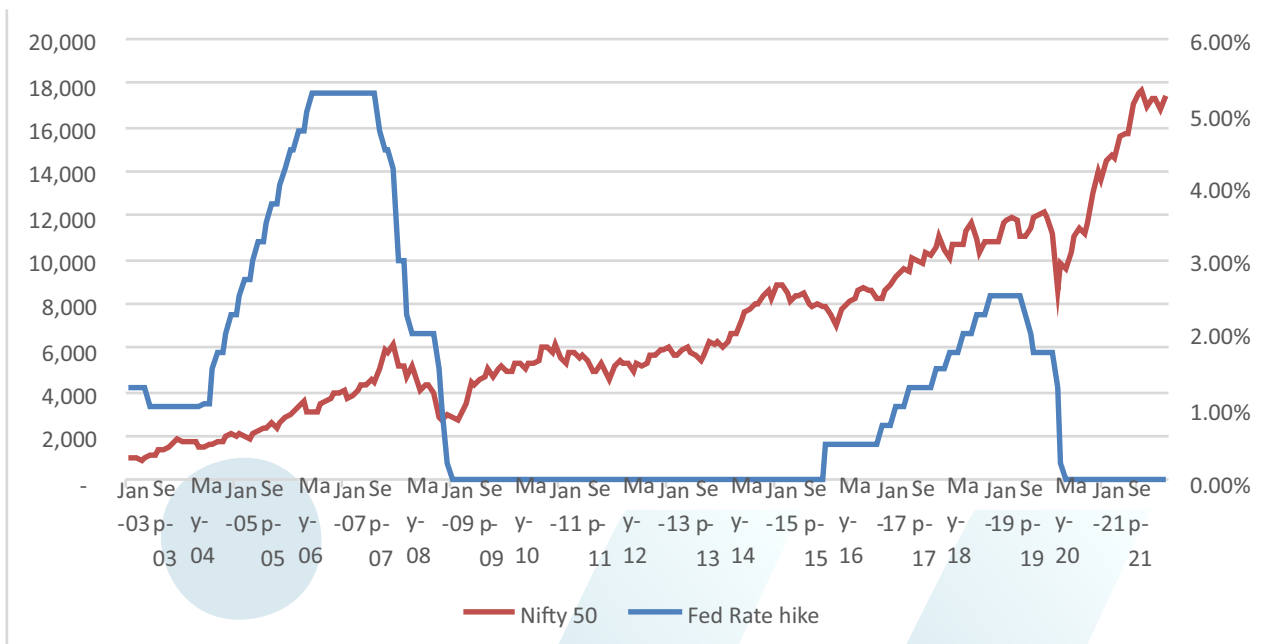


Exhibit2

Conclusion:

As we have seen in either situation the markets notwithstanding an economic slowdown in India should be sideways with a positive bias to bullish.

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I-Wealth Management LLP

822 | Tulsiani Chambers | Free Press Journal Marg

Nariman Point | Mumbai 400021

022-22841037 | 022-40024994 | 9004452014