Don’t fight the Fed!!!

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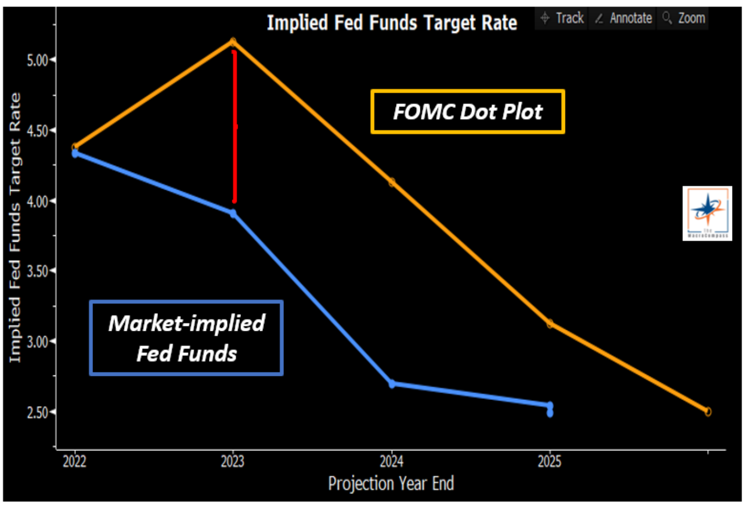
- Latest US CPI release materially surprised on downside: Inflation rose way below expectations of 65 out of 67 economists surveyed by Bloomberg. But, Fed is still hawkish….Why? Ex-housing core services - stickiest inflationary components that Fed can directly influence via weaker labor market (lower wages) is still hot!!

Bond markets don’t believe the Fed Dot Plot at all



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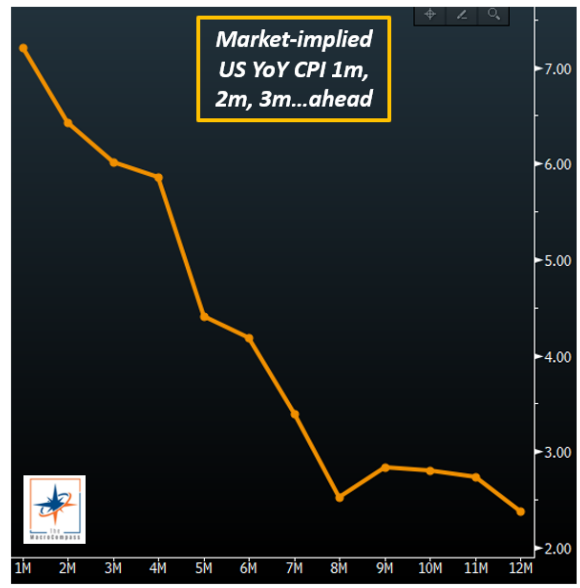
Fixed income traders pricing a very sharp slowdown in inflation ahead



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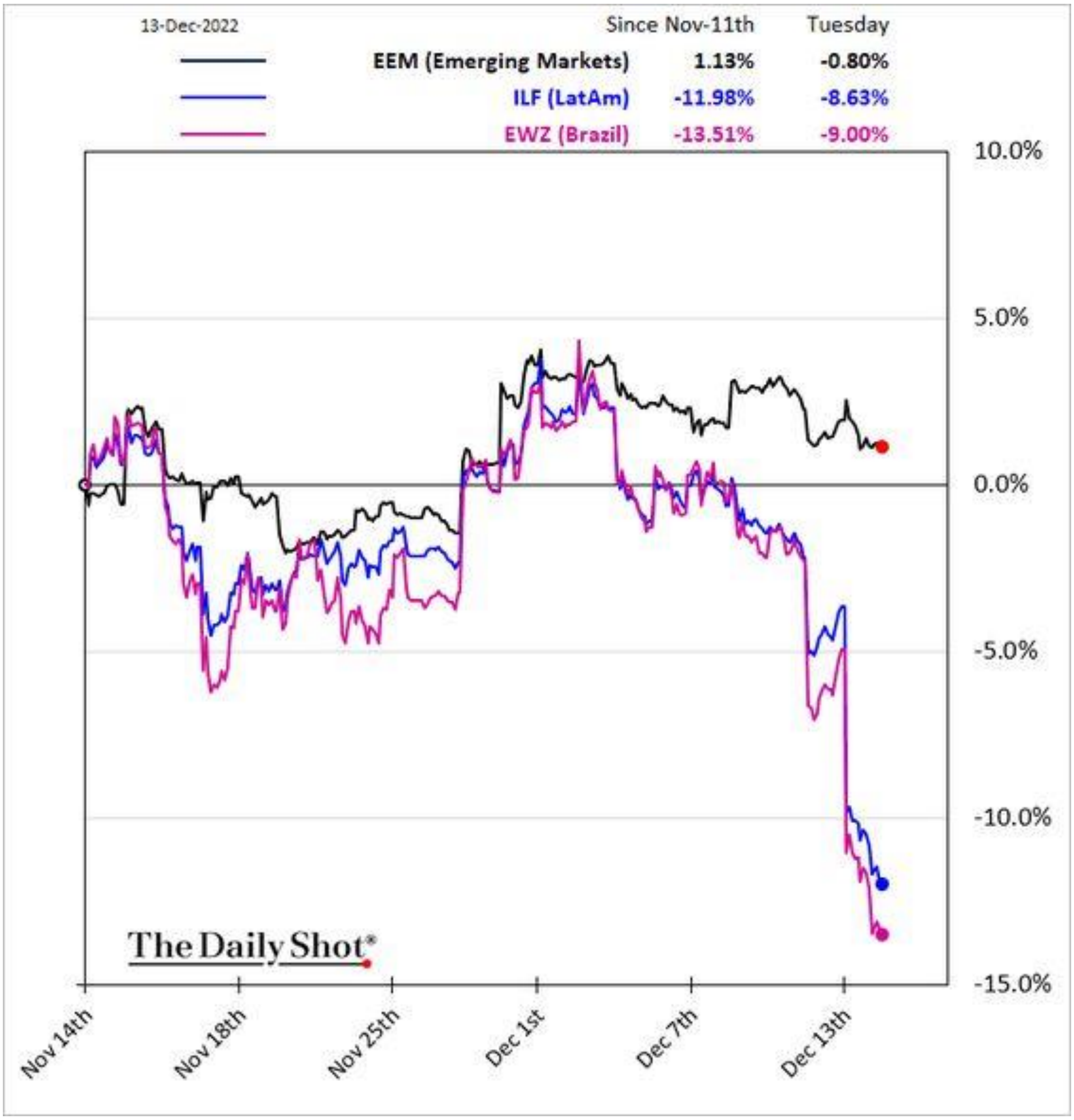
- Bond investors have made up their mind: the Fed can change the Dot Plot all they want, but at this point in the cycle there is no chance they’ll be able to keep rates above 5% for the entire 2023.
- Left chart shows market-implied Fed Funds (blue) for 2023 implying net interest rate cuts towards the 4% area while the Fed Dot Plot (orange) points to further hikes above 5% and a long pause. But, traders are pricing YoY CPI at 2.5% on only 8 months from now (today’s ~7%).
- Bond market understands that if you tighten financial conditions like hell, and keep doing so by ignoring all forward-looking indicators you will definitely succeed in slowing down inflation; but you’ll cause recession.
- Powell won’t even consider risking a premature loosening of financial conditions, as the experience from the ‘70s strongly cautions against that. That literally means he’ll be watching the US walk into a recession and stubbornly keep monetary policy very tight hence further exacerbating the problem.

Fed Credibility is seriously at stake, and the only way to get it back is getting the job done. J-Pow is going to cause a serious recession - are you ready?



Brazil stocks came under pressure in the last few days. This was the country with highest real rates, expected beneficiary of the commodity cycle and expected to start rate cut by next year.

So what happened to the Equity markets...

Political Instability!!! Beyond macroeconomics, capital flow another important determinant while investing in developing/emerging countries is political stability

Bond Market and Fed are not on the same page. The 10-year yield is breaking down from its 2022 uptrend line. Will this be a headwind for stock markets? (Source: Game of Trades)

Something unusual happened in markets last seen in 1997. As S&P 500 finished UP 1.4% VIX closed 9.5% higher. Does this mean while S&P is cheering weaker CPI and lower hike; however, VIX is worried about upcoming earnings reason? Lets watch...

(Source: Quantifiable Edges)

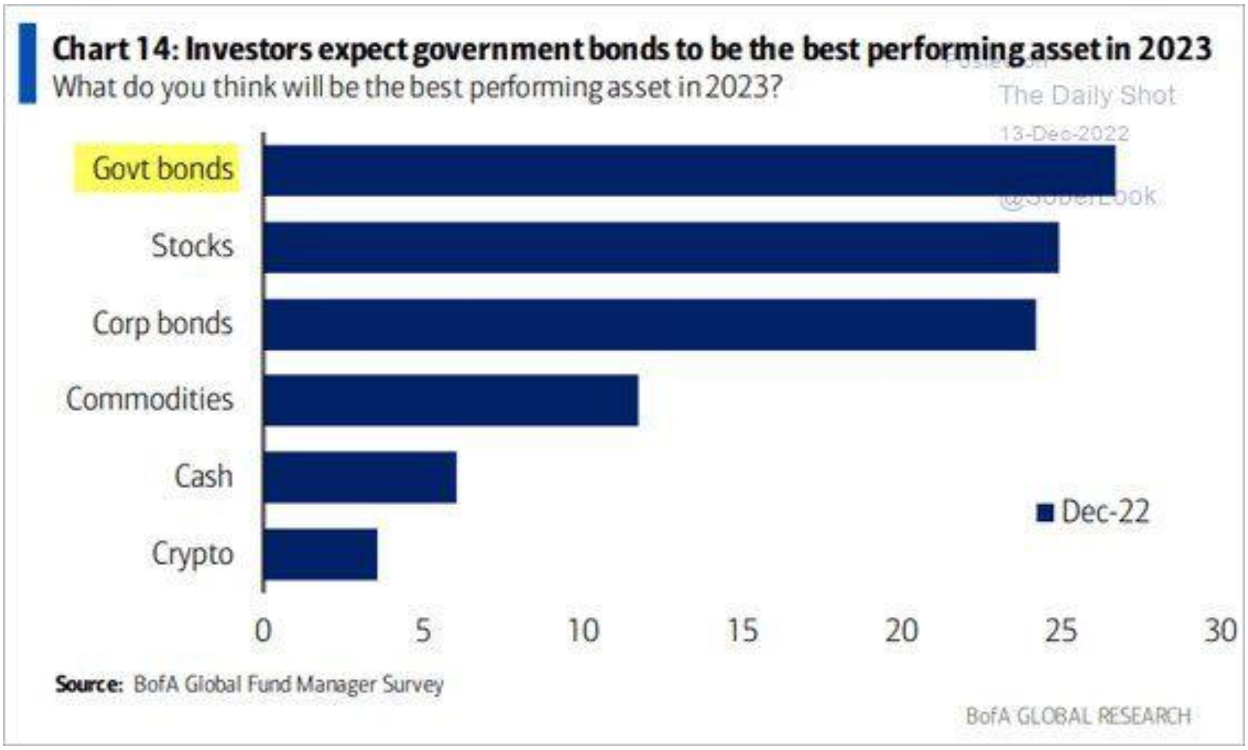
SPX Action in Recent CPI Release Dates

Reference Month	Release Date	SPX True Range	SPX % Change
Apr-22	May 11, 2022	120.27	-1.65%
May-22	June 10, 2022	117.66	-2.91%
Jun-22	July 13, 2022	70.37	-0.45%
Jul-22	August 10, 2022	88.56	2.13%
Aug-22	September 13, 2022	189.13	-4.32%
Sep-22	October 13, 2022	193.83	2.60%
Oct-22	November 10, 2022	209.76	5.54%
	Average	**141.37**	**0.13%**
	All other days ATR since 5/11	**74.70**	

Investors expect government bonds to be the best performing asset in 2023. This is driven by peak Inflation expectations along with last leg of rate hiking cycle before Fed starts cutting rates in 2nd half of 2023.

But this time is different!!!

What if US corporates see earnings recession..which drives tax receipts down...which increases fiscal deficit and in turn UST issuance and USD strength!!!! Remember this time foreigners are net sellers in USTs and this likely could out pressure on rates...which could mean Negative returns for those government debts....



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Mr. Ritesh Jain

Co-Founder

Master of Business Economics (MBE)
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He has held many senior leadership roles including CIO – BNP Paribas Mutual Fund, where he was responsible for managing US$1.2 billion of AUM and also has served as the CIO of Tata Mutual Fund, where he was responsible for managing AUM of 6 billion.

In 2019, LinkedIn rated him among the top three influencers in the world of Economy and Finance. He is also a recipient of numerous national and international awards in the field of fixed income and equity investments.

Ms. Chanchal Agarwal

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She brings with her about 12 years of Industry experience spanning across verticals like Family Office Investment Advisory, Equity management, Investment banking, etc.

In 2020, AIWMI recognized her amongst the 'Top 100 women in Finance". She has featured in the Audio talk series 'Show me the Money' by Meghna Pant (available on Audible Suno). Her article reflecting on 'What stops women from investing' was published in The Hindu Newspaper.

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