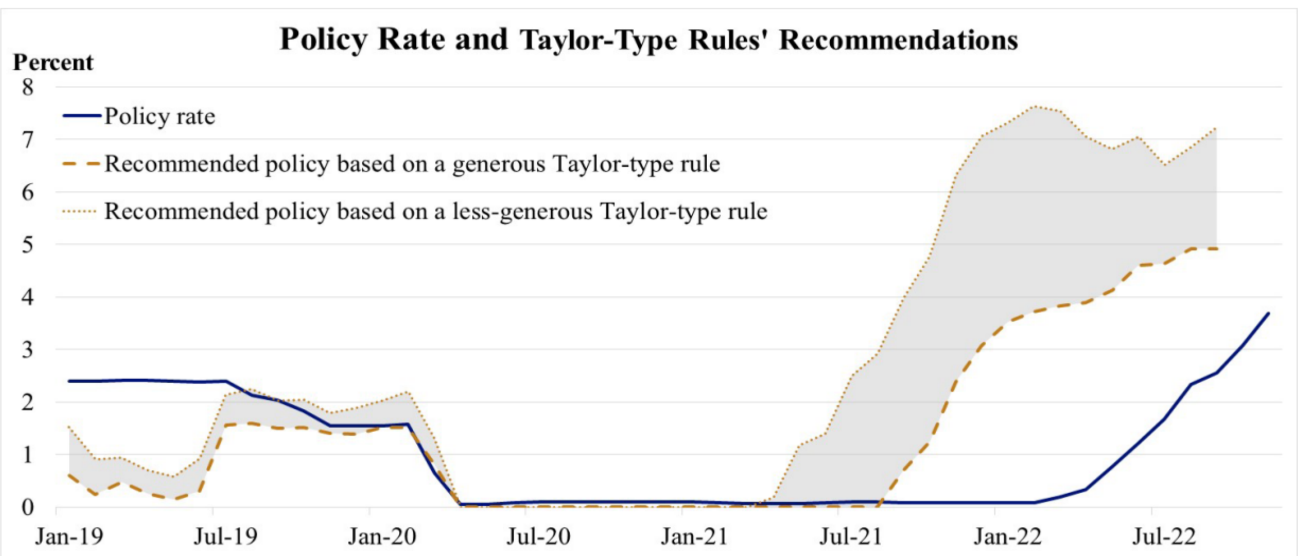
Stilll….Getting into the Zone

- Fed St. Louis, President James Bullard, released an update which says "Even under the most generous assumptions, the policy rate is not yet in a zone that may be considered sufficiently restrictive *(means level of policy rate that is adequate to control inflation)*". He mentioned that hikes so far have had a limited impact on inflation.
- He was referring to the 'Taylor rule' which is widely accepted in monetary policy discussions in past 30 years. As per this, the range for policy rate laid out is between 5–7% in generous to less generous scenario. Presently, we are at 3.75-4% on the policy rate.
- Markets were quick to interpret this as indication of a more hawkish stance going ahead with 3 mo /10 year treasury yield curve inversion falling back to 2019 lows.
- As discussed in our past updates, with US Debt/GDP at ~130% and Fiscal deficit ~10%; US faces a huge dilemma as at 4.5% rate interest costs could be ~29% of total federal tax receipt.

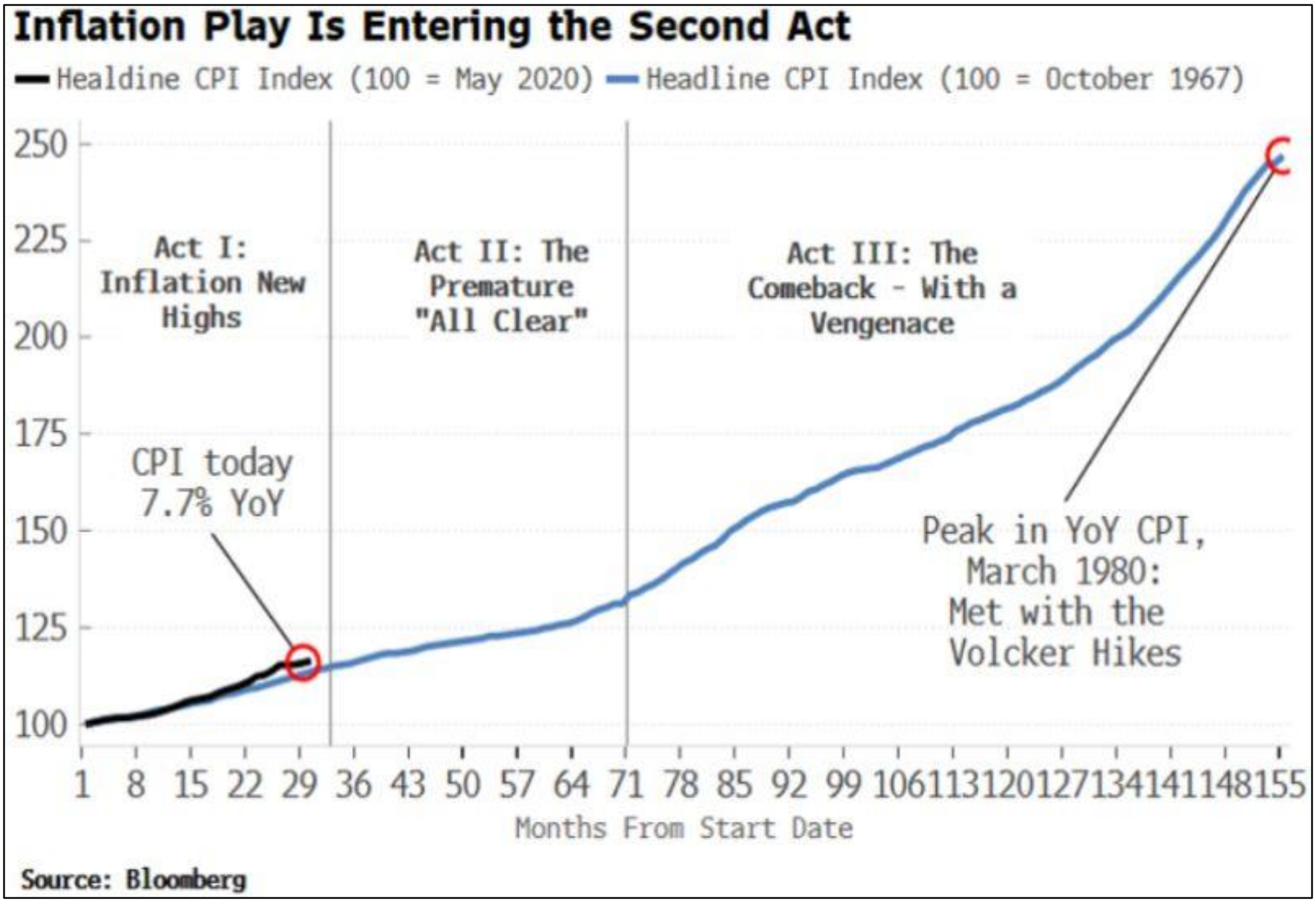
The sufficiently restrictive zone



Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Bank of Dallas, Federal Reserve Bank of New York and author's calculations. Last observations: September 2022 and November 2022.

Will Fed be able to move swiftly on the upside?

Forex hedged 10y UST yields are the most NEGATIVE they have been in over a decade, with FX hedged UST yields for Japanese investors at -1% & for EU investors at -1.44%, despite 10y UST yields at the HIGHEST levels in over a decade. Would a Japanese insurer buy a UST yielding -1% after hedging for FX risk when 10y JGB's yield 0.25%? What happens when foreign investors start dumping their UST holdings in an illiquid bond market? *Still thinking of 7% policy rate?*

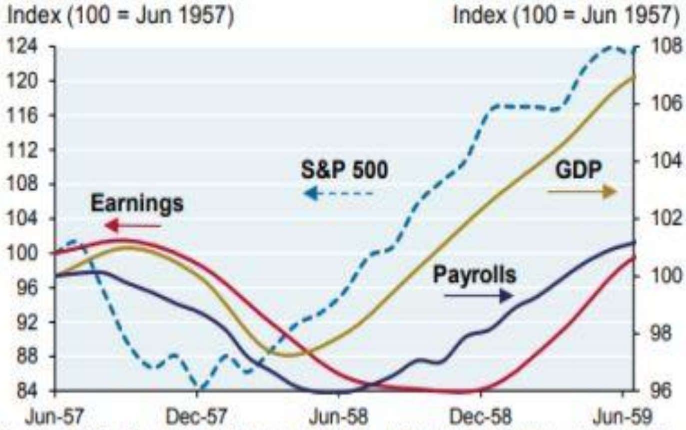


Are calls for peak inflation premature?

What if inflation reading drops from here (we are nearing 1st anniversary of Ukraine war and base effect could kick in) and Central banks reverse course....only to realize that this time inflation is more 'structural' and not transitory.

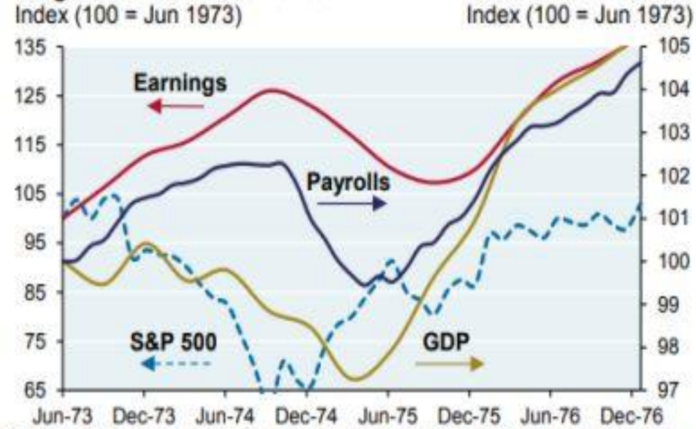
We are now in a higher inflation regime vs the past. (Source: Credit from Macro to Micro)

Eisenhower recession



Source: BEA, Bloomberg, Robert J. Schiller, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.

Stagflation era of the 1970's

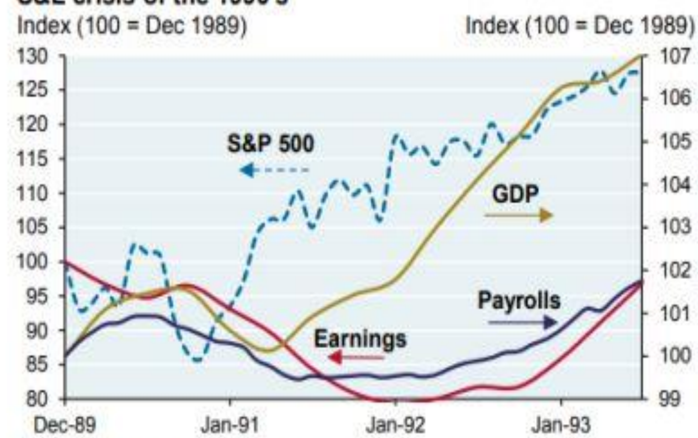


Source: BEA, Bloomberg, Robert J. Schiller, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.

1980's double-dip recession

Source: BEA, Bloomberg, Robert J. Schiller, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.

S&L crisis of the 1990's

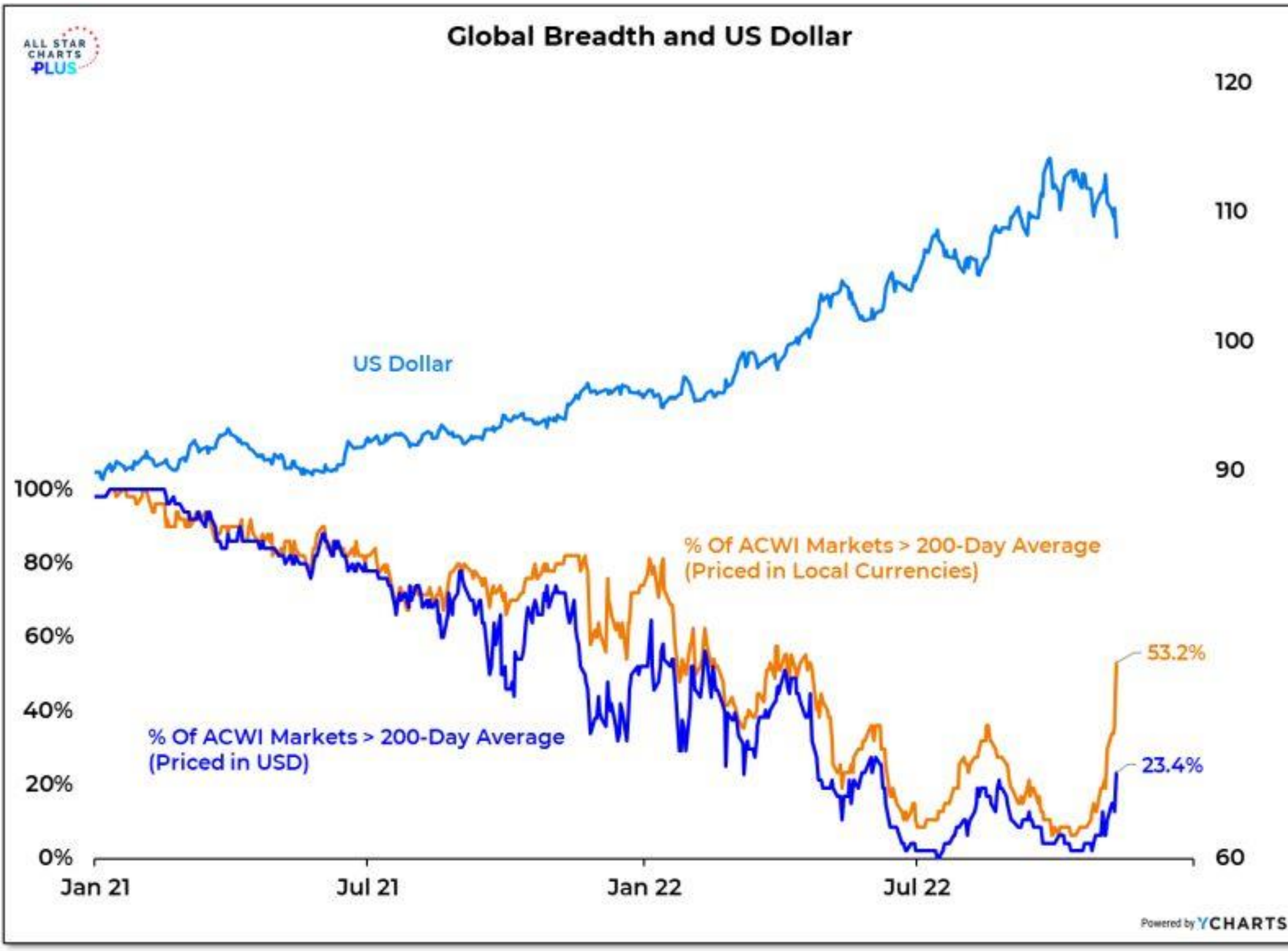


Source: BEA, Bloomberg, S&P Dow Jones, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.

Equities tend to bottom several months (at least) before the rest of the victims (earnings, payroll, GDP) of a recession.

For ex - during Eisenhower recession equities bottomed in December 1957, while earnings did not bottom until a year later. GDP and payrolls also didn’t start to improve until the middle of 1958.

You will see the same pattern during the 1970’s stagflation, the 1980’s double dip recession, the S&L crisis of the 1990’s, the Global Financial Crisis and the COVID pandemic



What is the importance of currency in the overall return?

Removing currency factors, half of ACWI markets are above their 200-day averages; but soon as you get USD impact on returns into picture this number moves down to ~23% (Chart Source: JC Parets

If we are in the early trends of entering into a new commodity bull market then likely the odds of a global recession and a change in the macroeconomy could be very high and severe not seen in decades.

Historically, equities enter secular bear markets during commodity bulls & there's a high probability that markets at best will be flat for 10 years, sort of like 1966-1982 time period' (Source: Warran pies & Stanley Druckenmiller)

Chart from Michael Cembalest showing that its not developed world millennials; but Asia high net worth accounts who probably are feeling the most pain from Crypto volatility.

Mr. Ritesh Jain

Co-Founder

Master of Business Economics (MBE)
Executive MBA - Haskayne School (Calgary)

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

Head - Products

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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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