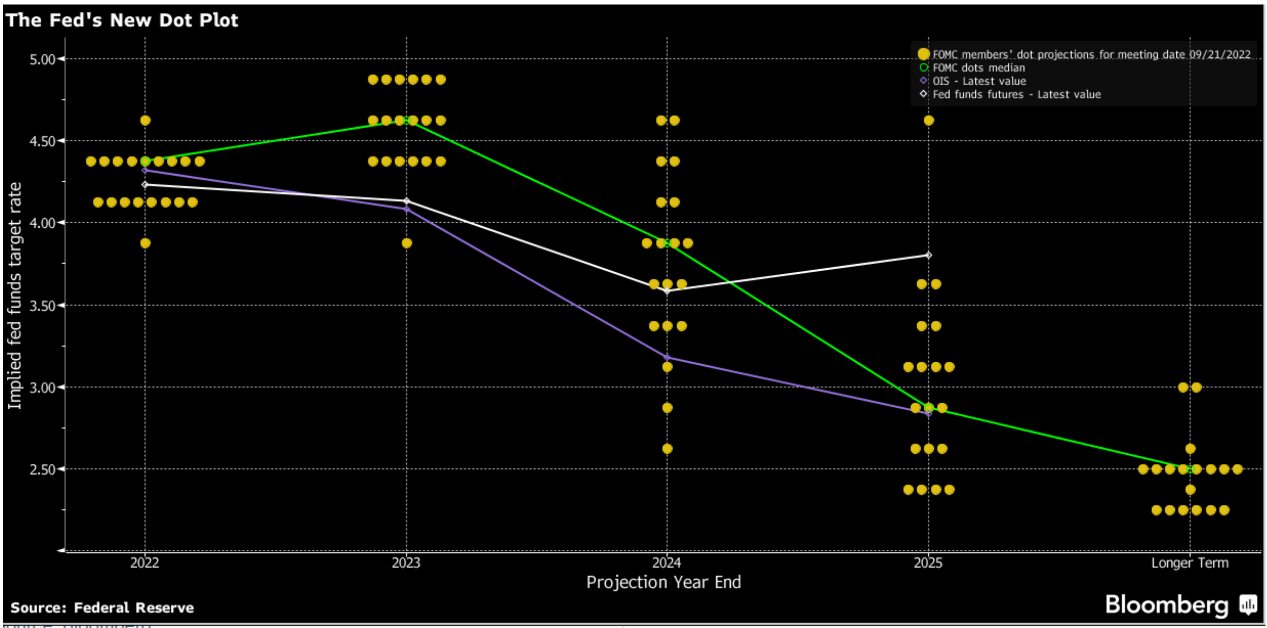
Decisive Weekly Investment Highlights: 28 September 2022

Super Hawkish Fed

Another tumultuous week, dominated by Hawkish rhetoric, with a stream of recession and inflationary concerns fuelling violent FX moves and a broad de-risking across equity markets as odds of a soft landing get thinner.

Fed's new dot plot was clearly very hawkish: forecast shows rates at 4.4% BY END-2022 (implying a further 1.25 percentage points of tightening before year-end 2022), At 4.6% IN 2023, 3.9% IN 2024.

In terms of rates expectations, the market is now pricing in 75bps for November, 50bps for December, and 25bps for Feb 2023, pushing the terminal rate above 4.60% and pushing any rate cut expectations from 2023 to 2024.

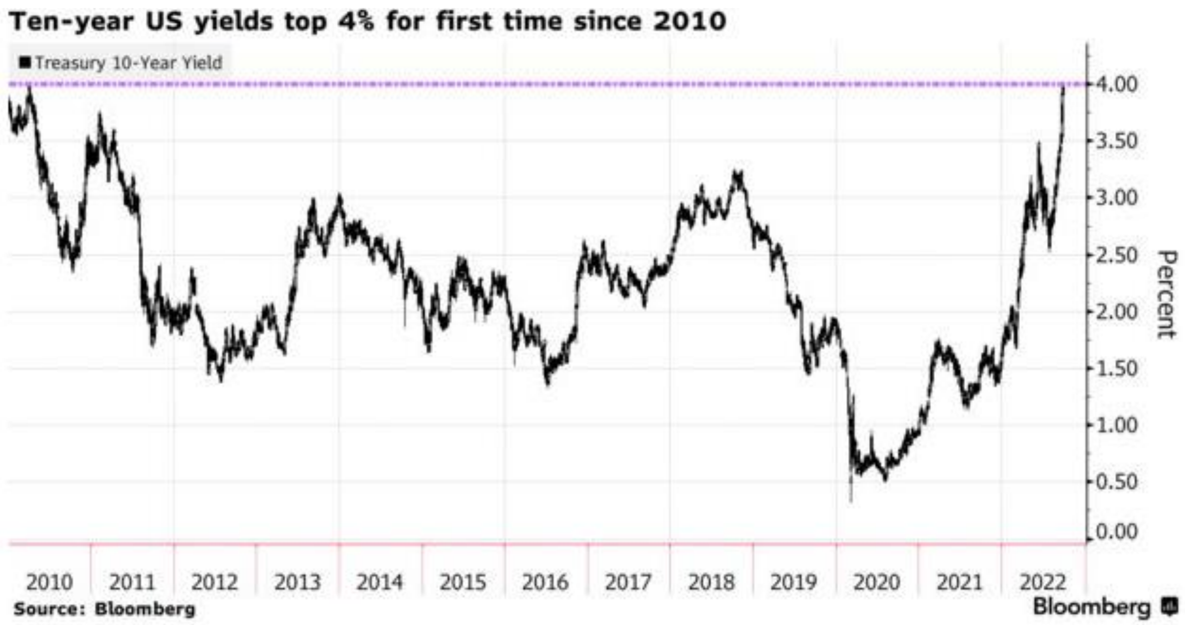


Source: Federal Reserve 27.09.2022

Another Barrier Breaks on the 10yr

Treasury 10-year yields climbed above 4% to the highest level since October 2008, as investors were rattled by Federal Reserve hawkishness and concern over potential Japanese sales of US government debt

The benchmark US 10-year yield jumped 7 basis points to 4.015% Wednesday. It has now climbed around 250 basis points in 2022. Treasuries are headed for their biggest annual loss since least 1973, with a Bloomberg gauge of the debt slumping 14% this year.

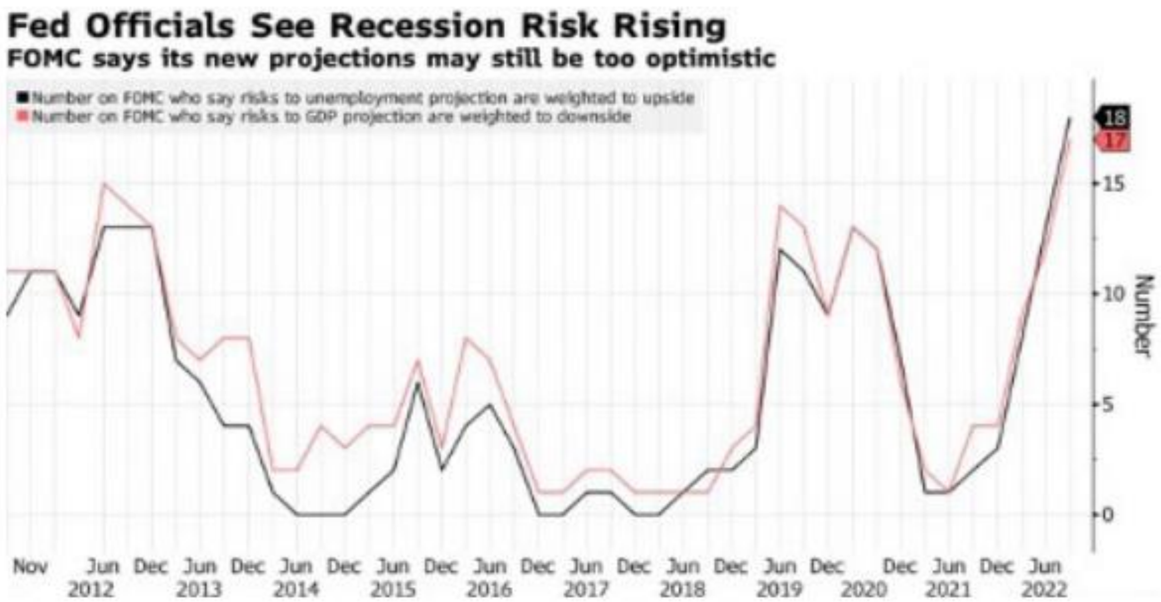


Source: Bloomberg 27.09.2022

Recession Risks Continue Rising

Looking at economic projections, Federal Reserve officials gave their clearest signal yet that they're willing to tolerate a recession as the necessary trade-off for regaining control of inflation.

The "pain" that Powell hinted at during Jackson Hole seems to be coming... Chair Jerome Powell repeatedly spoke of the painful slowdown that's needed to curb price pressures running at the highest levels since the 1980s



Source: Bloomberg 27.09.2022

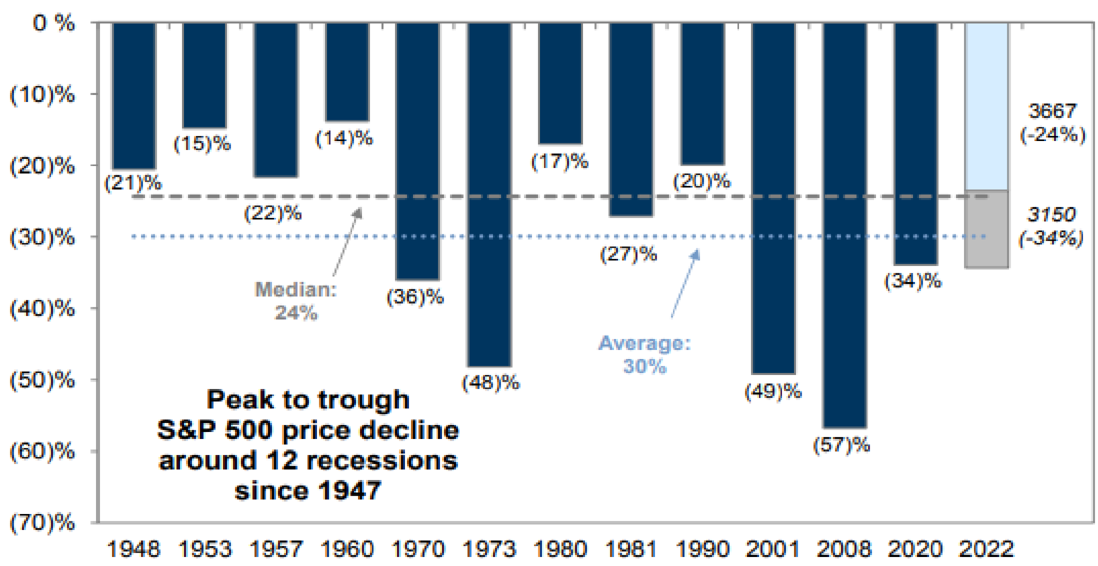
DECISIVE

Expect > 30% Decline in Recessions

Peak to trough declines through recessions have typically led to a 30% decline on average in the S&P.

Year to date the S&P is down 23% so another 8-10% is very probable given the significant increase in recession risks post the Fed

S&P 500 typically falls by 30% from peak to trough in recessions:



Source: Goldman Sachs Global Investment Research

Source: Goldman Sachs 27.09.2022

Current Dollar Strength Could Be the Sign Of A Potential Crisis

The Fed's historically hawkish action has led to record strength in the US dollar.

On a year over year basis, the DXY is now up 21% and still rising. Based on analysis every 1% change in the DXY has around a -0.5% impact on S&P 500 earnings, 4Q S&P 500 earnings will face an approximate 10% headwind to growth all else equal.

It's also important to note that such US dollar strength has historically led to some kind of financial or economic crisis.

Source: Bloomberg, Morgan Stanley Research

Source: Morgan Stanley 27.09.2022

Sterling At 'Do or Die' Levels

A combination of high and rising inflation, increasing tax cuts, deteriorating an already fragile economic outlook, and ballooning fiscal deficit, is making Sterling outlook among the worst vis a vis G10 currencies.

Sterling has collapsed after the market recently broke multi-year support at 1.1409, with the market falling to new all-time record lows this week below the 1985 low at 1.0463, before rebounding sharply.

The rates market is now pricing an emergency hike by the BoE and 175bps of tightening by November.

GBPUSD - Monthly

Source: CQG, Credit Suisse

Source: Credit Suisse 27.09.2022

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