

# Chart of the Day

With the US economy and jobs market still strong, stagflation remains more risk than reality. Markets, however, have been acutely focused on the risk, with concerns of a **shorter business cycle** from rising inflation, commodity prices and Fed policy error.

In stagflation environments, very few asset classes outperform. Year-to-date, commodities have been an outlier in their outperformance while **debt markets in Q1 had their worst performance in 30 years**. While equity markets recovered in late March, **combined losses in both bonds and stocks were the deepest in 40 years**. The **yield curve in Q1 inverted** across several maturity ranges, signaling growth deceleration. Against this backdrop, **consumer sentiment** tracked by the University of Michigan declined to its lowest level in 11 years, with **real disposable income** (adjusted for inflation) declining for 7 consecutive months (the longest such stretch in 50 years).

With demand softening, and supply side dislocations widening, the Fed's challenge in engineering a soft landing for the economy has become more difficult.

## Total returns by asset class

2015	2016	2017	2018	2019	2020	2021	2022 YTD
Munis 3.6%	High Yield 17.5%	S&P 500 22.3%	Munis 1.0%	S&P 500 31.5%	S&P 500 18.4%	S&P 500 28.7%	Commodities 25.5%
Mortgages 1.5%	S&P 500 12.0%	EM Sov 10.0%	Mortgages 1.0%	High Yield 14.4%	High Grade 9.8%	Commodities 27.1%	Loans (-0.1%)
S&P 500 1.4%	Commodities 11.4%	High Yield 7.5%	US Gov't 0.8%	EM Sov 14.3%	US Gov't 8.2%	Loans 5.4%	High Yield (-4.5%)
US Gov't 0.8%	Loans 10.4%	High Grade 6.5%	Loans 0.6%	High Grade 14.2%	High Yield 6.2%	High Yield 5.4%	S&P 500 (-4.6%)
EM Sov 0.6%	EM Sov 9.5%	Munis 5.4%	High Grade (-2.2%)	Loans 8.7%	Munis 5.3%	Munis 1.8%	Mortgages (-5.0%)
Loans 0.1%	High Grade 6.0%	Loans 4.6%	High Yield (-2.3%)	Munis 7.7%	EM Sov 4.8%	High Grade (-1.0%)	US Gov't (-5.6%)
High Grade (-0.6%)	Mortgages 1.7%	Mortgages 2.4%	S&P 500 (-4.4%)	US Gov't 7.0%	Mortgages 4.1%	Mortgages (-1.2%)	Munis (-6.2%)
High Yield (-4.6%)	US Gov't 1.1%	US Gov't 2.4%	EM Sov (-4.6%)	Mortgages 6.5%	Loans 3.5%	US Gov't (-2.4%)	High Grade (-7.7%)
Commodities (-24.7%)	Munis 0.4%	Commodities 0.7%	Commodities (-13.0%)	Commodities 5.4%	Commodities (-3.5%)	EM Sov (-2.6%)	EM Sov (-10.7%)

Source: USD Markets, Bloomberg, CreditSights. EM Sov is USD EM Sovereign BBB & Lower index. Commodities is Bloomberg Commodity Index. Full year returns except for 2022 YTD calculated through March 31, 2022.

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