Capital Markets Strategy

Essential inCights for the C-Suite

Chart of the Day

Most of us remember the last studio album by this name from English rock band The Police. The year was 1983, a time with its own complications, but arguably a less complex global order than that which exists today.

Nearly 40 years later, markets are struggling with the convergence of three forces in particular: (1) synchronized global inflation (with origins in sequential COVID and Ukraine crises), **(2) synchronized global tightening** (with 90 global central banks raising rates concurrently, nearly half of them at a rate of 75 bps per meeting), and **(3) synchronized global slowdown** (with nearly every major global economy decelerating into 2023).

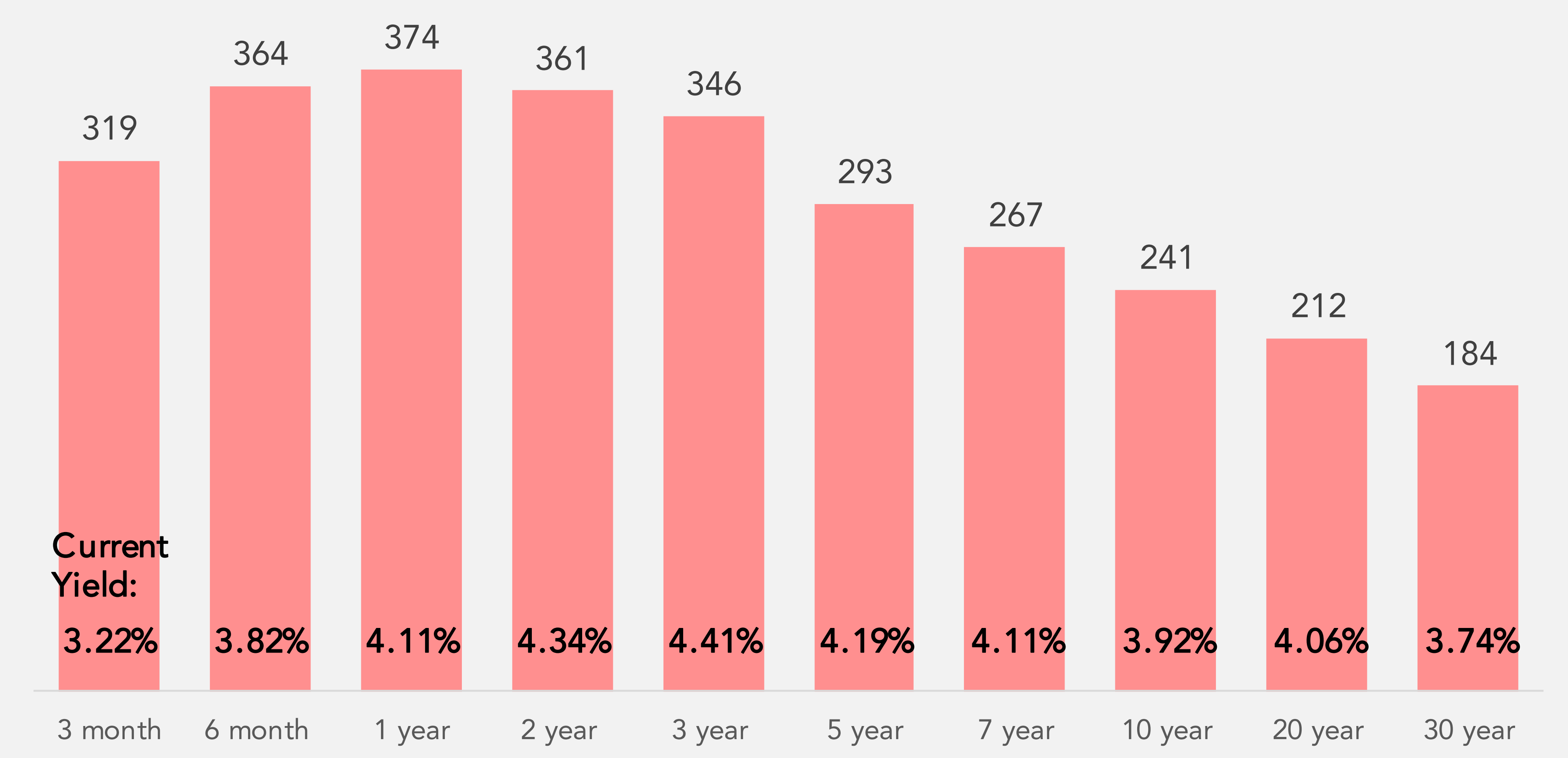
Against this backdrop, global markets have in turn become highly correlated. Taking their cue from bond markets, nearly every major risk asset globally, except the US dollar, has been trading lower. Treasury yields are at cycle highs; equities are at cycle lows.

Losses in government bond markets have been the largest since the 1920s. The sell-off has been across the curve, with poor liquidity exacerbating the move. The entire maturity spectrum from one to seven years is now trading above 4%. More moderate spread widening at the long end of the curve, with 2s-30s at its most deeply inverted level since 2000, signals rising recession risk.

September has historically been the worst performing month for US equities, and this year is no exception with stocks down 8% on the month. While the historic sell-off in equities has taken its cue from bond markets, the outlook for earnings in 2023 looks more difficult as a result of higher rates, slower growth and a stronger dollar.

Government bond market losses in 2022 have been the largest since the 1920s. More moderate spread widening at the long end of the curve (30 years) signals rising recession risk.

YTD change in US treasury yields, bps



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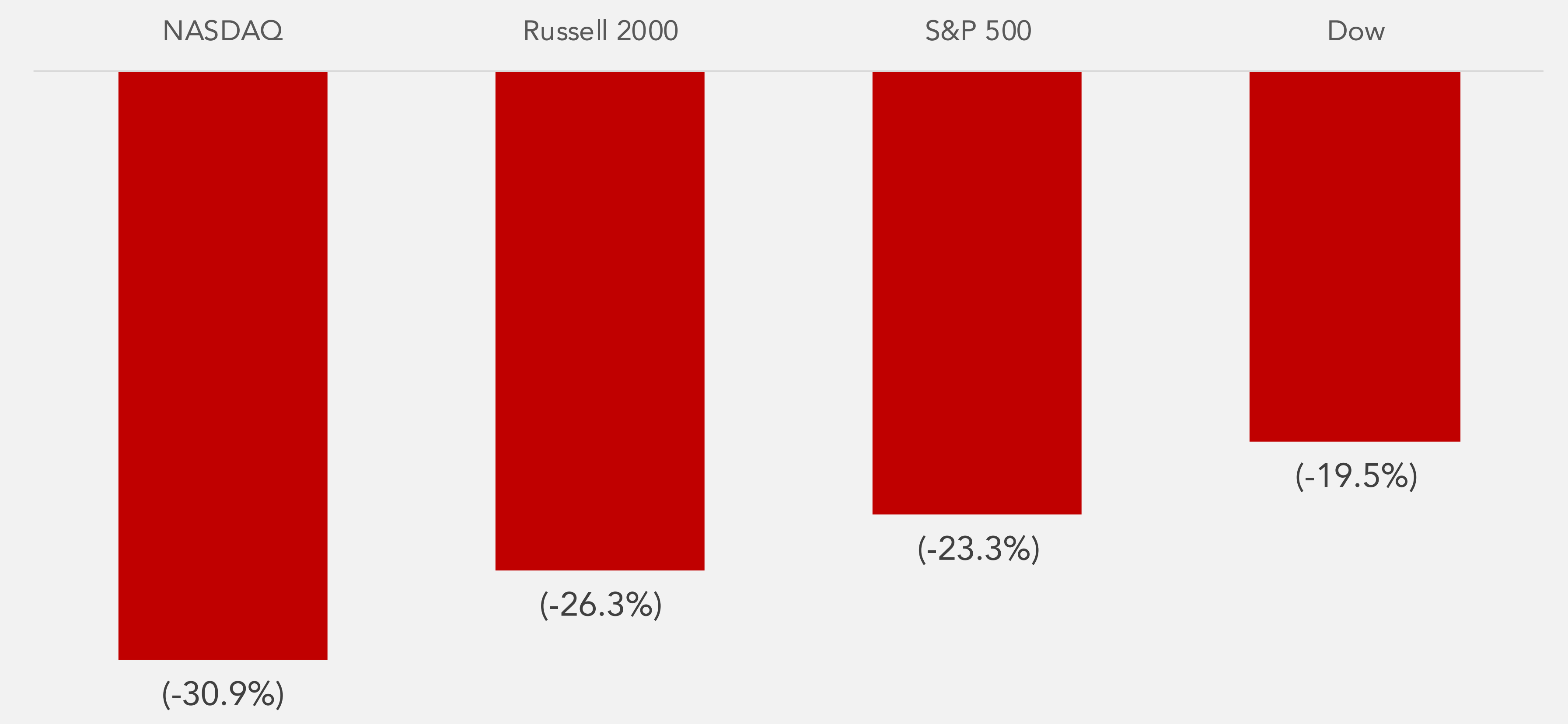
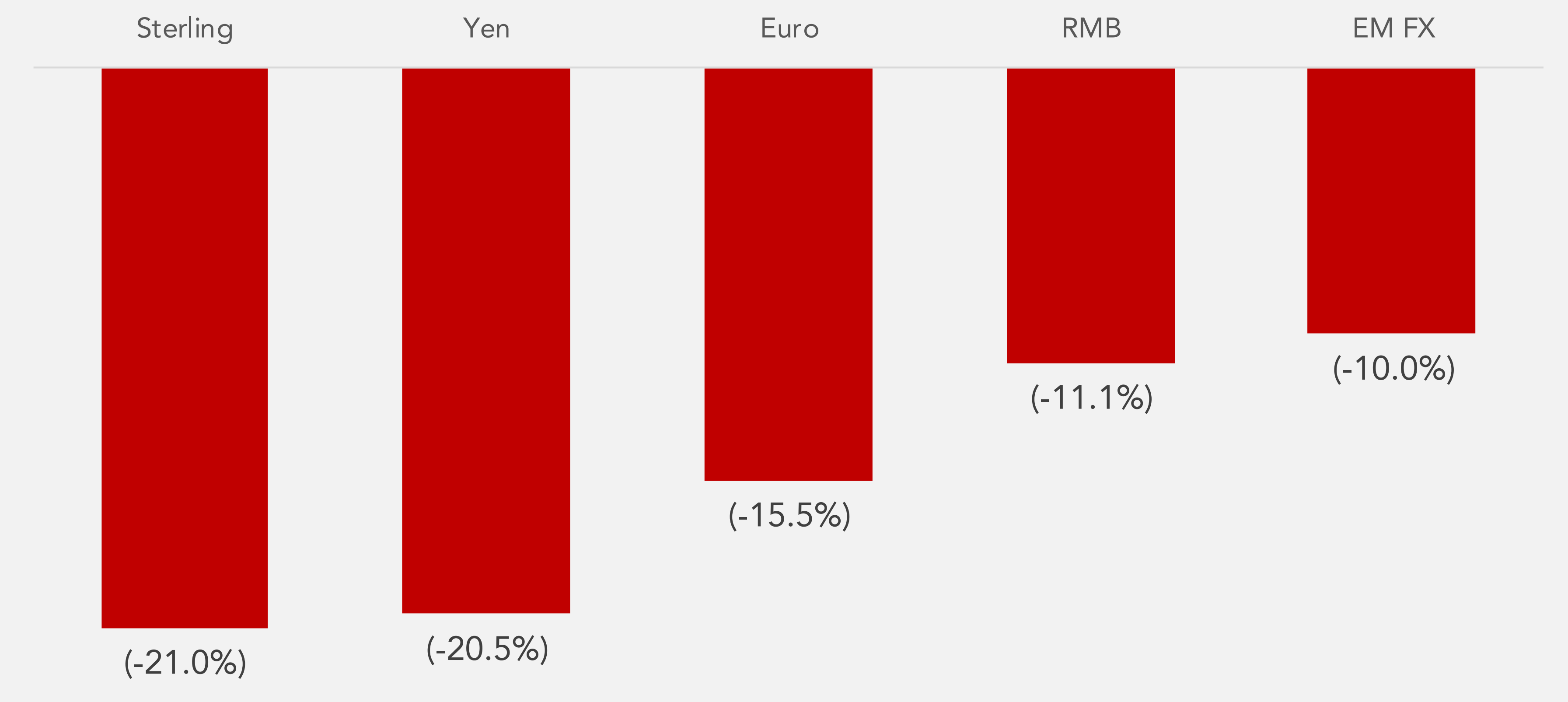
YTD change in US equity markets



US dollar strength has been a pervasive driver of tighter financial conditions and “risk-off” markets in 2022. Euro, Yen and Sterling stand at 20, 24 and 40 year lows, respectively.

YTD change in currencies vs. USD



Source: (1-3) Bloomberg. Data as of September 26, 2022. All currencies vs. USD. EMFX is dynamically weighted spot index.

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“Macro stability isn’t everything, but without it, you have nothing.”