

September 19, 2022

Monday Briefing – 19th September 2022



- The optimism that was baked into equity markets evaporated on Tuesday last week with the peak inflation narrative being repriced violently towards a tightening cycle that potentially lasts longer and ends higher.
- The repricing of monetary policy in the US was substantial with the Fed's terminal rate now at 4.5% vs. 4.0% before last week's CPI. Some market participants feared the possibility that the Fed will go into 80's mode and hike rates by a full 1%, while observing poor trading liquidity in government bond markets.
- The year-ago rate of US inflation moderated from 8.5% to 8.3% but was still higher than the 8.1% expected. More concerning, core inflation beat strongly on the upside in areas like new cars, apparel, rent and owners' equivalent rent. The Atlanta Fed's so-called sticky CPI (weighted basket of items that change price relatively slowly) rose 6.1% from a year ago, the biggest gain in 40 years.
- As higher uncertainty on how quickly inflation will cool means higher volatility in financial markets, the synchronised sell-off for both bonds and equities highlighted again the fact that there is currently nowhere to hide, and that the only thing efficient in a bear market is risk management.
- The dollar was supported by 2-year Treasury yields trading around 3.90%, the highest

level in nearly 15 years, while the yen received little support after Japan's Finance Minister Suzuki offered a strong declaration to combat the currency fall. If history is still a guide, investors will now have to test the BOJ's resolve. The People's Bank of China continued its currency defense after the yuan weakened past the key level of 7 per US dollar, by fixing its reference rate for the yuan with the strongest bias on record.

- In the US, a railroad strike was averted with a tentative agreement going back to unions for a vote. Such an agreement is a positive news in front of what could have been considered a major issue in terms of the supply chain whack-a-mole game at play.
- On Friday, shipping giant FedEx Corp., a company at the very pulse of the global economy, withdrew its revenue and profit forecast with the CEO saying that the weakness was due to rapidly softening global demand (not increasing prices or supply chain issues). The guidance cut for FedEx caused the stock to suffer its biggest one-day drop (-21%) in its history, dating back to its IPO in 1978. As a member of the Dow Jones Transportation index, FDX's huge drop on Friday caused the index to break to new bear market lows. Not a good development for Dow theorists and their barometer of the economy's health. Obviously, FedEx's warning signals the post-pandemic unwind.
- Markets will be squarely focused on central banks this week, with the Fed's decision on Wednesday being the key macro event. The BoE, SNB and BoJ decisions will also keep investors busy on Thursday.

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