

2023: A game of two (ish) halves

March 2023

Lee Ferridge

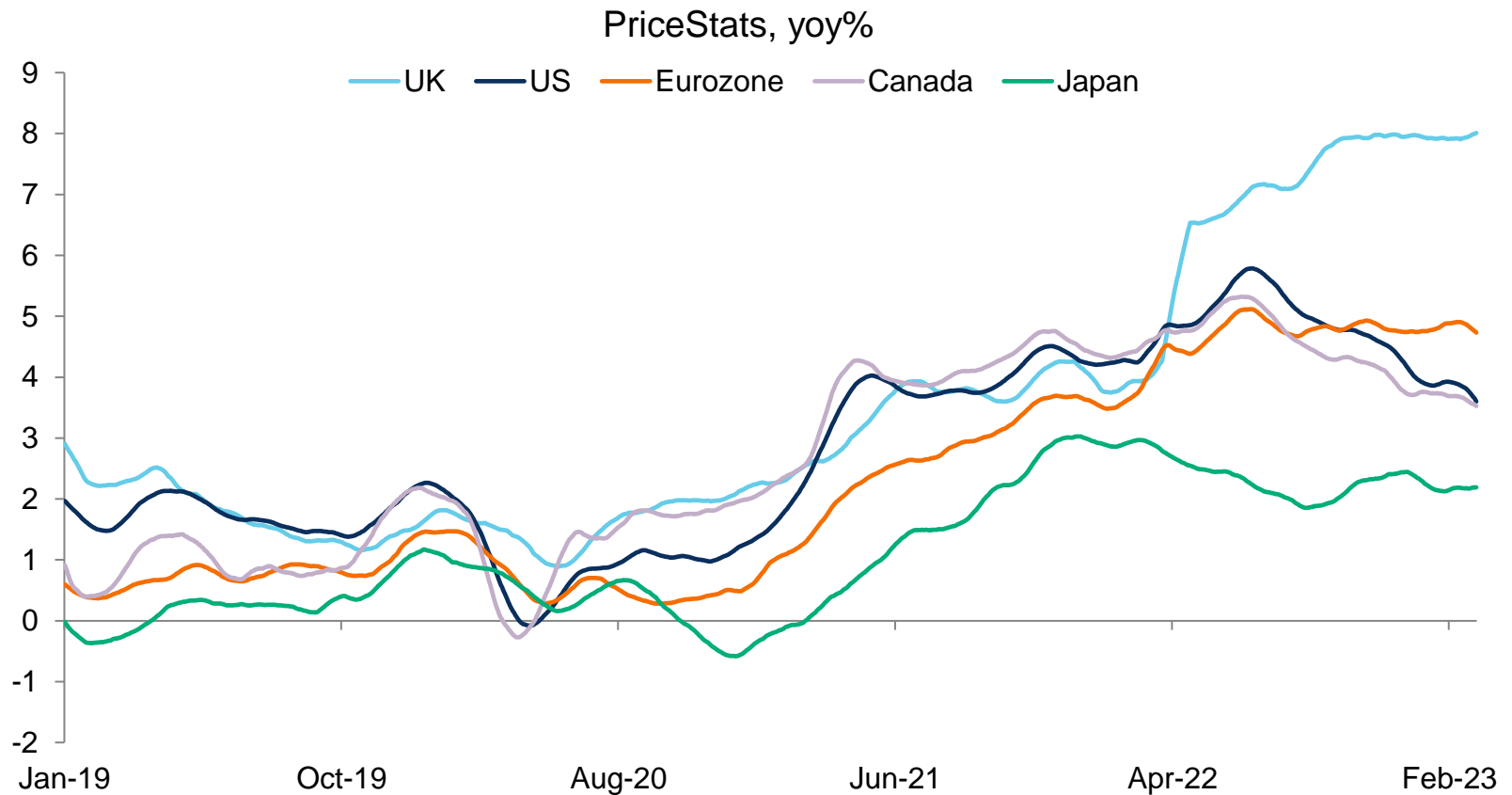
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H1 (really Q1 to Q3): Remarkable resilience (for some)

Inflation has peaked

But how quickly will it fall?

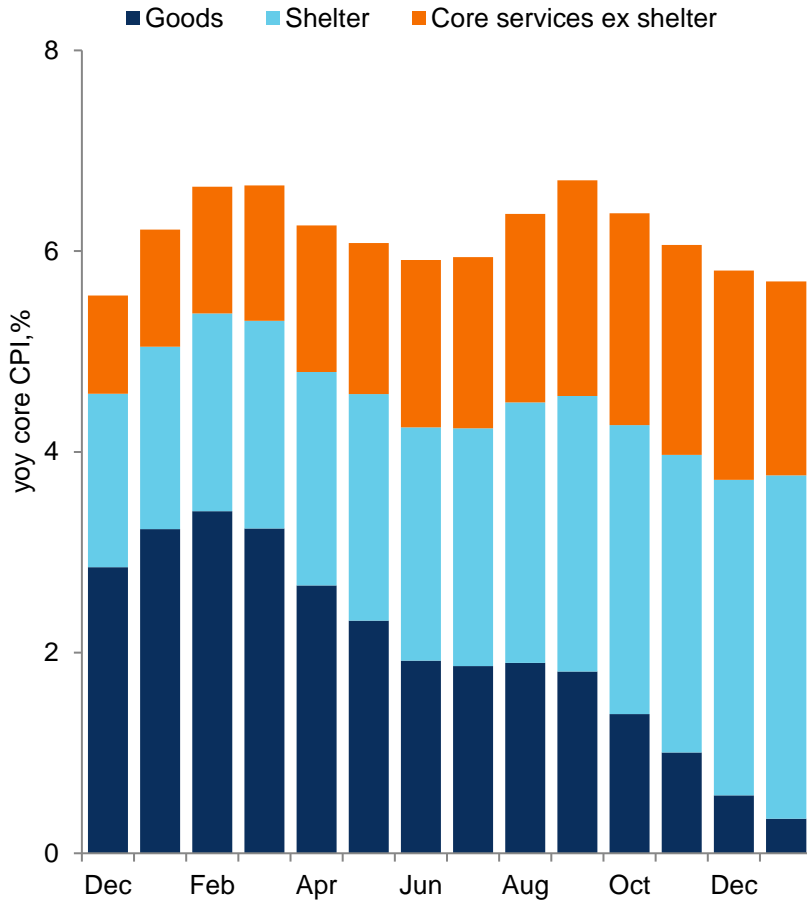


Source: State Street Global Markets, PriceStats; data as of 3/08/23

Looking to the core

Services ex energy and shelter now the Fed focus

Shifting focus



To prove stubborn?

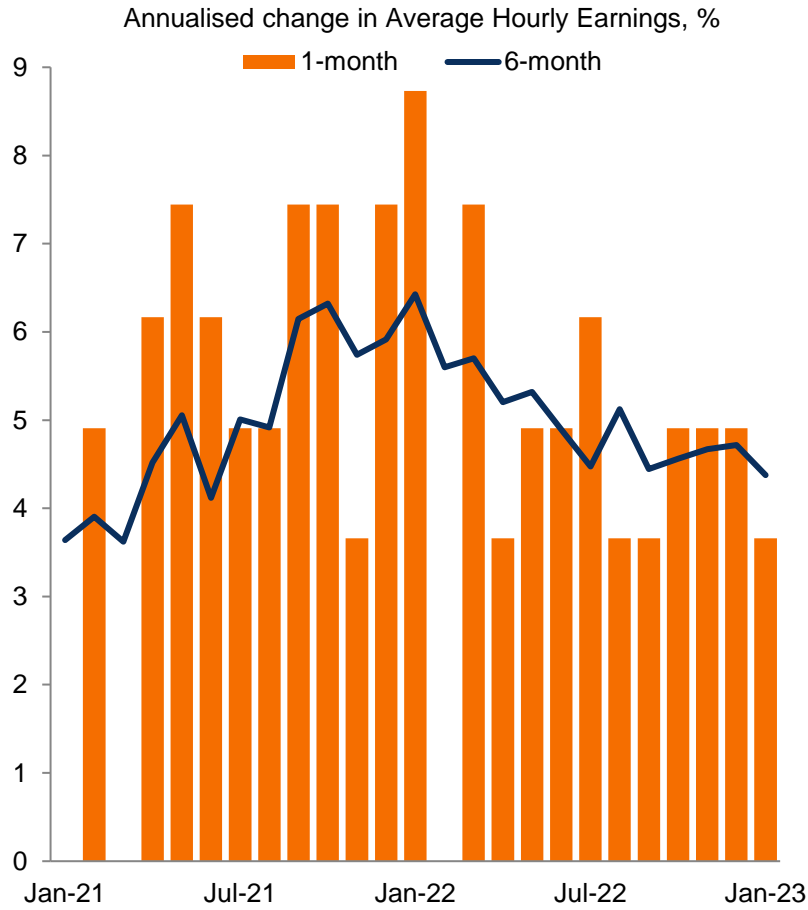


Source: State Street Global Markets, Bloomberg; data as of 3/08/23

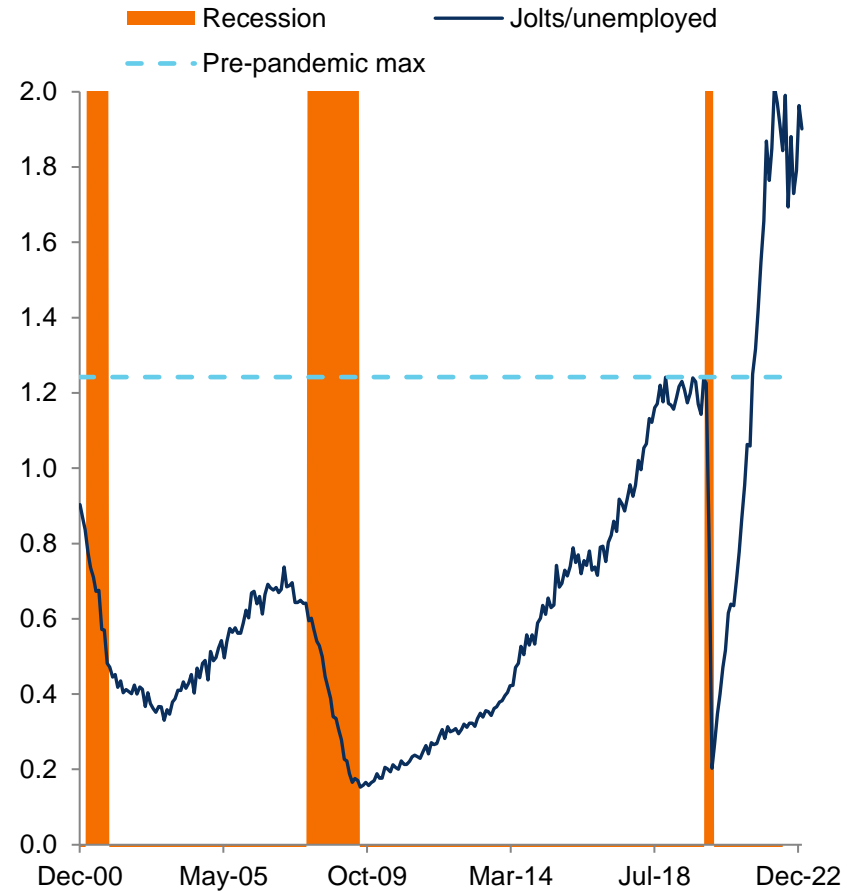
The Fed's biggest fear

Embedded

Slowing down, but stubborn



And workers still needed

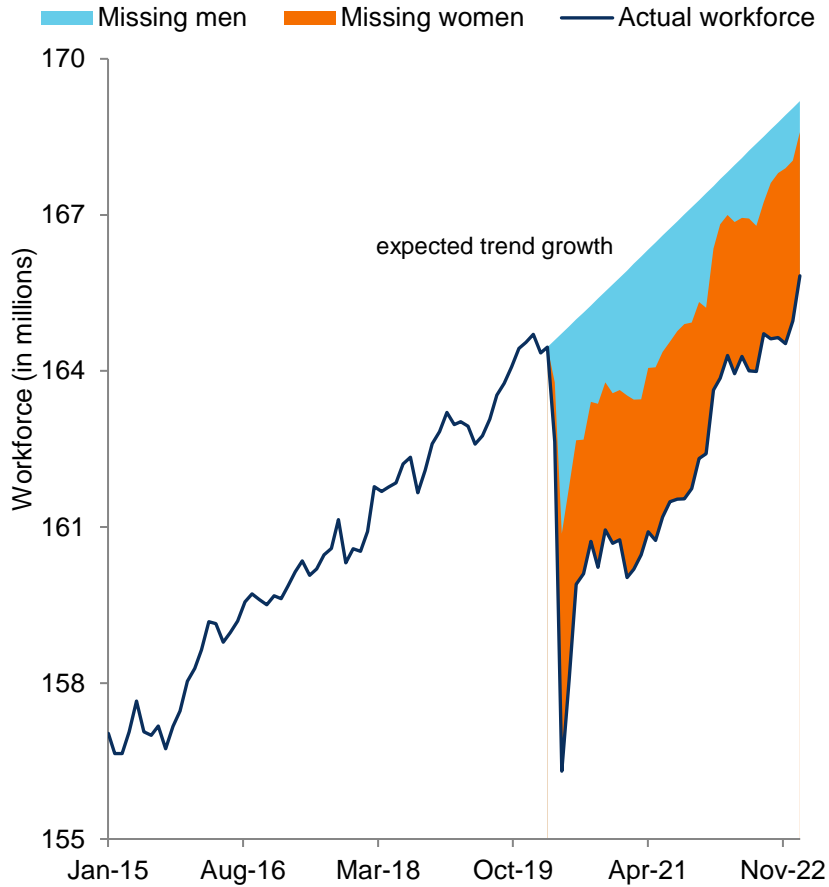


Source: State Street Global Markets, Bloomberg; data as of 3/08/23

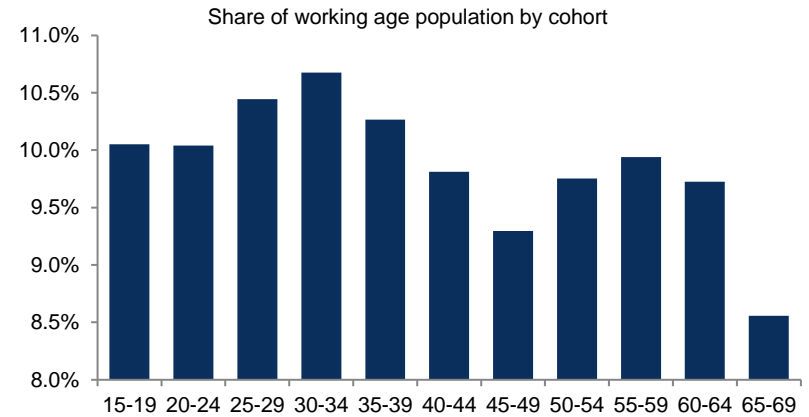
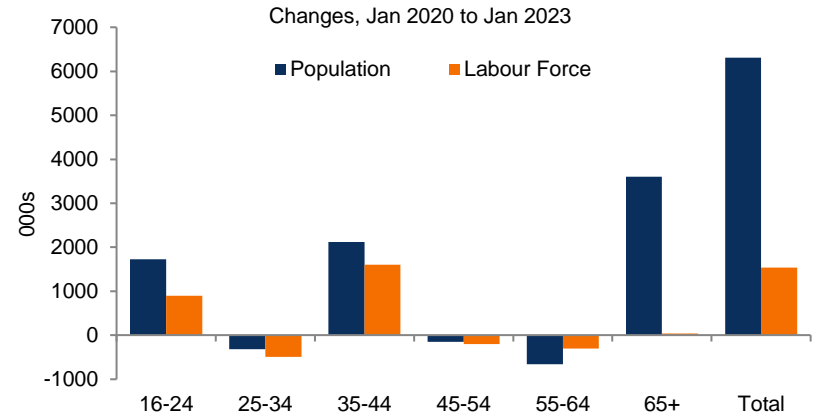
Labour market still tight

Will worker shortage persist?

Where are all the people?



All about retirements



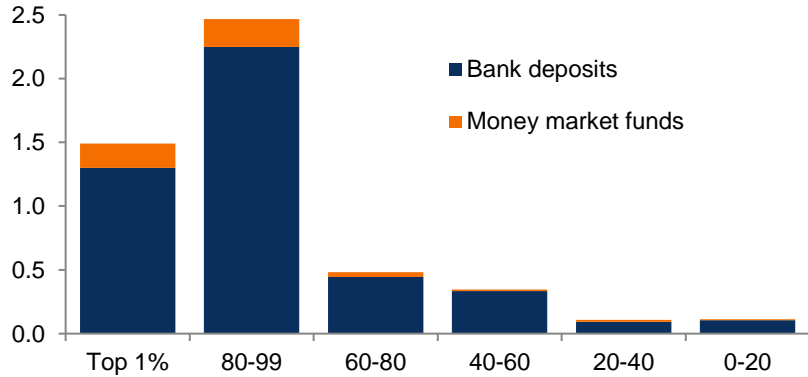
Source: State Street Global Markets, Bloomberg; data as of 3/08/23

And the consumer still has cash

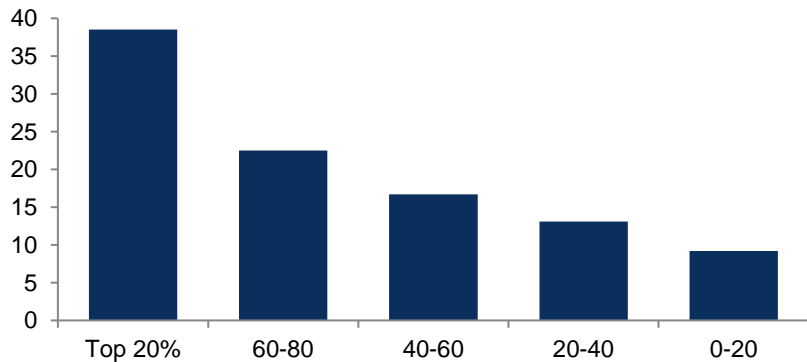
Pandemic savings are still being worked through

Balances are still up (some more than others)

Change in consumer balances, Dec 2019 to Sep 2022 by income group, US\$ tr

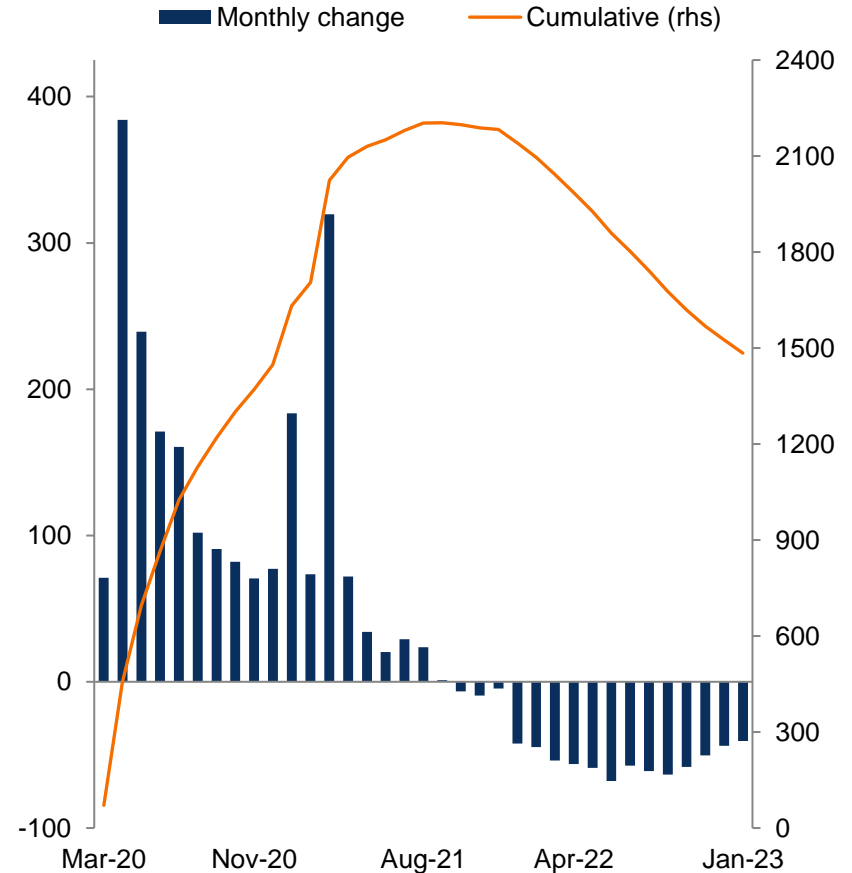


Share of aggregate annual expenditure by income group, %



Running down, but still positive

Real excess savings, US\$ bn

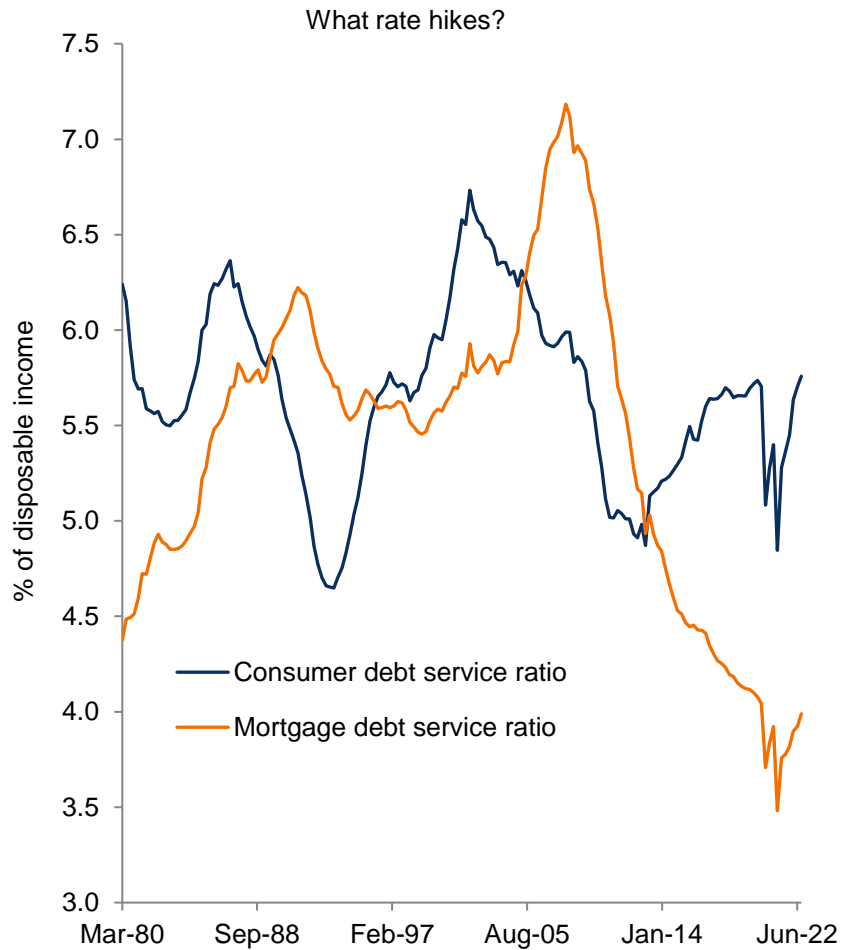


Source: State Street Global Markets, Federal Reserve, Bloomberg; data as of 3/08/23

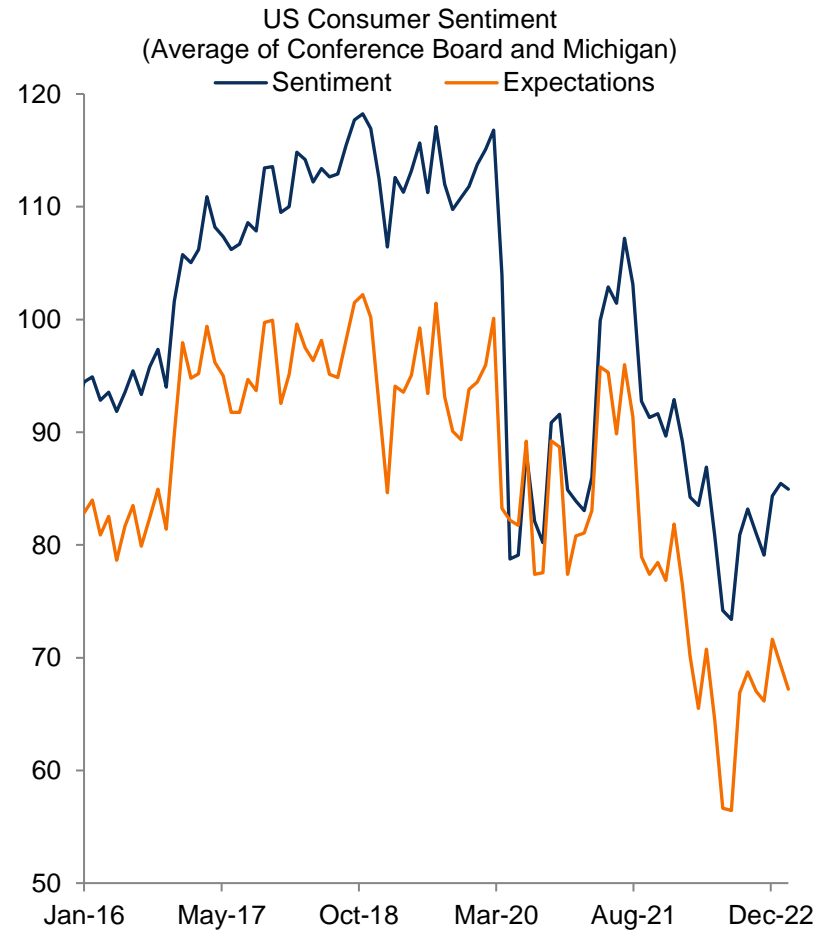
What rate hikes?

The US is a fixed rate world

Existing loan costs are largely unchanged



Feeling more confident



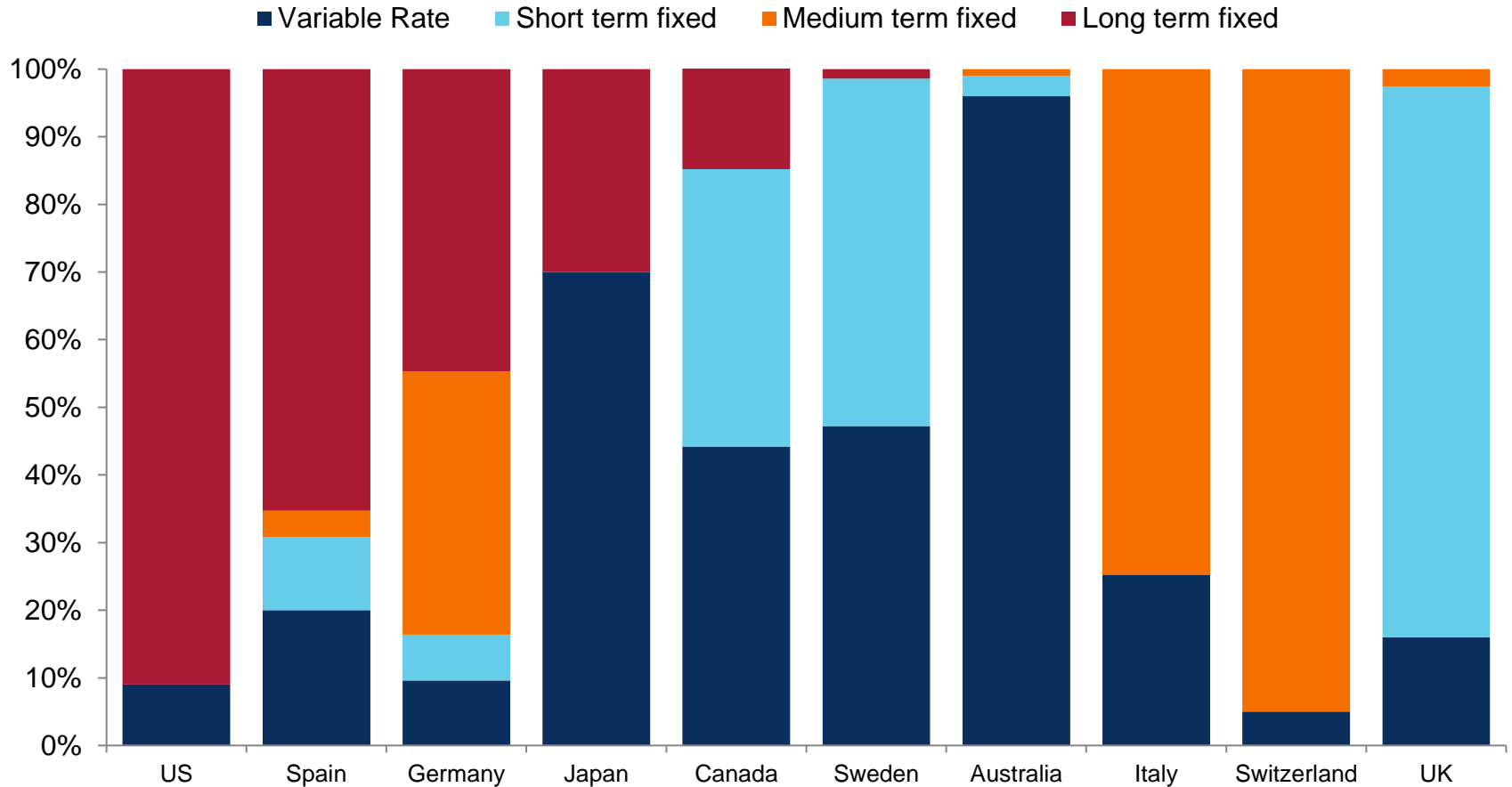
Source: State Street Global Markets, Federal Reserve, Bloomberg; data as of 3/08/23

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Making the Fed's job harder

Fed can hurt new activity, but not the consumer's pocket

A very different mortgage market

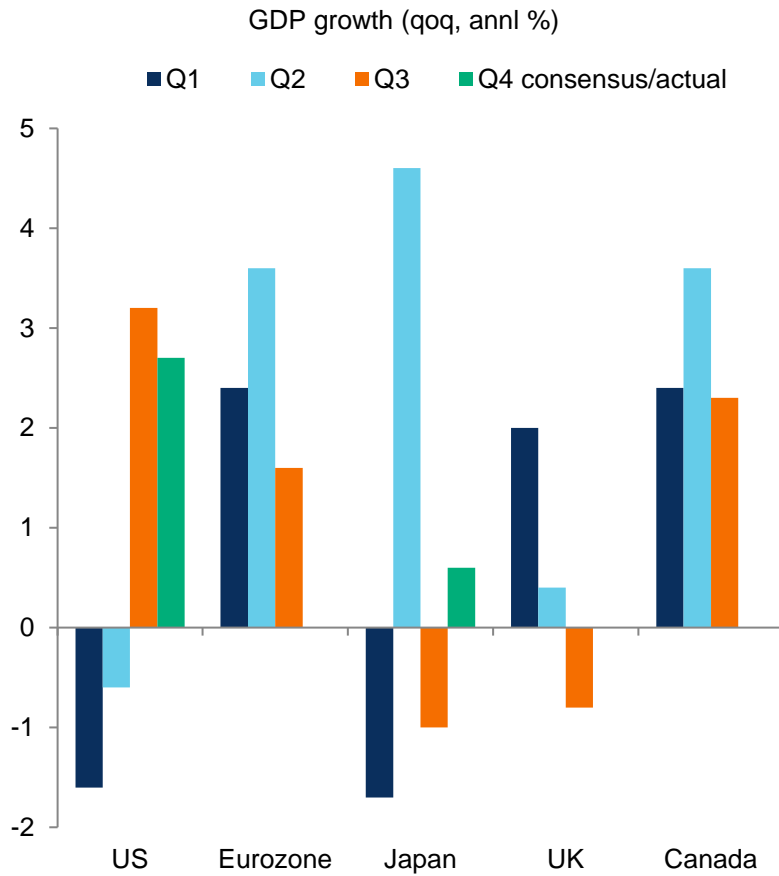


Source: State Street Global Markets, EMF Quarterly Review, Q2 022; data as of 3/08/23

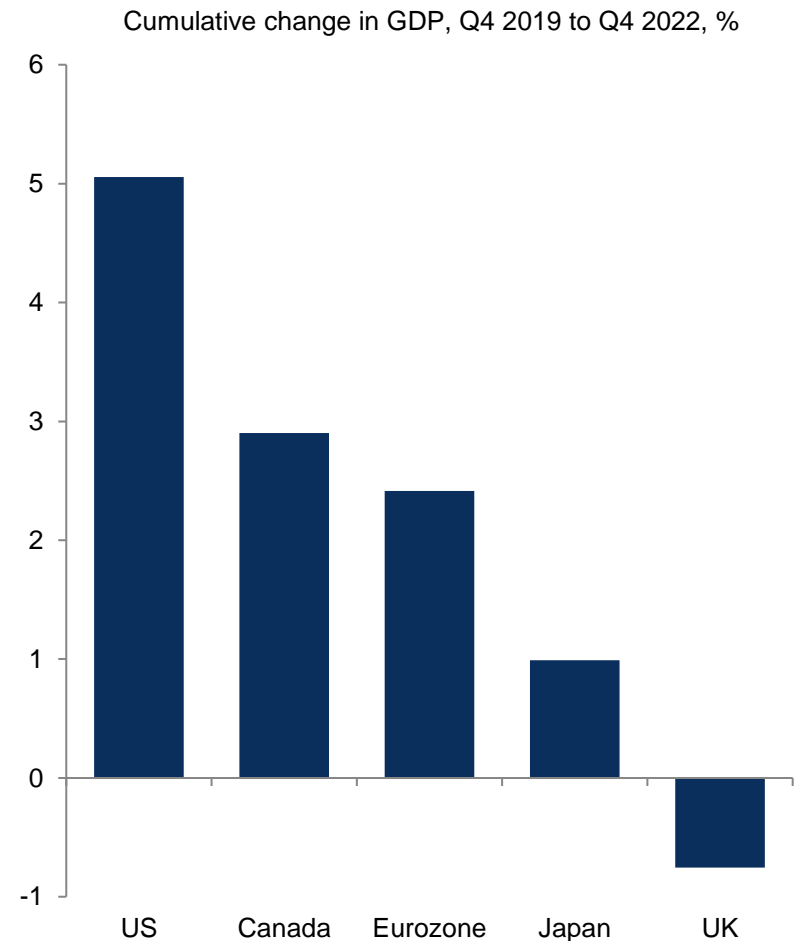
US separating from the G7 pack

Divergence is becoming clear

Economic momentum



And performance



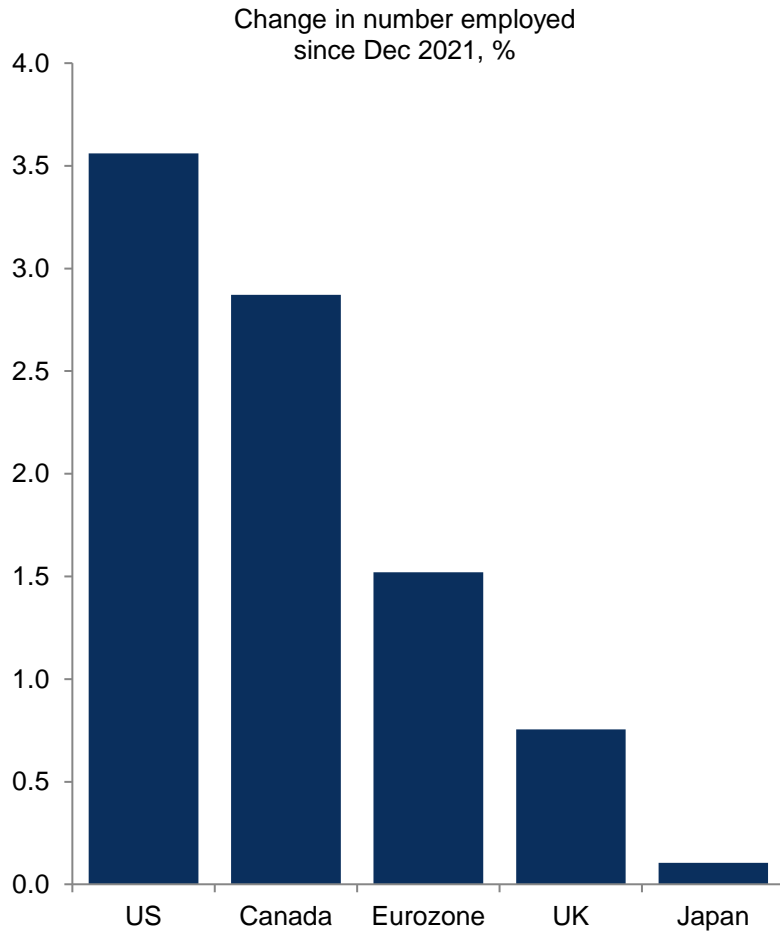
Source: State Street Global Markets, Bloomberg; data as of 3/08/23

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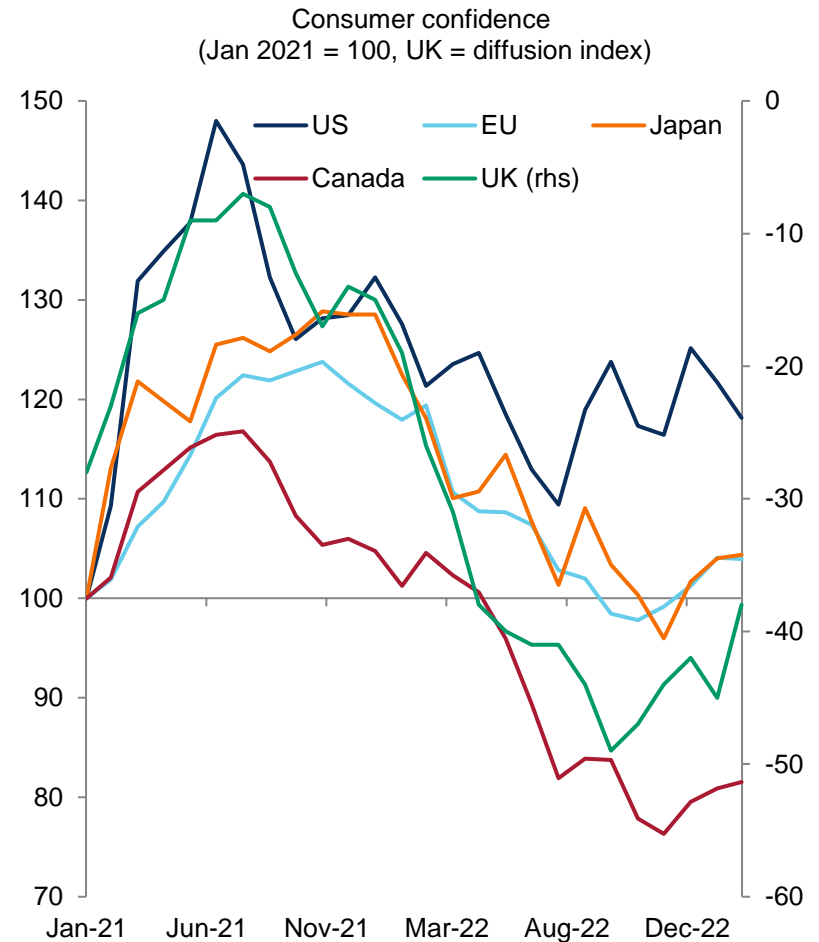
Also clear in other areas

US consumer in a better place

Labour market



And confidence



Source: State Street Global Markets, Bloomberg; data as of 3/08/23

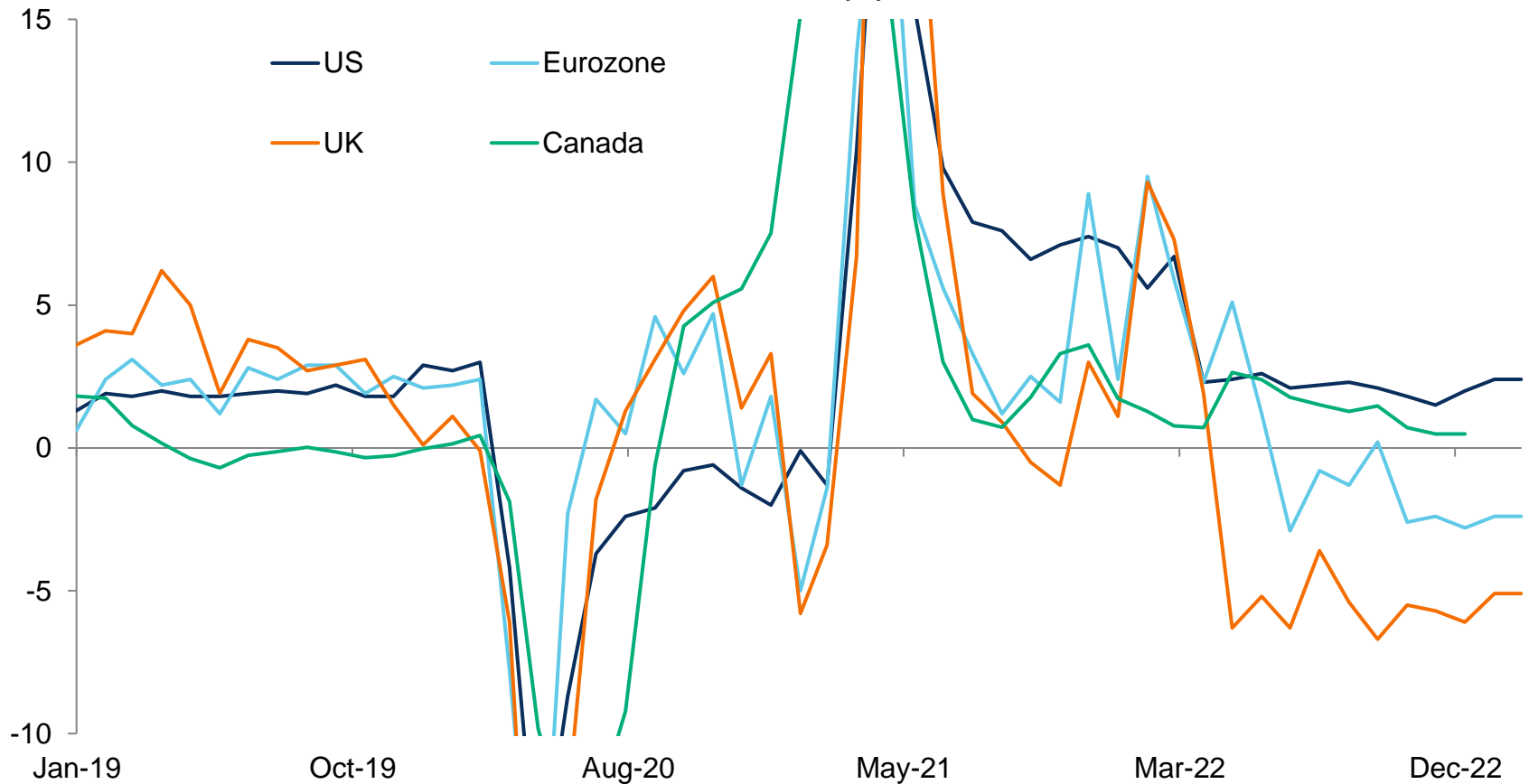
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So, US holding up better than others

US is simply in a different place

US (and Canada) bucking the trend

Real retail sales, yoy%



Source: State Street Global Markets, Bloomberg; data as of 3/08/23

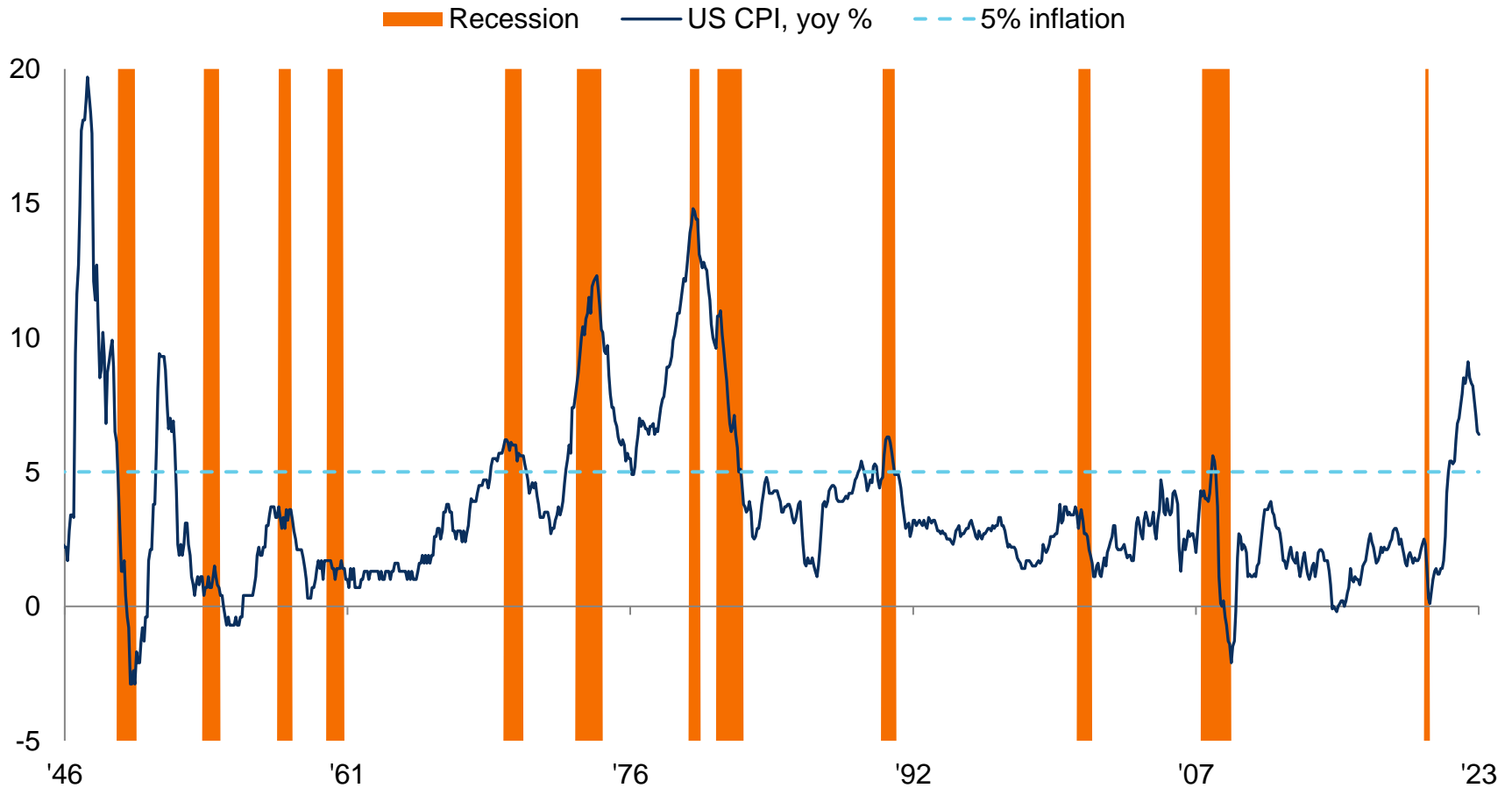
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H2 (really Q4): The inevitable collapse (and convergence)

Goldilocks is still hopeful

But recession increasingly hard to avoid

Is this time really different?



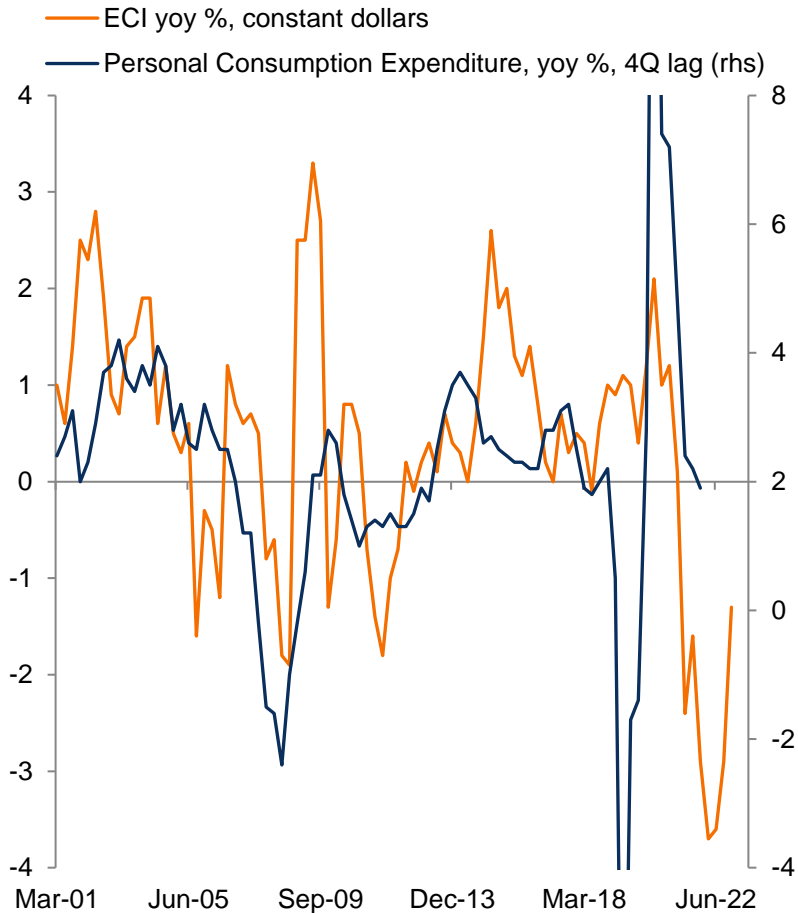
Source: State Street Global Markets, Bloomberg; data as of 3/08/23

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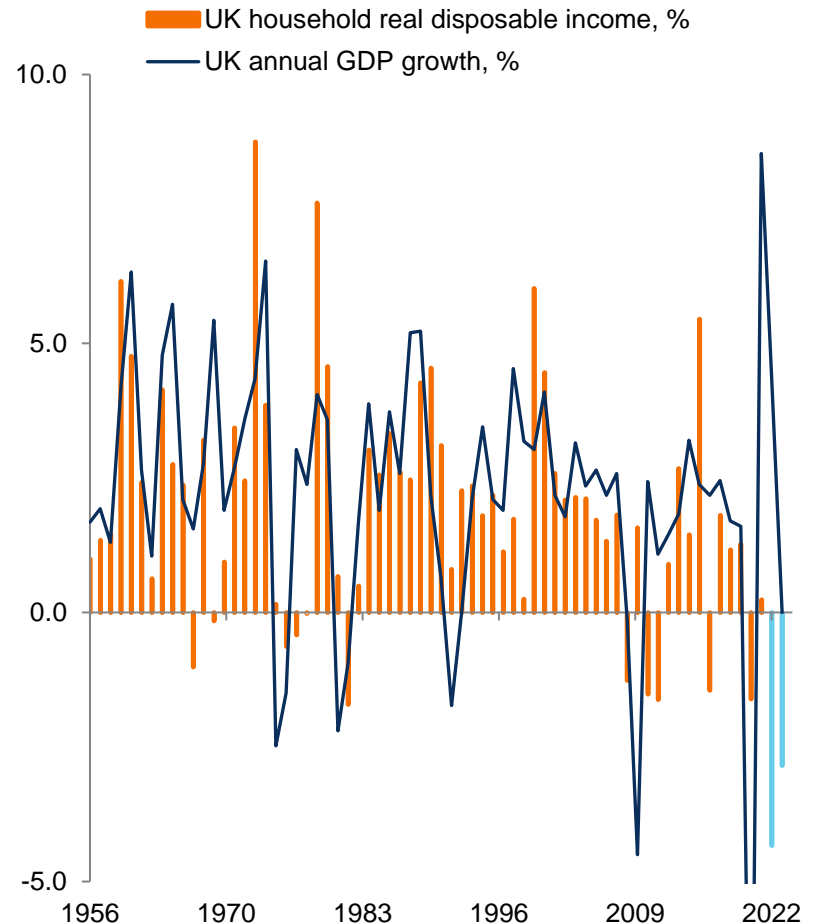
Demand destruction

Eventually the US consumer will be spent; its just not yet

The biggest squeeze on record



Even worse elsewhere



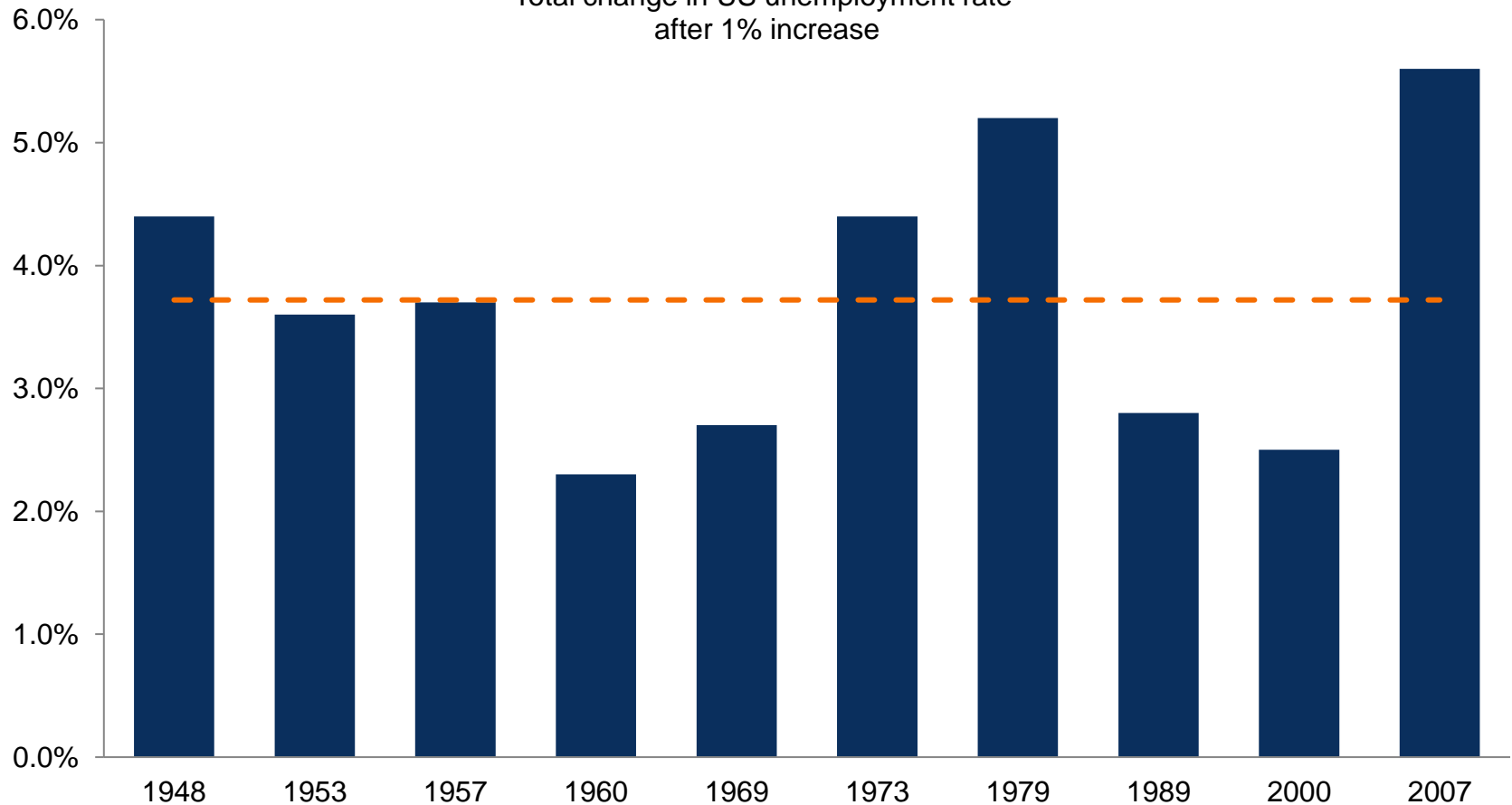
Source: State Street Global Markets, Bloomberg; data as of 3/08/23

Soft landings are rare

The labour market is a slow-moving tanker

Is this time really different?

Total change in US unemployment rate
after 1% increase

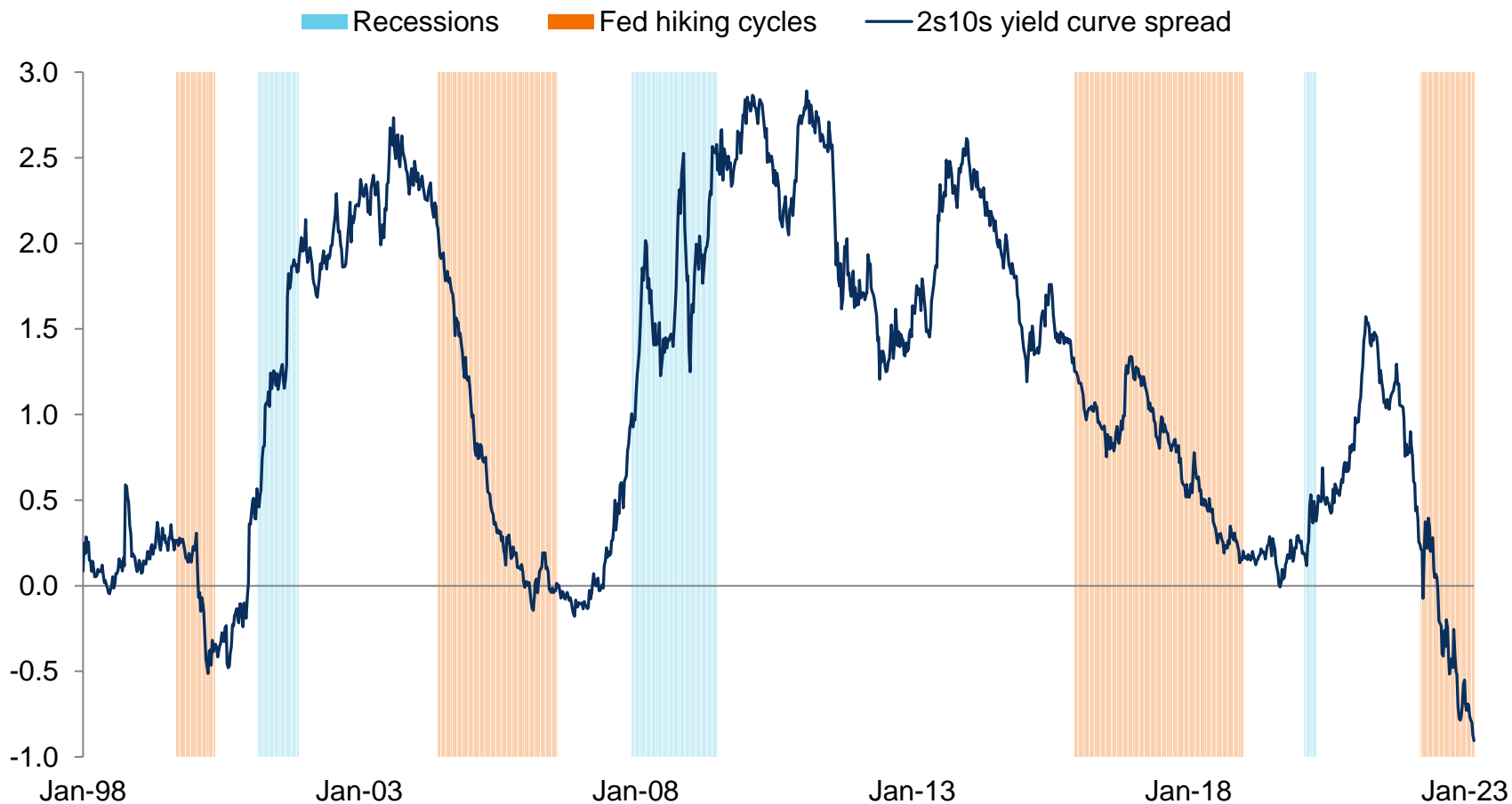


Source: State Street Global Markets, Bloomberg; data as of 3/08/23

Not wrong, just delayed

The bond market has not lost its predictive power

Is this time really different?

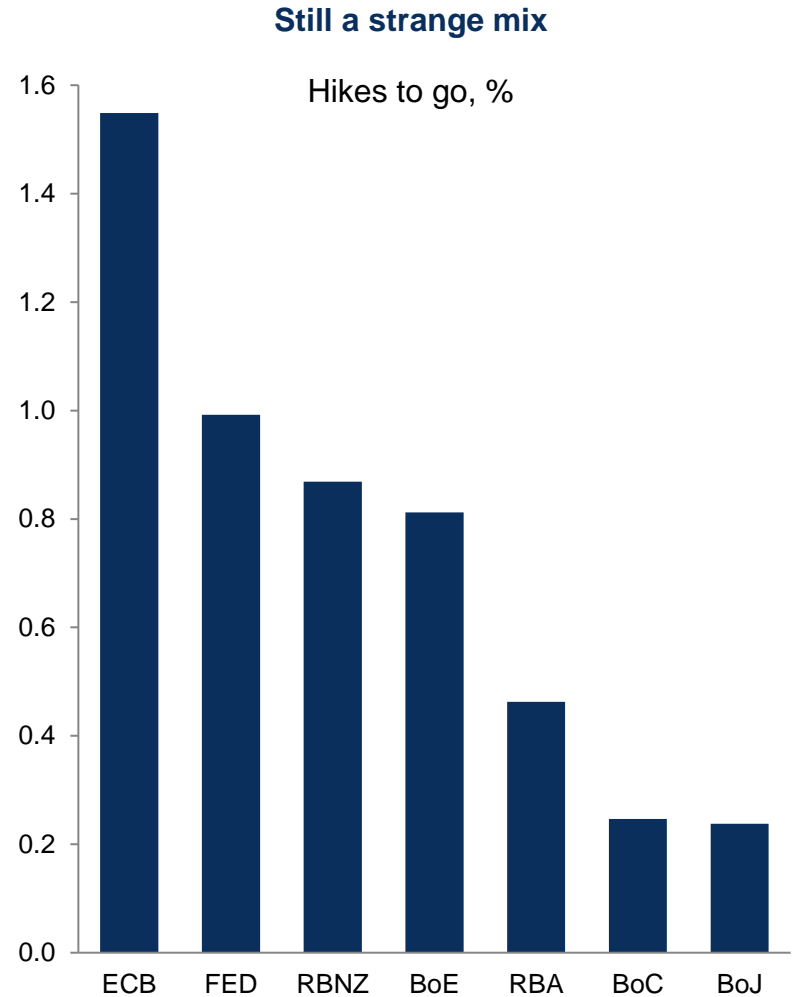
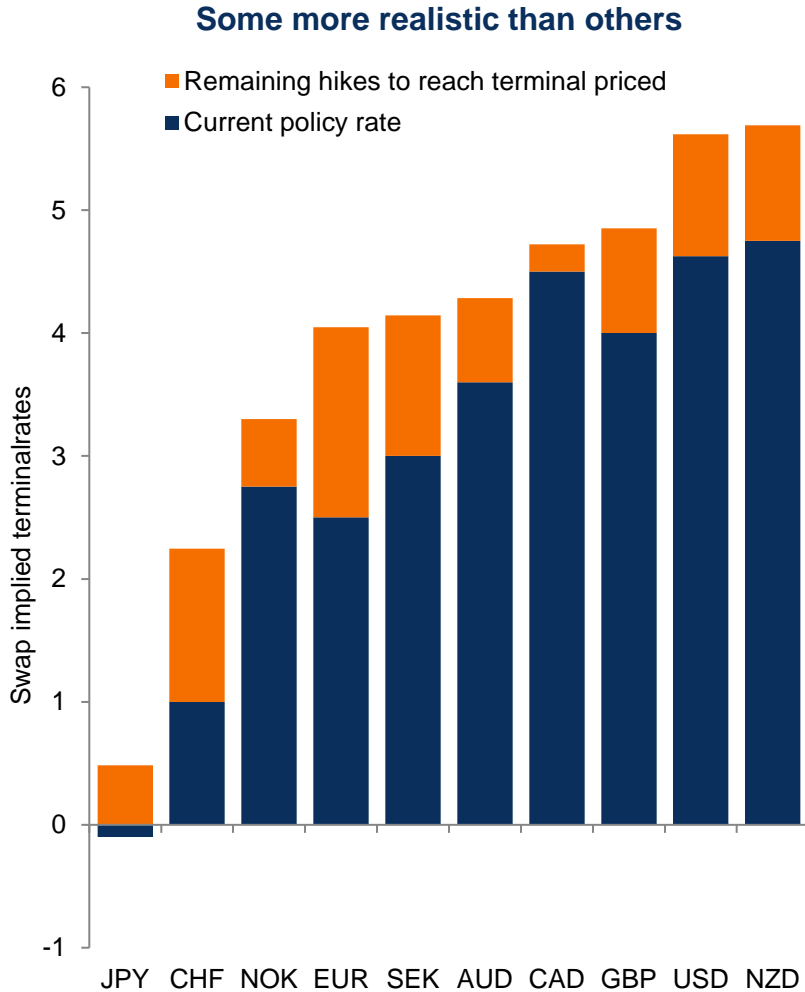


Source: State Street Global Markets, Bloomberg; data as of 3/08/23

Terminal issues

Terminal questions

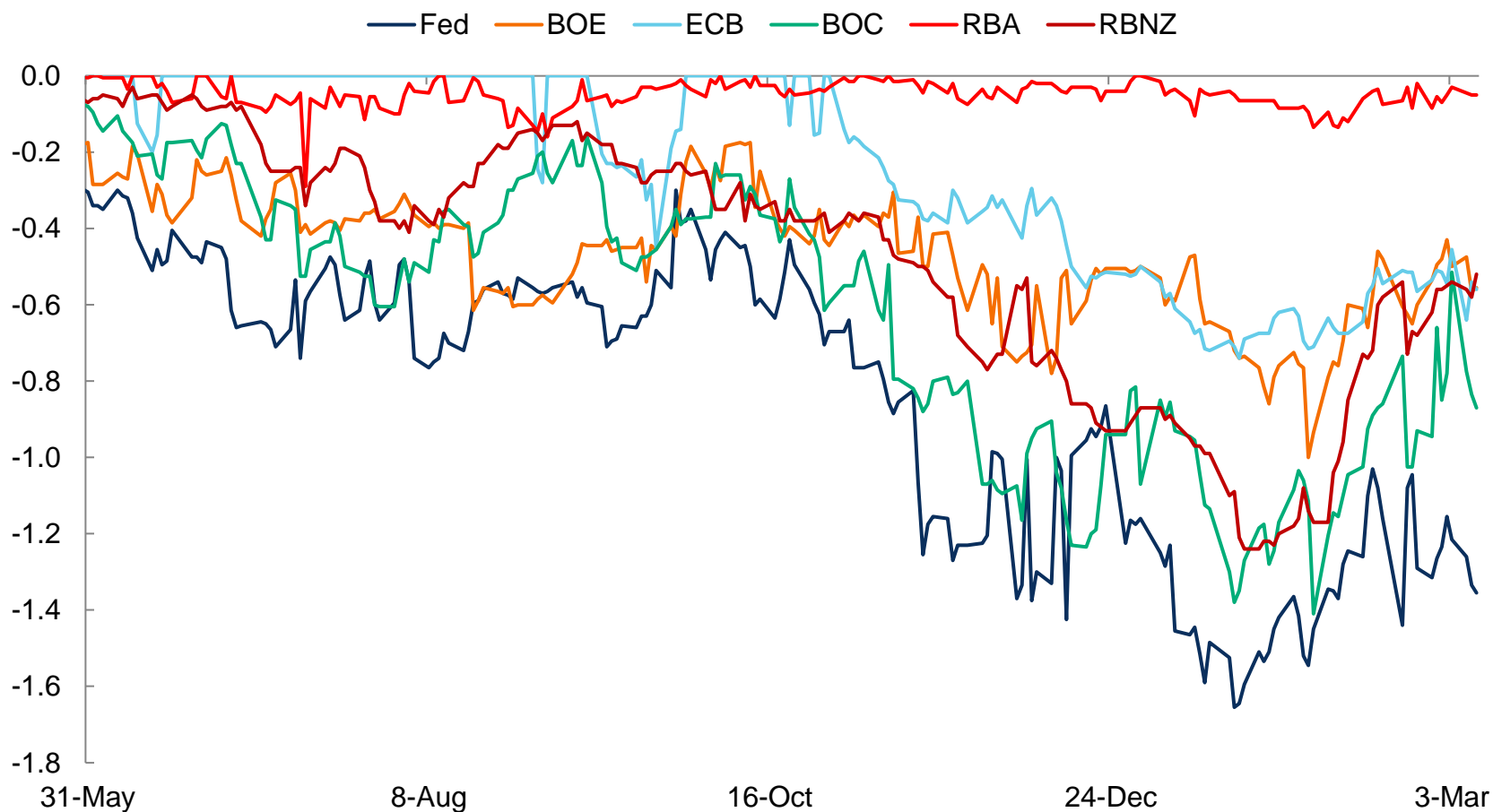
Getting towards the end, but some won't get there



Source: State Street Global Markets, Bloomberg; data as of 3/08/23

Fed pivot most aggressive

Most aggressive cuts 1 year after terminal



Source: State Street Global Markets; Bloomberg, data as of 3/08/23

What it all means for markets

Stocks have not seen the lows yet

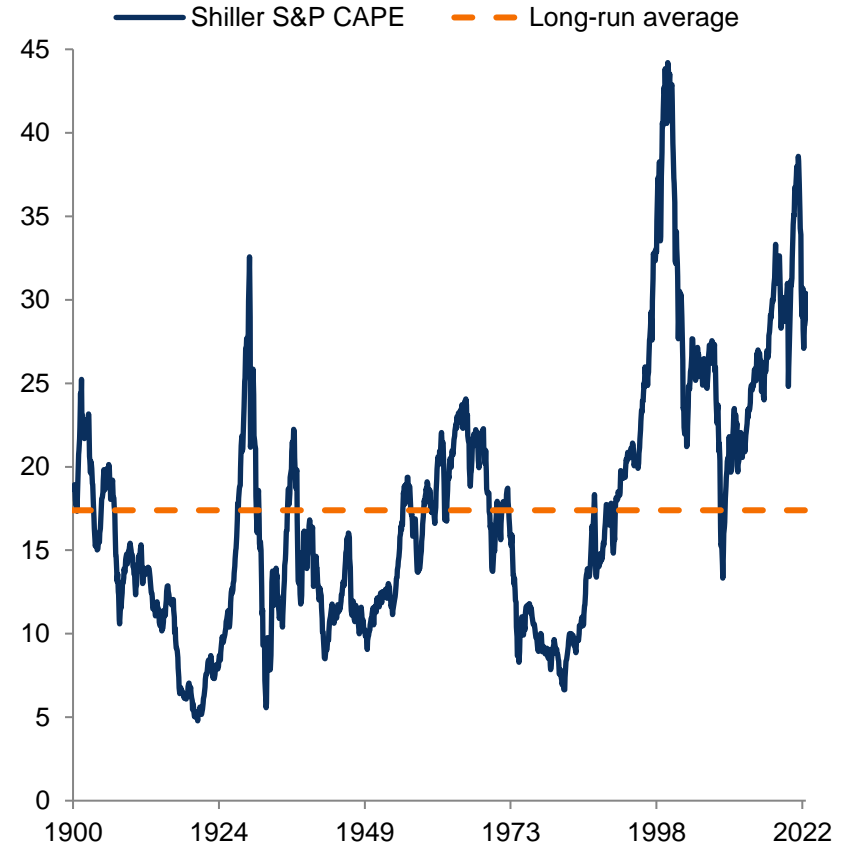
Still a bear market and, still overvalued

Still in a downtrend

SPX Index



And still expensive



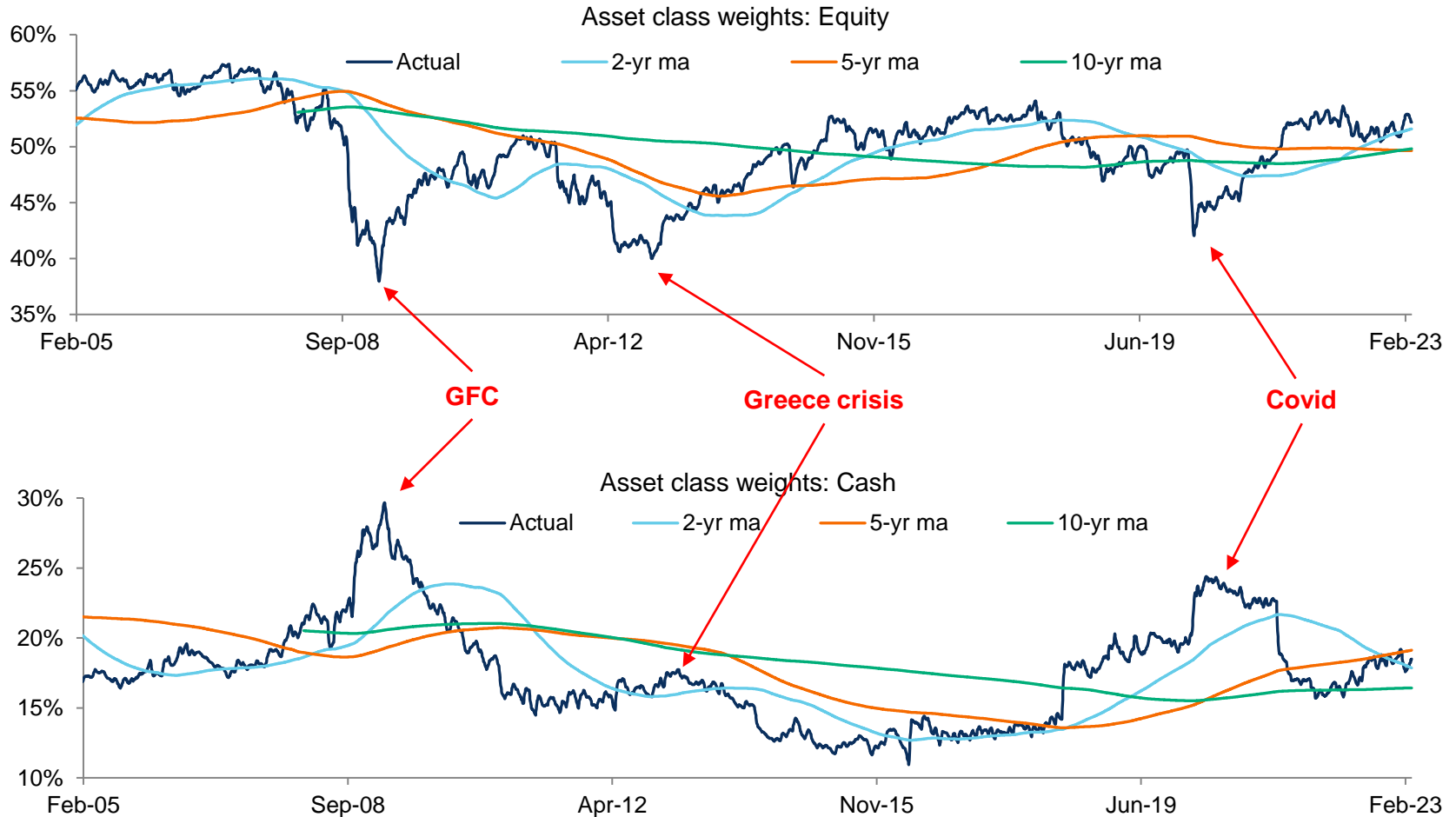
Source: State Street Global Markets, Bloomberg; data as of 3/08/23

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And real money investors have still not capitulated

Portfolios basically at neutral

No capitulation yet



Source: State Street Global Markets; data as of 3/08/23

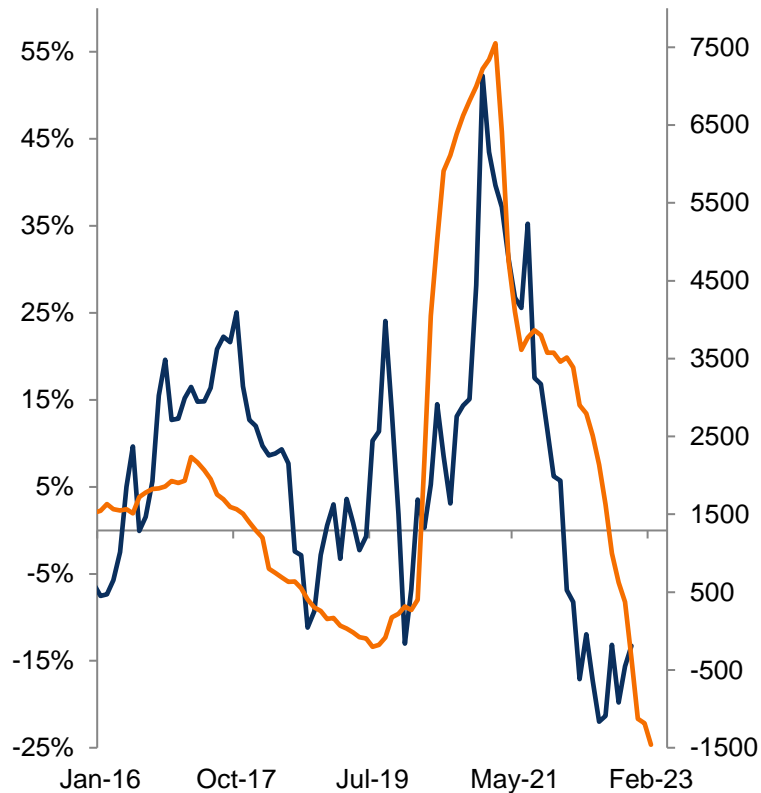
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And don't forget QT

Liquidity being withdrawn, not added now

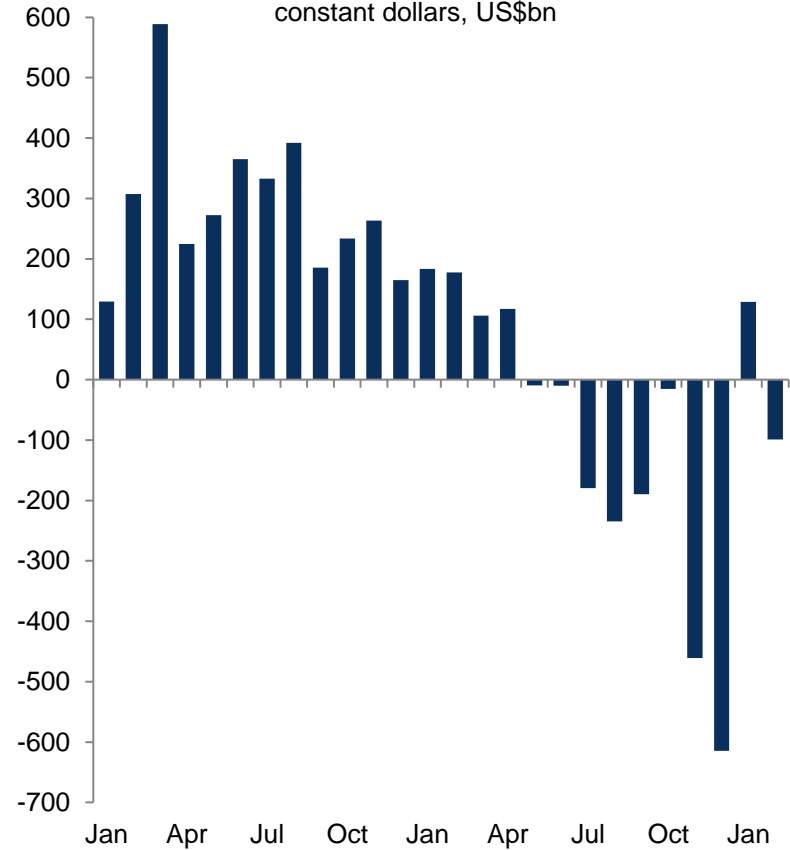
A different world

— Change in MSCI global index, yoy % (3m lag)
 — 12m change in G3 CB balance sheets, constant US\$ bn (rhs)



Welcome to QT time

Monthly change in G3 balance sheets
 constant dollars, US\$bn



2021

2022

2023

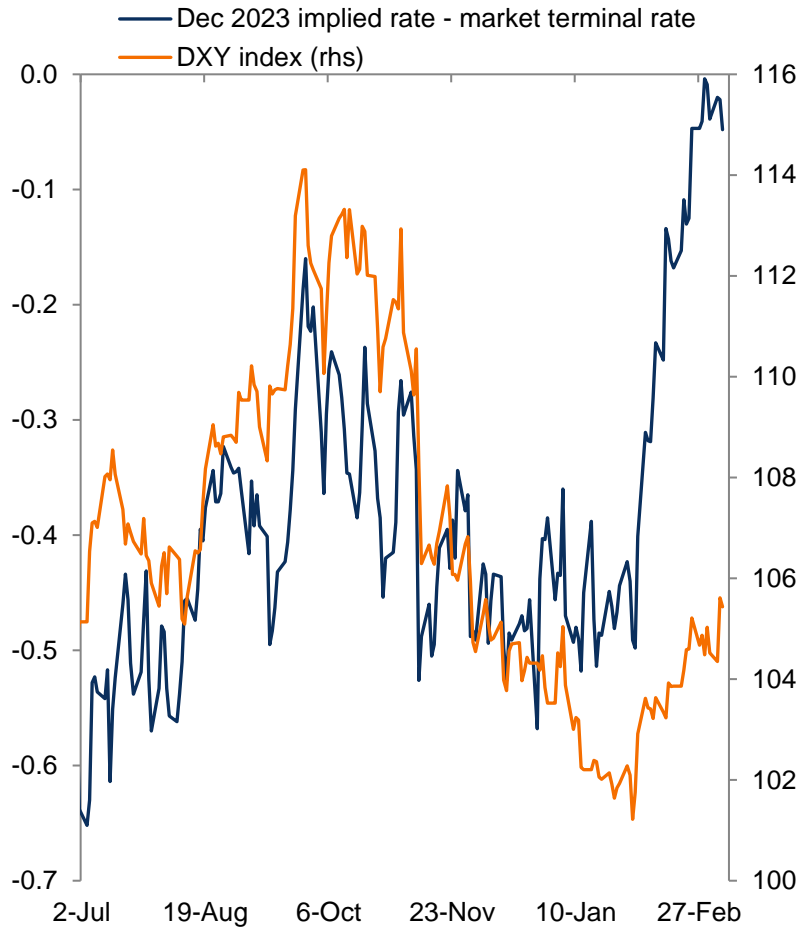
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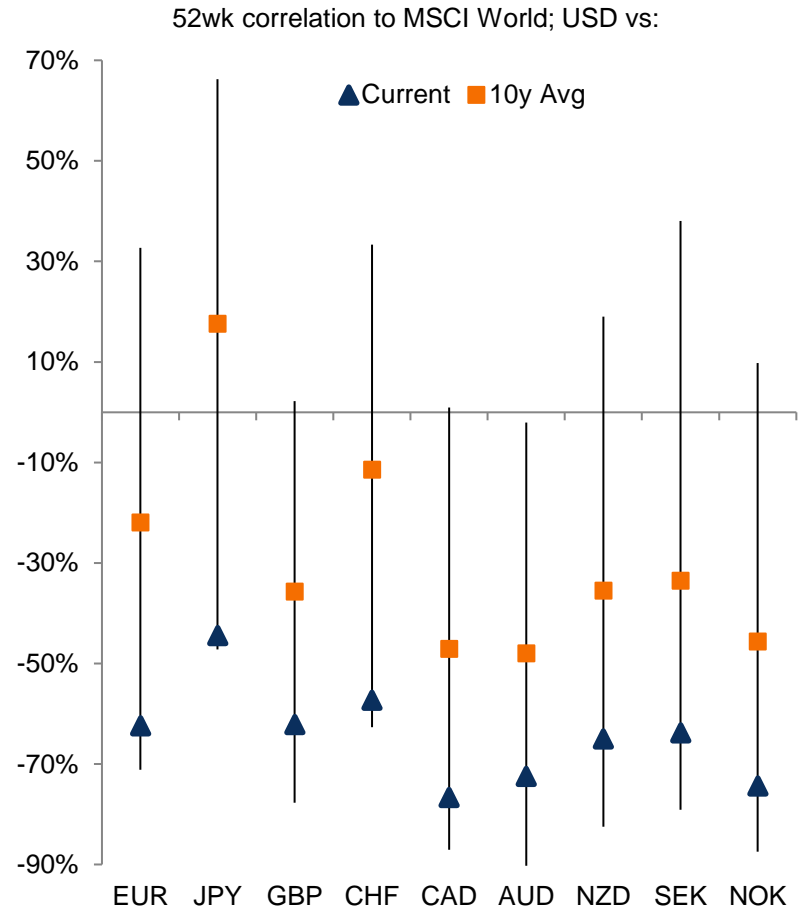
The dollar isn't done

May not get back to the highs, but will still outperform in H1

Rate re-price = USD up



Stocks down = USD up



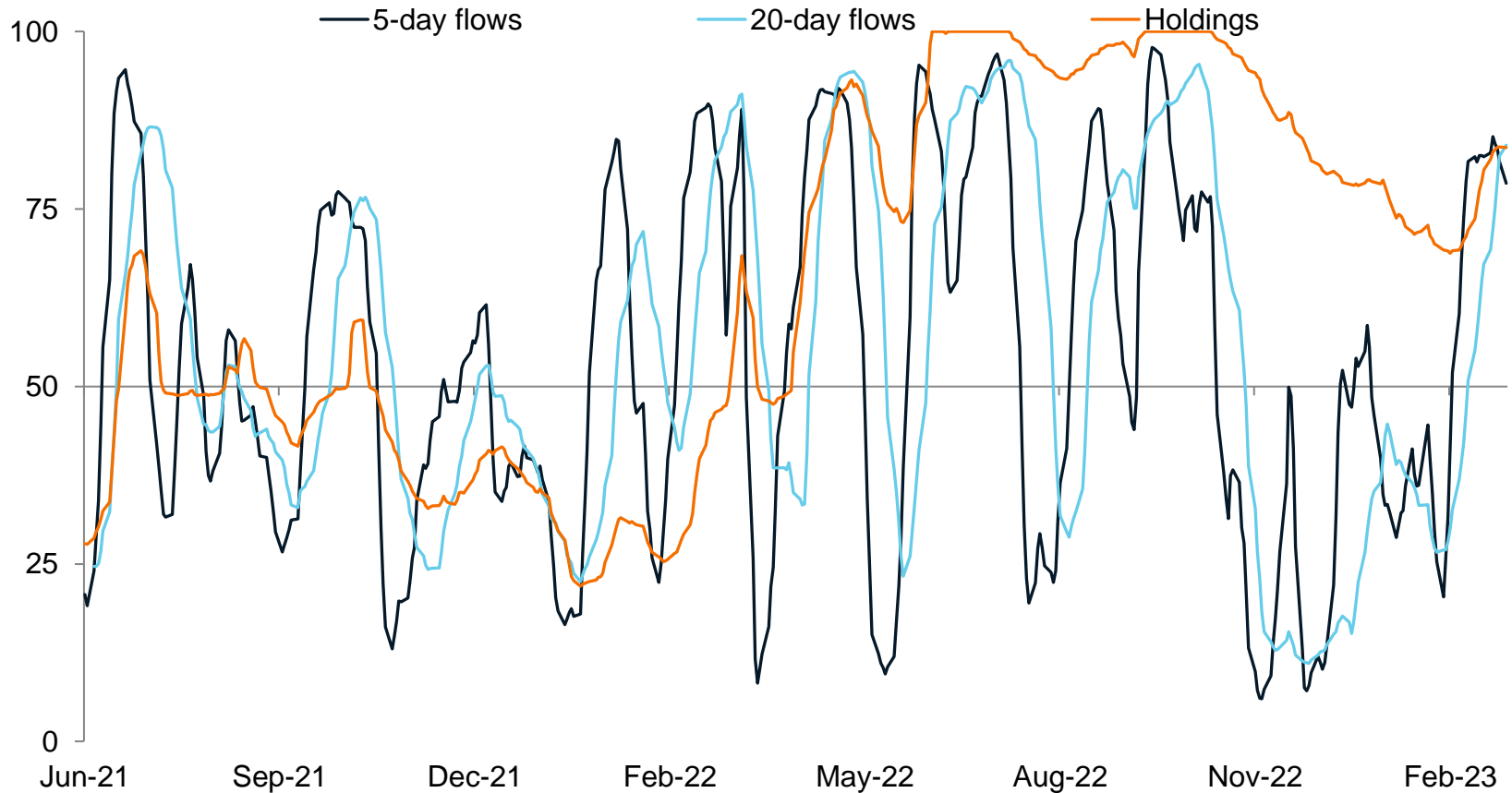
Source: State Street Global Markets, Bloomberg; data as of 3/08/23

Stop trying to pick a dollar top

Its still too soon

Real money keep trying to fade the dollar

USD Flows and Holdings, percentiles



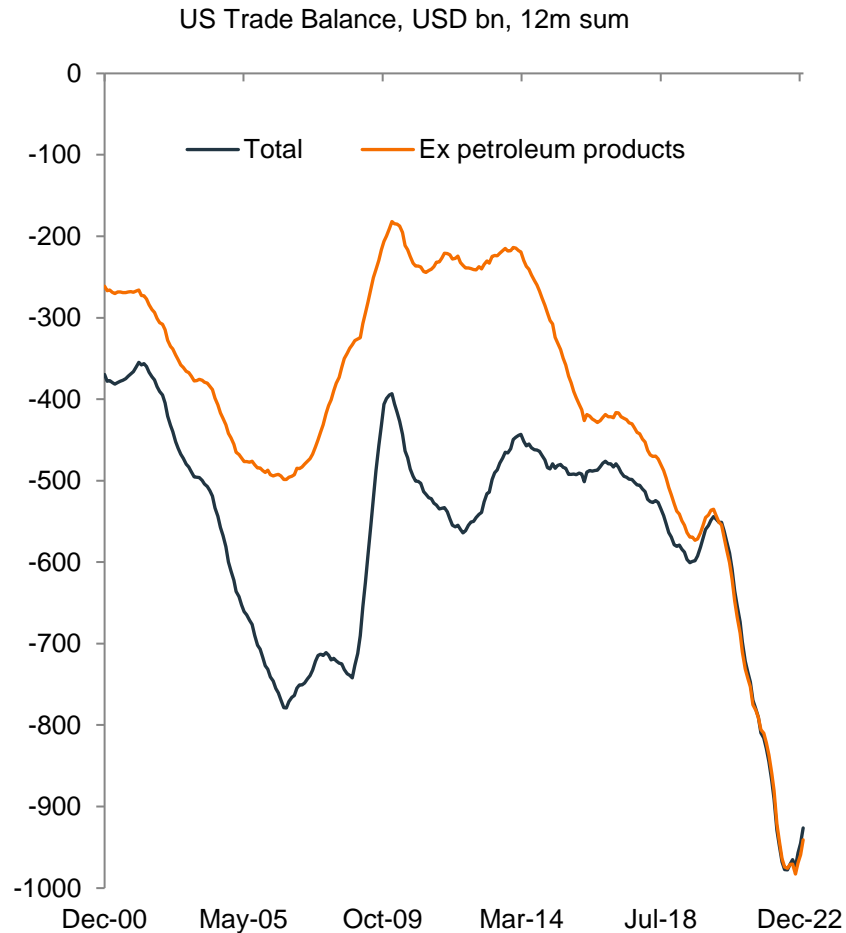
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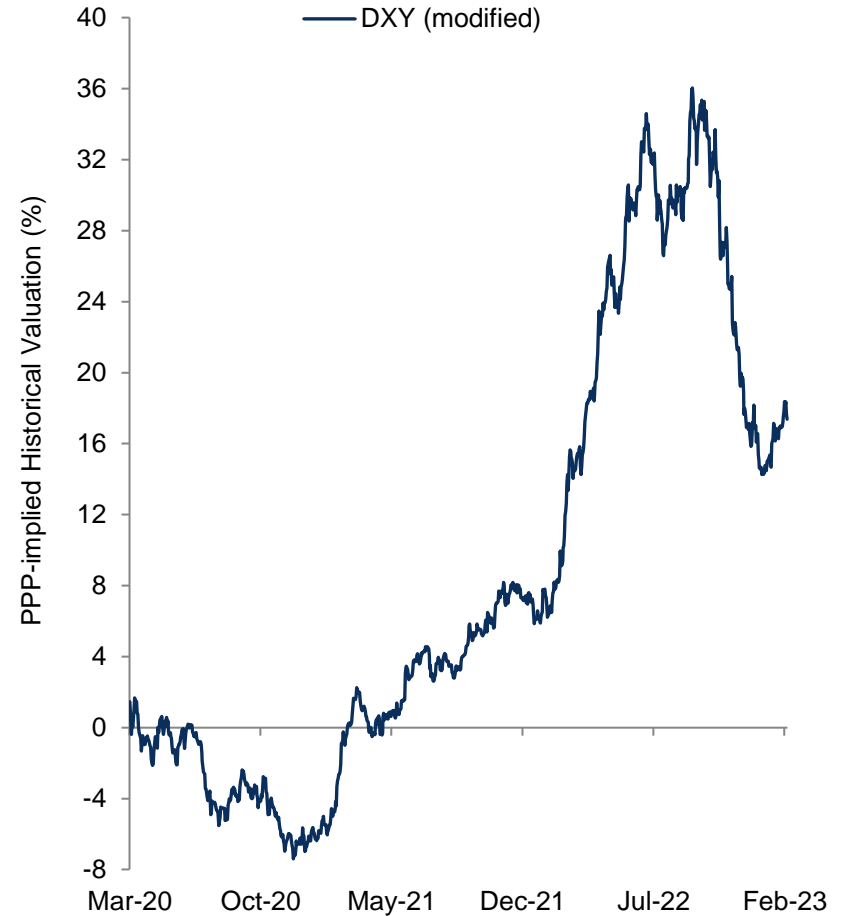
Major medium term dollar concerns

Deficits and valuation. But these are H2 concerns

It will be a problem one day



It won't fall in a straight line



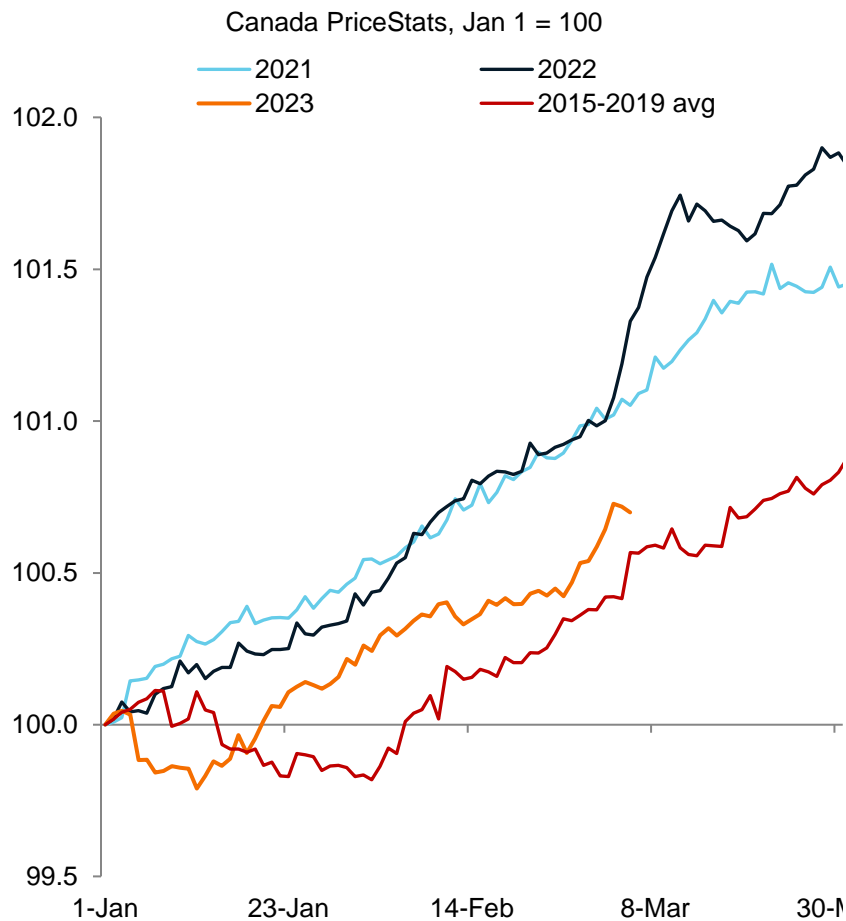
Source: State Street Global Markets, Bloomberg; data as of 3/08/23

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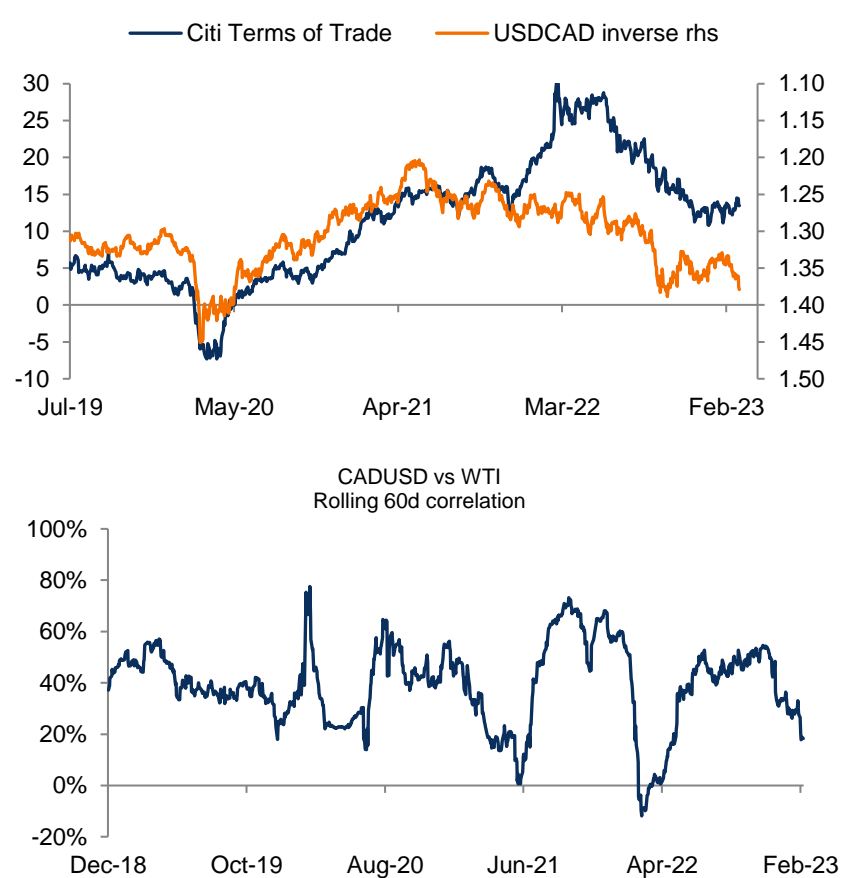
CAD: Middle of the G10 pack

Solid, but not spectacular

Still pretty strong



Oil less of a driver

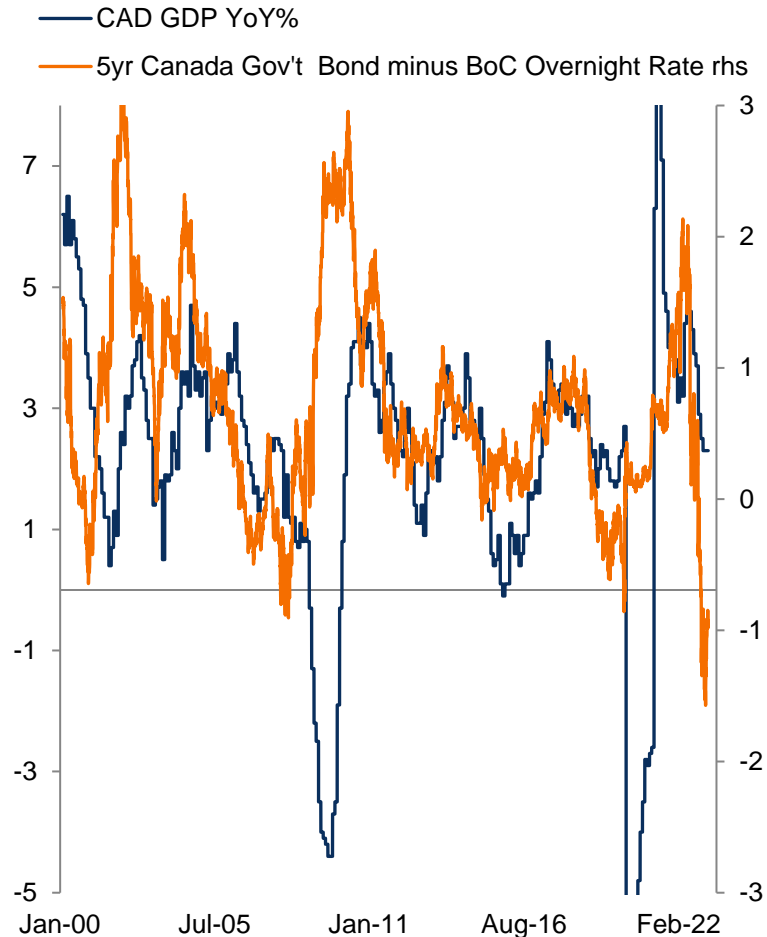


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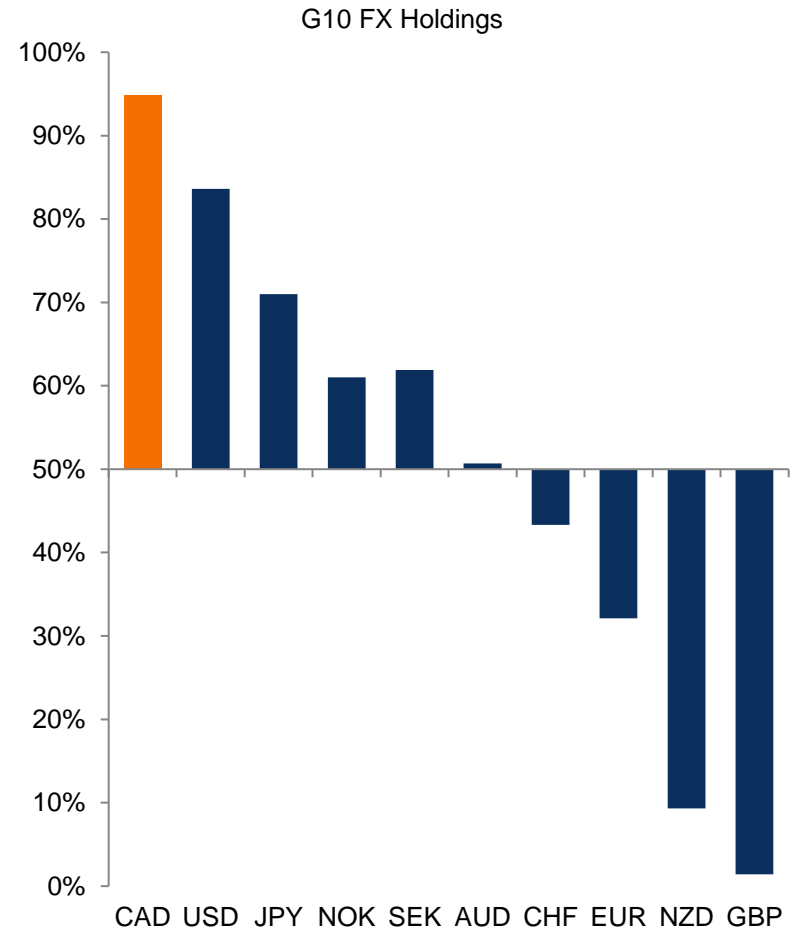
Growth and positioning concerns

Canadian consumers more exposed, real money overweight CAD, but cuts priced

Difficult times to come?



Vulnerable positioning



Source: State Street Global Markets, Bloomberg; data as of 3/08/23

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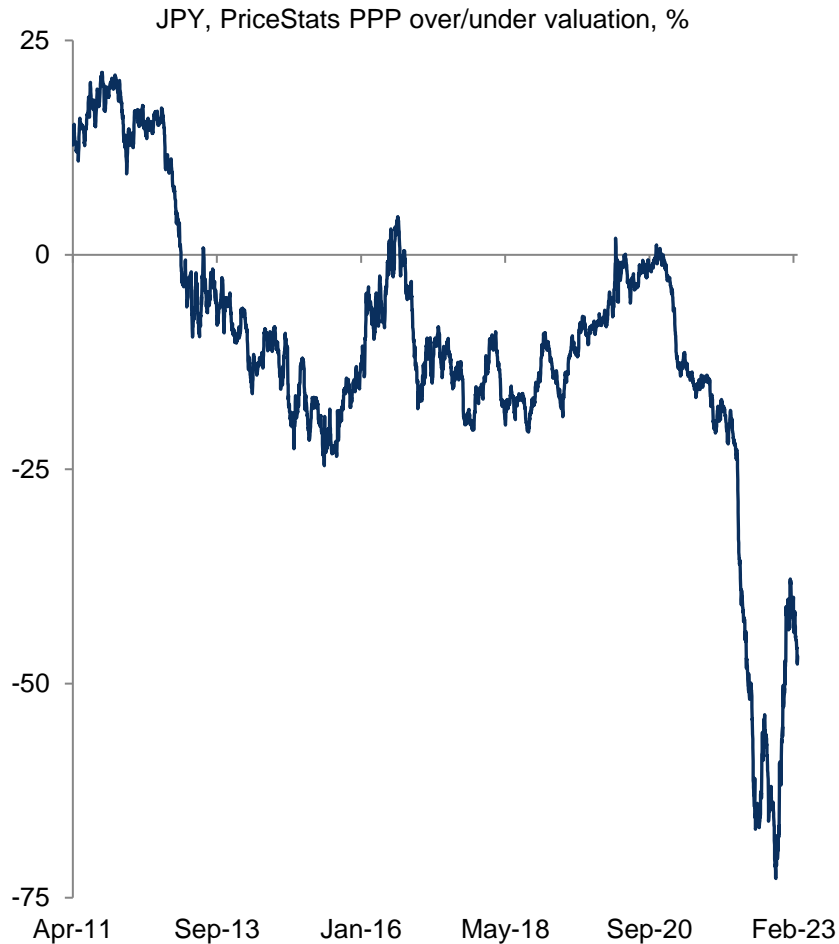
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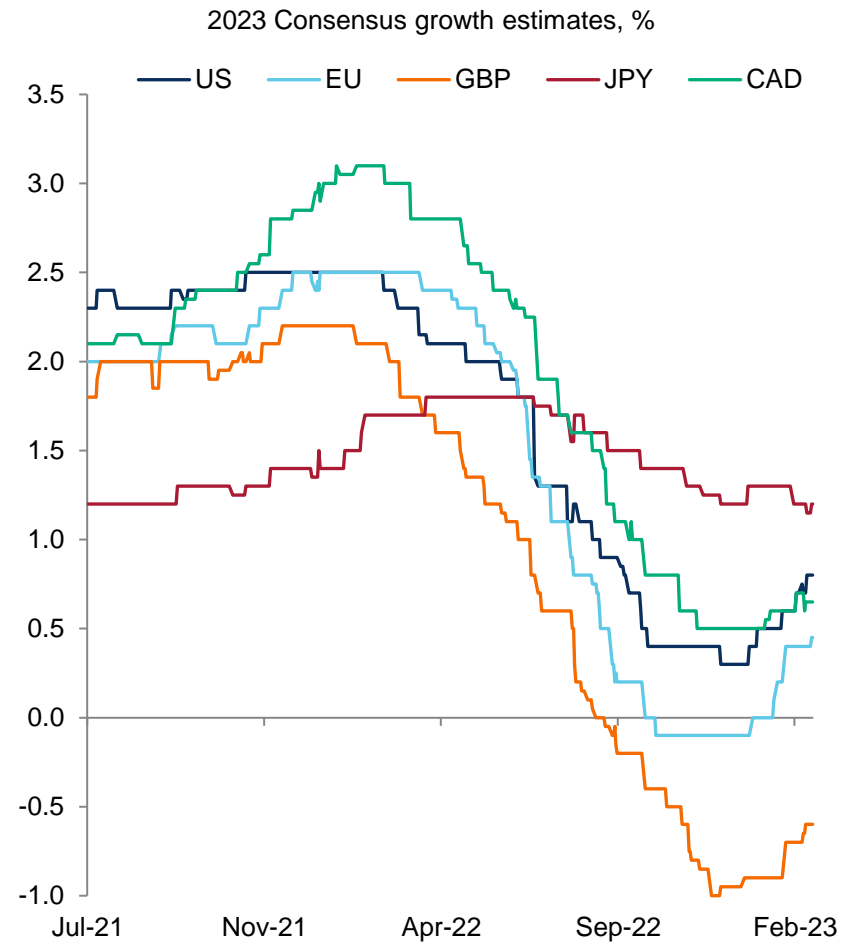
Time for a JPY comeback

The top G10 pick for 2023

Still heavily undervalued



The tortoise and the hare



Source: State Street Global Markets, Bloomberg; data as of 3/08/23

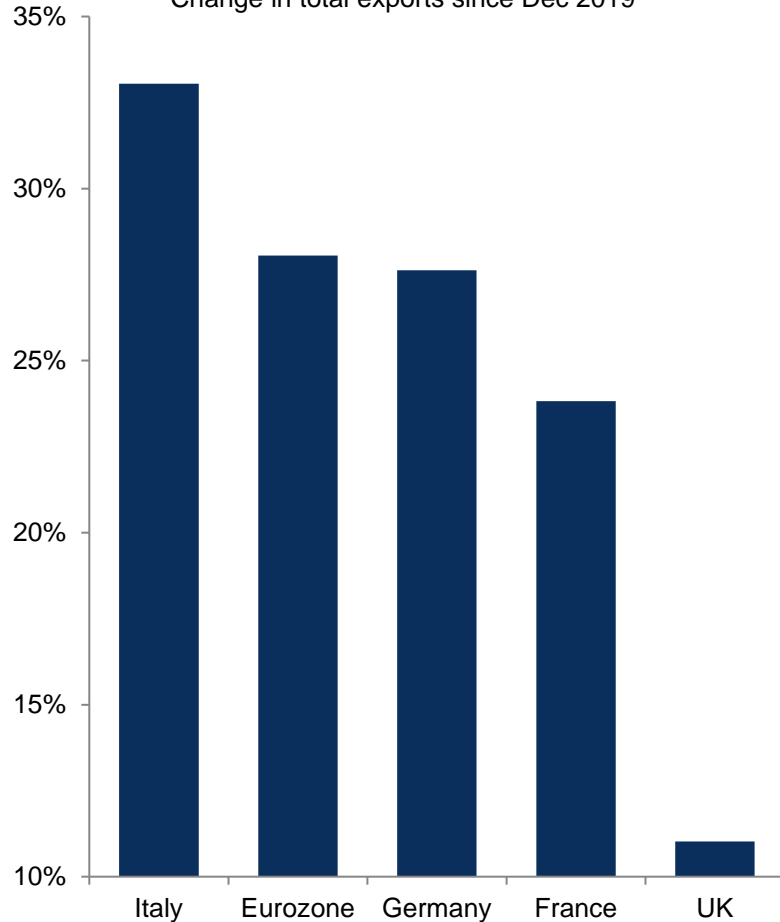
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Sterling at the opposite end of the spectrum

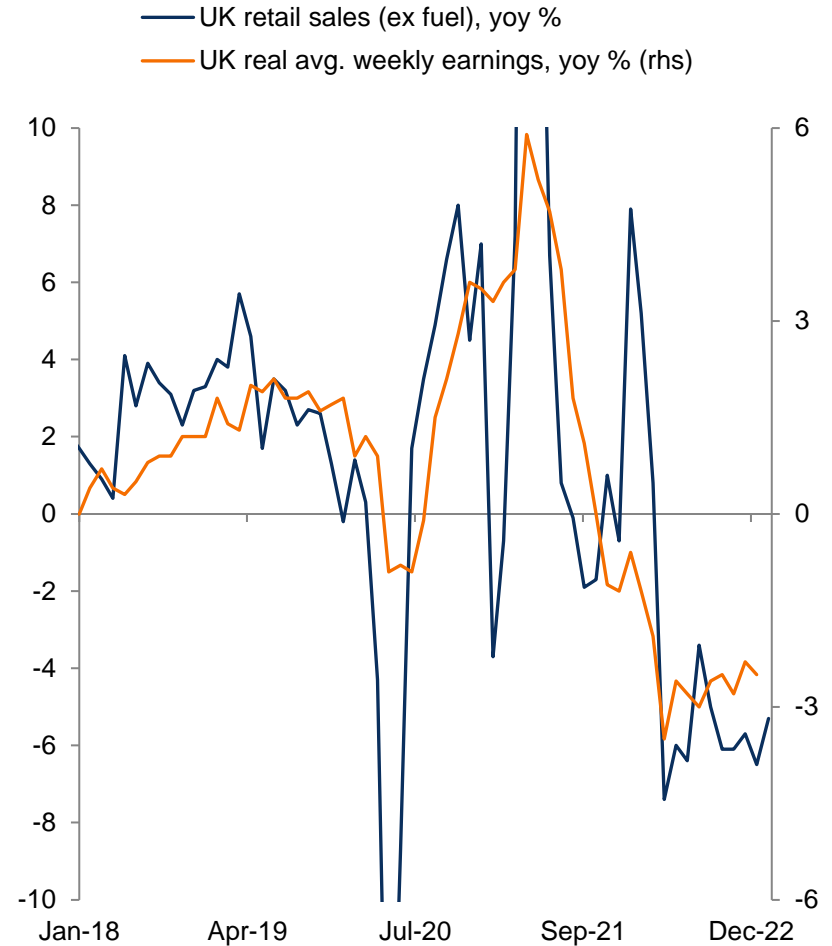
The bottom G10 pick for 2023

Brexit really starting to hurt

Change in total exports since Dec 2019



The tortoise and the hare



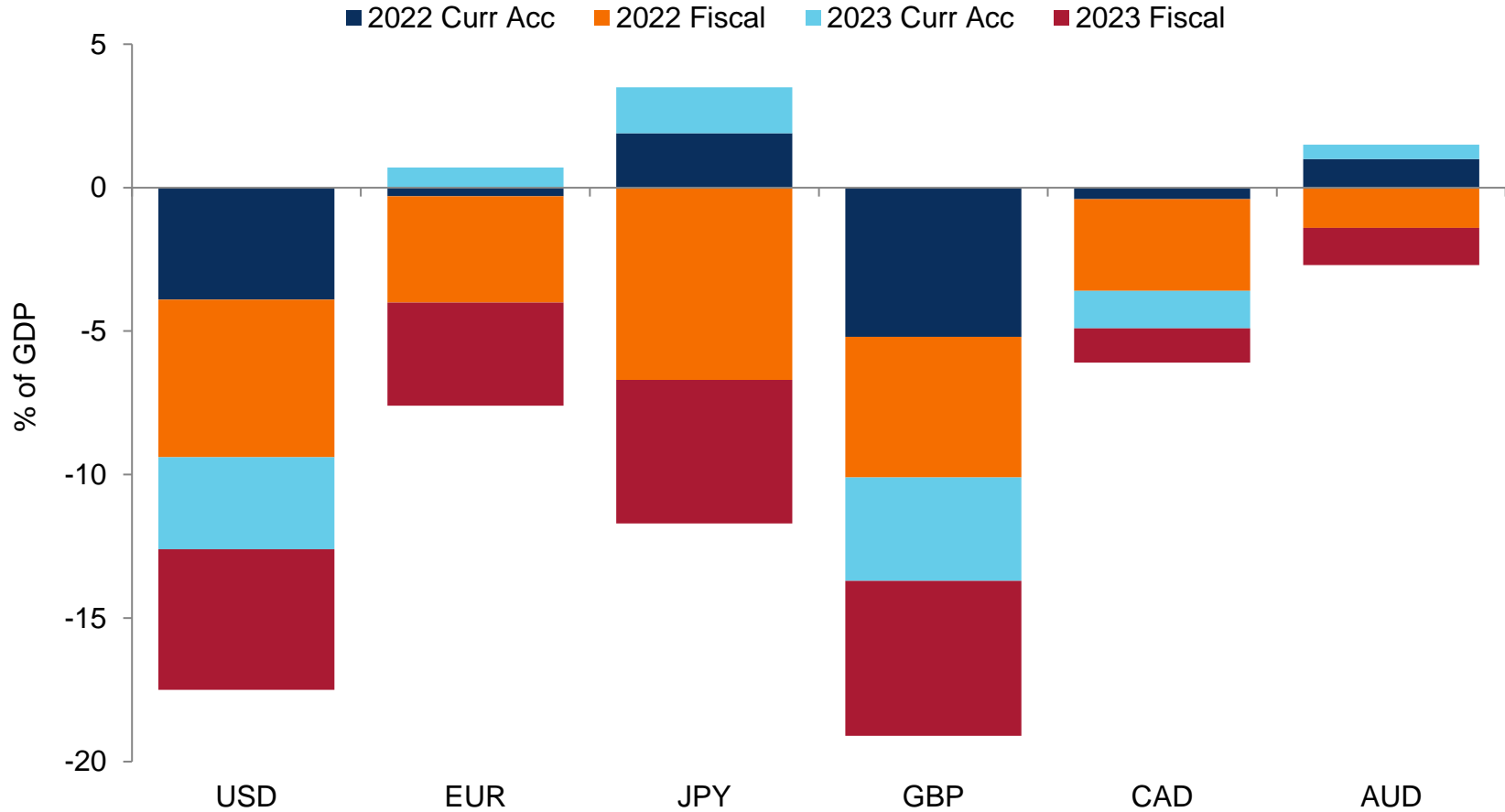
Source: State Street Global Markets, Bloomberg; data as of 3/08/23

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It doesn't matter who is PM

These are (bad) EM numbers

More than just a twin deficit problem

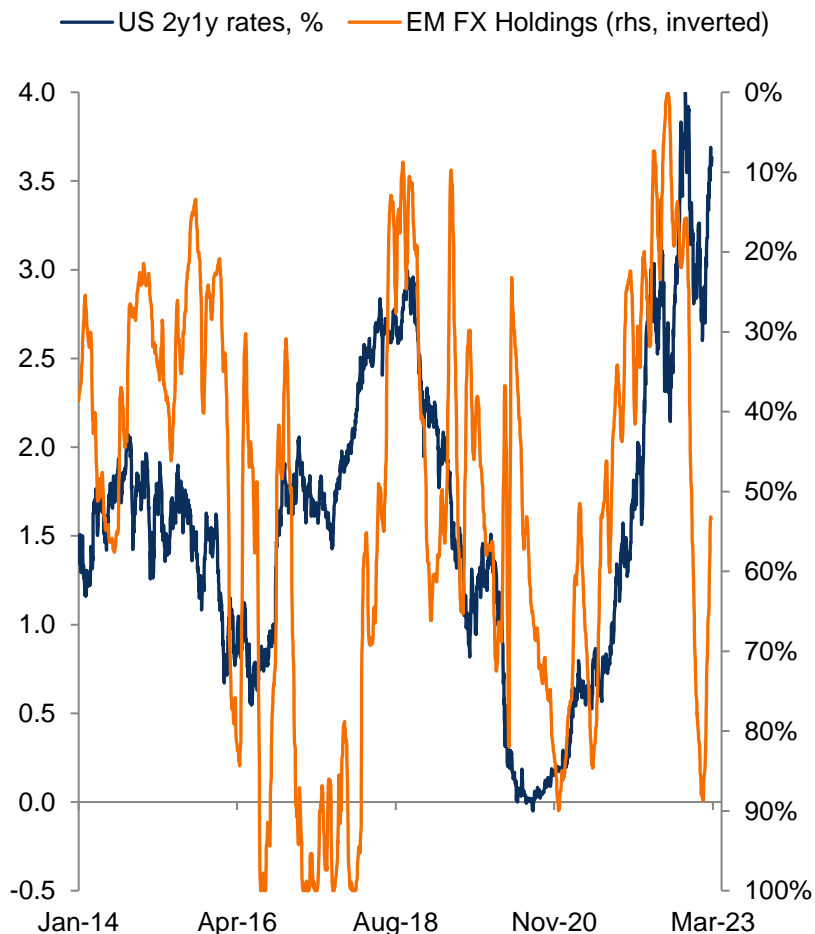


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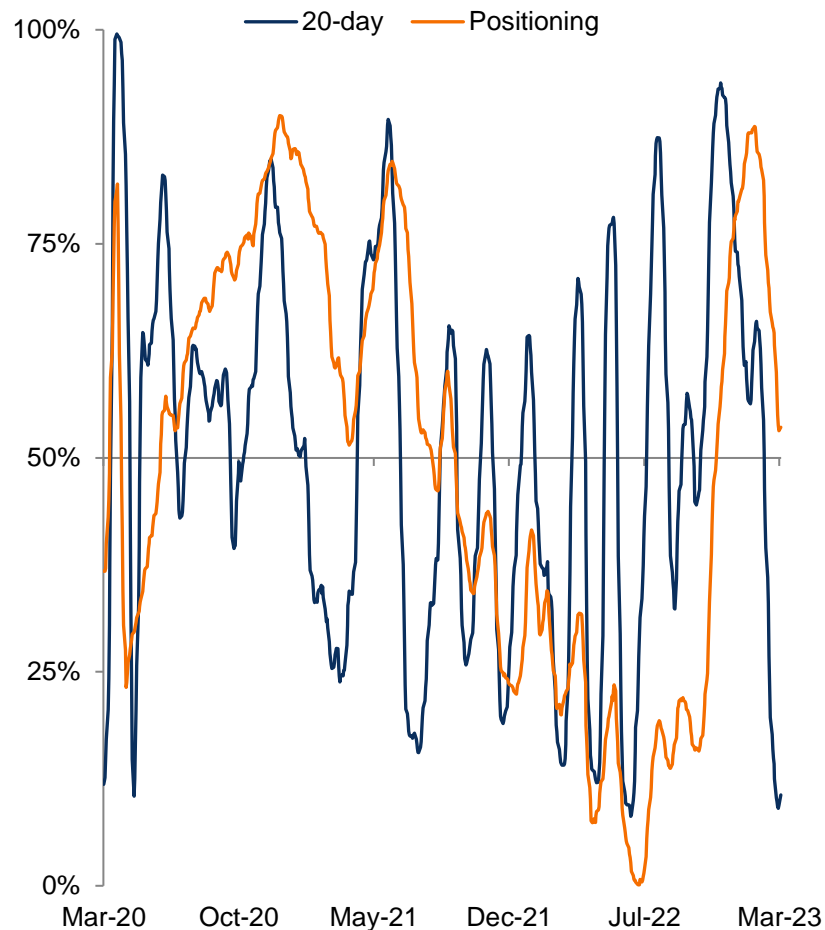
EM: Not yet

Will be a great trade but not before H2

Too soon



Just itching to buy EM overall

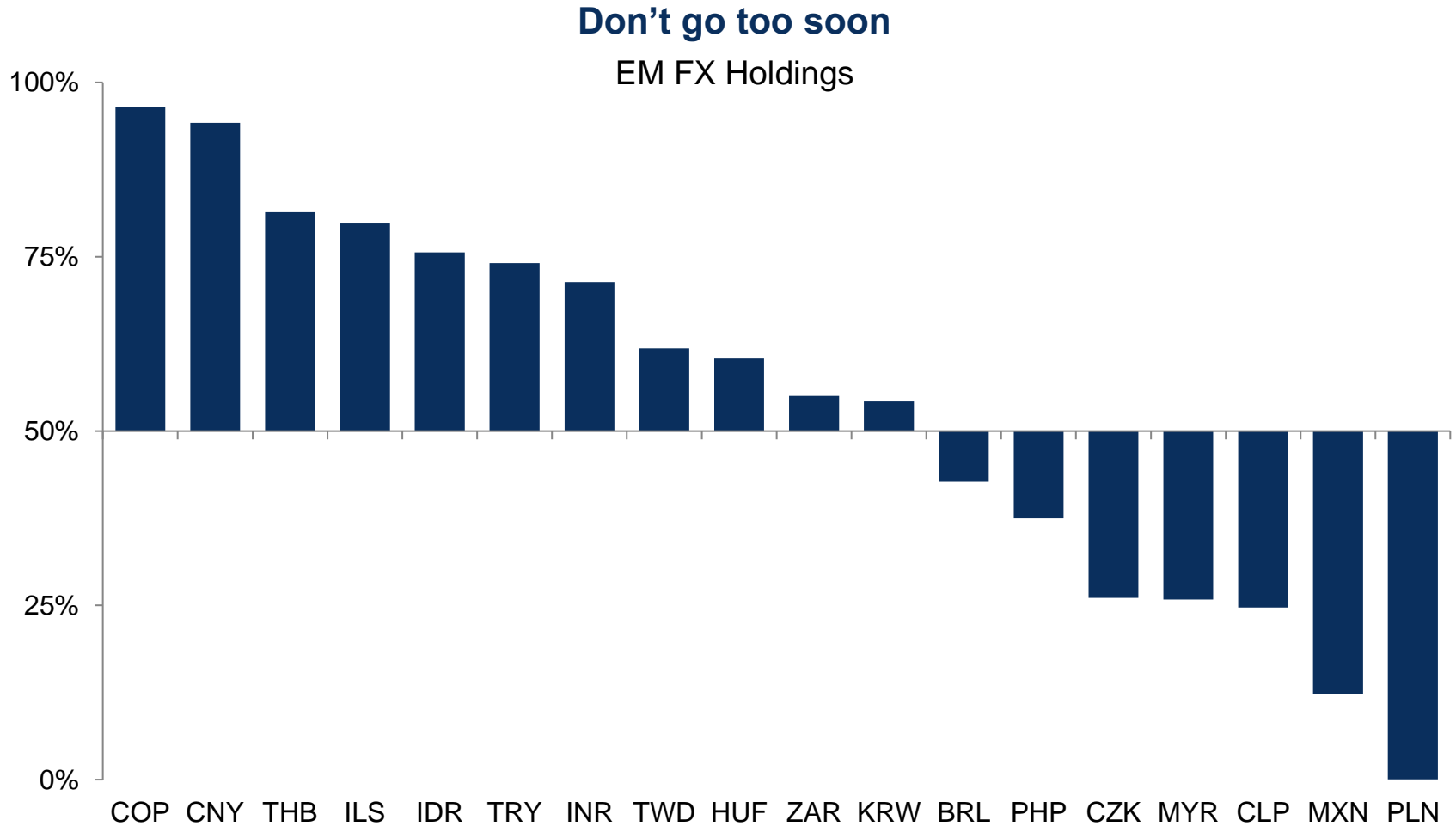


Source: State Street Global Markets, Bloomberg; data as of 3/08/23

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Few EM underweights to choose from

Caveat emptor



Source: State Street Global Markets, Bloomberg; data as of 3/08/23

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An Information Edge



Institutional Investor Behavior and Peer Benchmarking

Our behavioral indicators span multi-asset, equity, fixed income and currency markets. We have data for 23 developed and 21 emerging equity markets (16 developed and 13 emerging market for fixed income); 12 developed and 21 emerging market currencies; 11 sectors, 25 industry groups, up to 73 industries; across 6 macroeconomic styles, 6 fundamental styles, and 3 quantitative factors and include the following indicators:

- Buying/selling activity (**Flow** Indicators)
 - Active
 - Benchmark
- Positioning (**Holdings** Indicators)
 - Excess
 - Benchmark
- Consensus in trading (**Flow Agreement** Indicators)
- Profitability (**Breakeven** Indicators)
- Hedging activity (**Hedge Ratio** Indicators & **Asset Class Weights**)
- Trading volume (**Volume** Indicators)



Media (as captured by MediaStats)

Our media indicators deliver media-based measures for over 3,000 US companies, US sectors and industry aggregates, in addition to 44 global equity indices and 33 foreign currencies

- Tone of coverage (**Sentiment** Indicators)
- Volume of coverage (**Intensity** Indicators)
- Dispersion of sentiment (**Disagreement** Indicators)
- Co-mentions of related companies (**Linkages** Indicators)
- Earnings prediction (**Earnings Prediction Technology** Indicators) for ~350 US companies, incl. Brand, In-store, and Web components



Consumer Prices (as captured by PriceStats®)

Our PriceStats® indicators span inflation measurement in more than 20 individual and emerging market countries, US sectors and regional aggregates, in addition to PPP/real exchange rates for eight currencies versus the US Dollar

- Consumer Prices (**Inflation** Indicators) – 11 developed and 11 emerging markets:
 - **Regional aggregates:** World, World Diffusion, World Food, World Fuel, Developed Markets, DM Food, DM Fuel, Emerging Markets, EM Food, EM Fuel, Eurozone, Eurozone Food, Eurozone Fuel
 - **US Sectors:** Equipment, Food, Health, Recreation and Culture, Transportation
- Relative Price Levels (**Purchasing Power Parity** Indicators) – 8 currencies versus the US Dollar:
 - Real Exchange Rate
 - Relative Prices
 - Valuation (PPP Benchmark)
 - Valuation (Historical Benchmark)
 - Implied Nominal Exchange Rate (PPP Benchmark)
 - Implied Nominal Exchange Rate (Historical Benchmark)




Risk Management and Crowding

Our market risk indicators span multi-asset, equity, fixed income and currency markets globally and include the following measures:

- Unusualness of returns (**Turbulence** Indicators)
 - Correlation breakdowns (**Correlation Surprise** Indicators)
 - Volatility changes (**Volatility Surprise** Indicators)
- Systemic risk (**Absorption Ratio** Indicators)
 - Asset importance and connectivity (**Asset Centrality** Indicators)

Macro Strategy

Combining our indicators with macro context to produce our #1 ranked¹  strategy research



PUBLICATIONS (selected)



Alternative data intelligence



Cross-Asset

Inflation in Focus *(monthly)*
Market Narratives in Focus *(biweekly)*
Chart of the week *(weekly)*



Equities

Weekly World Flows *(weekly)*
Country Chartbook *(weekly)*
Sector Chartbook *(weekly)*



FX / Fixed Income

Investment Climate *(weekly)*
FX Execution *(weekly)*



Actionable ideas

Asset Allocation Monthly *(monthly)*
Mr. Risk *(ad-hoc)*
What We Said This Week *(weekly)*

Global Equity Strategy *(weekly, monthly)*
Equity Market Insight *(ad-hoc)*

DM/EM FX Strategy *(weekly)*
Mind and Machine FX *(monthly)*
FI/FX Market Insight *(ad-hoc)*



WATCH OR LISTEN (selected)

Street Speak *(weekly)*
Three Thoughts *(weekly)*

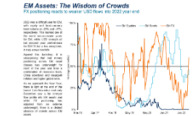
Asset Allocation Webinar *(monthly)*

Market Huddle *(biweekly)*
EM Research Week *(weekly)*


¹ As measured by the Euromoney FX survey Customer Satisfaction Rating 2022. The publication frequencies shown represent typical schedules.

Articles, Videos, more...


EMERGING MARKETS WEEKLY
Emerging Markets in 2023: 4 Themes in 15 Charts
 20 hours ago




THREE THOUGHTS
The Grinch is Back
 A few days ago



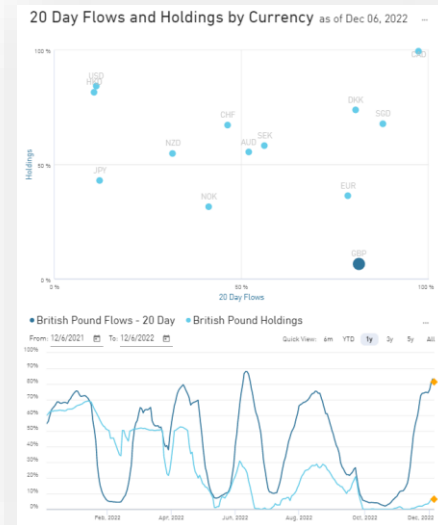
RESEARCH A TRADE IDEA
United States Financials
 A moment ago



EM INFLATION IN FOCUS
It's All Going Down!
 3 days ago



Indicators



Custom Analysis

