ABSOLUTE STRATEGY RESEARCH

Asset Allocation

28th July 2022

Funky Correlations & Missing Links #8

'Rules of Thumb' for Busy Asset Allocators

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Why this 'Bear' may have Further to Run

Despite a relatively benign six weeks for risk assets, amid hopes that the Fed will ease in 2023, we explore some of the charts that make us think that the markets have further adjustment to do if the Fed really is committed to reining in inflation.

Negative Output Gaps and Lower Breakevens Carry Risks for Credit

We worry that the market may not have discounted the potential depth of the recession, the consequences of negative output gaps and lower breakevens, the scale of earnings contraction and the potential credit implications that could trigger.

Don't Underestimate the Scale of the Shocks of the Past 12 Months

The past year has seen the biggest decline in Global consumer confidence in 30 years (see chart below) and the most aggressive policy tightening since 1994/95. Talk of a 'soft-landing' or 'mid-cycle pause' strikes us as wholly inappropriate.

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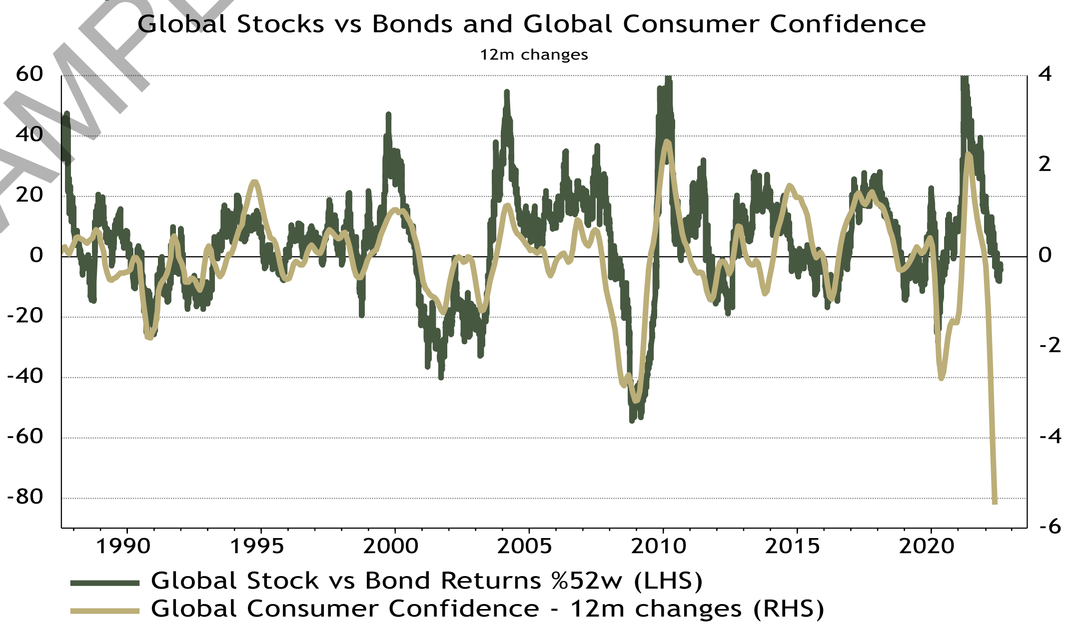
Collapse in Global Consumer Confidence Not Reflected in Risk Assets



Source: ASR Ltd. / OECD / Refinitiv Datastream