November 15, 2022

Bulltick Research and Strategy

Kathryn Rooney Vera
Head of Research & Strategy
krooney@bulltick.com
+1 786.871.3758

Market Strategy:

History Tells Us That The Fed Can Swing Quickly

The past 14 last-hike-to-first-cut periods in U.S. monetary policy averaged only 4.8 months. Many of the shortest ones were in the 1980s when inflation was high. (However, this is at least in part because high inflation necessitated much more frequent and unpredictable action by the Fed during the 1980s, different from today.) The average "plateau" (last hike to first cut periods) lasts much longer in the more recent past several cycles and were much shorter in the earlier ones. Of the past 14 cycles, the first seven (from 1982 - 1986) lasted an average of 1.4 months. The second seven (from 1987 - 2019) lasted an average of 7.8 months. See table below and analysis.

The main take-aways of our analysis: 1) We should be more on our toes for a reversal of a hiking cycle than we were for a reversal of a cutting cycle 2) Could happen sooner than many think 3) Reversal timeline will depend on the depth and duration of the next recession. See the page 2 table, which we did in-house at Bulltick Research. The Fed has encouraged the higher for longer narrative to curb inflation. Monetary history shows that when inflation peaks (which we believe it has with headline this year topping 9% y/y, when unemployment surges, and when inflation collapses, the Fed could move within months to reverse course on rates. This time, however, we also have the balance sheet, which the Fed is currently unwinding. The balance sheet unwind is another monetary tool at its disposal.

Listen to our inflation and FOMC analysis (11/7/22) [here](#).

Plateau Start	Plateau End	Fed Rate	Length (months)	Core PCE At Start	Core PCE At End
Dec-18	Jun-19	2.50	6	2.1	1.7
Jun-06	Aug-07	5.25	14	2.6	2.0
May-00	Dec-00	6.50	7	1.7	1.9
Mar-97	Aug-98	5.50	17	1.9	1.4
Feb-95	Jun-95	6.00	4	2.3	2.1
Feb-89	May-89	9.75	3	4.7	4.4
May-87	Sep-87	6.75	4	3.2	3.4
May-86	Jun-86	6.88	1	3.5	3.5
Aug-85	Nov-85	8.00	3	4.1	4.1
Jan-85	Feb-85	8.25	0	4.3	4.2
Aug-84	Sep-84	11.75	1	4.0	3.7
May-83	Aug-83	9.63	3	5.0	5.1
Aug-82	Sep-82	9.50	0	6.4	6.1
Jan-82	Mar-82	15.00	2	7.4	7.0

In general plateaus last much longer than what we can call “troughs” (period between the last cut followed by the first hike). These have averaged 13 months in the past 13 cycles (12.1 months in the past 14 cycles). In the past 7 cycles, they have averaged 21.8 months, including a massive 83 month stretch.

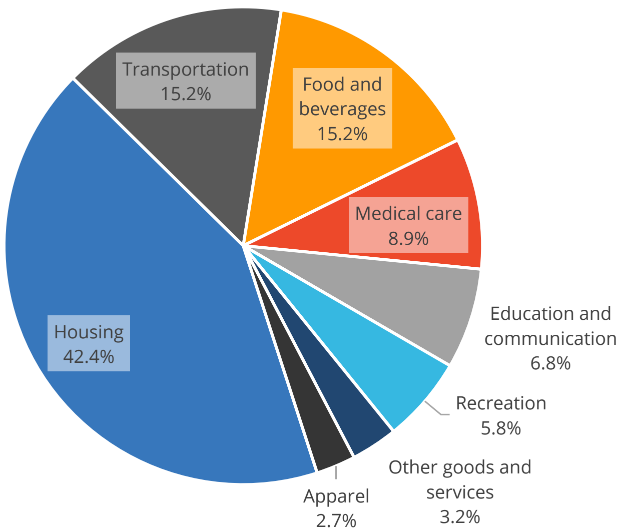
Trough Start	Trough End	Rate	Length (months)	Core PCE At Start	Core PCE At End
Mar-20	Feb-22	0.25	23	1.7	5.3
Dec-08	Nov-15	0.25	83	1.1	1.2
Jun-03	May-04	1.00	11	1.5	2.0
Nov-98	May-99	4.75	6	1.2	1.2
Jan-96	Feb-97	5.25	13	2.0	1.9
Sep-92	Jan-94	3.00	16	2.7	2.2
Jan-88	Feb-88	6.63	1	3.9	3.9
Aug-86	Nov-86	5.88	3	3.1	3.3
Mar-86	Apr-86	7.25	1	3.6	3.7
May-85	Jul-85	7.75	2	3.9	3.9
Dec-84	Jan-85	8.25	1	4.1	4.3
Aug-83	Feb-84	9.63	5	5.1	4.2
Dec-82	Apr-83	8.50	4	5.8	5.5
Jul-82	Aug-82	11.50	1	6.6	6.4

Inflation surprised positively in the October print although shelter costs remain a major factor. These too will fall off in coming months as the lag of housing prices to rents is about six months. **Expect inflation numbers to collapse next year as the unemployment rate rises, consumption and investment slow and the Fed remains higher for longer. Depending on the depth and duration of the recession, we think core PCE could fall quickly towards the Fed’s average target of 2.0%. Core PCE could well drop from the current 5.1% y/y (data for September 2022) down to 2.5%-2.7% end-2023 with an unemployment rate that could break above 5%.**

We reiterate a few points on inflation:

1) It will come down as the economy rolls over. How fast is the question.
2) Demand side is the sticky part. The labor market remains too hot and wage growth and job openings inconsistent with 2% inflation. This has to change.
3) Fed is going to hike to at least 5% in our view.
4) Rents (shelter) have been a key impulse and will roll over with the usual ~6 months delay as housing prices plummet across the country.
5) Unemployment rate has to move higher, towards what we estimate is the NAIRU, some 4.9%. This will help the demand side of inflation and curb the wage-price spiral.

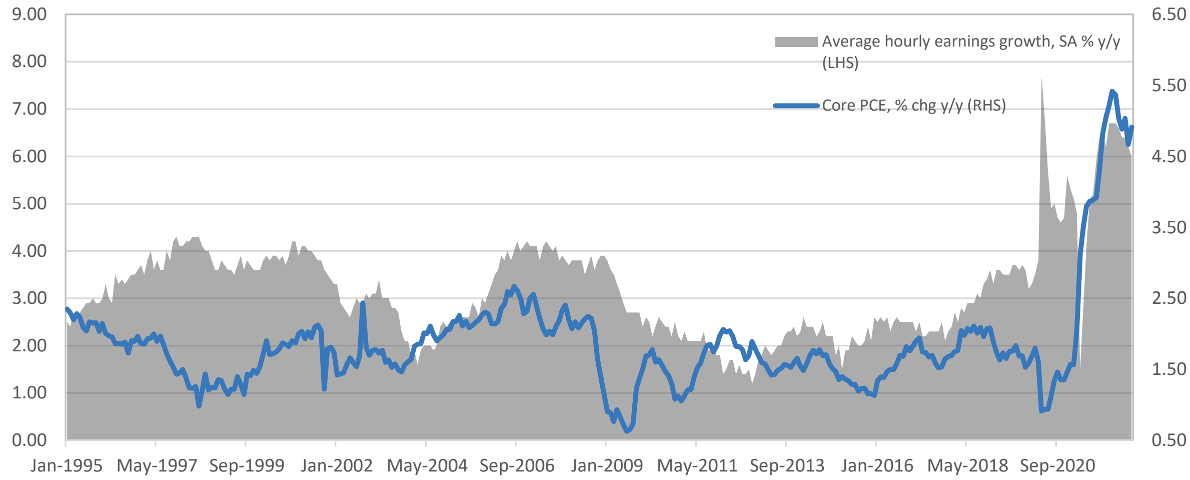
US--Weightings of CPI Basket, 2020



Sources: Bulltick, Bloomberg, Fed Reserve

The Fed will decelerate the magnitude of its hikes to 50bps in December 2022 in our view but continue to hike to a terminal rate of 5.0% by March of 2023. The economy will need to enter a contractionary period to stamp out inflation. The labor market overheated. Now economic contraction is the only thing to stamp out inflation.

US--Core PCE vs Wage Growth



Sources: Bulltick, Bloomberg

We said then, and maintain now, that there is a high chance of recession in 2023 and that the Fed could later be forced to either cut rates and/or choose to resume QE. A resumption of QE brings risks given that its use has been confined to Goldilocks economic environment not a stagflationary one. With headline CPI this year topping 9.0% y/y at its highest, these were rates not seen since 1981, meaning we are living within an inflation climate that before now was out of living memory for many investors, both institutional and retail.

In an environment of recession and dropping inflation, 2023 will bring many opportunities across the spectrum of asset classes. Starting with fixed income. Long duration. Treasuries will become a hedge to risk assets as yields decline as recession unfolds. In equities, defensives have been our call since early 2022. They have outperformed cyclicals with value beating growth. Going into 2023 and as the market moves from inflation to recession and the Fed is given space to ease up, we recommend keeping on the radar cyclicals and tech names, many of which have been severely beaten up in a rising rate environment.

Disclosures

About Bulltick

Bulltick Capital Markets Holdings, LLC's and its subsidiaries include, among others, Bulltick, LLC, a broker-dealer registered with the U. S. Securities and Exchange Commission ("SEC") and a member of the Financial Industry Regulatory Authority (FINRA), Bulltick Wealth Management, LLC an SEC registered Investment Advisor, Bulltick Insurance Agency, LLC, a Florida licensed insurance agency, and Bulltick Financial Services, LLC (collectively, and together with all other Bulltick controlled entities, "Bulltick"). Bulltick offers a variety of diversified financial products and services with local know how and international expertise. Its client base is comprised of established financial institutions and qualified investors in Latin America, as well as of the international financial community with investment interests in the region. Bulltick is headquartered in the United States, with offices in Miami, Houston, and Bogota.

Our Research Resources

With Bulltick's vast Latin American in roads, resources, and networks, our research team is strategically positioned to provide value added research on local and regional markets, and industries. We are able to track the pulse of the leading markets in Latin America. We make it our business to know the business of the region so we can help our clients manage volatility with in depth coverage of macroeconomic leading sectors and market moving events. As part of its gathering of data and other sources of intelligence, our Macro Economic Research team obtains information and points of views from various sources, including from other Bulltick affiliated areas and persons such as our asset management area and our execution desks.

ANALYST CERTIFICATION

The analyst(s) primarily responsible for the preparation of this report hereby certify that all the views expressed herein accurately reflect their personal views only. The analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

IMPORTANT DISCLOSURES

Principal/Agency Trading:
Bulltick and its affiliated entities, employees, officers, and directors may deal on a principal and/or agency basis in transactions involving currencies, markets, sectors, and/or securities referred to herein (or related derivatives or other instruments related thereto), including in transactions which may be contrary to any recommendations contained herein.
The Firm's Analysts may interact with sales and trading personnel in the ordinary course of business. Such sales and trading personnel may trade and/or have proprietary positions in the securities (or in related derivatives) that are the subject of this report, and the Firm's interest may conflict with the interests of investors in those instruments.

Analyst Compensation:
The costs and expenses of research, including the compensation of the analyst(s) that prepared this report, are paid out of the Firm's total revenues, a portion of which are generated by its fixed income division.

OTHER DISCLAIMERS

The information in this report is subject to change without notice. Neither the information nor any opinion expressed constitutes a solicitation of the purchase or sale of any securities, options, futures, or other derivatives related to such securities, or alternative investments.
Bulltick and its subsidiaries, affiliates, shareholders, directors, officers, employees, and licensors ("The Bulltick Parties") will not be liable (individually, jointly, or severally) to you or any other person as a result of your access, reception, or use of the information contained in this document for indirect, consequential, special, incidental, punitive, or exemplary damages, including, without limitation, lost profits, lost savings, and lost revenues (collectively, the "Excluded Damages"), whether or not characterized in negligence, tort, contract, or other theory of liability. The information contained in this document has been obtained from sources believed to be reliable, although its accuracy and completeness cannot be guaranteed. All opinions, projections and estimates constitute the judgment of the author as of the date of the report and these, plus any other information contained herein, are subject to change without notice. Prices and availability of financial instruments mentioned are also subject to change without notice.

Bulltick and its affiliated companies have not taken any steps to ensure that the recommendations referred to in this report are suitable for any particular investor. The Report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of any financial product. Securities and financial products mentioned in the report are subject to investment risks, including the possible loss of the principal amount invested. The financial instruments mentioned in this document may not be eligible for sale in some countries. The Report is not to be construed as providing investment services in any jurisdiction where the provision of such services would be illegal.

Investing in non US securities or markets, may entail additional risks. Securities of non US issuers may not be registered with and may not be subject to the reporting requirements of the US Securities and Exchange Commission. There may be limited information available on foreign securities or markets. Foreign companies are generally not subject to uniform audit and reporting standards, practices, and requirements comparable to those in the US. Investments in foreign markets may be less liquid and their prices more volatile than those comparable in US. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign market.

The information contained in the report is privileged and confidential and intended solely for the recipients who have been specifically authorized to receive it and it may not be further distributed. Bulltick and its affiliates accept no liability whatsoever for the actions of third parties. Should you receive this message by error you are hereby notified that any disclosure, reproduction, distribution, or use of this message is strictly prohibited.

The Report may provide the addresses of, or contain hyperlinks to, websites, except to the extent to which the Report refers to website material of Bulltick, the Firm takes no responsibility for, and makes no representation or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through the Report or the website of Bulltick shall be at your own risk and Bulltick shall have no liability arising out of, or in connection with, and such reference website.

While any attachments to this report may have been checked for viruses, you should rely on your own anti-virus software and computer security procedures; we therefore disclaim all liability arising out of any viruses or other malware that might exist in any attachment.

The information in this report is subject to change without notice. Neither the information nor any opinion expressed constitutes a solicitation of the purchase or sale of any securities or any options, futures, or other derivatives related to such securities or alternative investments.