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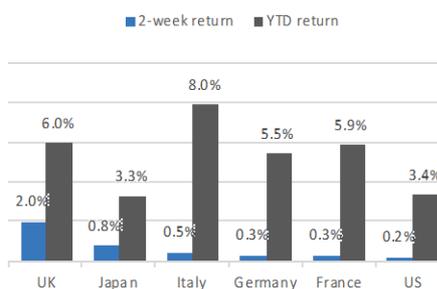
Global Cross Asset Strategy:

Fixed Income, the Fed, and Recession

Fixed Income Strategy:

- **Fourth quarter 2022 US GDP data posted further proof of the resiliency of the US economy** through year-end despite 450bps of fed funds hikes that year alone. Personal consumption did slow and Visa and Mastercard reported spending decelerated towards year-end on sticky inflation. Meanwhile, despite decades of low unemployment rates and consistently healthy initial jobless claims, we remain weary of the strength of the labor market going forward.
- **We are watching JOLTS and real wages** to determine how quickly the unemployment rate could revert and if the US consumer can really buck recession. If unemployment moves higher towards an estimated NAIRU 4.9%, salary growth collapses, real wages remain significantly negative, confidence and consumption will detract from GDP and potentially move the needle on the Fed's tone. Next week, however, at the Federal Reserve monetary policy meeting, expect ongoing hikes likely of 25bps and possibly 50bps with a still-hawkish sounding Jay Powell.
- **We recommend cash and cash equivalents such as 3 and 6 month T-bills yielding 4.6%-4.7% as well as short-term investment grade corporate and government debt instruments at this juncture. As we move towards recession, IG should hold up relatively well with favorable** financing conditions (low yields and maturity wall). In normal cycles, long duration USTs is the play in a recession and the Fed is expected to cut. However, with the already inverted yield curve, and a Fed unlikely to cut in the near term, and stocks and bonds moving together, we are holding off as yet on the long DUR UST recommendation. Massive omnibus bills, profligate spending and debt ceiling debates, and still high inflation could take yields even higher from here,

Developed Markets 10Y Total Returns



EM Local Currency Bond Total Returns



EM USD-Denominated Bond Total Returns



| Benchmark Asset | Begin-2023 | Current | YTD Interest | YTD Capital | YTD Forex | Total YTD | 2023 Target | 2023 |
|---------------------|------------|---------|--------------|-------------|-----------|-----------|-------------|-----------|
| | YTM | YTM | Gains, % | Gains, % | Gains, % | Return, % | YTM | Return, % |
| UST 10Y | 3.88 | 3.50 | 0.30% | 3.11% | - | 3.41% | 3.25 | 9.26% |
| German 10Y | 2.57 | 2.17 | 0.14% | 3.51% | 1.76% | 5.46% | 2.00 | 4.84% |
| Japan 10Y | 0.41 | 0.15 | 0.02% | 2.49% | 0.81% | 3.34% | 0.25 | -1.16% |
| Mexico MBOBO 2031 | 9.02 | 8.67 | 0.63% | 2.19% | 3.74% | 6.67% | 9.40 | 3.57% |
| Mexico USD, 2034 | 5.94 | 5.28 | 0.33% | 6.08% | - | 6.41% | 3.10 | 33.38% |
| Brazil BRL 2031 | 12.69 | 13.12 | 0.83% | -6.73% | 4.28% | -1.87% | 11.00 | -41.38% |
| Colombia TES 2031 | 13.01 | 12.08 | 0.82% | 6.52% | 7.31% | 15.19% | 8.00 | 55.34% |
| Chile CLP 2032 | 5.26 | 5.25 | 0.43% | 0.44% | 6.03% | 6.94% | 6.00 | -6.80% |
| Argentina ARS, 2026 | 80.61 | 84.22 | 4.10% | 0.41% | -3.57% | 0.77% | 50.00 | 15.04% |
| Peru Soberano 2031 | 7.97 | 8.01 | 0.52% | -0.15% | -0.79% | -0.42% | 6.00 | 20.25% |

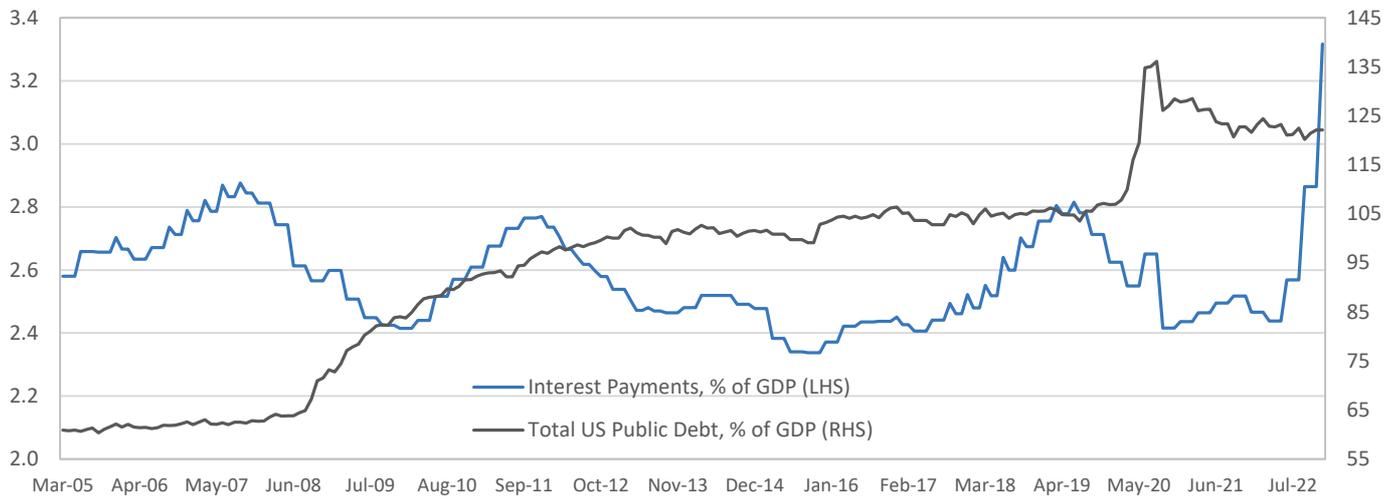
Source: Bloomberg, Bulltck. All returns are in USD

As of 01/27/2023



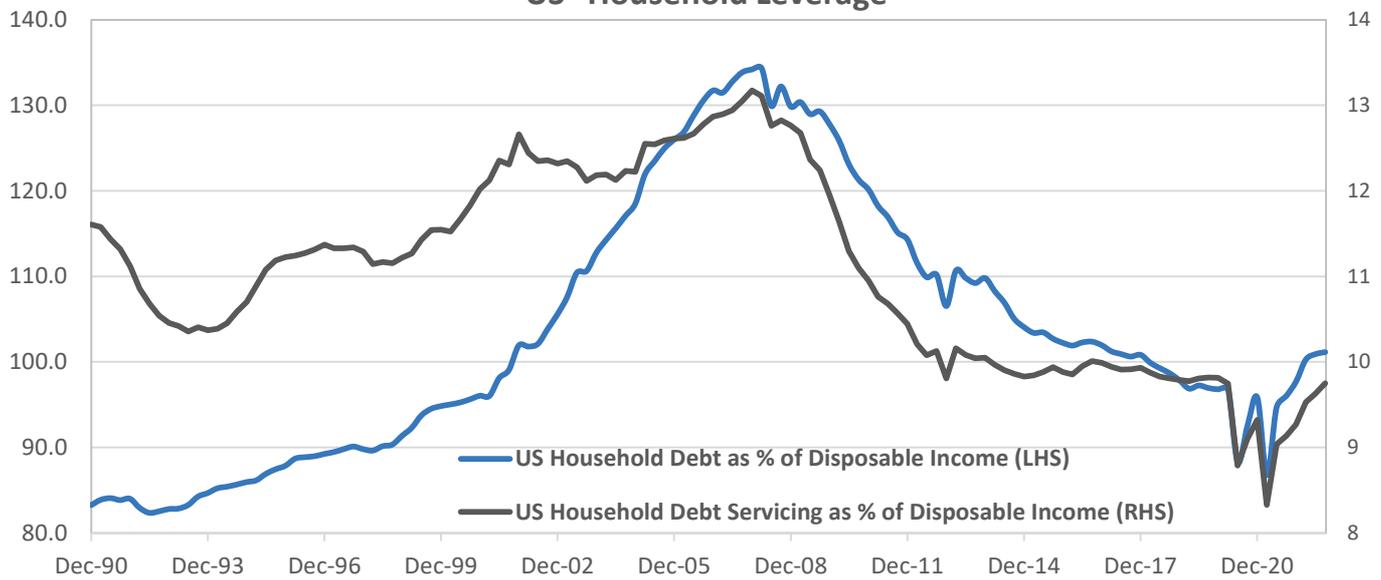
The impact of rising rates is starting to take a toll on the purse with interest payments rising and credit card debt, after a surge, starting to level off as the US consumer faces higher rates on credit card debt, mortgages, and business loans, sticky-high inflation, and negative real incomes.

US--Interest Expenditure Vs Public Debt

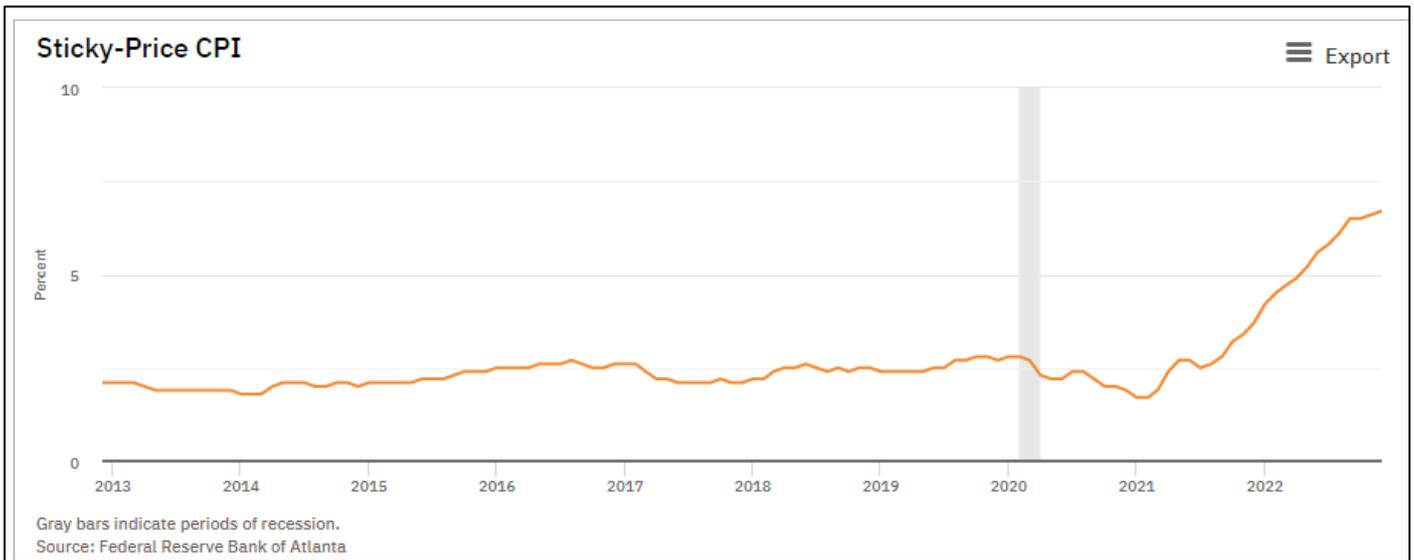


Source: Bloomberg, Bulltick

US--Household Leverage

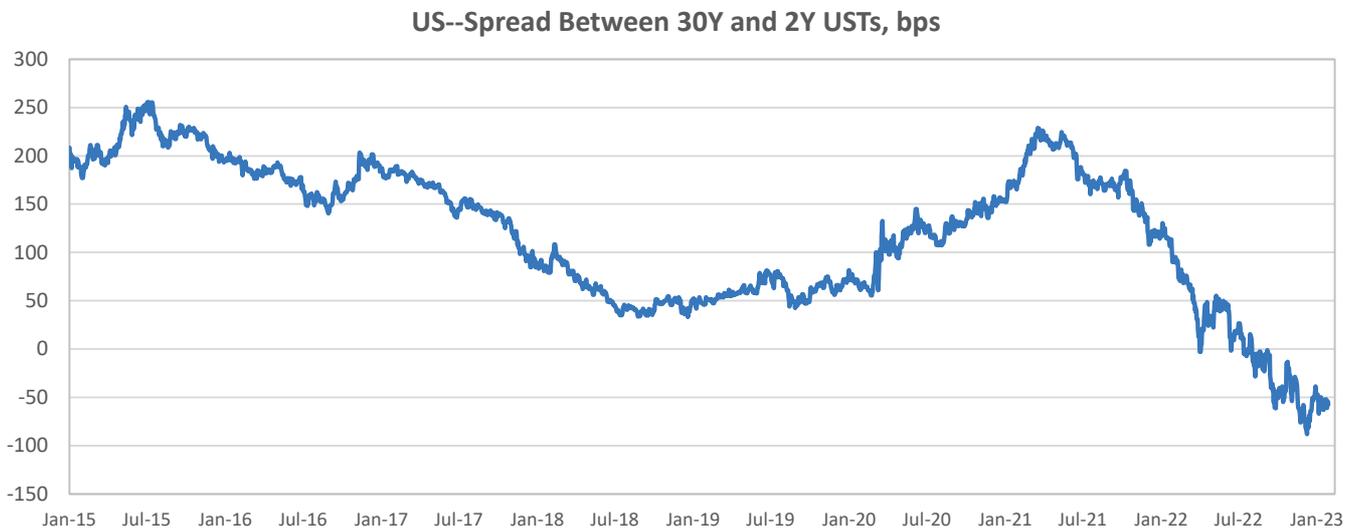


Sources: Bulltick, Bloomberg



Source: Federal Reserve of Atlanta

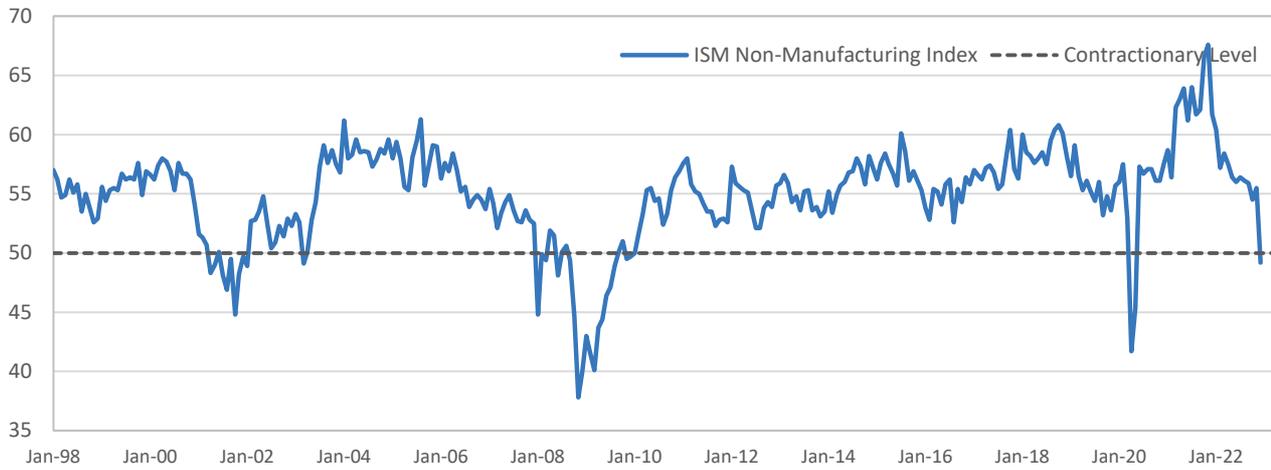
The US yield curve is pricing in the good chance of recession while economic indicators such as ISM Services are delivering solid signs. Meanwhile, US equity markets, which we view as overvalued at current multiples with too rosy of earnings growth for the year (8%) we think has room to move lower on actual recession.



Source: Bloomberg, Bulltick

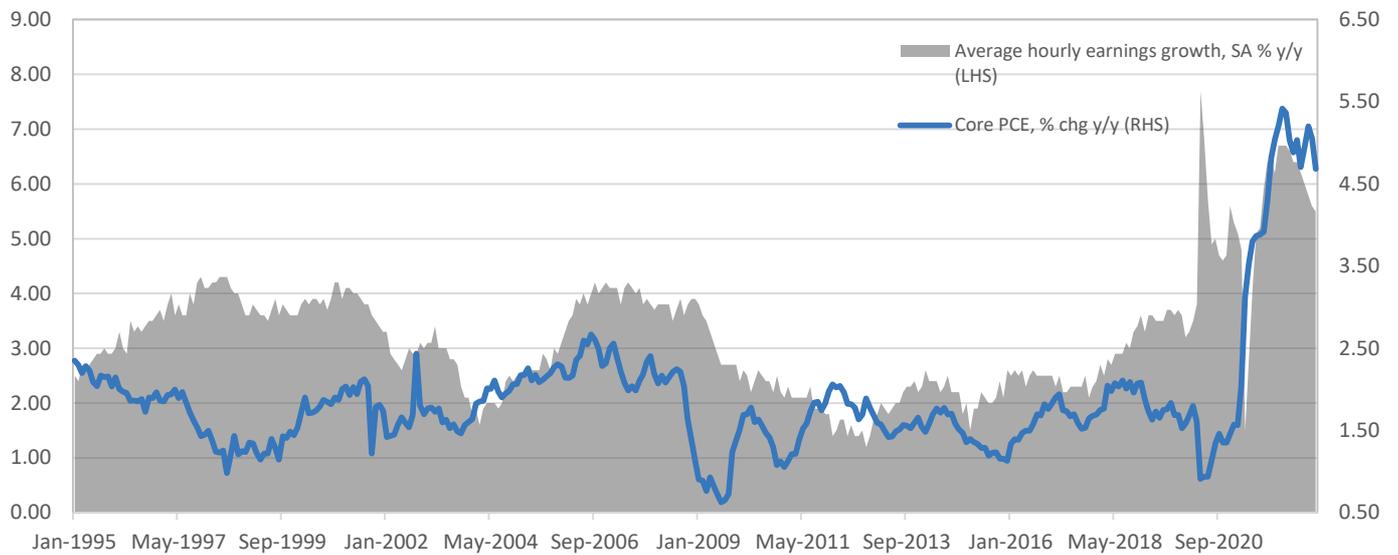


US--ISM Non-Manufacturing Index



Source: Bloomberg, Bulltick

US--Core PCE vs Wage Growth



Sources: Bulltick, Bloomberg



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