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Global Cross Asset Strategy:

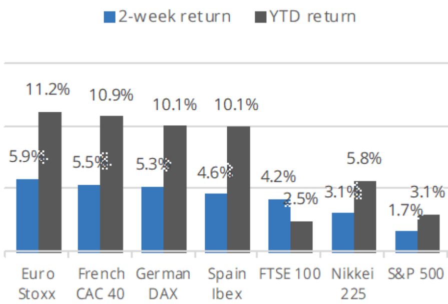
Tightening of Lending Standards Could Replace Some Rate Hikes

- ***The Fed hiked 25bps in the March meeting, as expected.*** The next meeting is in May, which for a "data dependent" (retrospective) Fed, feels like an eternity. The good news is that the banking crisis has in some respects worked in the Fed's favor by inducing banks to tighten lending requirements. This effect could replace the additional 50-75bps we at Bulltick Research had envisioned occurring. We expect the Fed to hike once more with 25bps in May.

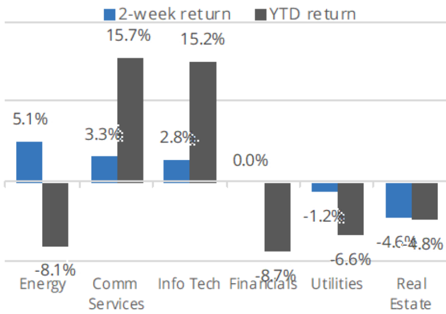
- ***The fed funds futures market is once again pricing in rate cuts by end-2023.*** **At Bulltick, we have long held that 2023 would usher in the next phase of the economic cycle, recession, but we do not think inflation will fall enough by end-2023 to allow the Fed to cut rates.** We have also long held that it is all about the labor market. The US labor market has held up remarkably well. However, we are finally seeing the beginnings of a roll-over with many companies announcing lay-offs. It is this roll-over in the labor market that we think is most effective in blunting the main drivers of inflation, services. We hold our view of 5.5% fed funds by end-2023.

- ***We hold our broad global macro strategy view, one that has worked well since last year, one that is defensive in nature and relies on overweights in sectors that historically outperform in stagflation and recession: healthcare, staples, energy and utilities.*** We like having OW cash and gold positions. We have consistently recommended holding t-bills, commercial paper, and other cash equivalents as well as short duration Treasuries. We see no reason to change these calls. Rather, consensus seems to be moving in line with our recession, Fed, and asset allocation calls.

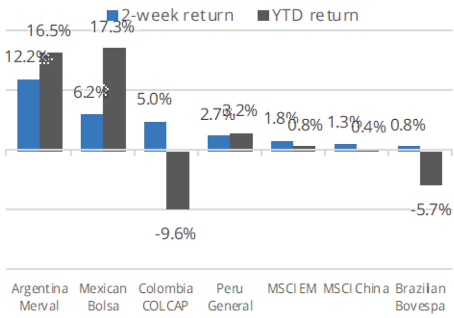
Developed Market Equity Returns



Select S&P 500 Sectors Returns



Emerging Market Equity Returns



Asset	Div Yld	Begin 2023 Price	Current Price	Cap Gains (LCY, YTD)	Cap Gains (USD, YTD)	Target 2023	2023 Expected Total Returns LCY	w/Div	USD	w/Div
S&P 500	1.8%	3,840	3,957	3.1%	3.1%	3,995	4.1%	5.8%	4.1%	5.8%
Euro Stoxx	3.6%	3,794	4,168	9.9%	11.2%	3,889	2.5%	6.3%	0.5%	4.2%
German DAX	3.5%	13,924	15,142	8.8%	10.1%	14,170	1.8%	5.7%	-0.2%	3.7%
Nikkei 225	2.2%	26,095	27,518	5.5%	5.8%	28,052	7.5%	9.8%	4.4%	6.6%
Shanghai Comp	2.9%	3,089	3,245	5.1%	5.4%	3,169	2.6%	5.7%	2.5%	5.7%
MSCI India	1.6%	2,069	1,883	-9.0%	-8.4%	2,136	3.3%	5.8%	5.5%	8.0%
MSCI EM	3.2%	956	964	0.8%	0.8%	974	1.8%	5.5%	1.8%	5.5%
MSCI World	2.4%	605	627	3.5%	3.5%	638	5.3%	7.8%	5.3%	7.8%
Mexican Bolsa	3.9%	48,464	53,233	9.8%	17.3%	50,048	3.3%	7.3%	0.7%	4.6%
Brazilian Bovespa	6.8%	109,735	101,142	-7.8%	-5.7%	104,031	-5.2%	5.9%	0.2%	11.9%
Colombia COLCAP	7.8%	1,286	1,122	-12.8%	-9.6%	1,230	-4.3%	2.9%	-3.3%	4.0%

Source: Bloomberg, Bulltick. Chart returns are in USD, excluding dividends

As of 03/28/2023

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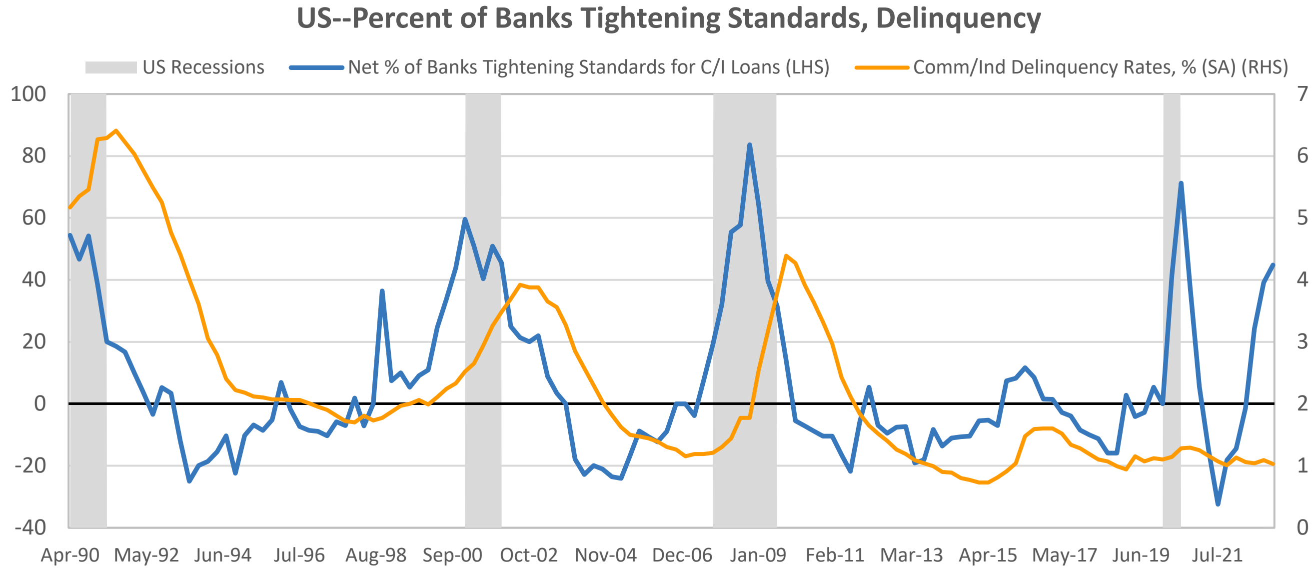
In our view, the Fed has two unpleasant doors from which to choose: 1) Recession and hit the 2% inflation target or 2) Mediocre economic growth and persistently above-target inflation. Many clients have asked if there is a risk of a Fed mistake. The mistake has already been made. Overextending both QE and low rates to prop up the labor market and mis-diagnosing the stickiness of inflation has been done. The Fed is unlikely to risk more hits to its credibility as an inflation-fighter with a dual mandate set by Congress: 1) Full employment and 2) Price stability (2% average Core PCE inflation).

This leads to a second question we are often asked: Will the Fed change its target to something higher than 2%? Not in the near future, is our answer, and certainly not, while inflation is more than double the target. Monetary policy credibility is of utmost importance to that policy's effective functioning. In our view, the Fed will choose door #2 – it will be a tough pill to swallow – but they will get inflation back to target even if that means economic contraction.



Source: Bloomberg, Federal Reserve, Bulltick

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