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Quarterly Macro Commentary

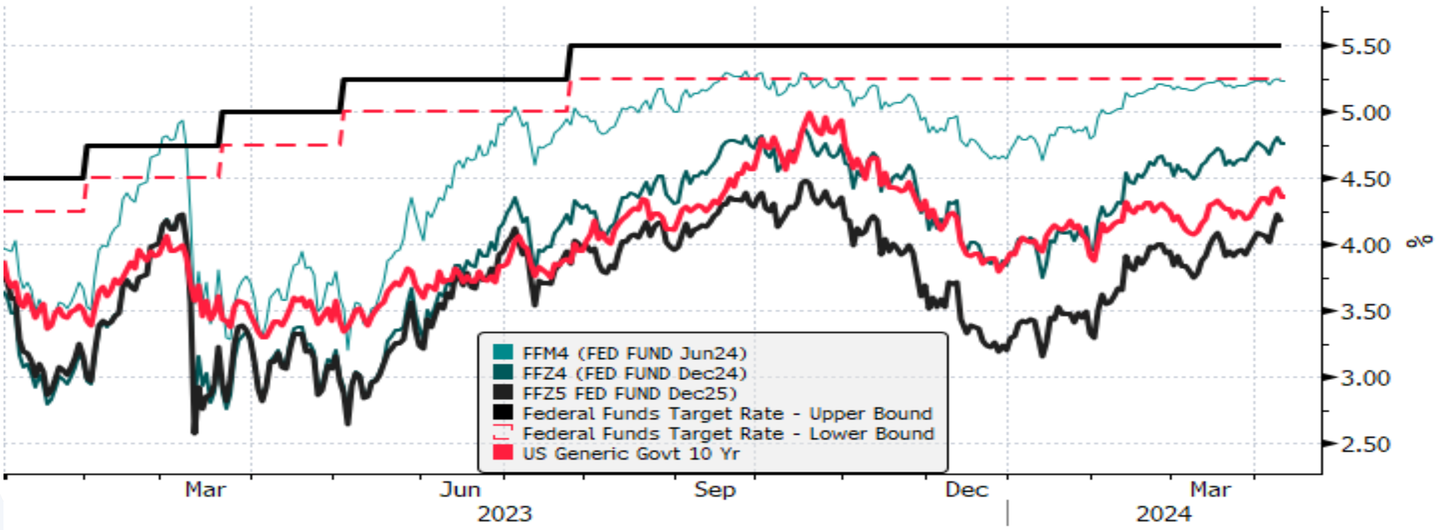
FIRST QUARTER 2024

The last months of 2023 rediscovered the Goldlilocks narrative and—against a tide of market scepticism (the proverbial 'Wall of Worry')—Q1 2024 continued the theme. The looming threat of a US recession that had long overshadowed 2022 and 2023 started to recede late last year. The way markets are behaving it seems that a US recession is now priced-off the cards. The US is a bit of a standout here given the recession in the UK (ameliorated almost entirely purely by a rising population) and the grind experienced in the Eurozone where growth is a rounding-error. China's economy has continued to disappoint as fears over a Japan style 'lost-decade' haunt, with the ongoing real estate (and associated debt) overhang.

The 'easy' disinflation of base effects falling out of the system (as higher price levels flatten-out) has now been largely achieved, and this has provided ongoing support to the notion of peak short-term interest rates. However, underlying economic strength of the US has continued to push-out rate-cut expectations to a later date. As of end Q1 the market was still pricing around 75bps of cuts in the US Fed Funds rate by the end of 2024, but this is back to levels seen in September, having been pricing-in >150bps cuts in the interim. Central banking is largely a game of smoke-and-mirrors, and while talking tough the market senses a softening in the stance somewhat (US election paranoia?) against the still elusive return to the 2% inflation target. Central banks seem loath to broach the issue that household purchasing power remains markedly lower than where it was 4 years ago, likely ensuring ongoing wage struggles regardless of future moves in commodity markets (which are ultimately out of their control).

While investor caution was punished in the last two quarters, and the urge to invest idle balances remains palpable, it is worth noting that the US Presidential Election Cycle theory may be demonstrating its characteristics of a strong 18-month period into the election. It has been argued that the current administration (as well as others in governmental roles) is more incentivised than ever to try and keep the incumbent in the White House; this is typically good for stocks in election years but tends to come with a hangover.

Fed Funds Futures vs T-Note



Source: Bloomberg; CBT

FFM3 Comdty (FED FUND 30DAY Jun23) Fed Funds Curve Daily 30DEC2022-10APR2024 Copyright© 2024 Bloomberg Finance L.P. 10-Apr-2024 11:45:48

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