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Macro Roundup Artcile

Headline: Fat & Flat Fights Back

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Tweet: .@goldmansachs has a “neutral” view on equities. They write, “At 2.25% a risk-free and inflation-protected return makes equities look stretched unless there is significant growth.”

Summary: [The] headwind from rising yields should not be a surprise given that equity risk premia have fallen sharply back to pre pandemic levels, providing much less buffer for equities as rates rise (Exhibit 5). Some argue that this makes sense; if the post-pandemic tail-risk of deflation has now eroded, then equity risk premia should fall as term premia rises. However, while nominal and real bond yields are back to pre financial crisis levels, at least in the US, the PE remains much higher, and earnings growth much lower. In the absence of much better growth in corporate profits, the significant increase in both nominal and real interest rates create a much higher bar for equities to beat. Related: Breaking Down the Sources of US Economic Resilience and Soft Landing Summer and The Price of Risk: With Equity Risk Premiums, Caveat Emptor!

Primary Topic: Business Cycle

Topics: Business Cycle, Financial Markets, GDP, Other Source

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