

Macro Roundup Article

Headline: [The Tightening Cycle Is Approaching Stage 3: Guideposts We're Watching](#)

Article Link: <https://www.bridgewater.com/research-and-insights/the-tightening-cycle-is-approaching-stage-3-guideposts-were-watching>

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Tweet: Bob Prince and Aaron Goone @Bridgewater argue that earnings have not yet fallen enough to stabilize inflation at target suggesting either "continued rise in short-term interest rates or at least a period of sustained higher interest rates."

Summary: Earnings need to fall in order to induce the layoffs needed to cool the labor market and bring down wage growth, which is a prerequisite for a sustainable 2% inflation rate. After cooling late last year, our weekly reading of earnings growth has bounced rather than accelerating downward. Given current conditions and the cause/effect linkages, odds favor that there will be a third stage and that it will mostly likely take the form of an economic downturn. And if that doesn't happen, inflation is likely to remain above central bank targets, prompting a continued rise in short-term interest rates or at least a period of sustained higher interest rates than what the markets are now discounting.

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Primary Topic: Wages/Income

Topics: Business Cycle, GDP, Inflation, Other Source, Wages/Income, Workforce

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