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Macro Roundup Article

Headline: It Is Taking Time for the Fed to Remove the $10trn Stimulus Done During Covid

Article Link: https://apolloacademy.com/it-is-taking-time-for-the-fed-to-remove-the-10trn-stimulus-done-during-covid/

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Tweet: Torsten Sløk @apolloglobal argues that "it is taking longer to remove from the economy the $5T fiscal and $5T monetary expansion done during covid," and expects a recession as households eventually run out of excess savings.

Summary: The consensus has been forecasting negative growth since October 2022, and the recession has yet to arrive because it has taken longer to run down excess savings in the household sector, see chart below. Put differently, it is taking longer to remove from the economy the $5trn fiscal and $5trn monetary expansion done during covid. On the back of stronger-than-expected growth, the correction in stock markets and credit spreads has been relatively limited despite the rapid increase in short rates. With inflation still at 5%, far above the Fed's 2% inflation target, the Fed will keep the costs of capital high, and the recession will come as households eventually run out of excess savings. The implication for markets is that the Fed will continue to put downward pressure on earnings growth and employment growth until they get what they want, namely lower inflation.

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Primary Topic: Business Cycle

Topics: Business Cycle, GDP, Inflation, Monetary Policy, Op-Ed/Blog Post

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