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Macro Roundup Article

Headline: An Update from Our CIOs: The Tightening Cycle Is Beginning to Bite

Article Link: https://www.bridgewater.com/research-and-insights/an-update-from-our-cios-the-tightening-cycle-is-beginning-to-bite

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Tweet: .@Bridgewater argues that we are in a moment of “Bearish Disequilibrium,” as Fed policy has made short rates too attractive relative to bonds and stocks.

Summary: With respect to the markets, bond yields are too low in relation to cash and discounted inflation rates are well below current and projected inflation rates, so there is no risk premium in bonds. There is a roughly normal risk premium in equities relative to bonds based on current earnings and the current bond yield. But if you get a recession as needed to get the desired inflation rate, earnings would be about 20% lower, making the earnings yield too low in relation to bonds at the same time as the bond yield is too low in relation to cash. In other words, in order to deal with today’s economic disequilibriums, central banks are having to make cash very attractive, which is making bonds and stocks unattractive in relation to cash.

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Primary Topic: Business Cycle

Topics: Business Cycle, Inflation, Monetary Policy, Other Source, Theory

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