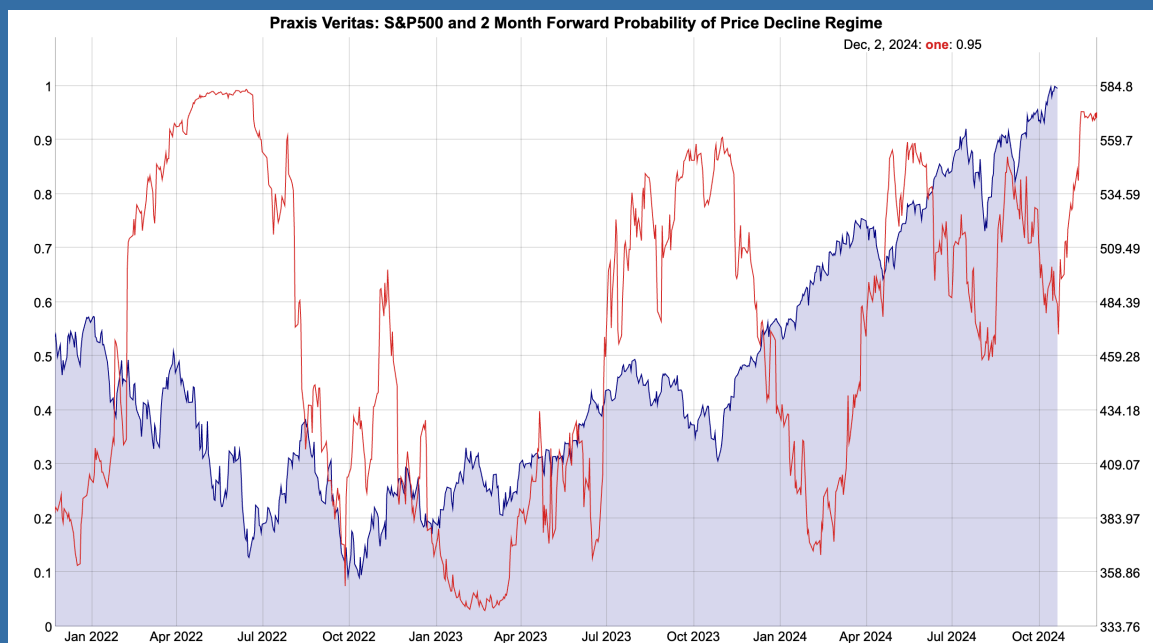


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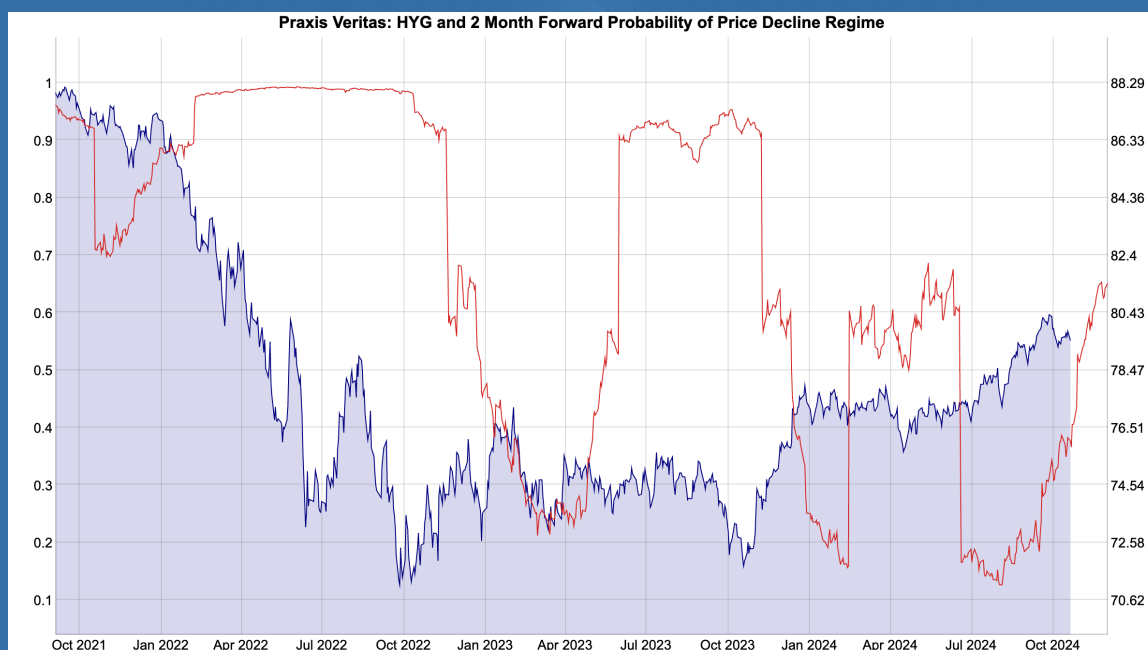
>>Price Regime Predictions Update 2024-10-22

Forward-looking price regime probabilities continue underscoring a shift to a risk-averse environment for major risk assets in the post-election period.



The probability of high-yield credit in the US entering a price decline regime crosses 50% in the first week of November.

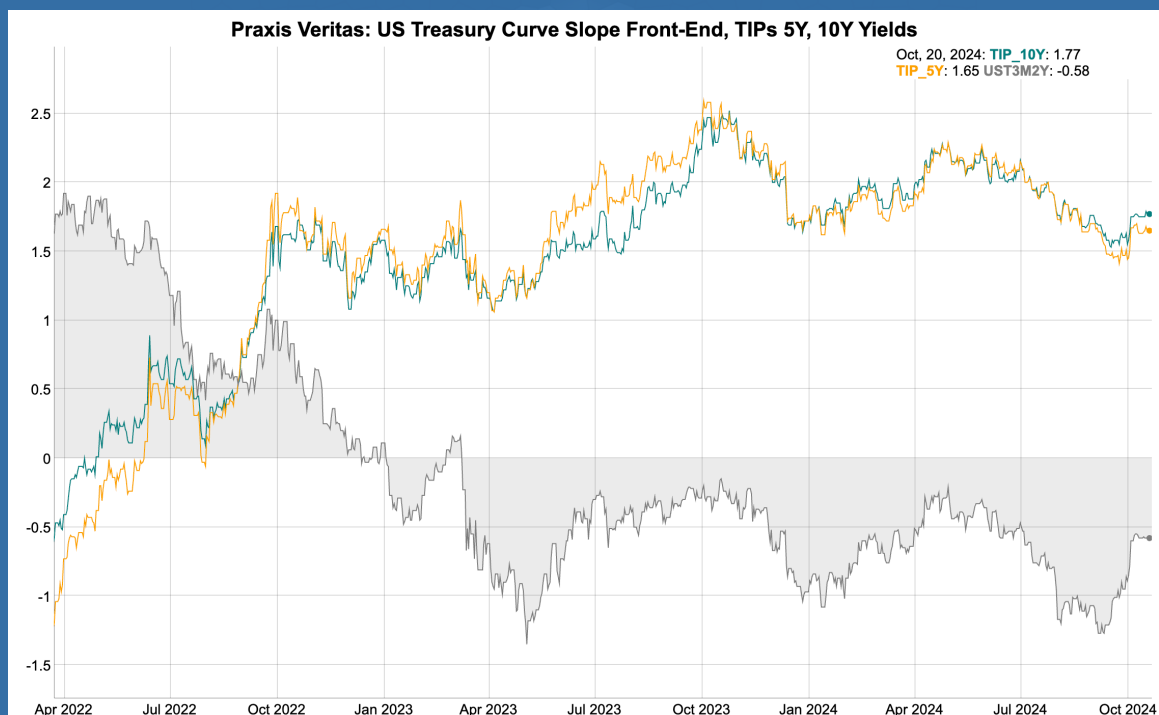
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Many of the fundamental factors outlined last week driving these predictions persist or are intensifying.

1. The hawkish monetary policy shock to US policy rate expectations and to longer-term TIPs yields continues. Given the Fed's importance in supporting risk sentiment, this is the most meaningful risk factor near-term.

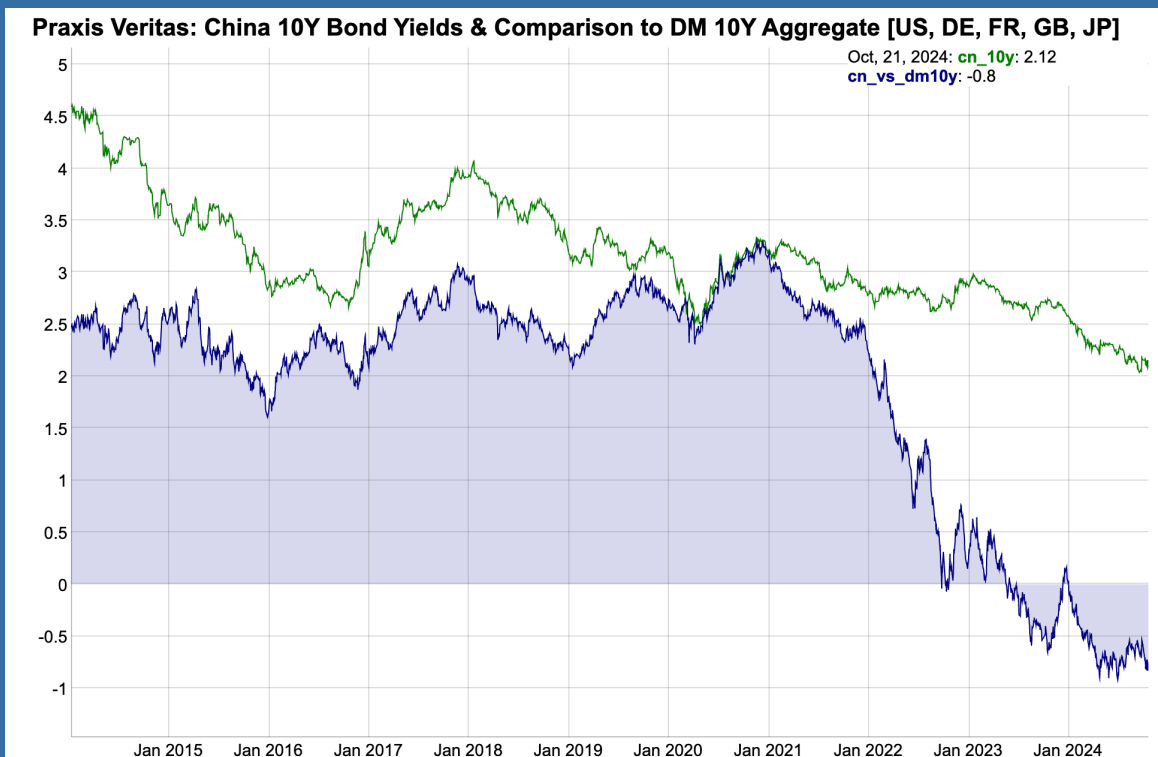
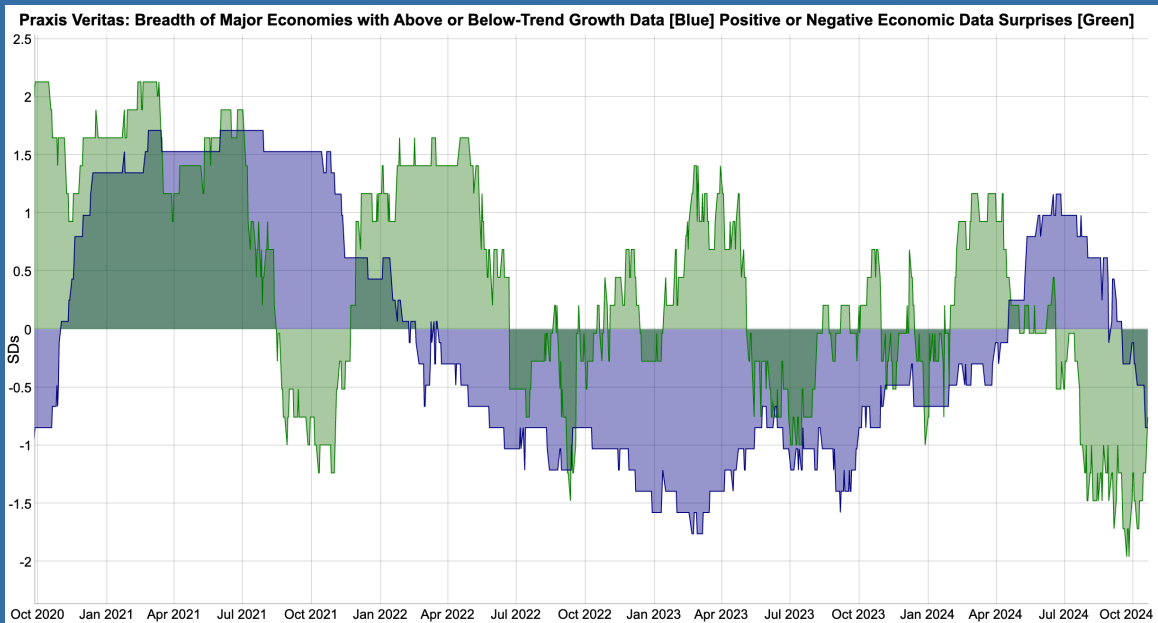
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2. Global growth data realizations continue deteriorating at the margin, with the improvement in surprise indices not making a serious dent in shifting the aggregate data trend deceleration. The upside China risk has diminished somewhat, flagged most clearly by 10Y bond yields there.

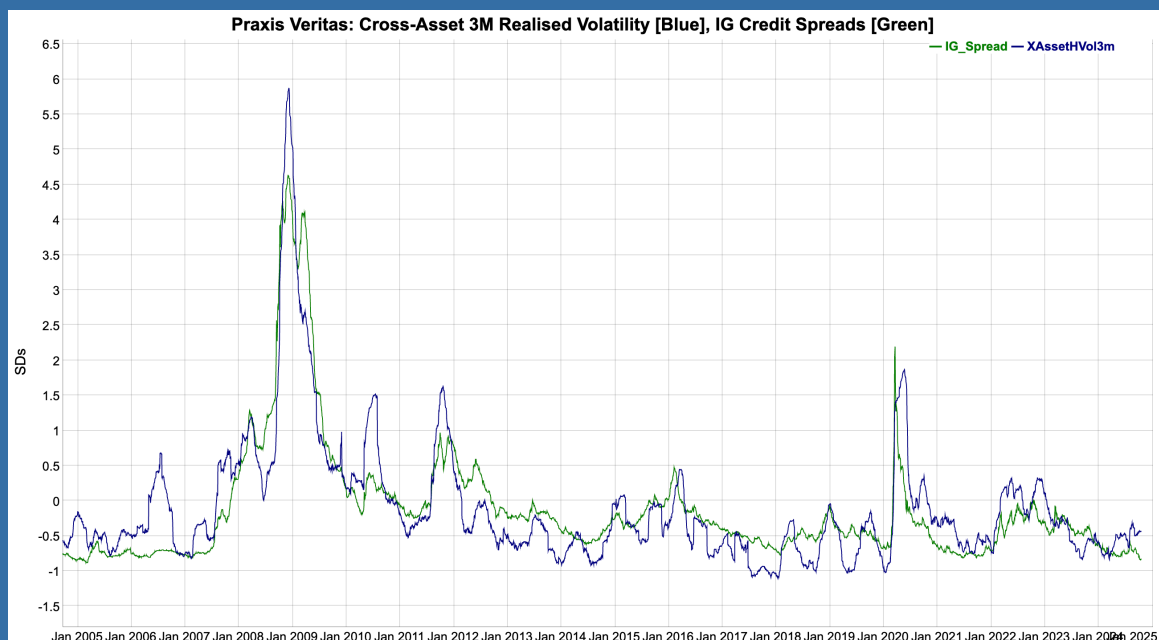
A Trump win may shift odds back in favor of Chinese fiscal stimulus as a countervailing tool against an intensifying US tariff regime.

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3. The rise in price decline probabilities is taking place in the context of unusually tight credit spreads and generally low realized cross-asset volatility. As a starting point this environment is one where negative shocks are likely to generate unusually disruptive price responses.

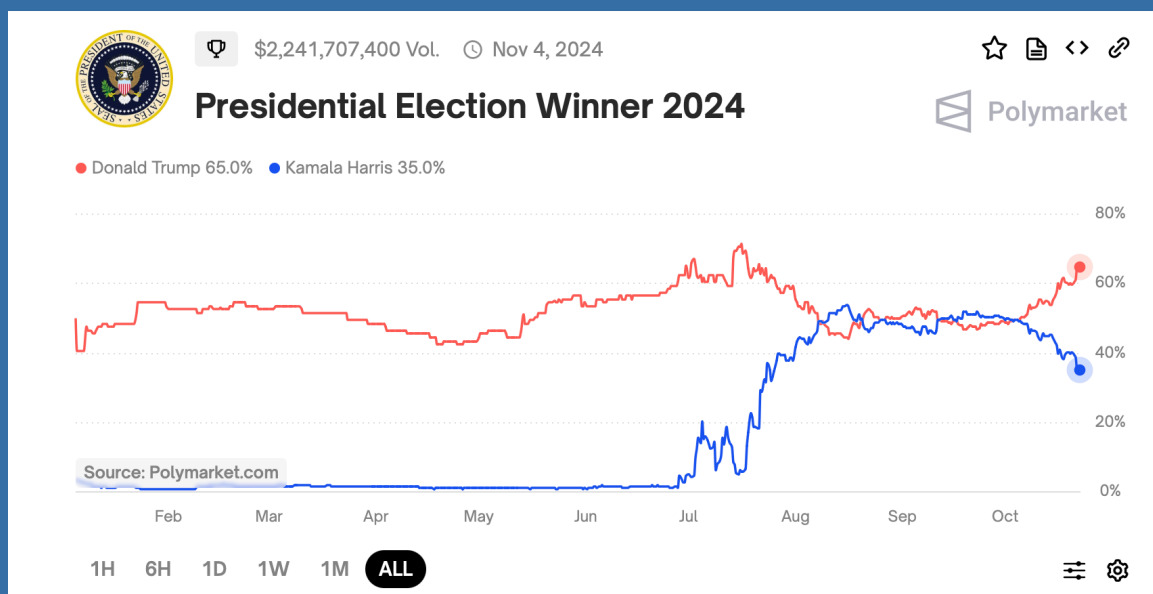


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US Elections

As an event risk, the approaching US elections will likely lead to portfolio derisking over the next two weeks. Considering event outcomes, decisive election-night victories for either candidate are best for markets, with a decisive Trump victory probably better for overall risk appetite given Trump has been equivocal about accepting results.

Prediction markets have shifted in favor of a Trump victory in recent weeks. There has been much talk of a conspiracy to manipulate Polymarket, the largest of the election betting markets. More likely is that the bump enjoyed by Kamala Harris as she replaced Joe Biden as Dem candidate has eroded with time and a continuity campaign versus a directional shift.





Crypto Regime Probabilities Decoupling

Crypto price regime probabilities continue shifting in favor of rising prices into year-end 2024, despite the poor outlook for major macro asset price environment. We have already seen gold prices diverge significantly from the broad USD and TIPS yields. Long-term risks remain favorable that crypto joins the gold portfolio re-allocation.

