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26 August 2021

# **Economists Roundtable: Three economic and market scenarios are the means to the end**



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## ECONOMISTS ROUNDTABLE: 3 HIGH CONVICTION PROPOSITIONS

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- 1 **Fight the Fed now before it's too late**
- 2 **Maintain neutral policy weights**
- 3 **Never fight the Fed** (or governments for that matter)



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# **Economists Roundtable: Three economic and market scenarios are the means to the end**

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Our three  
economic  
scenarios  
from last year

<b>GDP</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>3 Year Average</b>
<b>Bull</b>	-3.0%	5.0%	4.5%	<b>2.3%</b>
<b>Neutral</b>	-5.0%	3.0%	2.5%	<b>0.1%</b>
<b>Bear</b>	-7.0%	4.0%	2.0%	<b>-0.6%</b>

<b>Inflation</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>3 Year Average</b>
<b>Bull</b>	0.0%	1.5%	3.0%	<b>1.5%</b>
<b>Neutral</b>	1.0%	1.5%	2.0%	<b>1.5%</b>
<b>Bear</b>	0.0%	2.0%	2.0%	<b>1.3%</b>

Source: Wall Street Journal/InvestSense

After all of that  
'unprecedented'  
things have got  
complicated

GDP	2021	2022	2023	3 Year Average
Bull	7.0%	3.9%	3.3%	4.7%
Neutral	6.5%	3.0%	2.5%	4.0%
Bear	6.0%	2.0%	1.5%	3.2%
Inflation				
Bull	4.7%	3.5%	3.5%	3.9%
Neutral	4.7%	2.0%	2.4%	3.0%
Bear	4.7%	1.7%	1.7%	2.7%
10 Year Rates				
Bull	1.8%	3.0%	2.6%	2.5%
Neutral	1.8%	2.0%	2.3%	2.0%
Bear	1.7%	1.9%	2.2%	1.9%
Implied real long-term rates				
Bull	-2.9%	-0.5%	-0.9%	-1.4%
Neutral	-2.9%	0.0%	-0.1%	-1.0%
Bear	-3.0%	0.2%	0.5%	-0.8%

Source: Wall Street Journal/InvestSense

## Three medium-term scenarios for a post-COVID world

- **Fight the Fed** – before it's too late
- **Maintain neutral policy weights** – sit tight, it's in the price
- **Never fight the Fed** – lean into 'even lower for even longer'

**Portfolio Construction Forum, August 26  
2021**

## **The Middle Ground Scenario**

**Dominique Dwor-Frecaut Senior Strategist, Macro Hive**



# Vaccines Work

Chart 1 – Covid-related Hospitalizations Are Lower In States With Higher Immunization

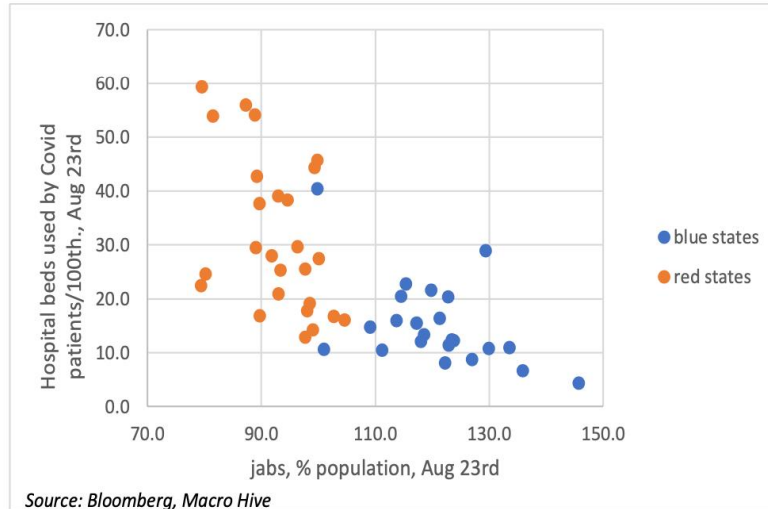
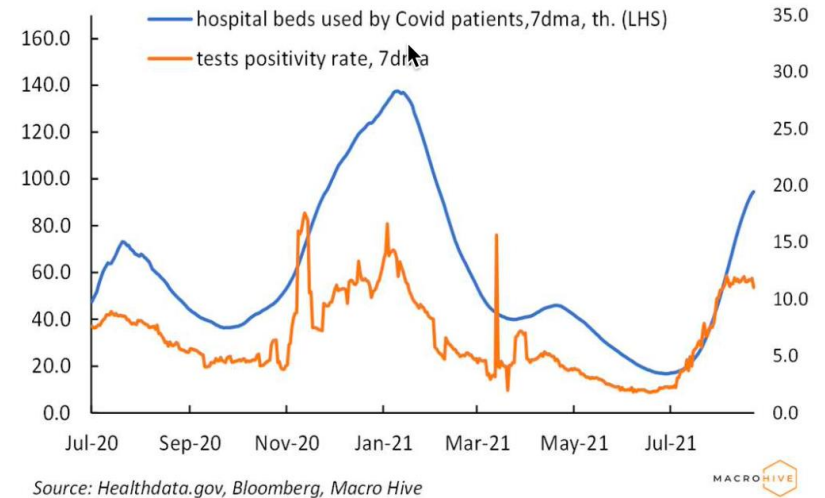


Chart 2 – The Current Wave Of Hospitalizations Is Cresting





# Supply Bottlenecks Are Starting To Ease

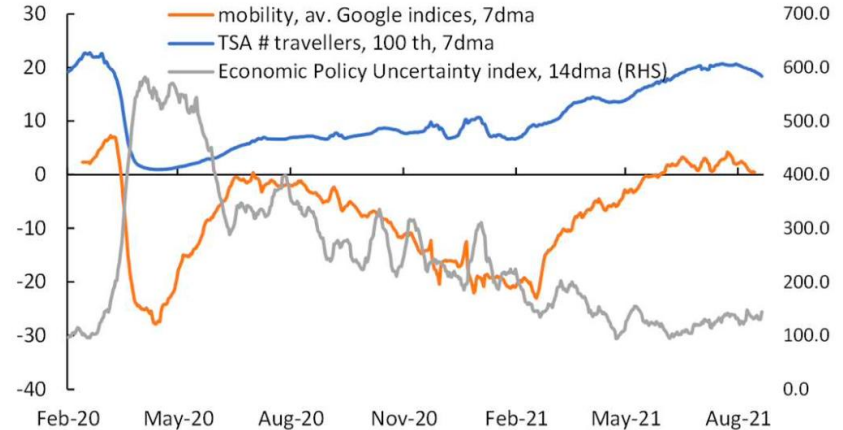
Chart 3 – DRAM Shortages Are Easing: KRW And Samsung Prices Have Been Hit



Source: Bloomberg, Macro Hive



Chart 4 - Mobility And Perceptions Of Uncertainty Have Normalized



Source: Google, Bloomberg, Macro Hive



# Supply Bottlenecks Are Starting To Ease

Chart 5 – Household Labor Income Is Taking Over From Government Transfers

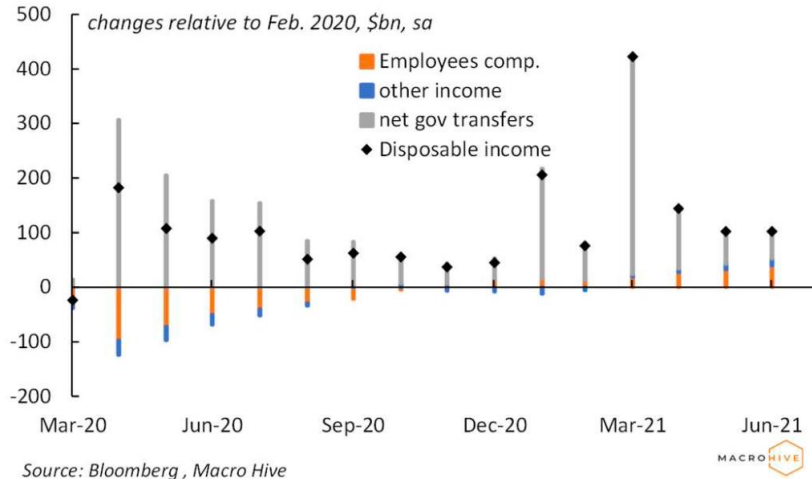
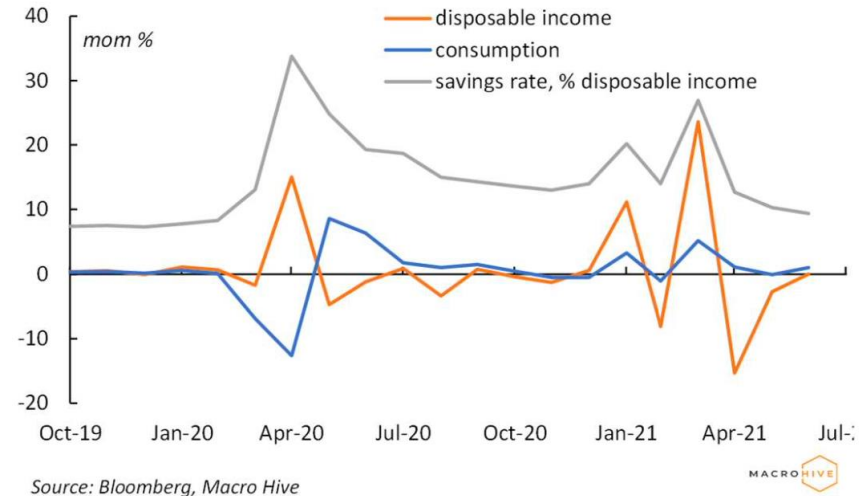


Chart 6 - The Savings Rate Is Normalizing



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# Andrew Hunt Economics Ltd.

## Don't Fight the Federal Reserve?

*Can and Will the Fed Support Markets forever*

August 2021

Andrew Hunt

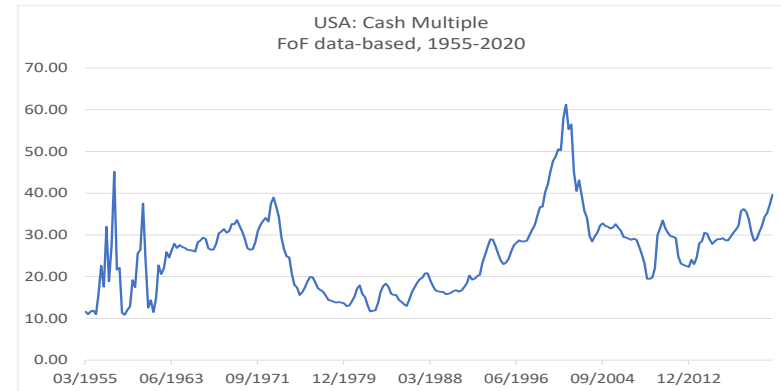
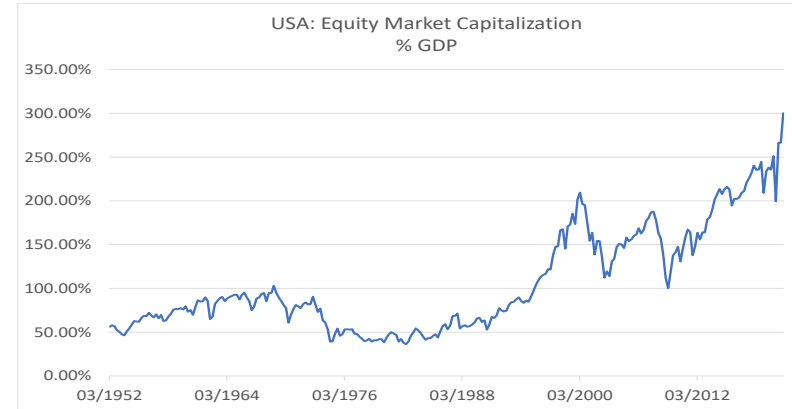
Consultant Economist

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All Data sourced from CEIC unless noted otherwise. Data cut-off 22<sup>nd</sup> August 2021.

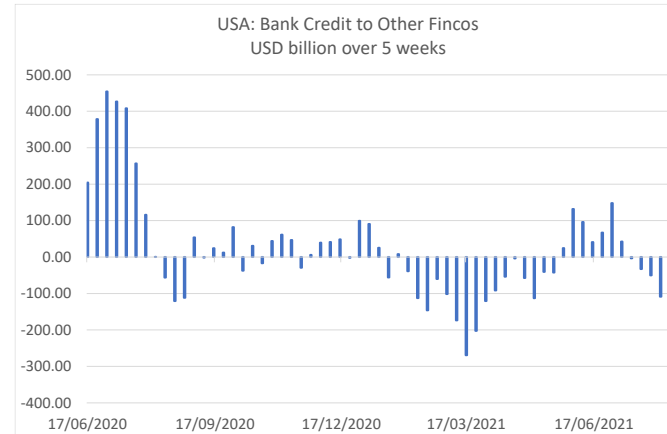
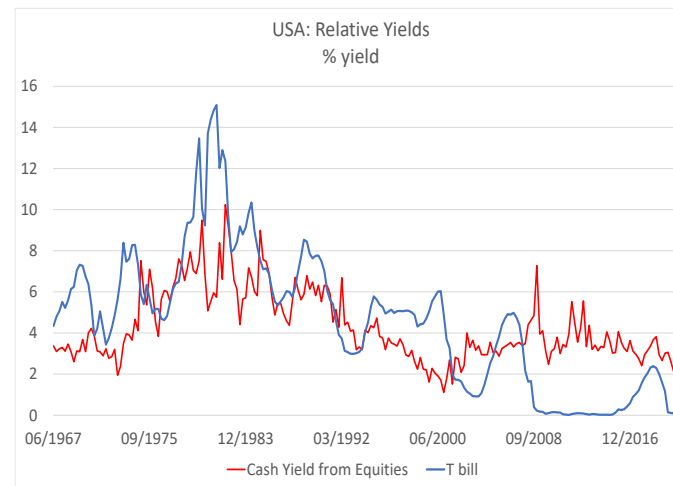
# Equities are Absolutely Expensive....

- Looked at in an “absolute sense”, US equities are, quite simply, expensive.
- But, the Federal Reserve worries about “Financial Conditions”.
- The Fed believes in “Wealth Effects” but fears a “Balance Sheet Recession”.
- The Government Pension System cannot afford a Cash



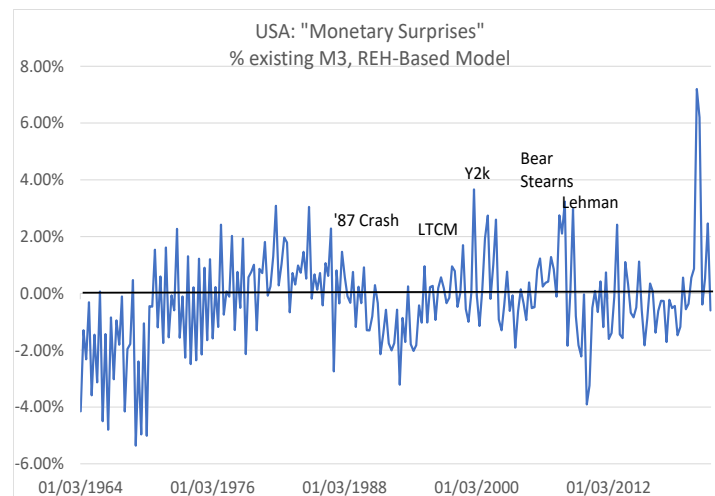
# We Are All Bond Managers Now

- However, low yields seemingly “justify” everything.
- If bonds were to weaken, there would be an impact through discount rate
- Through debt-financed buybacks (thereby affecting cash yield on equities)
- Ability of leveraged fund community – in all of its guises – to borrow (the collateral effect).



# The Federal Reserve Will Do Whatever it Takes

- The Powell Fed has shown a willingness to provide liquidity that exceeds even that of Bernanke & Greenspan “combined”.
- With China slowing sharply, the Global Inflation Scare should dissipate in 2022 and allow Powell yet more room for manoeuvre



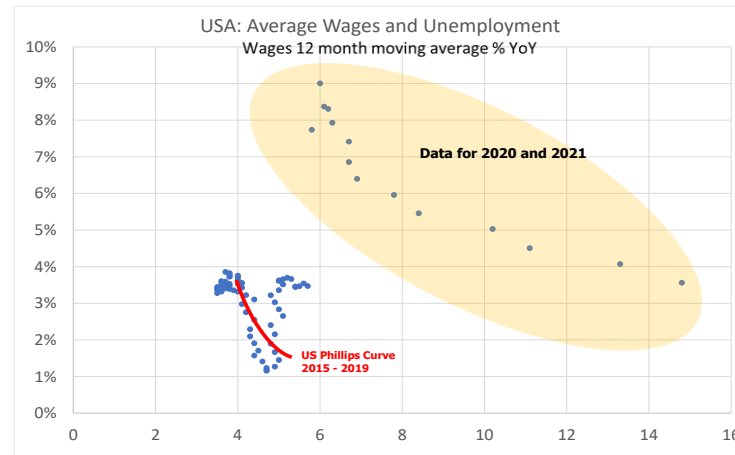
# Disclaimer

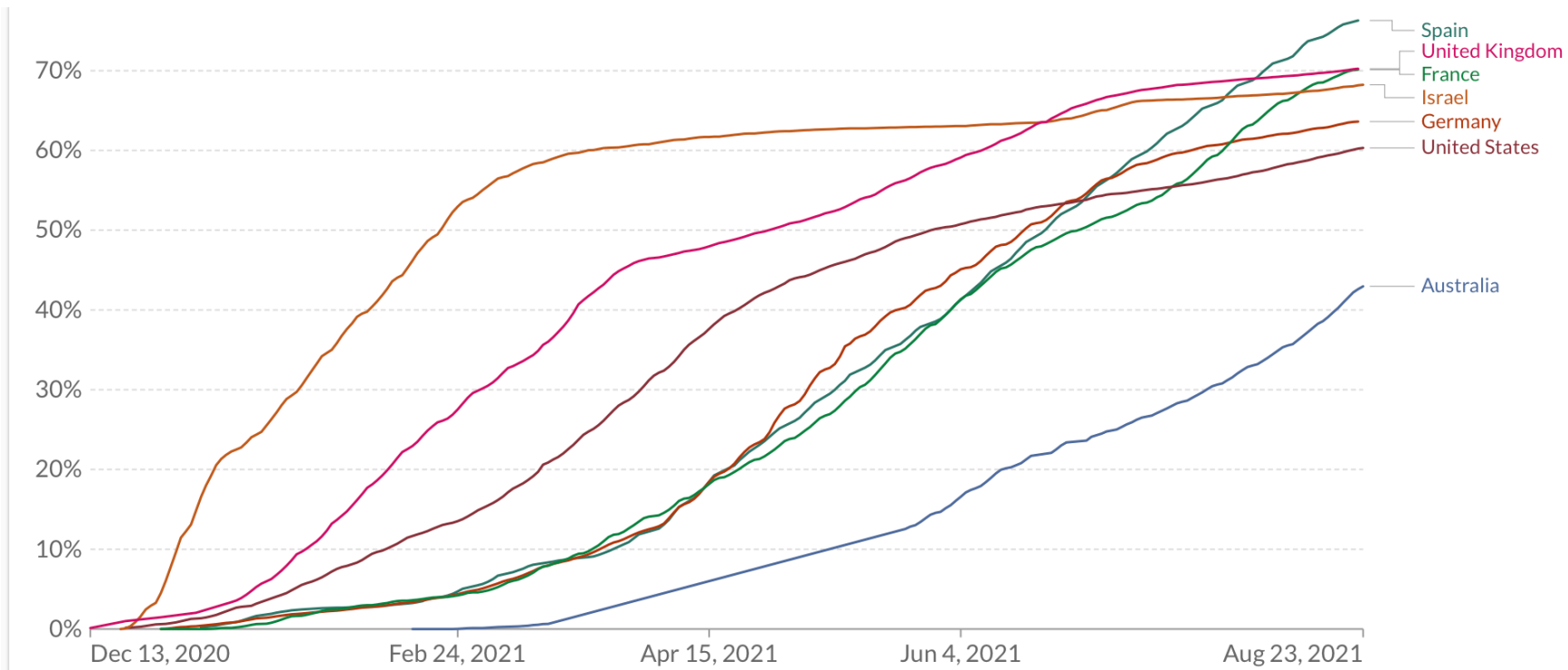
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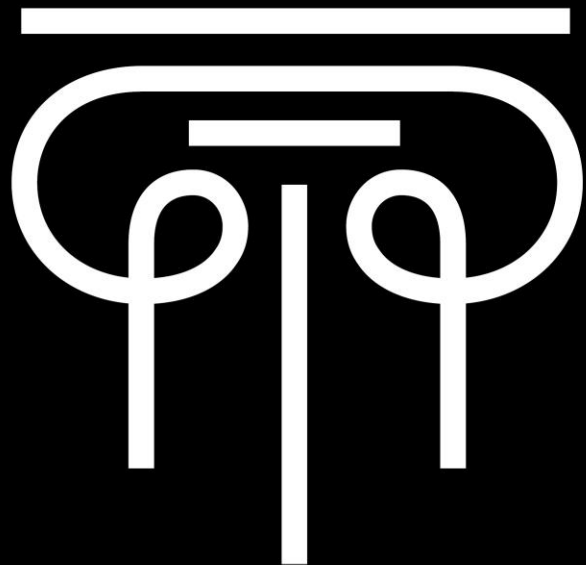


# But Ultimately, Too Much Risk

- We believe that COVID-19 and Geopolitics have changed the terms of the trade off between growth and inflation.
- When the World eases in 2022 to combat the slowdown, inflation could return and force the Federal Reserve to think about something other than financial markets.
- The markets have bene the Fed's spoilt favoured children for too long. Disciplining awaits.
- It was the Second Half of the 1970s, after OPEC, that damaged bonds.







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