



A capital markets expert offers insight based on TAC ECONOMICS research.

The Market Insight

April 2019

Writer and commentator David Wigan offers his thoughts on the key trends revealed by TAC ECONOMICS quantitative models and insight.

Love Changes Everything?

The Fed changes everything

In the words of the well-known song, Love Changes Everything. However, as every economist will tell you, it's not love that changes everything. It's the Fed. Emboldened by the Fed, equity markets in the first quarter staged a rally from the first week of January until April. Bond yields, meanwhile, fell sharply until the end of April (and have retraced somewhat since). The cause of this sharp turnaround from a weak fourth quarter of 2018 was a Fed 'pivot' which saw it move from predicting two rate hikes in 2019 to a prediction that its key rate would remain in its current 2.25-2.5% range at least through this year. Rates are now seen peaking at 2.6 percent sometime in 2020, roughly a percentage point lower than the historic average. Of course, this does not take into account the impact of balance sheet easing, which TAC economists estimate was equivalent to 75 bps of hikes in the year to January, but it is still a sure sign that the U.S. economy has entered a more subdued phase.

Take-away

*Fed policy change
boosts markets...
but for how long?*

Of course, this does not come as a huge surprise. TAC scenarios for more than year have predicted a cyclical reversal in the U.S. from around mid-2019. With that in mind the Fed's change of direction is entirely justified, albeit that it comes slightly earlier than expected.

TAC's central projection for the U.S. economy is a gradual progression to a cyclical trough in 2020, with the slowdown gathering pace and spreading worldwide in the first half of next year. TAC recursive partitioning models suggest a mild U.S. recession or no growth in the first two quarters of 2020. For the full year, TAC expects 1.6% growth, compared with 2.4% in 2019.

The impact of the "Powell put" on asset prices is a welcome relief for investors that were hit hard in 2018, and for asset managers. However, whether those gains are sustainable is another question. If the cycle is turning, there can be very little fundamental reason for

valuations to continue rising. In fact, the more likely scenario is a return to bouts of volatility and a sharply negative reversal once the realities of the slowdown come home to roost on the corporate bottom line. Further, any reversal is likely itself to trigger a further slowdown in the U.S. and other mature economies.

Disclaimer

These assessments are, as always, subject to the disclaimer provided below.

This material is published by TAC ECONOMICS SAS for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this

information is believed to be reliable, it has not been independently verified by TAC ECONOMICS and TAC ECONOMICS makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of TAC ECONOMICS, as of this date and are subject to change without notice.

Your contacts at TAC ECONOMICS

Technical questions / hotline

TAC ECONOMICS team is available for any economic, financial, technical questions and requests at the following e-mail address: hotline@taceconomics.com

Tel +33 (0)299 39 31 40

Web: www.taceconomics.com

Customer relations

For any question relative to your subscription, please contact TAC ECONOMICS team by e-mail at taceconomics@taceconomics.com