

Risk market outlook

By Matt Sherwood

6 October 2022



Over the past 25 years, global investors have become conditioned to the notion that central banks will bail out global asset markets amid the first sign of stress. Many of these occurrences have been when the economy has been firmly in expansion territory such as 1998 when the Russian default crisis and the collapse of LTCM saw the Fed cut rates during one of the biggest economic and speculative equity booms in recorded history. Twenty years (and a few months) later, the Fed was completing one of its slowest tightening cycles ever and decided to go on

hold in early 2019 because the US equity market had declined -20% in Q4'18, and then they cut rates in September 2019 when US unemployment was at a fresh 50-yr low of 3.5%, which sparked a huge gain in the S&P 500, despite zero earnings growth.

Although there are numerous other examples of the Fed, in particular, bailing out markets in the past quarter century, all of these policy pivots were possible as their preferred inflation gauge, the core PCE, was close to the +2% target. In 2022, investors have once again formed an expectation that the Fed could pivot on policy and be easing rates as lower commodity prices means financial conditions may not need to tighten as much as previously thought to get core inflation back to 2%. This is a challenging notion as reducing inflation from 6% to 4% will be much easier, than from 4% to 2% without a recession.

In the below paper, we examine more closely, why the market may be over-estimating the Fed's optionality.

[Download the whitepaper](#)

This information has been prepared by [Perpetual Investment Management Limited \(PIML\)](#), ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The information is believed to be accurate at the time of compilation and is provided in good faith. This document may contain information contributed by third parties. PIML does not warrant the accuracy or completeness of any information contributed by a third party. Forward looking statements and forecasts based on information available at the time of writing and may change without notice. No assurance is given that the forecast will prove to be accurate, as future events may impact actual results and these could differ materially from those anticipated. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act.

The Product Disclosure Statement (PDS) for the relevant funds, issued by PIML, should be considered before deciding whether to acquire or hold units in the Fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website www.perpetual.com.au.

No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. No allowance has been made for taxation

and returns may differ due to different tax treatments. Past performance is not indicative of future performance.