



# INTEREST RATE CUTS COULD BE SOONER THAN EXPECTED

THE FEDERAL RESERVE IS NOW EXPECTED TO STOP RAISING RATES EARLIER THAN EXPECTED (AFTER 75BP IN JULY) AND CUT RATES SOONER. CAN THE GLOBAL ECONOMY PERFORM MUCH BETTER THAN ASSUMED?



CAN THE GLOBAL  
ECONOMY  
PERFORM MUCH  
BETTER THAN  
MOST ASSUME  
OVER THE REST OF  
THE YEAR?

- ✓ Inflation is coming under control.
- ✓ US economy showing signs of slowing.
- ✓ Federal Reserve will increase interest rates by 75bp in July 2022 to make sure inflation is under control.
- ✓ China's economy is restarting.
- ✓ Easing of supply chain problems.
- ✓ Covid is almost under control.

HERE'S WHAT  
USUALLY HAPPENS  
AFTER A 20% DROP  
IN THE S&P 500

**S&P 500 returns after falling -20% from record high (since 1950)**

	6-months later	1-year later	2-years later	3-years later
10/21/57	9%	31%	46%	40%
5/28/62	11%	26%	45%	59%
8/29/66	18%	25%	36%	24%
1/29/70	-9%	11%	20%	38%
11/27/73	-9%	-27%	-6%	7%
2/22/82	1%	32%	40%	62%
10/19/87	15%	23%	48%	31%
3/12/01	-7%	-1%	-27%	-6%
7/9/08	-27%	-29%	-17%	6%
3/12/20	35%	59%	72%	
<b>Average</b>	<b>4%</b>	<b>15%</b>	<b>26%</b>	<b>29%</b>
<b>% positive</b>	<b>60%</b>	<b>70%</b>	<b>70%</b>	<b>89%</b>

IT LOOKS LIKE  
PRICING PRESSURE  
PEAKED THREE  
MONTHS AGO

## Inflation? What Inflation?

Bond and commodity traders think price pressure peaked three months ago

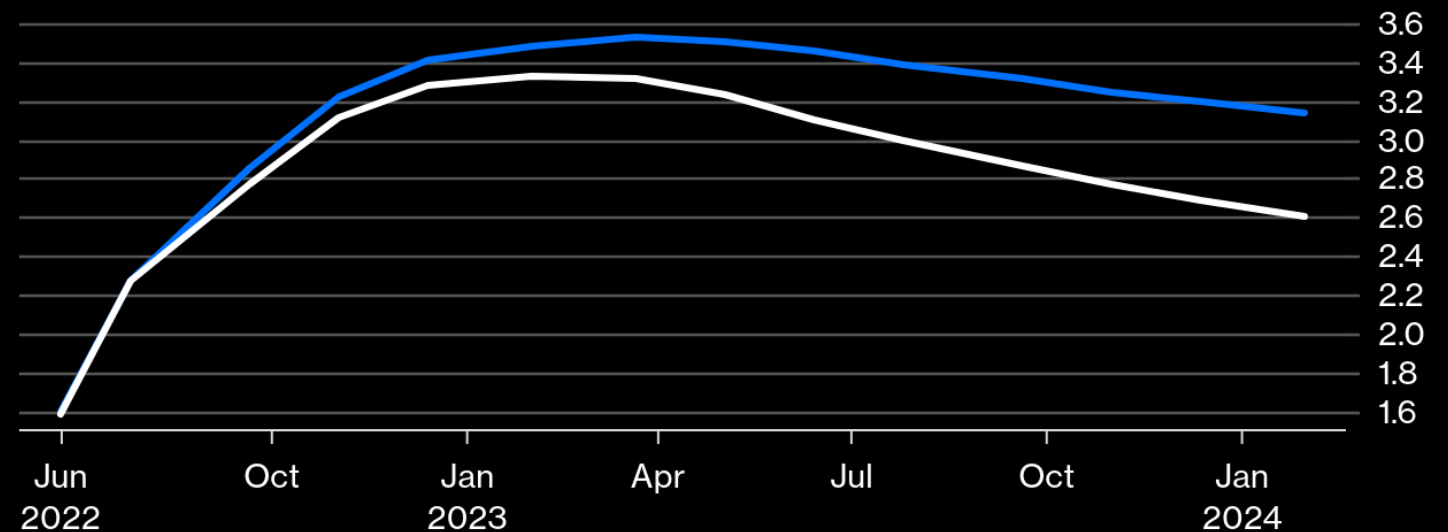


THE FEDERAL  
RESERVE IS NOW  
EXPECTED TO STOP  
RAISING RATES  
EARLIER AND CUT  
RATES SOONER

### Eleven Days in the Life of the Fed Funds Futures Market

The Fed is now expected to stop hiking earlier and lower, and cut immediately

Forecast at 6/24/2022    Forecast at 7/5/2022



Bloomberg World Interest Rate Probabilities function

**Bloomberg**Opinion

THE FEDERAL  
RESERVE WILL  
DESIST SWIFTLY IN  
INTEREST RATE  
HIKES WITH A  
SLOWING  
ECONOMY

## Cooling the Housing Market

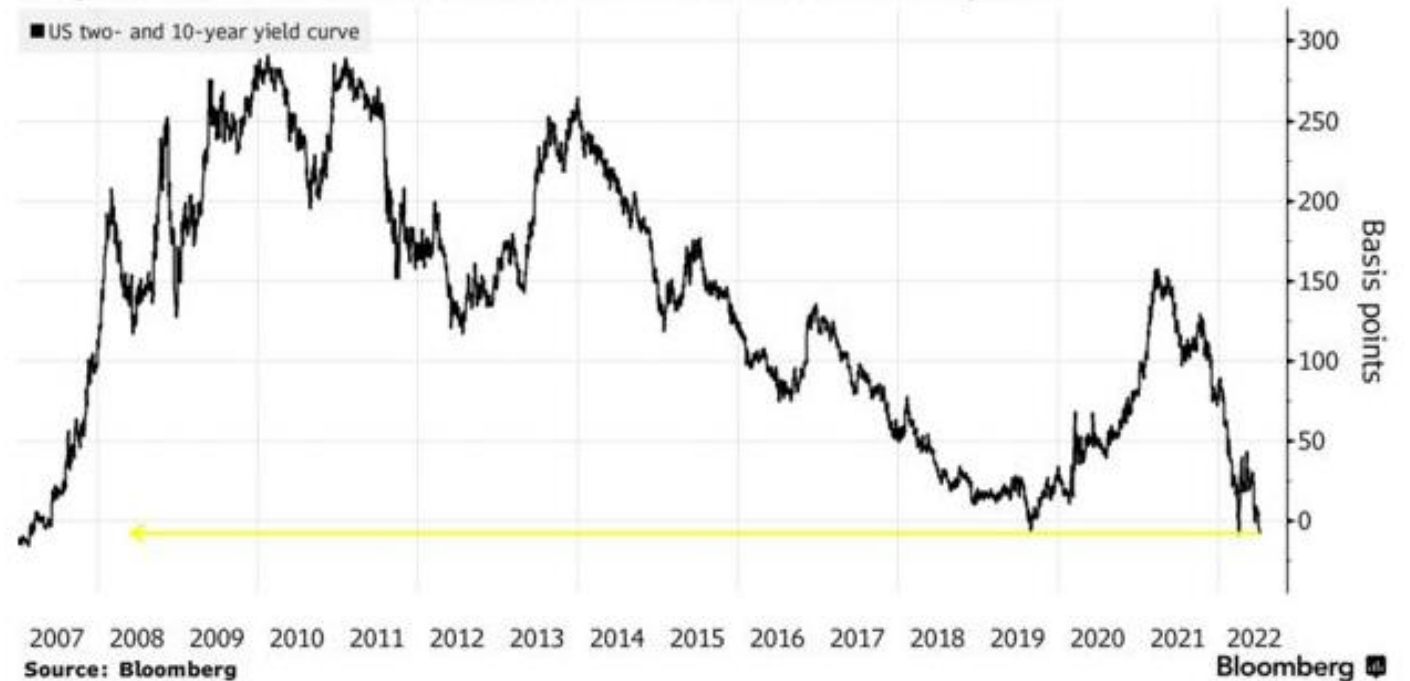
US demand for mortgages has dipped significantly over the last 18 months



THE FEDERAL  
RESERVE IS  
CONTROLLING  
INFLATIONARY  
EXPECTATIONS.  
DEEP RECESSION IS  
NOT A BASE CASE

### **Recession Signal**

**US yield curve remains near the most inverted level in 15 years**

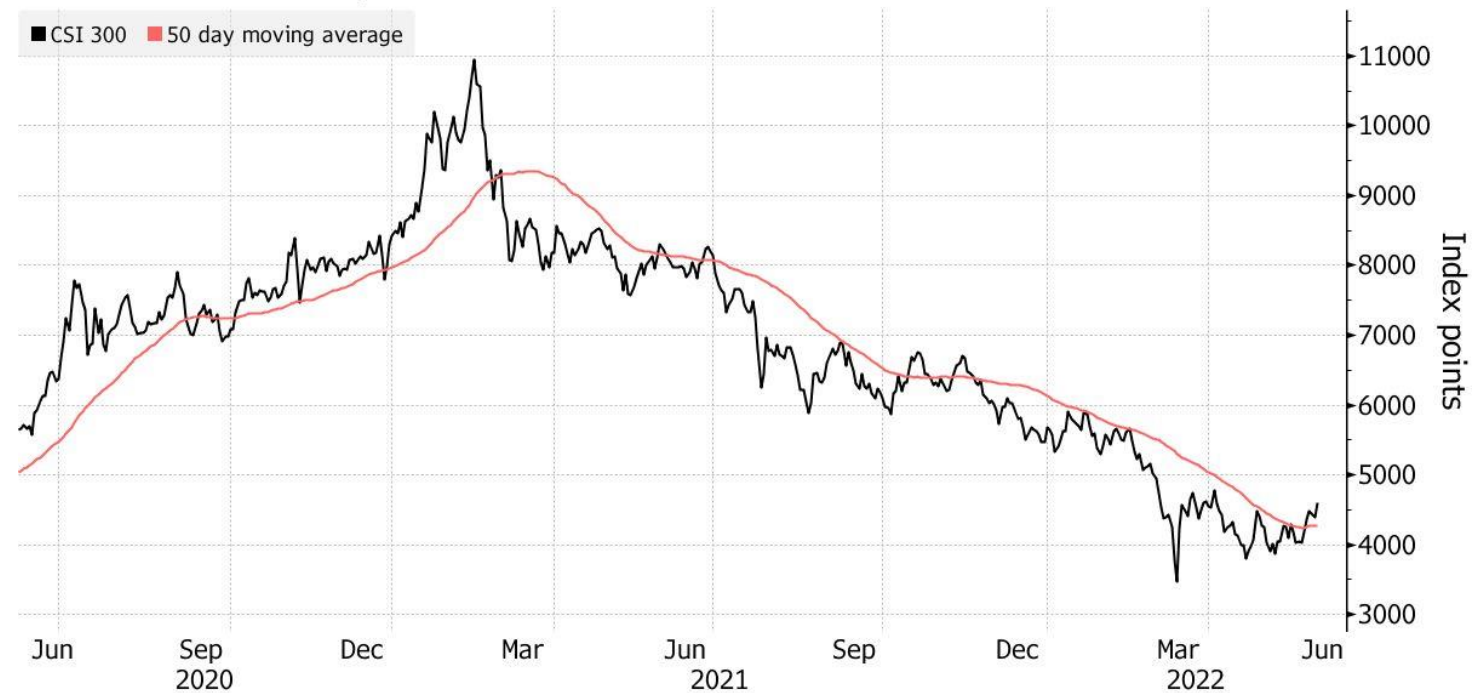




THE EQUITY  
MARKET NOW  
LOOKS OVERSOLD  
AS CHINA IS  
CONTEMPLATING  
A DIRECT  
STIMULUS TO ITS  
ECONOMY VIA  
\$220BN  
INFRASTRUCTURE  
BONDS

### **Worst Is Over?**

**China's tech stocks punch above resistance line**



Source: Bloomberg

Bloomberg

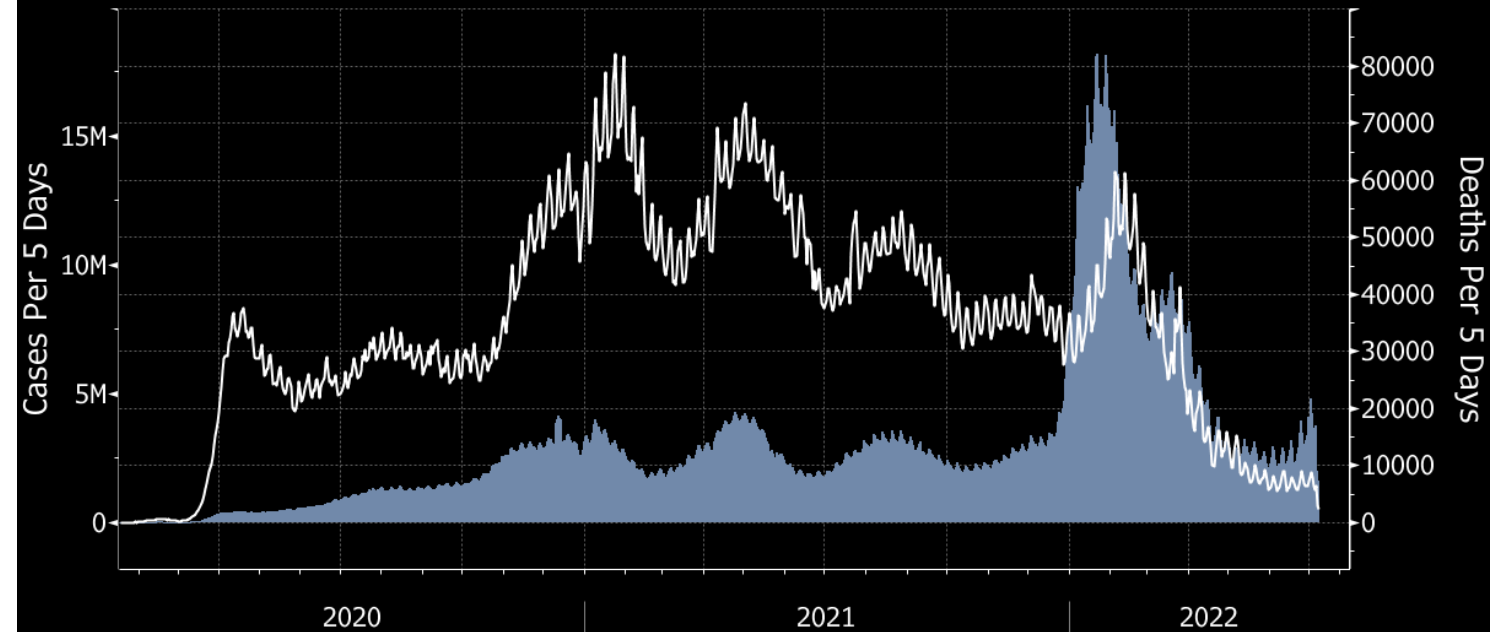


COVID-19'S ABILITY  
TO TAKE LIVES  
DOES APPEAR TO  
HAVE BEEN  
CONTROLLED

## Covid: Down If Not Out

Covid deaths have dropped to new lows, but cases remain prevalent

■ Coronavirus (2019-nCoV) Globally Confirmed Deaths - Price Change 5 Day Net (R1)  
■ Coronavirus (2019-nCoV) Globally Confirmed Cases - Price Change 5 Day Net (L1)

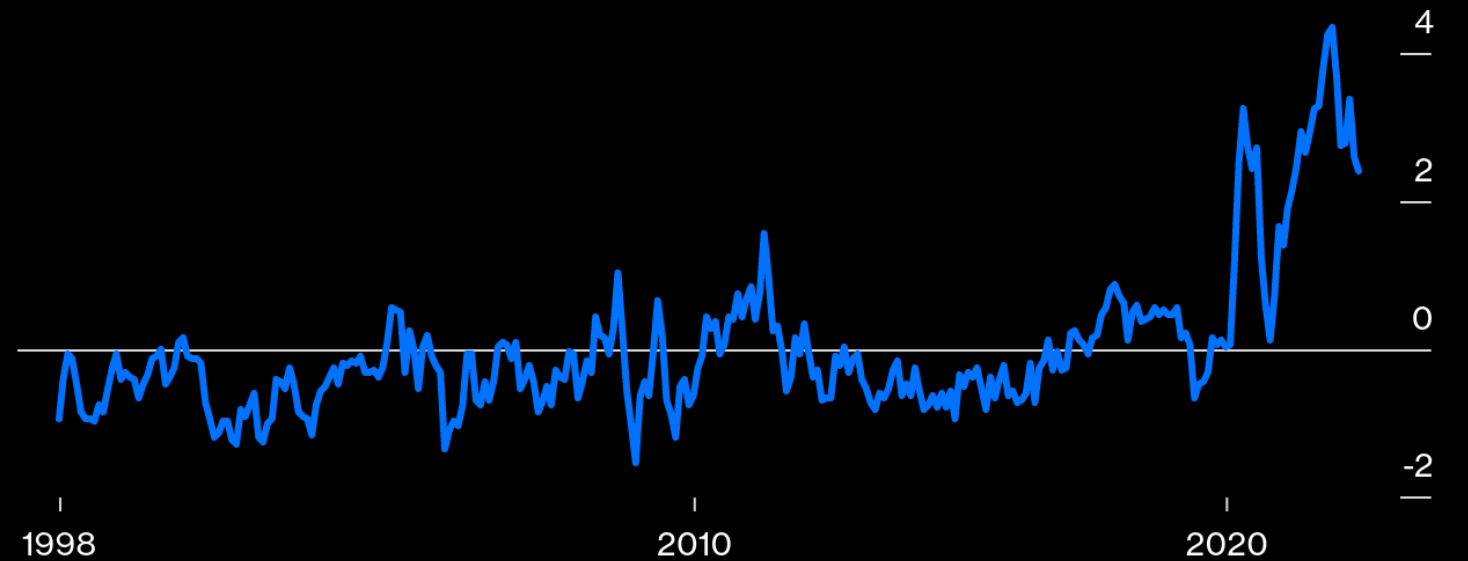


Source: Bloomberg

Bloomberg

INDEX OF GLOBAL  
SUPPLY CHAIN  
PRESSURE (NY FED)  
IS UNMISTAKABLY  
DECLINING

**Pulling The Chain; Intense Supply Pressures Are Starting to Ease Again**  
New York Fed Global Supply Chain Pressure Index is moderating



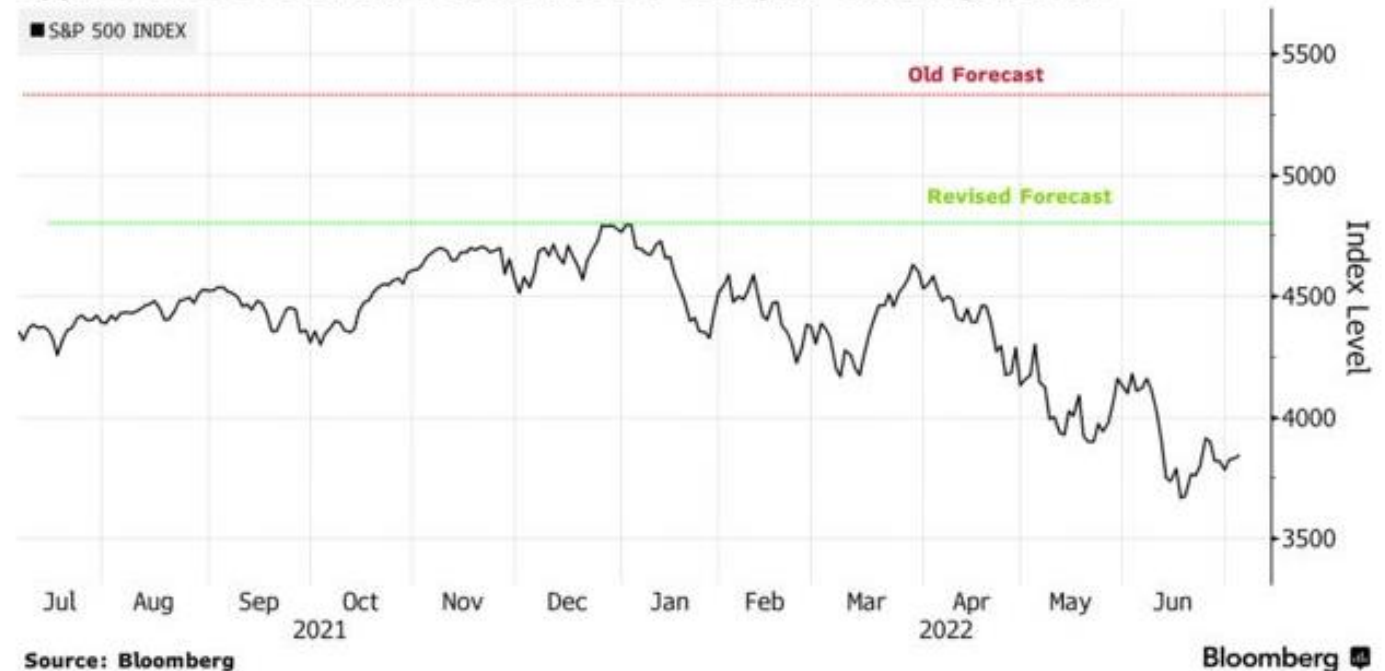
Federal Reserve Bank of New York

**Bloomberg**Opinion

EVEN AFTER  
TEMPERING THE  
OUTLOOK,  
FORECASTS STILL  
POINT TO A 25%  
RALLY FROM THIS  
POINT

## Walking Back

Oppenheimer's Stoltzfus revised his S&P 500 year-end target lower



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