

Chart 1:

2018: Paradigm shift away from deflation scepticism to inflation fear:

Thanks to Trump's put on the US economy ...



Chart 2:

Markets now present late cycle dynamics...

As inflation and financial stability become the main worries, equities can no longer rally without causing higher real yields, US\$ & tighter FC:



Chart 3:

Beware a breakout in real yields NOT validated by higher growth expectations...

... The ERP has recently recovered on stellar earnings and prospects of upcoming buybacks but credit spreads continue to tell a different story:



Chart 4:

In 2000, an inflation scare (and wish to burst the equity bubble) caused the Fed to hike 50bps...

Even as markets were already sensing a growth slowdown:

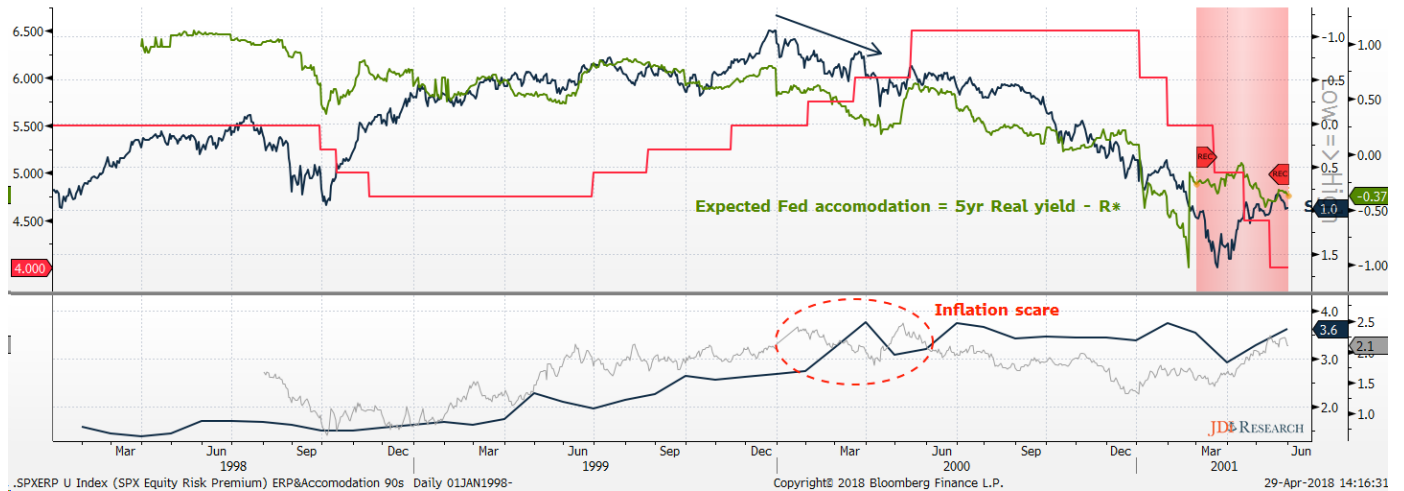


Chart 5:

In 2007, the divergence between ERP and Accommodation also signalled the end of the cycle:

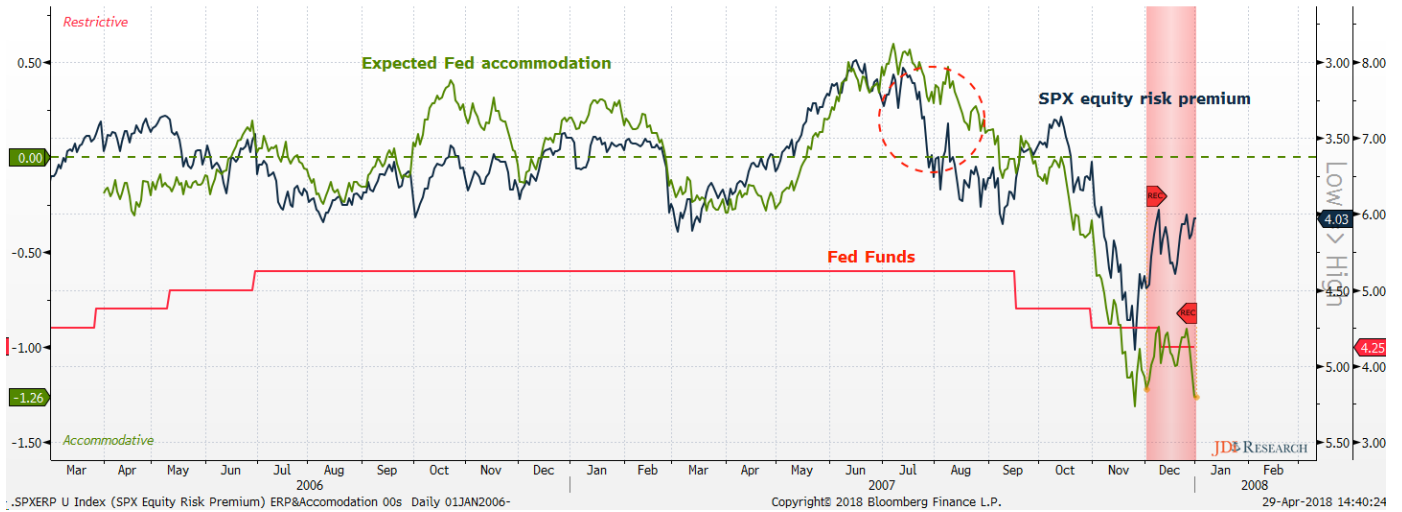


Chart 6:

No signs that higher yields are starting to take their toll on the economy?

Credit surveys have certainly taken a dive... first signs of cracks...

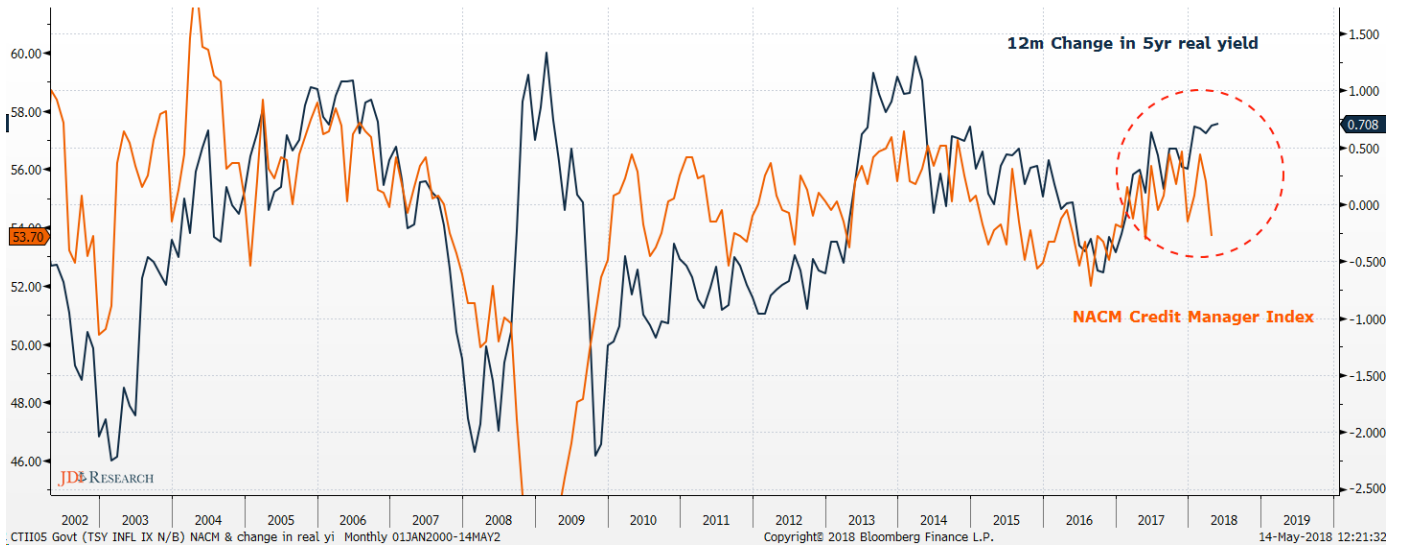


Chart 7:

Credit supply is slowly tightening for consumers with demand trending lower:

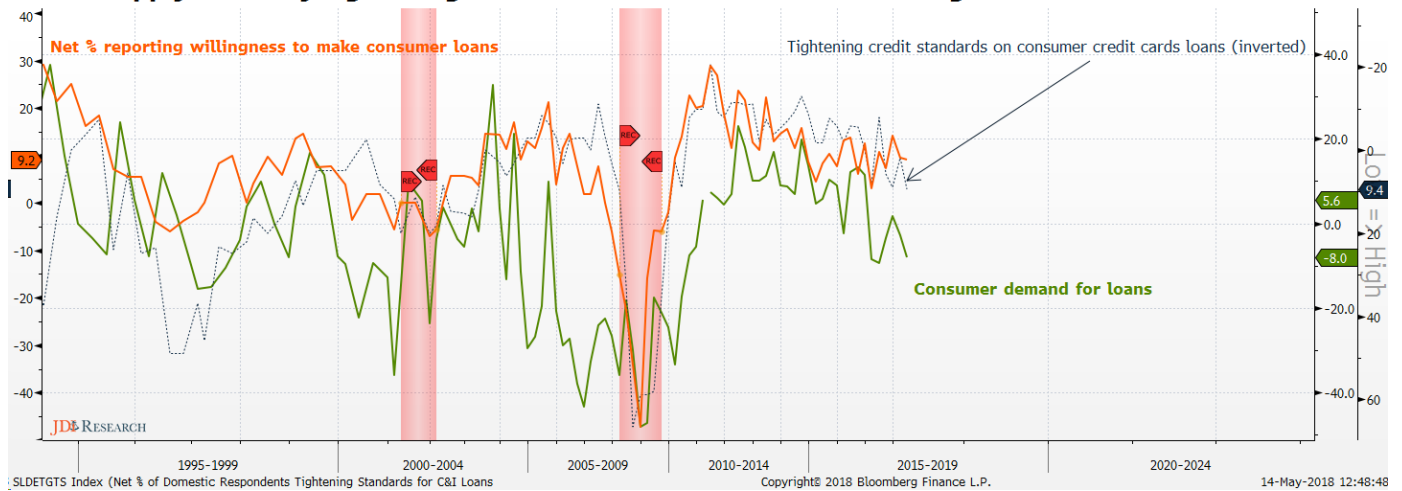


Chart 8:

Higher equity volatility is also a late cycle feature...

... The February VIX spike also marks the regime change:

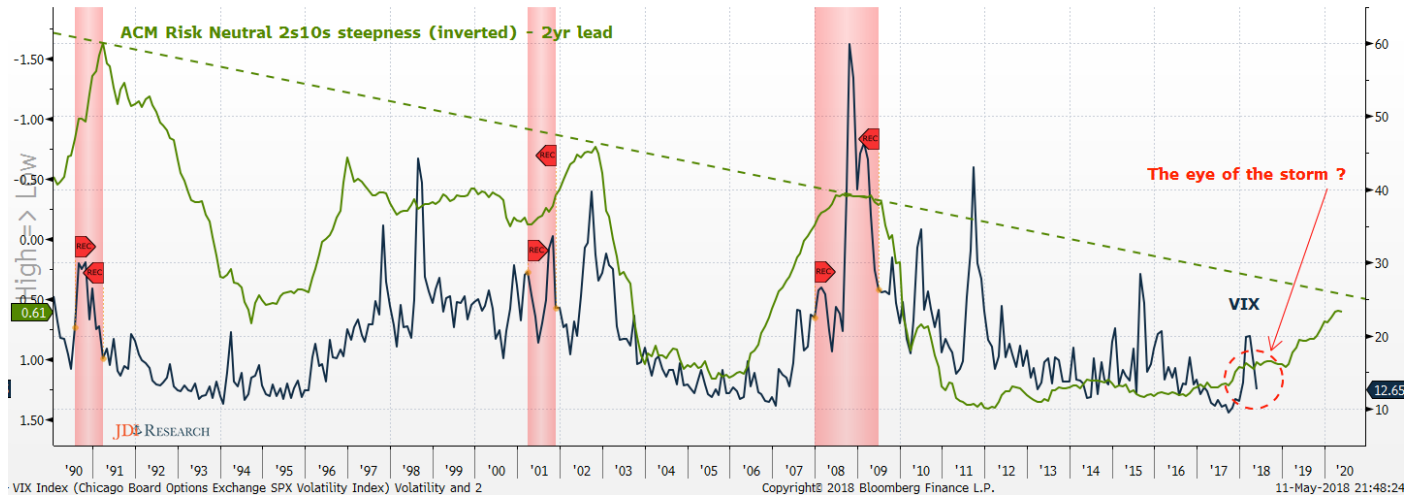


Chart 9:

Real Interest Rates differentials DO matter but the first USD downleg only corrected an overshoot:



Chart 10:

Growing evidence that global growth has peaked...

... The OECD Global Leading Economic Indicator Diffusion Index has dropped below 50, consistent with negative global equity returns:

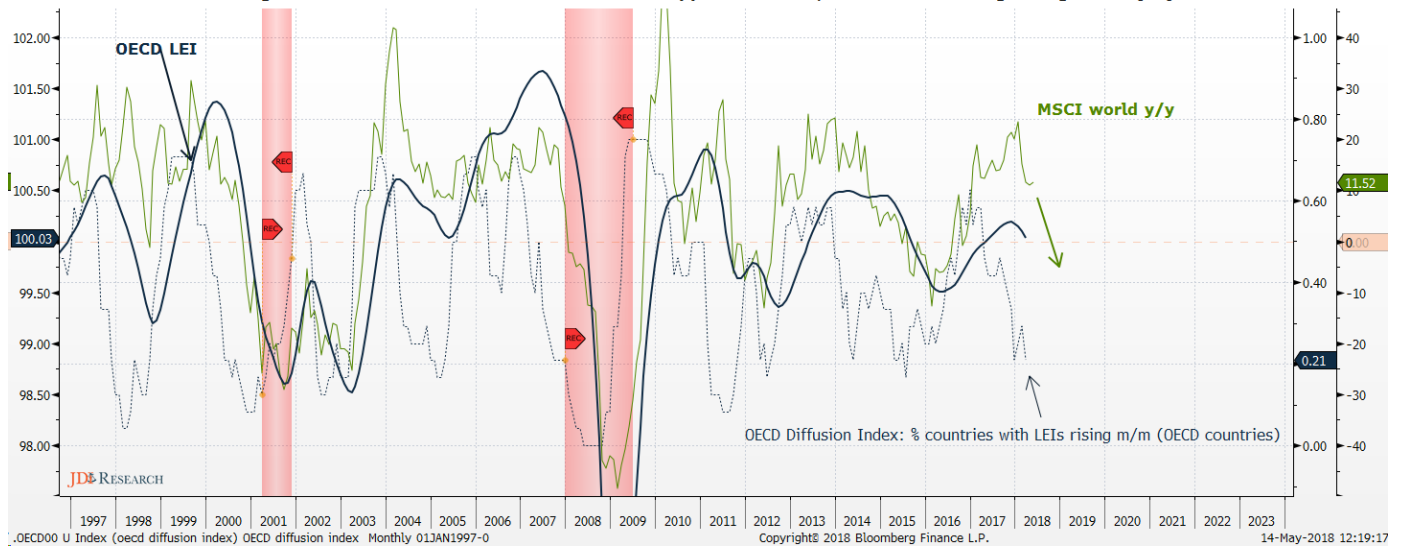


Chart 11:

Inflation scare averted?

A string of milder-than-expected inflation reads:

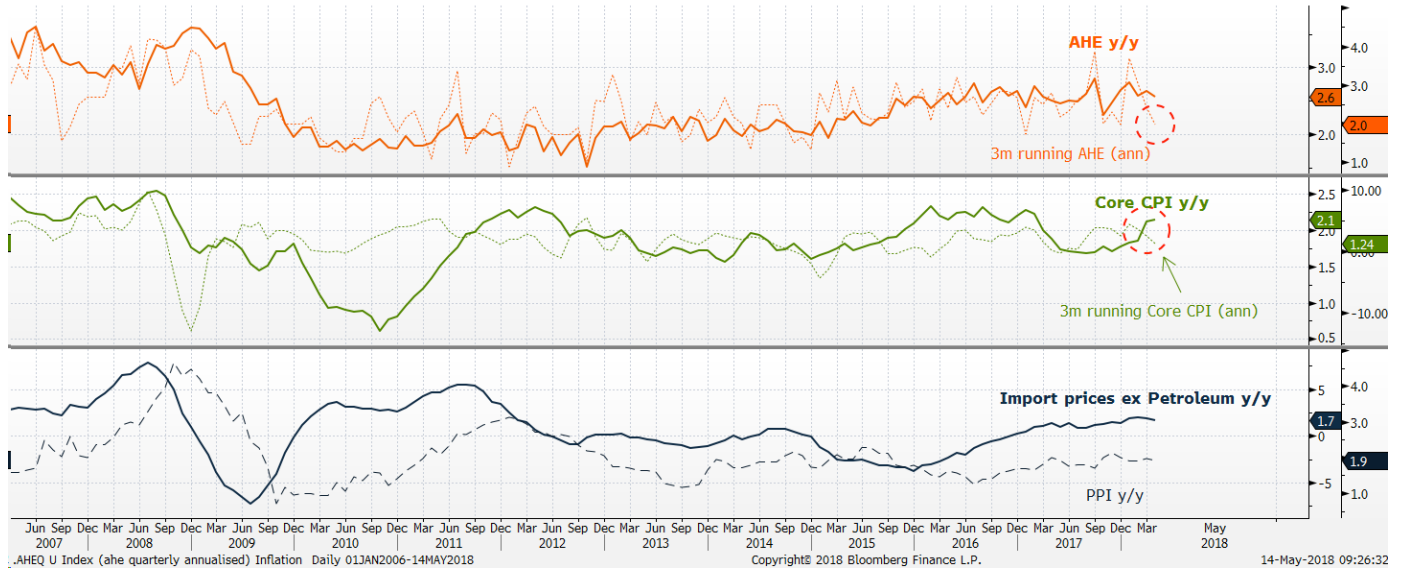


Chart 12:

China: Soft CPI gives scope for a monetary boost...

... Should trade tensions persist and cut into growth:

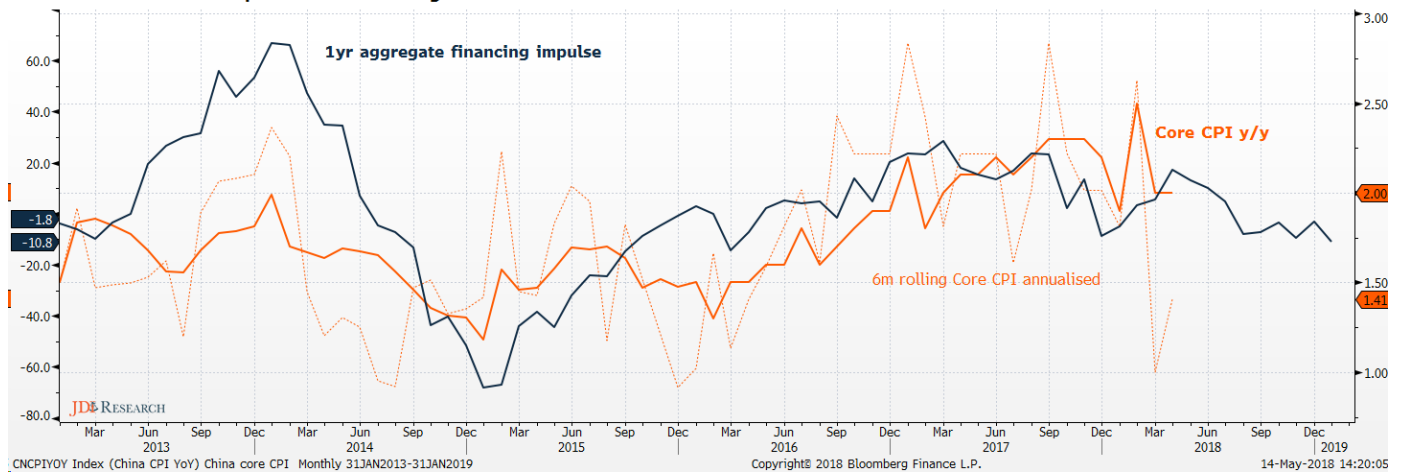


Chart 13:

Concerns about Chinese growth seem overblown with the credit impulse stable...

... Australia (whose business cycle remains tied to China) stands to benefit:

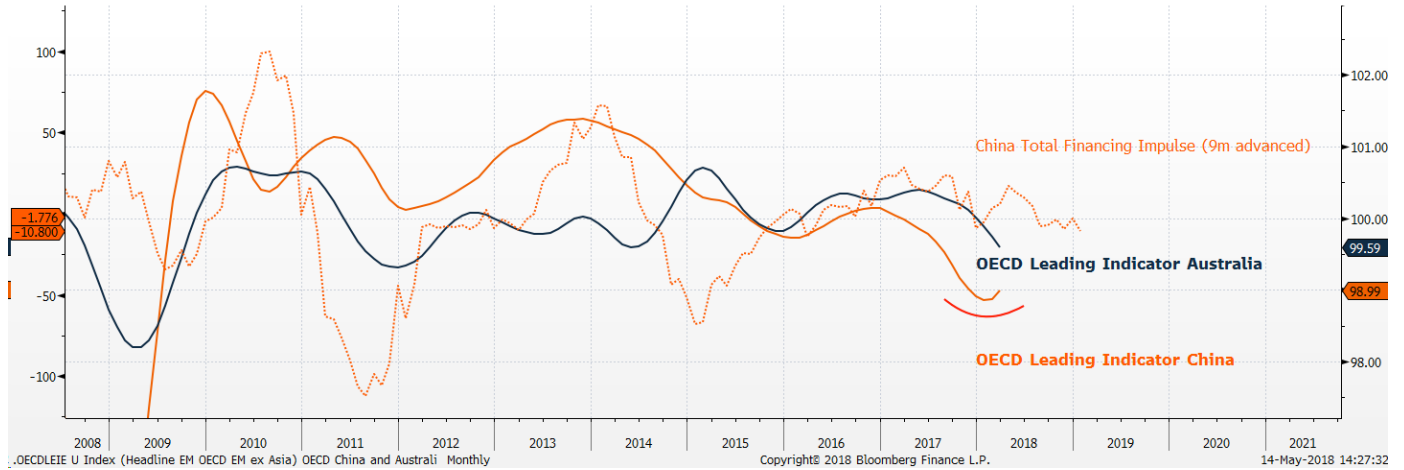


Chart 14:

Emerging Markets ex Asia no longer dance to China's tune...

Moreover, China's credit impulse has remained stable -- against expectations:

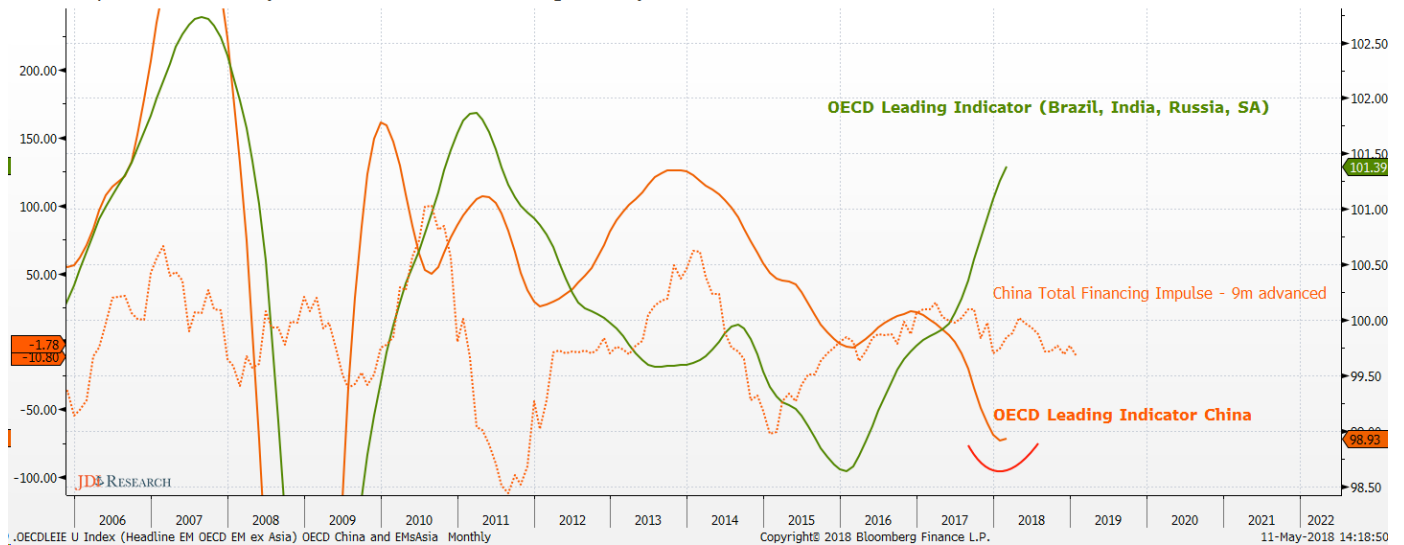


Chart 15:

EM 4 FX (Sa, Brazil, India, Russia) vs Real Yield & prospective growth differentials:

The real poison for EM is higher US yields and lower growth prospects (2013 taper tantrum)...

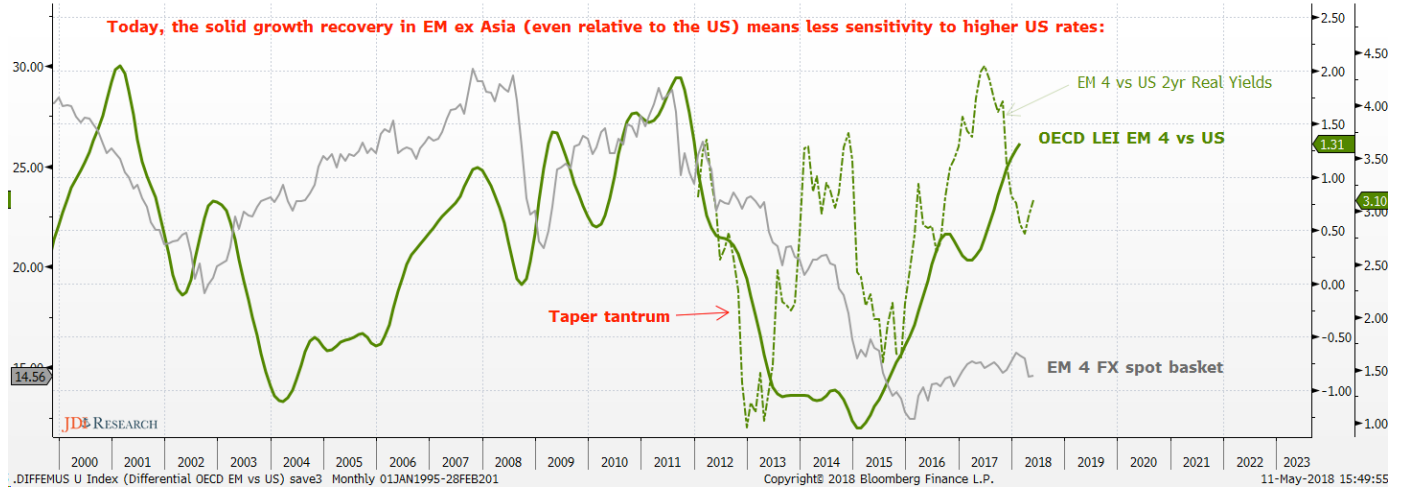


Chart 16:

The US consumer remains jubilant... But no US\$ in his pocket:

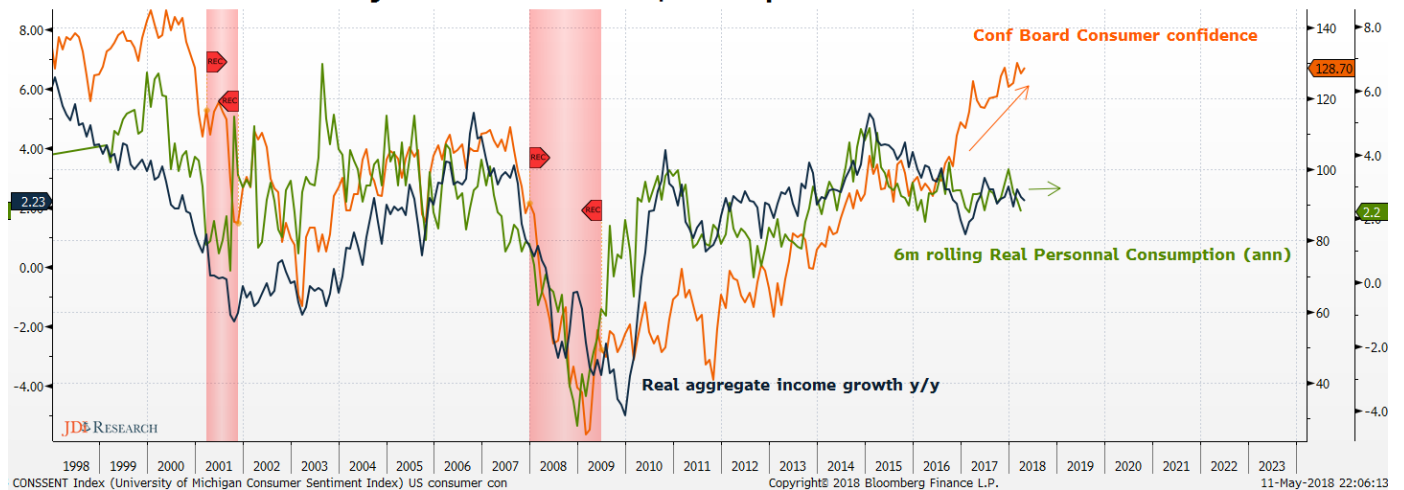
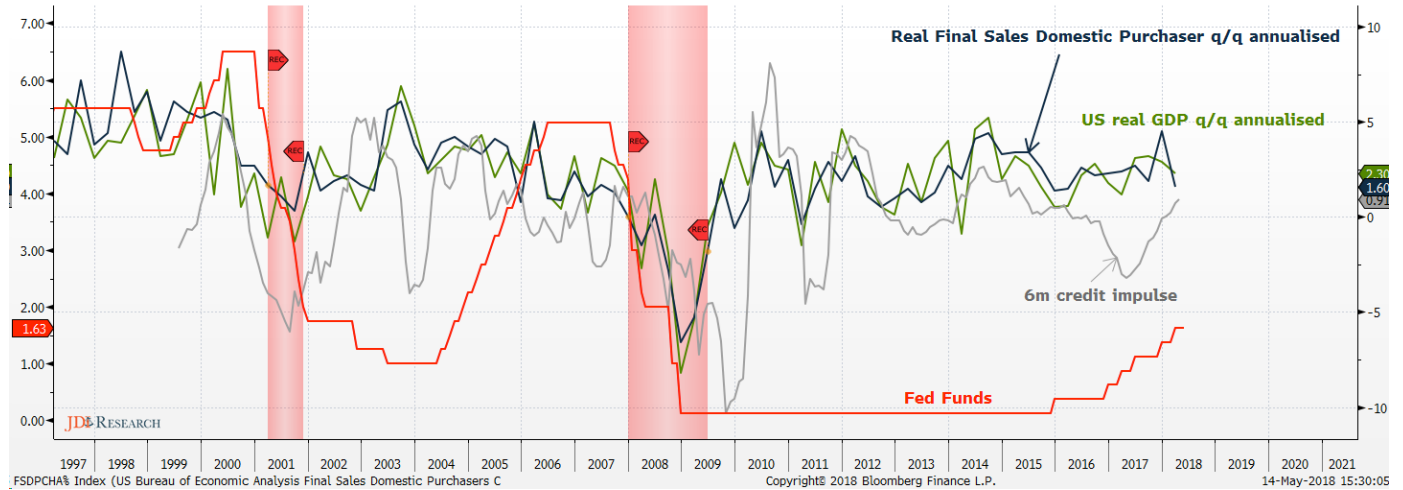


Chart 17:

Despite the continued increase in credit & leverage:

Private domestic demand (the sustainable part of GDP) collapsed back to 2016 lows in Q1:



Juliette Declercq

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