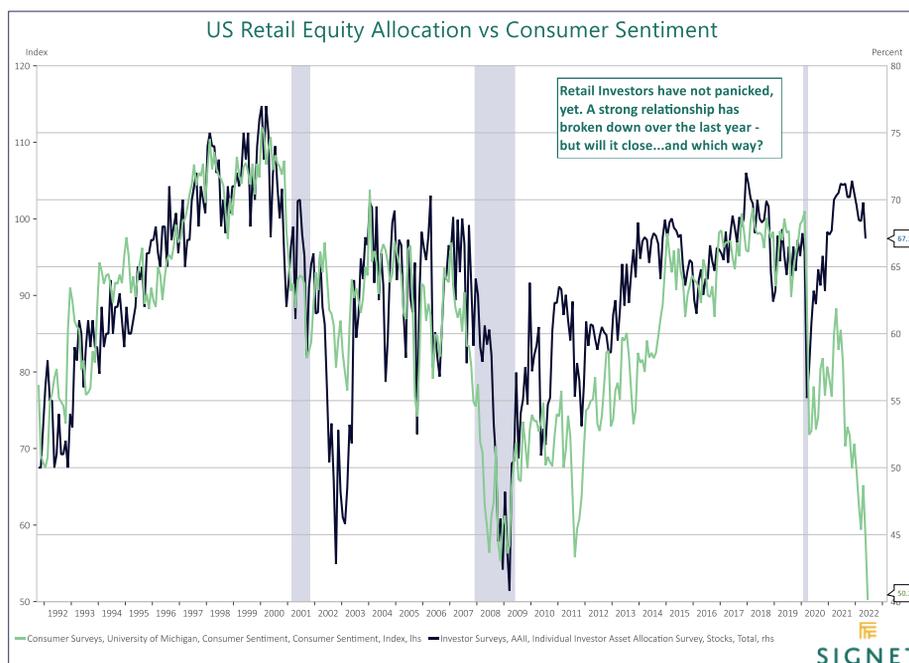*A 'snap' comment on the leading macro issues driving our investment debate:*

- Our primary concern is further downside pressure on asset prices. This pressure is being driven by (a) USD liquidity and (b) interest rate expectations.

- Collectively, this is the expectation for monetary tightening in a 'dollar bill' world. The Fed are now 'front loading' their action plan – loaded into 2022 / early 2023.

- Behind this rapid monetary tightening is a political concern over realised inflation and inflation expectations. The Fed must restore credibility – asset prices (wealth effect) are not a current priority.

- We expect a US recession (Since 1970, US inflation has never hit 5% without a recession – it is now at 8.6%). Earnings will start to weaken.

- USD strength and energy prices, combined with US tightening, will further disrupt emerging markets and the rest of the world (RoW) – a 2022 / 2023 global recession is a realistic possibility.

- The chart below captures our immediate concern for asset prices. It maps a survey of the US retail allocation to equities (67%) against consumer sentiment. Ordinarily, the relationship is very strong, but it has broken down over the last year. US sentiment is at record lows – below the depths of 2008, due to inflation. Equity allocations remain near their all-time highs – investors have learned to 'buy-the-dip' / anticipate a Fed rescue.

- As the Fed are forced to tighten, there is a concern that US retail investors will panic sell the equity market. Contrary to popular perception, there has been no panic in 2022, yet.

US Retail Equity Allocation vs Consumer Sentiment

Retail Investors have not panicked, yet. A strong relationship has broken down over the last year - but will it close...and which way?

Consumer Surveys, University of Michigan, Consumer Sentiment, Consumer Sentiment, Index, lhs — Investor Surveys, AAII, Individual Investor Asset Allocation Survey, Stocks, Total, rhs

Therefore:

- We expect further downside for risky asset classes.
- Remain underweight risk assets. Attractive valuations may tempt – but not yet.
- Investments: Prioritise Liquidity and Quality.
- Treasuries will probably be first to signal that inflation expectations are turning down.
- The equity markets should respond rapidly, and positively, to the Fed signal that it will ease / end tightening.