

BITESIZE

PORTFOLIO ADVISORY INSIGHTS

Inflation will remain too high. The Fed will hike too fast. The US economy needs to enter recession. So goes the overwhelming consensus among Wall Street analysts.

We disagree with the consensus.

- A US and global recession is not inevitable.
- It is a clear risk – if the US Federal Reserve decides to force market pricing for aggressive rate hikes.
- But our central view is that the Fed will pause. It will hike rates through 2022, then pause in 2023 to gauge the impact of a cooling economy and slowing inflation.

How do we gauge recession risks?

- Parts of the US yield curve have inverted, signalling recession is a clear risk.
- Another measure – the difference between the 30-year Treasury yield and the Fed Funds rate – is not inverted.
- From our perspective, a recession is likely to start when the yield curve normalises. That will happen as the market prices immediate rate cuts from the Fed, a sure sign that the economy has turned.

The overwhelming bearish consensus

What have we done to manage recession risks?

- We shifted our rating to neutral and added government bonds to our managed account portfolios.
- We think this position will play an important role in managing risk over the medium-term

Avoid knee jerk reactions!

- Markets were incredibly difficult to navigate through H1 2022.
- These periods drive home the importance of robust governance framework, a documented set of investment beliefs, and credible transparent communication.
- We think these will continue to be critical in the months ahead as volatility and uncertainty remain elevated.

Contact PAS for further information.

Curated by Dr. **Isaac Poole, CIMA®**

Chief Investment Officer, Oreana Portfolio Advisory

Isaac is the Global Chief Investment Officer and Portfolio Manager for Oreana Financial Services. With experience across investment strategy, portfolio and risk management, research and central banking in Asia, the UK and Australia, he leads the team in monitoring economic and market outlooks.