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# PORTFOLIO ADVISORY INSIGHTS

## The Fed's Communication Problem

The US Federal Reserve has a communications problem. It is no longer seen as a credible manager of monetary policy.

The data are screaming for a pause. The US economy is **slowing**:

- The **housing market** has already capitulated.
- Year-over-year sales of new and existing homes is starting to look very **pre-GFC like**.
- **Manufacturing** is moving into contractionary territory.
- Inflation has clearly **peaked**.

US data are overwhelmingly pointing to the need to pause rate hikes now. A recession is unnecessary. We expect inflation will fall quite quickly back towards target.

**While we think the Fed needs to pause, we are not convinced they will pause.**

This is a Fed that has damaged its credibility repeatedly through 2021 and 2022. And that means investors should be cautious in deciding on which battlefield they want to fight the Fed.

**2022 has been a very difficult year for investors in equities and bonds. We think 2023 will be better.**

From our perspective, adding exposure to **government bonds** across the curve provides a good combination of **income**, **diversification**, and **downside protection** to help support portfolio returns through 2023, whatever the Fed's actions.

Contact PAS for further information.



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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.