

BITESIZE

PORTFOLIO ADVISORY INSIGHTS

Why a Fed error means you should revisit equity allocations.

The Fed's hike in March was probably a mistake. The Fed looks almost certain to compound that mistake by hiking in May. That could be the final straw for this US economic expansion.

The warning signs of a recession are there:



The yield curve has normalised rapidly.



The manufacturing PMI is flashing red for recession.



Inflation is sticky except during recession.



Markets are pricing an elevated risk of recession.



The credit downgrade cycle has begun.



US equities are moderately unattractive at current levels.



The Fed could manage a soft landing.

It is critical to remain invested and to manage diversification to have some exposure to that better alternative. But history is against the Fed as credit crunch looms in the US economy. This may be only a short recession. Even so, markets will overshoot to the downside.

Higher quality credit and government bonds will provide some protection. The time to be preparing for the Fed's error is now.



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