
THE CURRENT MACRO ENVIRONMENT AND FED POLICY

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03/06/2018

On last week's "Behind the Markets" podcast, we had a great discussion on the current [macro](#) and political environment — in the U.S., Europe and emerging markets—with Manish Singh, CIO of Crossbridge Capital, and long-time [Federal Reserve \(Fed\)](#) watcher and academic Tim Duy.

Singh oversees more than \$3 billion in assets at Crossbridge Capital and employs a [top-down](#) macro approach to allocate assets around the world—looking at trends in [GDP](#) growth, [inflation](#), earnings, consumption and other types of macro indicators.

Manish Singh on Global Markets

Trade Wars: A big discussion last week was the new Trump tariffs on steel and aluminum, and Singh chalked this up to Trump appealing to his base with a political gimmick rather than any reasoning motivated by economics—and he pointed out that the U.S. cannot compete as a low-cost producer with China. Singh does worry about these isolated trade actions having larger consequences with counter-measures coming. Who is vulnerable to these trade wars? Singh pointed out Europe and Germany in particular, where half of GDP is made up of exports—even more so than China—even though this is bad for everyone.

European Macro: Singh is still waiting for Europe to implement structural reforms—a lot of the positive economic developments he sees have stemmed from accommodative central bank policy. He looks at Italy as an example of a country that does not necessarily have a debt problem but has a growth problem. In general, Singh favors U.S. markets over Europe, but when he allocates to Europe, he says to look at many of the exporters that are selling into the United States, China and emerging markets, as their growth prospects are tied to economic environments around the world.

Over-Weight in Specific Emerging Markets: Singh thinks there are structural changes happening in emerging markets, but he is not over-weight in emerging markets broadly. He likes many of the Chinese technology and consumer-oriented stocks, and he is over-weight in them in addition to broad allocations to India along with private banks in India. He likes the trends in policy, growth and reforms with the political environment that Prime Minister Modi is taking.

Discussing Fed Policy with Tim Duy

Tariffs Non-Factor for Fed: Duy sees the Fed viewing the tariffs coming from the Trump administration last week as having a temporary impact on inflation, and he thinks the tariffs, by themselves in their current form, are fairly small and unlikely to have a major impact on inflation or the Fed, which would view them as being a temporary inflation impulse rather than permanent.

Three Hikes or More? The current trajectory from the latest Fed cycle is for three Fed [rate hikes](#), based on the last Fed statement of economic projections—and since that latest forecast, the economy has only shown more signs of strength. On net, Duy thinks the balance would be for more hikes than came in the last statement.

Powell as a Communicator: This past week, we had our first taste of Fed Chair Jerome Powell communicating to the markets about his views and how they might differ from the rest of the Fed committee and staff—and Duy said that he handled his communications quite well and very comfortably.

Fed Not Afraid of Market Volatility: Duy thinks the volatility that came in equity markets is currently unlikely to scare off the Fed and that the market volatility that came right away is helpful and welcomed in some ways—and is actually an easier situation than if the market continued to climb. While the market has been conditioned over the last six or seven years for the Fed to step back rate hikes or tightening in the face of market volatility, this might be the year the Fed increases rates on its forecasts for the labor and inflation markets.

Yield Curve Inversion? Duy points out that often the yield curve inverts over a year ahead of coming recessions, and it is possible that the Fed keeps hiking rates to the point that the yield curve becomes inverted, but he does not see an oncoming recession at the earliest until late 2019. Duy forecasts that if there is an issue, it might be more likely to come in 2020.

This was a great conversation on the major political and macro stories, and you can listen to the full podcast below.

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DEFINITIONS

Macro : Focused on issues impacting the overall economic landscape as opposed to those only impacting individual companies.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Top-down : A method of analysis that involves looking at the “big picture” first and then analyzing the details of smaller components.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Inflation : Characterized by rising price levels.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Volatility : A measure of the dispersion of actual returns around a particular average level. .