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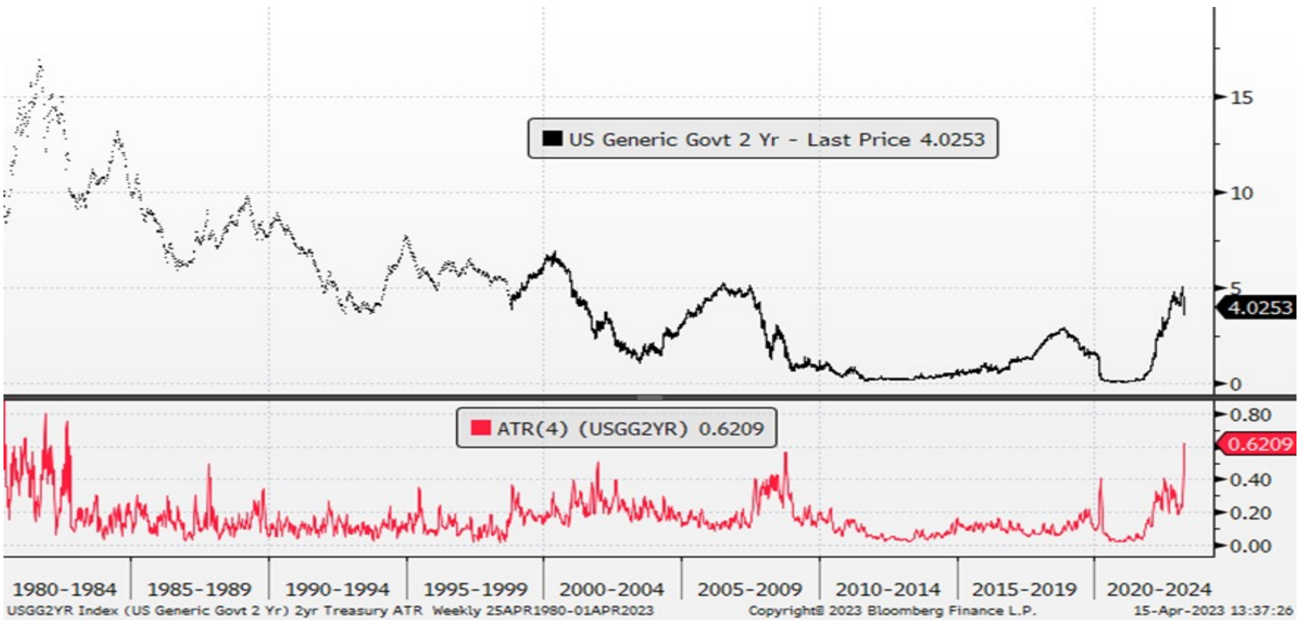
INVESTMENT

Quarterly Macro Commentary

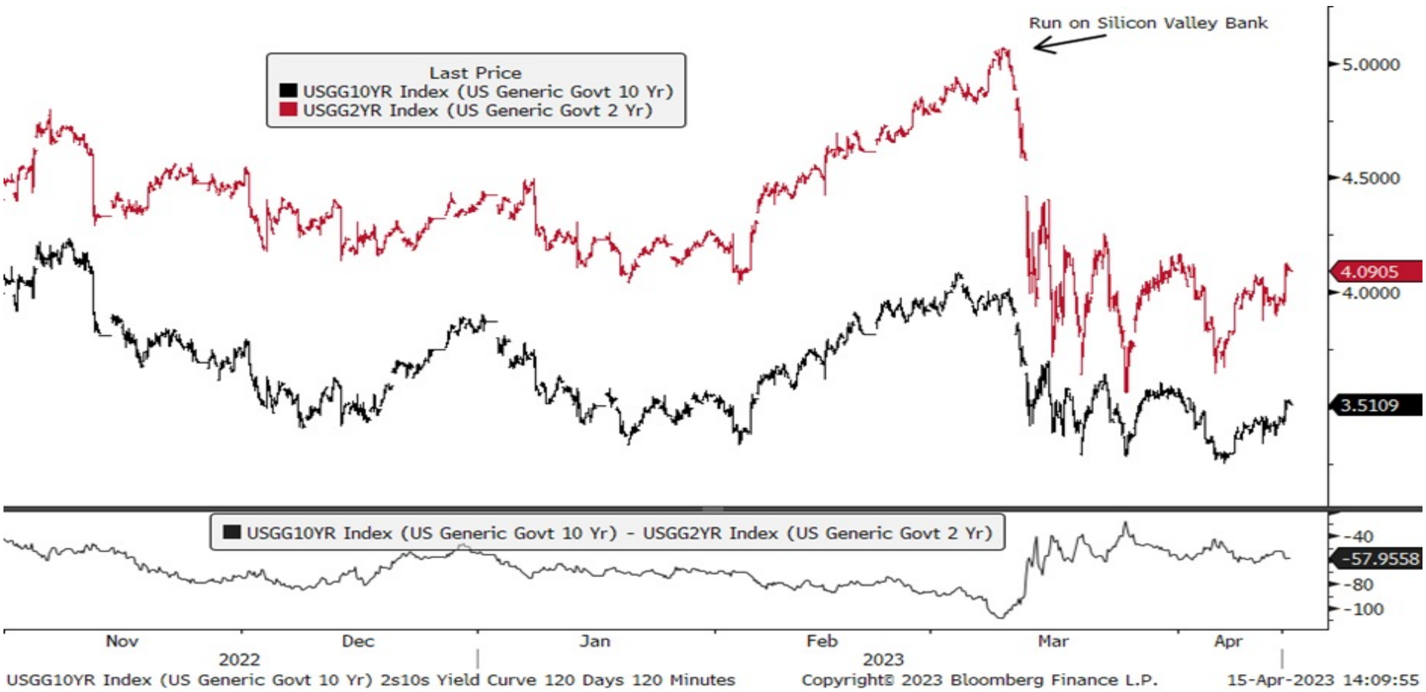
FIRST QUARTER 2023

There has been little resolution of concerns over the global growth outlook. Broadly speaking, the first six weeks of the new year saw market participants continue to anticipate an improving global economic outlook, with a risk-taking tone to equity markets, even as interest rates continued to grind higher, and central banks continued their liquidity reducing measures (QT). The warmer than expected winter in Europe negated the feared catastrophe scenario as natural gas stocks stayed full, and prices fell sharply, greatly reducing the stagflationary impact of higher energy costs (and potential blackouts). China's exit from its Zero-COVID policy continued relatively smoothly, although concerns linger over the speed and resilience of the re-opening in China. The US economy was looking on pace for a soft-landing with inflation pressures easing, even as the risk of recession was seen to be fading. The strong dollar, which had rallied relentlessly around 30% (trade weighted basis) for nearly 18 months (exporting inflationary pressures) had broken its relentless squeeze, giving some relief to global liquidity and risk taking. Then the Silicon Valley Bank debacle unfolded.

What might have been a contained event at a quirky regional bank quickly turned into a global contagion event. The unusual, toxic combination of highly concentrated holdings, within a relatively small community of globally important customers created a systemic threat which needed to be addressed by a Federal Reserve/Treasury bail-in of customers. However, the lack of clarity over action sent shock-waves across the entire US banking system, which quickly escalated into deposit runs on other regional banks, and even global financial institutions (including Credit Suisse). The deposit drain saw funds seeking a safe haven in US Treasuries and money-market funds. As a measure of the shock, the benchmark 2-yr US Treasury-Note had its widest 2,3, & 4 week trading-range in modern history, surpassing the 2020 COVID shutdown, the 2008 GFC, the 911 attacks, the Dotcom crash, the 1998 Russian debt Default (Long-Term Capital Management collapse), and the crash of 1987: it was only surpassed by the Volcker Shock over 40 years ago when interest rate were significantly higher.



The effect on major markets was something of a heart-attack, with market direction becoming, for the short-term, almost entirely dependent on policy intervention: intervention which was often late, lacking and poorly communicated. This caught out many of the major players in the markets who had little choice other than to deleverage and close positions, causing shockwaves across global markets. While the immediate pain has passed (arguably presenting a counter-intuitively bullish tone to markets as major players seek to re-position), the residual effects of a US regional banking crisis still threatens to tip the US into a deeper recession later in the year. Meanwhile, the inflation outlook appears to have moderated, but with a big caveat that inflation expectations remain too dependent on highly capricious global energy prices.



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