



ALTUS

INVESTMENT

Quarterly Macro Commentary

FOURTH QUARTER 2023

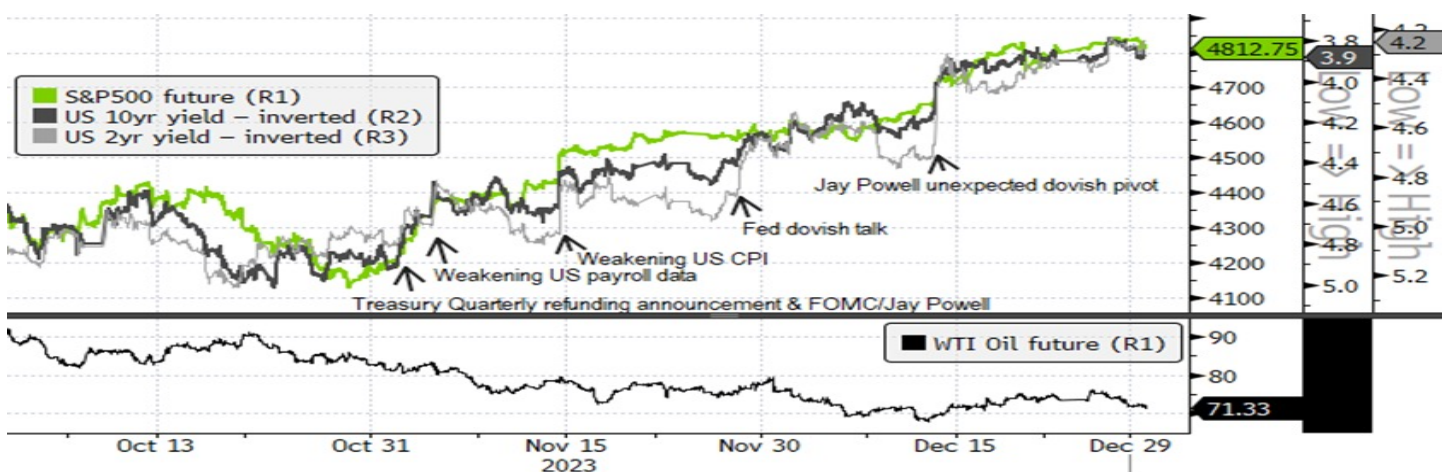
Q4 gave an excellent demonstration of what the investor George Soros famously dubbed ‘Reflexivity’: i.e., the ongoing feedback-loops between financial market perceptions/actions and the real economy. The first month of the quarter was overshadowed by fears of ongoing inflation, government funding problems, interest rates spikes and a distant hard-landing, compounded by increasing geopolitical tensions and the risk of major conflict in the Middle-East. Fearful investor consensus was positioning for the potential of a major risk-off event as US 10yr yields edged above 5% for the first time in over 15 years (a fact which Treasury Secretary Janet Yellen attributed to strong US growth rather than fears over the fast-growing US debt pile). Market participants began to perceive that the higher US Treasury yields were doing the Fed’s job for them.

We then had a collection of soothing comments from Fed and US Treasury officials, and data suggesting a more benign US economic outlook, precipitating a violent reversal of narrative. The same day that FOMC Chair Jay Powell implied rates had likely peaked, Janet Yellen’s Treasury announced a shock ‘twist’ in Treasury debt funding that dramatically reduced the issuance of long-term debt relative to short-term. Increasingly,

Fed/Treasury officials were seen to be implying rates had peaked, alongside benign (albeit not unexpected) ‘prints’ in the inflation data and food for a soft-landing narrative. This narrative then feeds into lower rates (lower mortgage/financing costs) and increased confidence, just at a time when the inflationary blip seems to have eased. Goldilocks was back.

When this was combined with a market consensus broadly positioned for a potential risk-off event, November and December witnessed a historic squeeze with rates dropping dramatically and equities rallying strongly as trapped investors desperately sought opportunities to reposition for a risk-on environment.

Cynics among us may suggest that the Presidential Election Cycle narrative has once again been demonstrated: the seasonal gurus had long noted that the third year in the Presidential cycle is generally strong, especially in the Nov/Dec period, with strength that generally continues into election year. Whether we have all been conned or not by a decidedly political narrative may become clearer in the months ahead as we enter what is likely to be a year of extraordinary political intrigue.



Source: Bloomberg
 ES1 Index (Generic 1st 'ES' Future) Market Map 60 Days 30 Minutes Copyright© 2024 Bloomberg Finance L.P. 07-Jan-2024 12:56:31

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