



FCM Weekly Market Notes—4/25

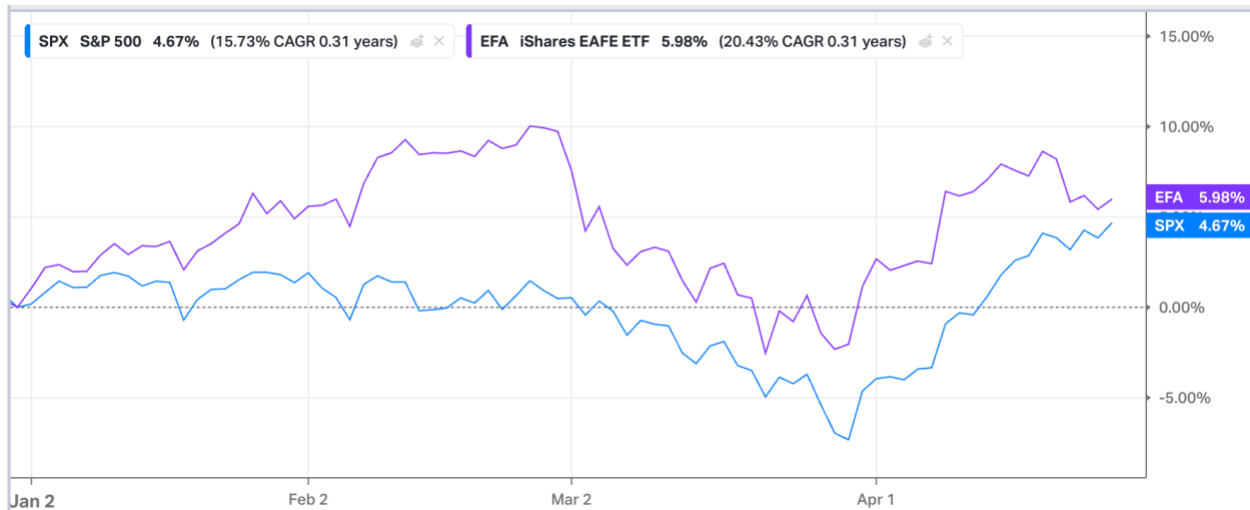
Don't Lose That Home Bias (Yet)

Like many investors, we think the market's recent performance is hard to square with events on the ground. However, one aspect makes sense, and that is US out-performance of late.

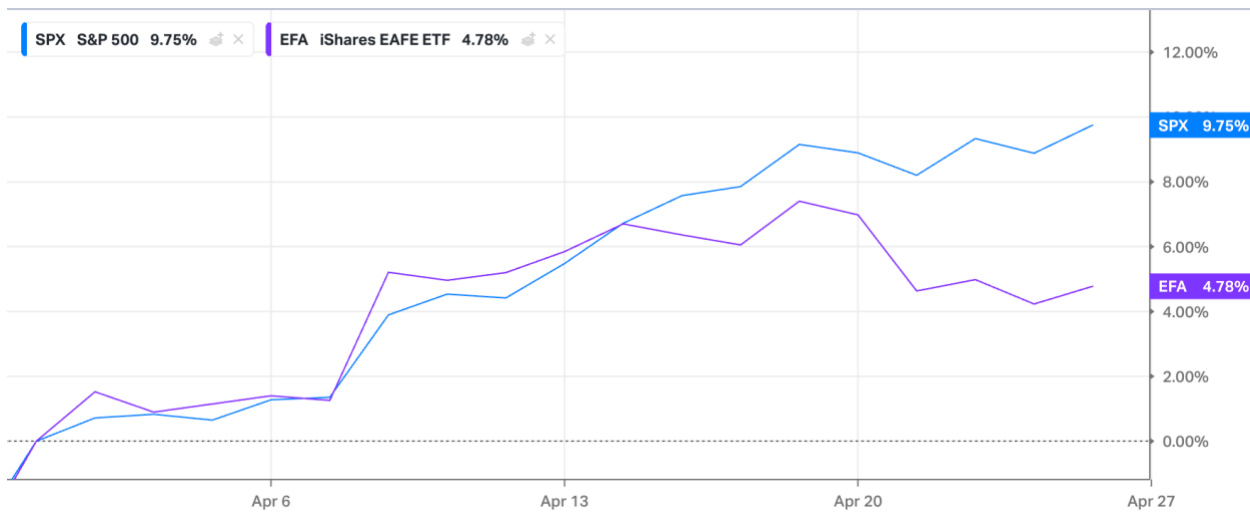
History tells you when the dollar is soft, US equities are likely to underperform international equities. And while the dollar has been range-bound it is at the lower end of that range:



And year-to-date, international has bested the US by over 100 basis points:



But as the Iran conflict has dragged on the US has outperformed by a wide margin:



Obviously, part of this has to do with soaring tech returns. But the war is disproportionately going to hurt the rest of the world the longer it goes on. Oil is already being rationed in Asia, and Europe is about five weeks away from a serious crunch in jet fuel, while paying a price for reliance on the rest of the world for natural gas. There will clearly be increasingly negative effects for the US, but the growth hit is likely to be far less pronounced than in the rest of the world.

We generally believe US-based investors have far too much home bias and should be diversifying across other markets more aggressively. But the

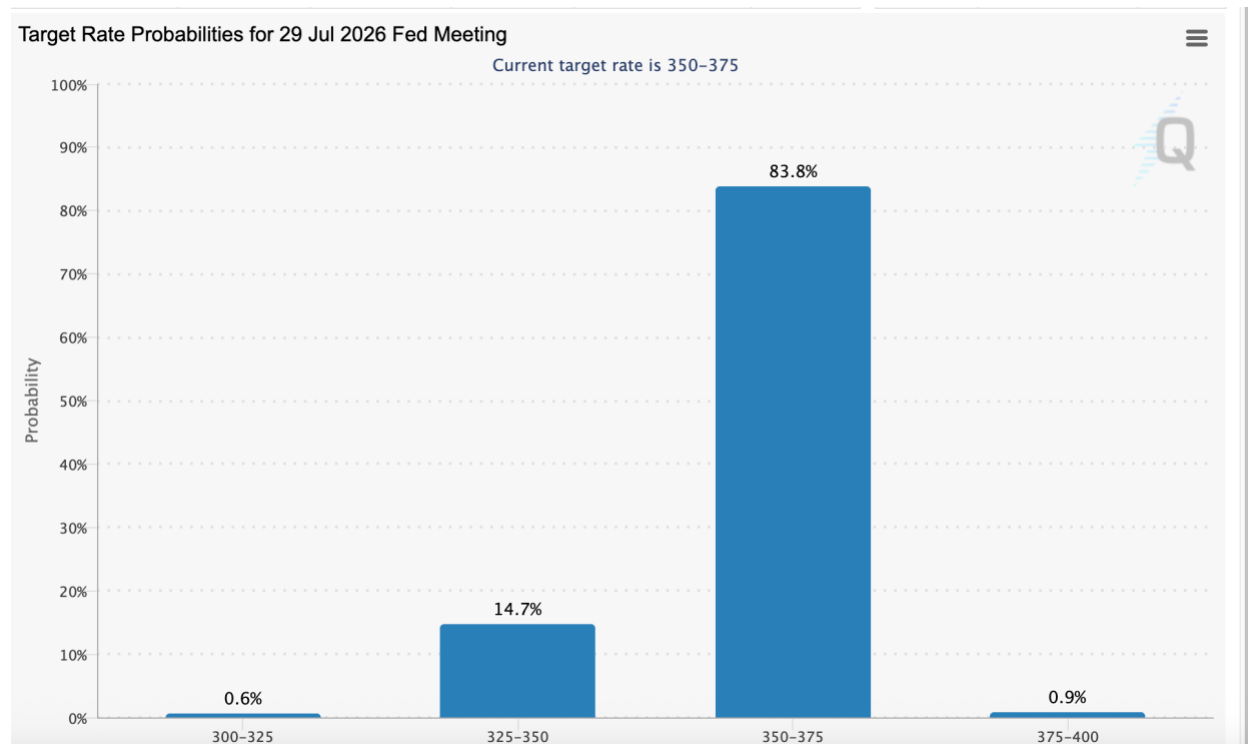
clearly disproportionate effects of the war, and the uncertain effect on the dollar once the ceasefire is finally resolved, suggests staying home for the time being is the safest course of action.

Sunny Expectations Are Expanding

Not only does the market (apparently) believe that the war is unlikely to resume and negative effects can be reversed in short order, it has also started to inch its way toward a view that interest rates might be cut going forward.

So far this year Fed rate expectations have lurched from “the new Chair coming in May is definitely going to engineer a rate cut” to “we might have to raise rates mid-year if oil and commodities are going to spike” and now back to “maybe growth slows enough....”

Rate cut probabilities for the July meeting have gone from 0% a month ago to almost 15% today. A rate hike has less than a 1% chance of happening by then, according to market pricing.



While this shift is subtle, when you couple an incrementally more dovish rate forecast to other market developments, you get looser financial conditions. From the beginning of February to the third week in March, we watched financial conditions tighten. However, across the credit spectrum the market has been sanguine about the effects of the war on markets and risk—despite the negative headlines coming from private credit.

If you add to that an expectation beginning to form that credit conditions might even loosen a bit more, you get the type of financial conditions that are ripe for risk assets rallying, as we have seen. You can worry about the size of that rally being excessive—and we do—but the raw material for risk gains in the form of better liquidity has been put into place.

FCM Liquidity Scorecard 4/24: **Loosening**

FACTOR	Short Term	Long Term
Chicago Fed Financial Conditions	Loosening	Tightening
Fed Rate Cut Expectations	Higher Rate Cut Odds	---
High Yield Spreads	Lower	Lower

Explanation:

Chicago Fed=Short term is 4-week change; long term is 3-month change. Source: Chicago Fed.

Fed Rate Cut Expectations—One month change in expectations for three meetings forward. Source: CME market pricing.

High Yield Spreads: Short term is 30 day moving average, long term is 200 day moving average

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