MacroVoices

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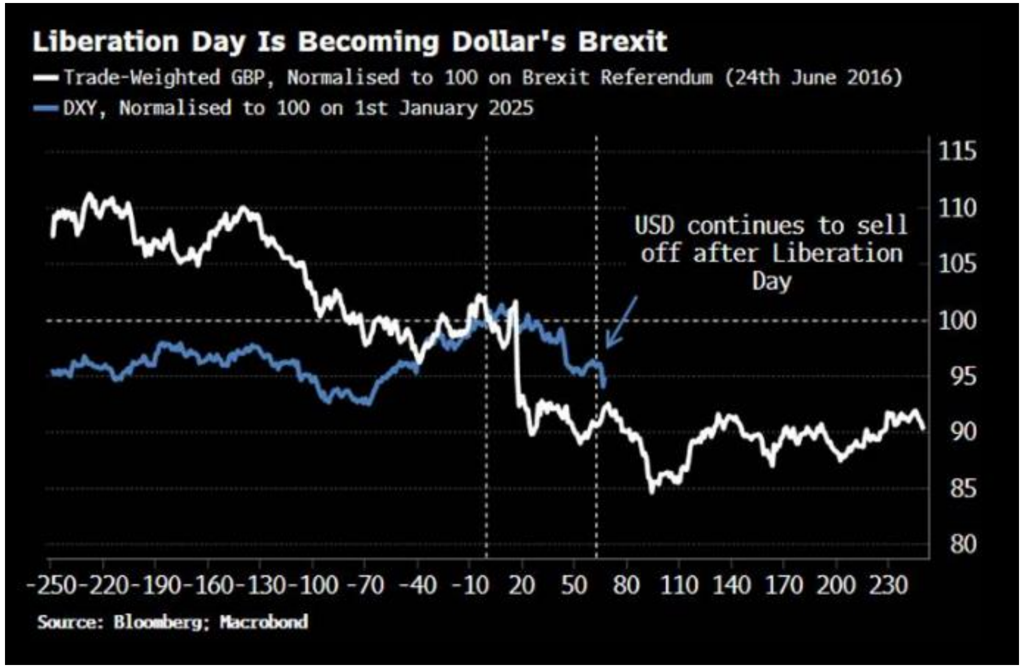
Bloomberg

Treasuries Are Haven No More in New Financial Order

America is renegotiating its relationships with its trading partners and taking back control of its borders, the main motivations behind Brexit. That caused capital to net leave the UK, yields to rise and sterling to fall

The US would have been insulated from that, but Treasuries are no longer risk free when the country issuing them itself becomes the source of that risk



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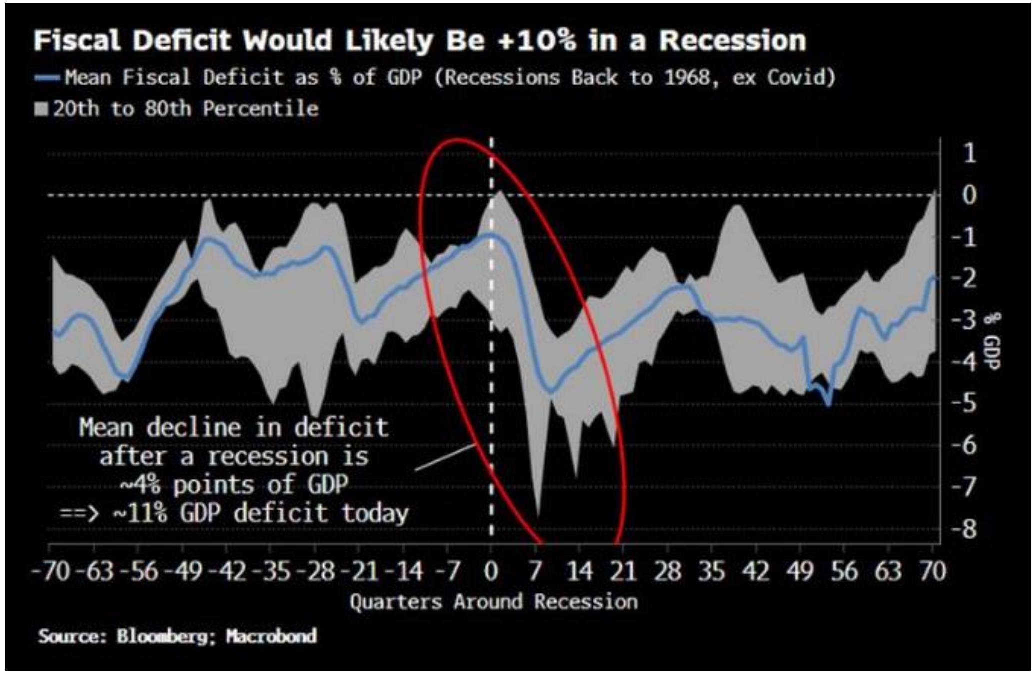
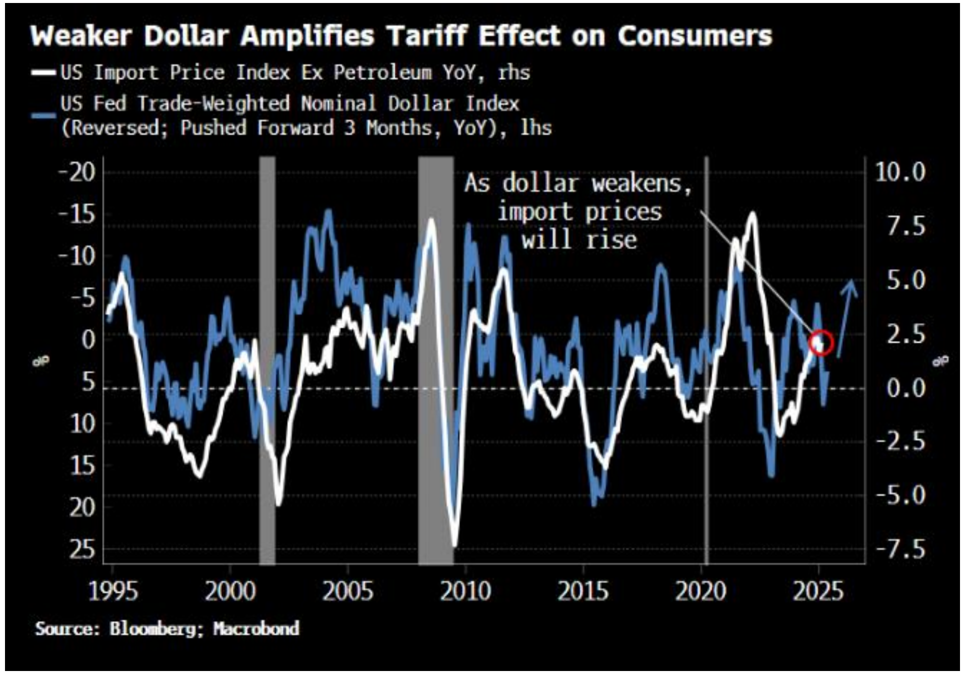
A Recession Is Unlikely to Be Good for Treasuries

The usual rules of thumb can't be assumed to apply any more. Treasuries are not a recession hedge when inflation is elevated

They are even less desirable if the US goes into a recession, which would very likely mean an inflation-stoking double-digit fiscal deficit





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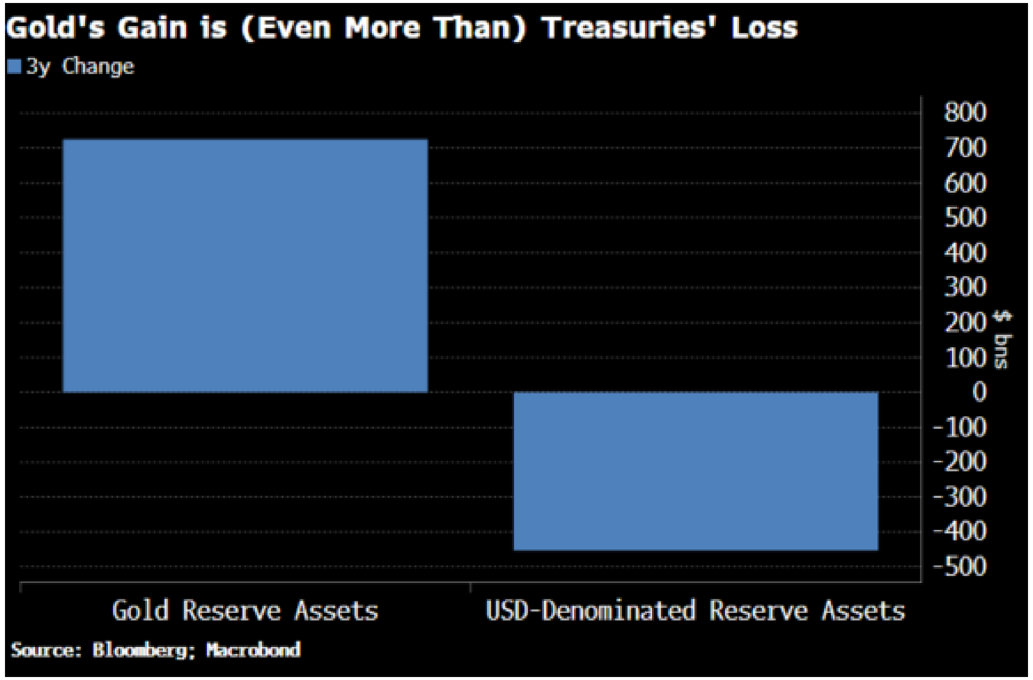
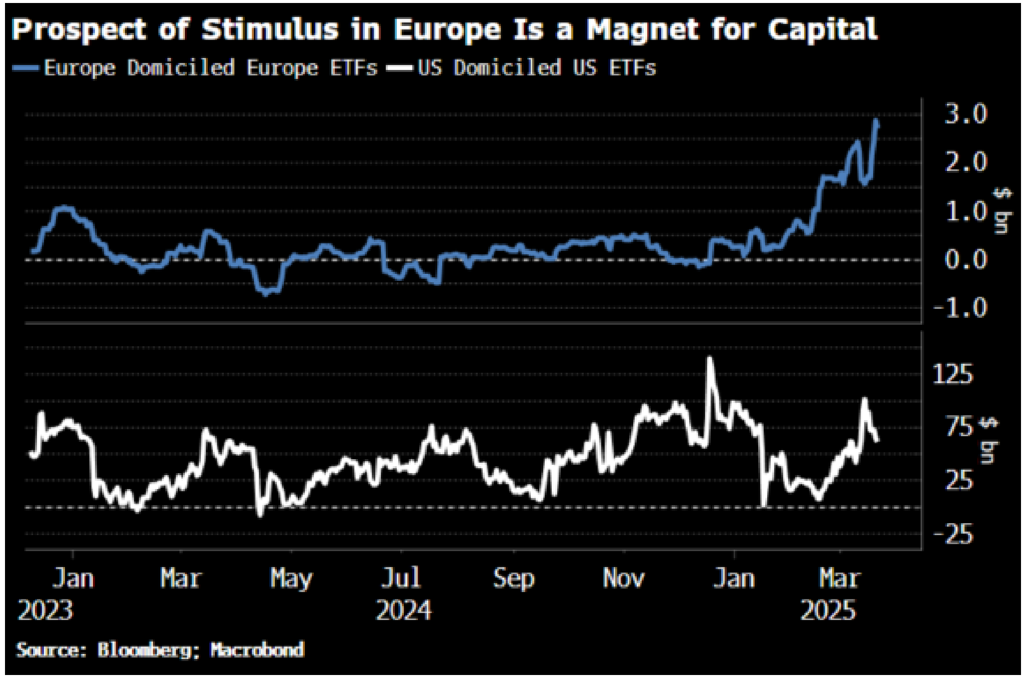
Dollar Weaponisation Is Having Profound Effects

The dollar will remain dominant but its dominance is waning. Capital has started to leave the US to find alternative destinations

Gold has been a beneficiary long before a Mar-a-Lago accord was suggested





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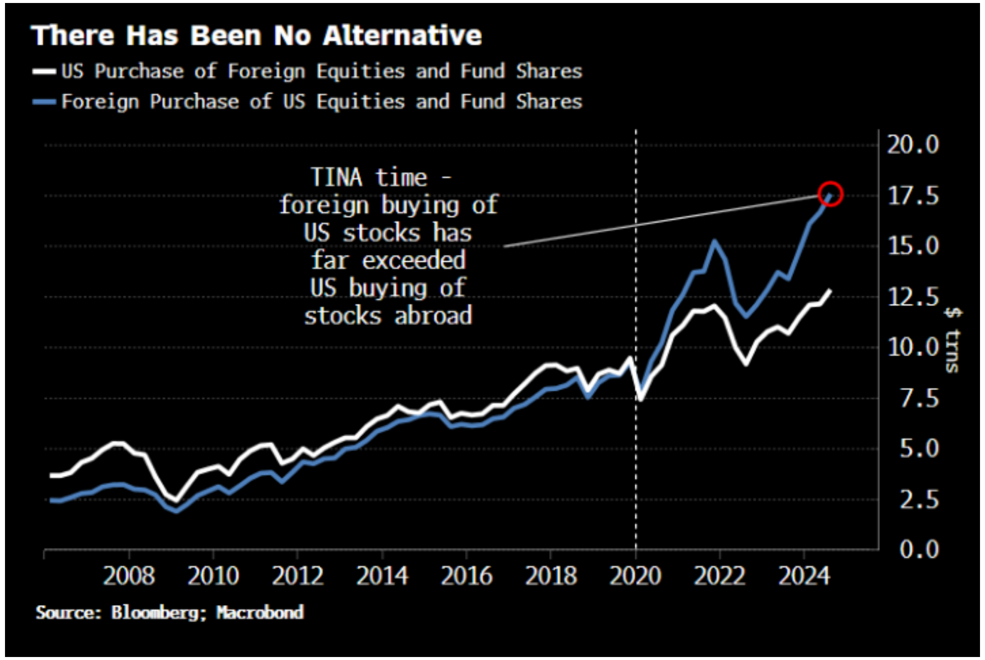
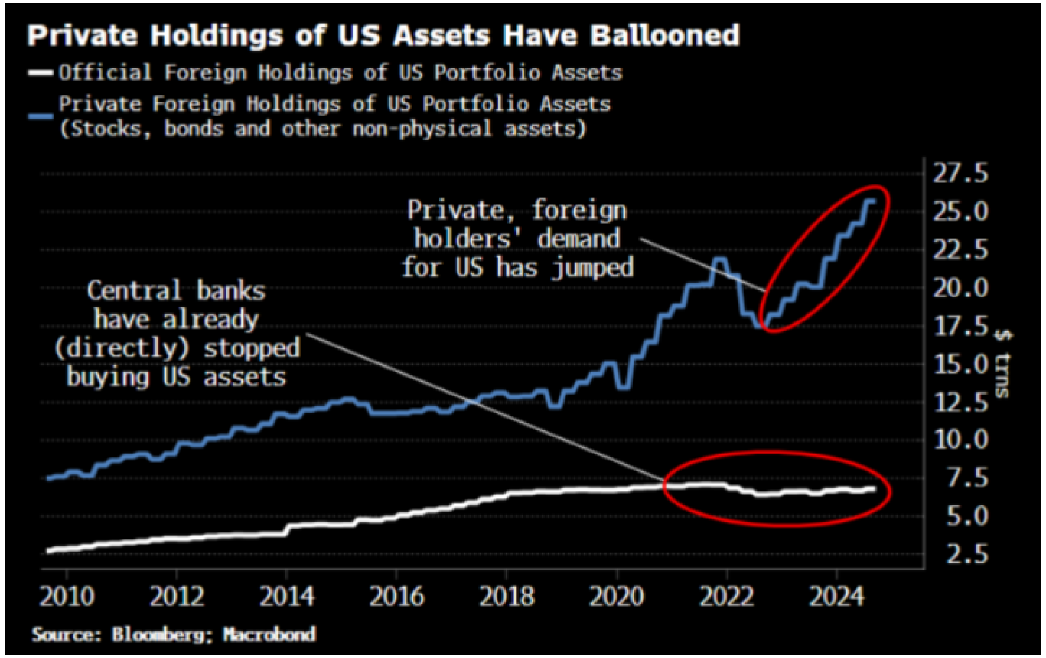
US Has Seen Huge Foreign Inflows in Recent Years

The US has been running ever larger current account deficits in recent years, funded by massive inflows into portfolio assets

Bonds used make up bulk of US inflows, but it's all been about stocks since the pandemic – which foreigners now own $18 trillion of, or 15% of outstanding





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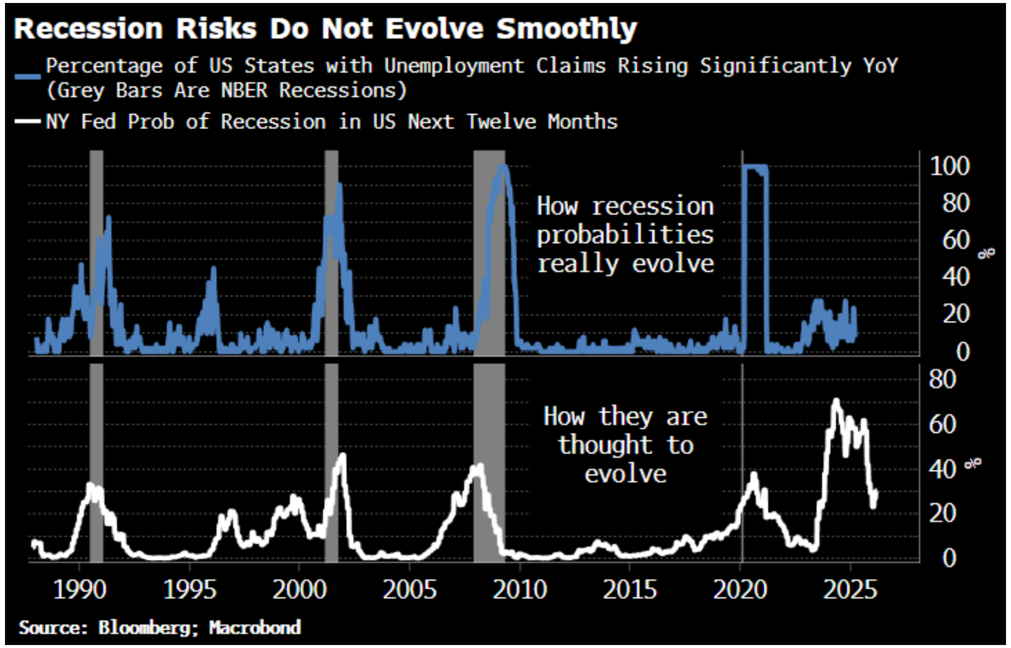
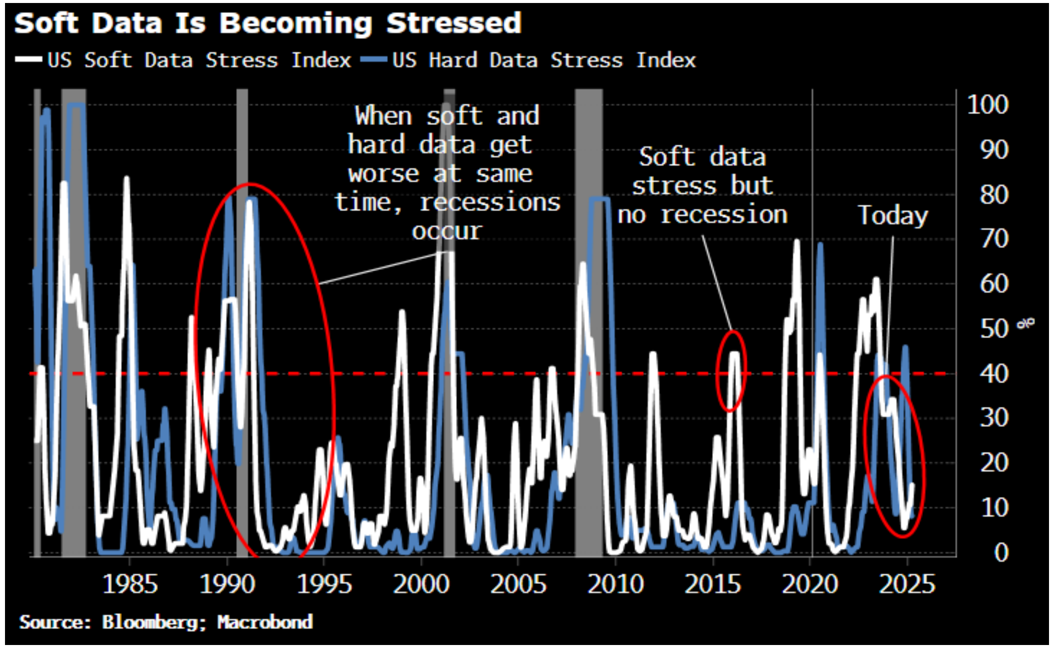
Muck Around, and You'll Soon Find Out

The risk of an organic recession is still on the low side, but that's changing fast

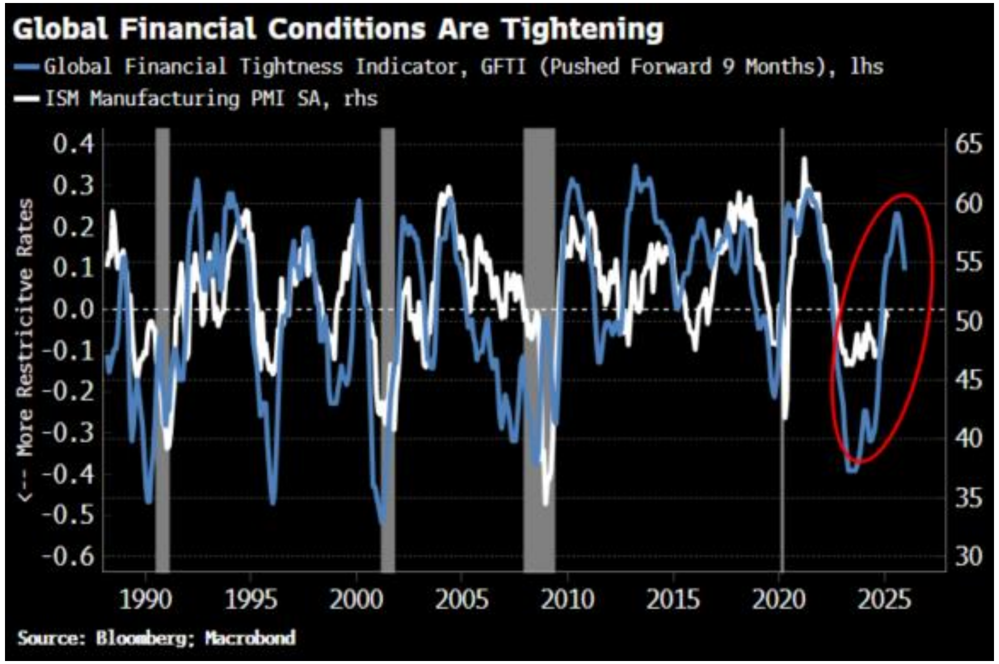
Stocks are correcting, but a deeper selloff in equities or in credit could catalyze a recession-inducing feedback loop





The Liquidity Screw Is Now Tightening

Early this year, liquidity began to tighten, indicating stock returns would soon struggle. As long as liquidity is becoming less accommodative, risk assets will falter



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The Fiscal Cheat Code Is Dead

Fiscal largesse has supported growth, investment and corporate profits. But now the fiscal impulse has dropped, stocks will struggle as the second derivatives of spending and borrowing fall

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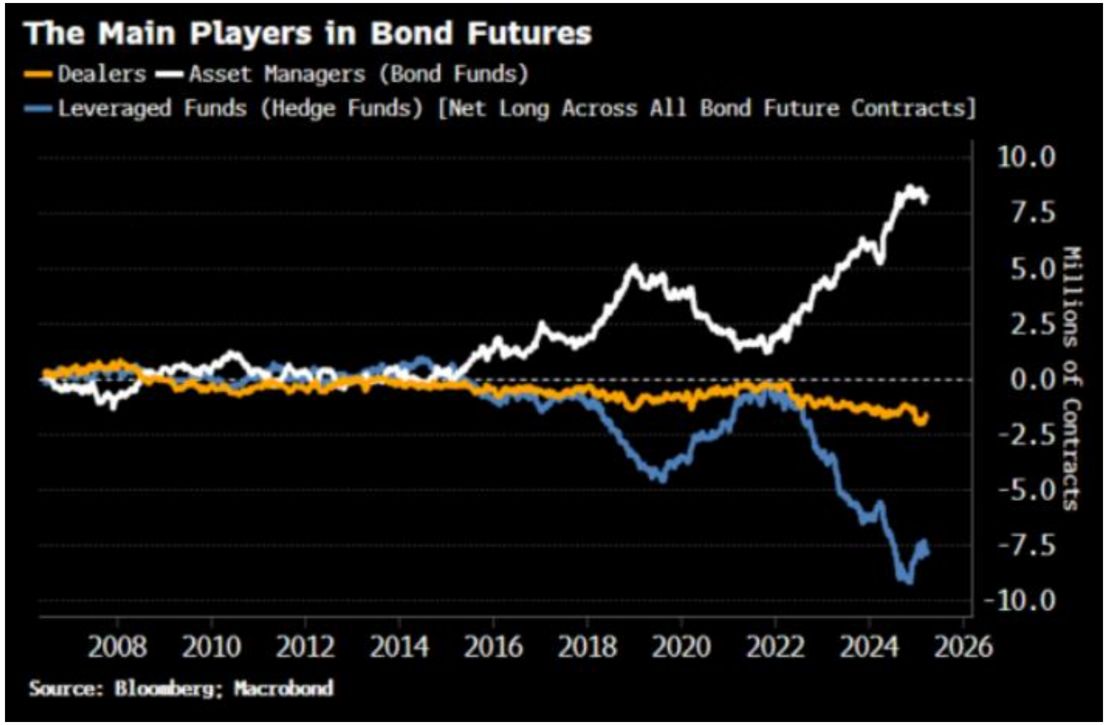
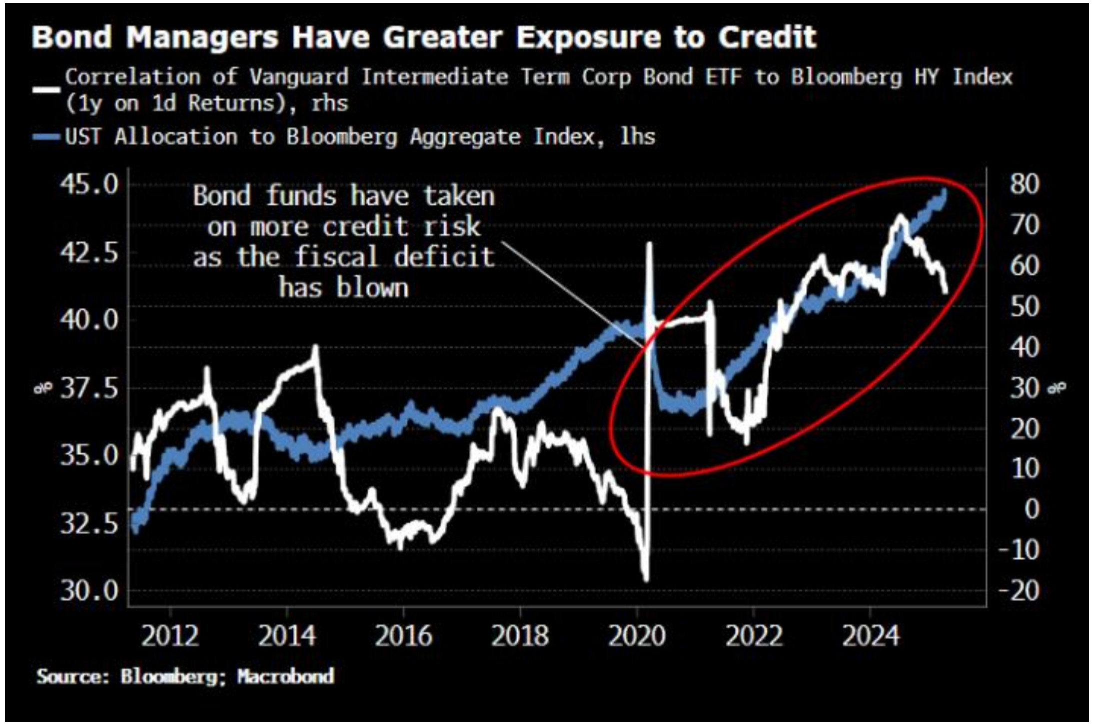
Basis Trade Unwind Could Get Nasty

The basis trade has swelled in size, now in order of ~$1 trillion

Bond funds' greater allocation to credit has led to them making more use of bond futures, with hedge funds taking the other side. As 2020 showed, however, the unwind can be nasty





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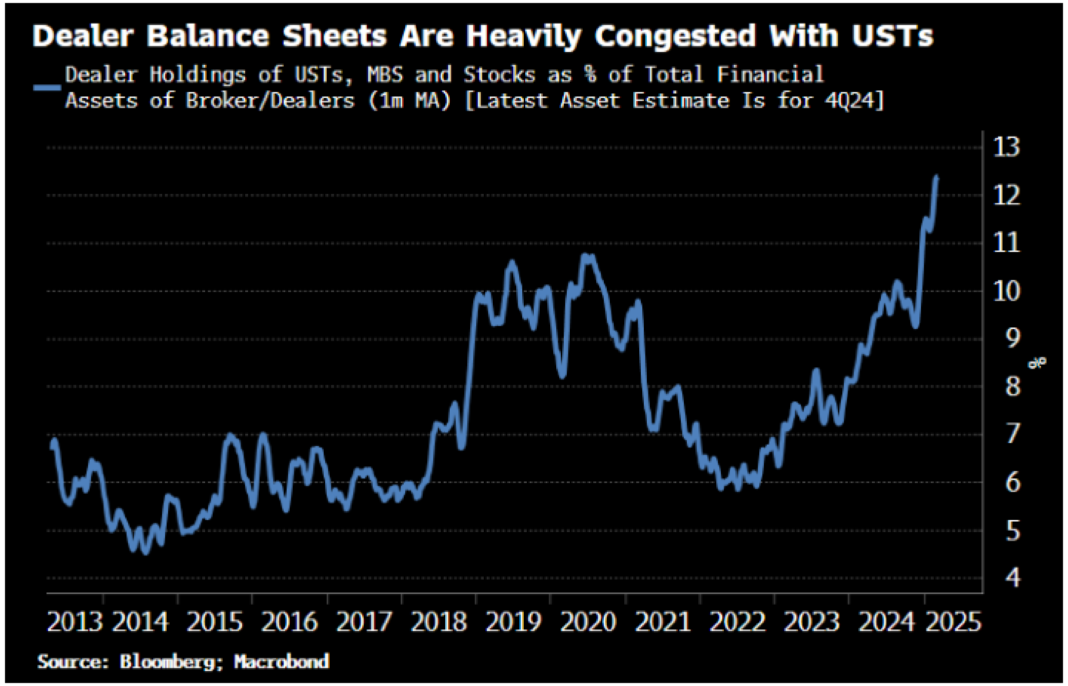
Dealer Balance Sheets Are Congested

Dealers' inventory of USTs, MBSs and other assets has risen to new highs

This makes them less able to act as a shock-absorber in any basis-trade unwind, potentially aggravating its effects …. Could the Fed be forced into a bailout?



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