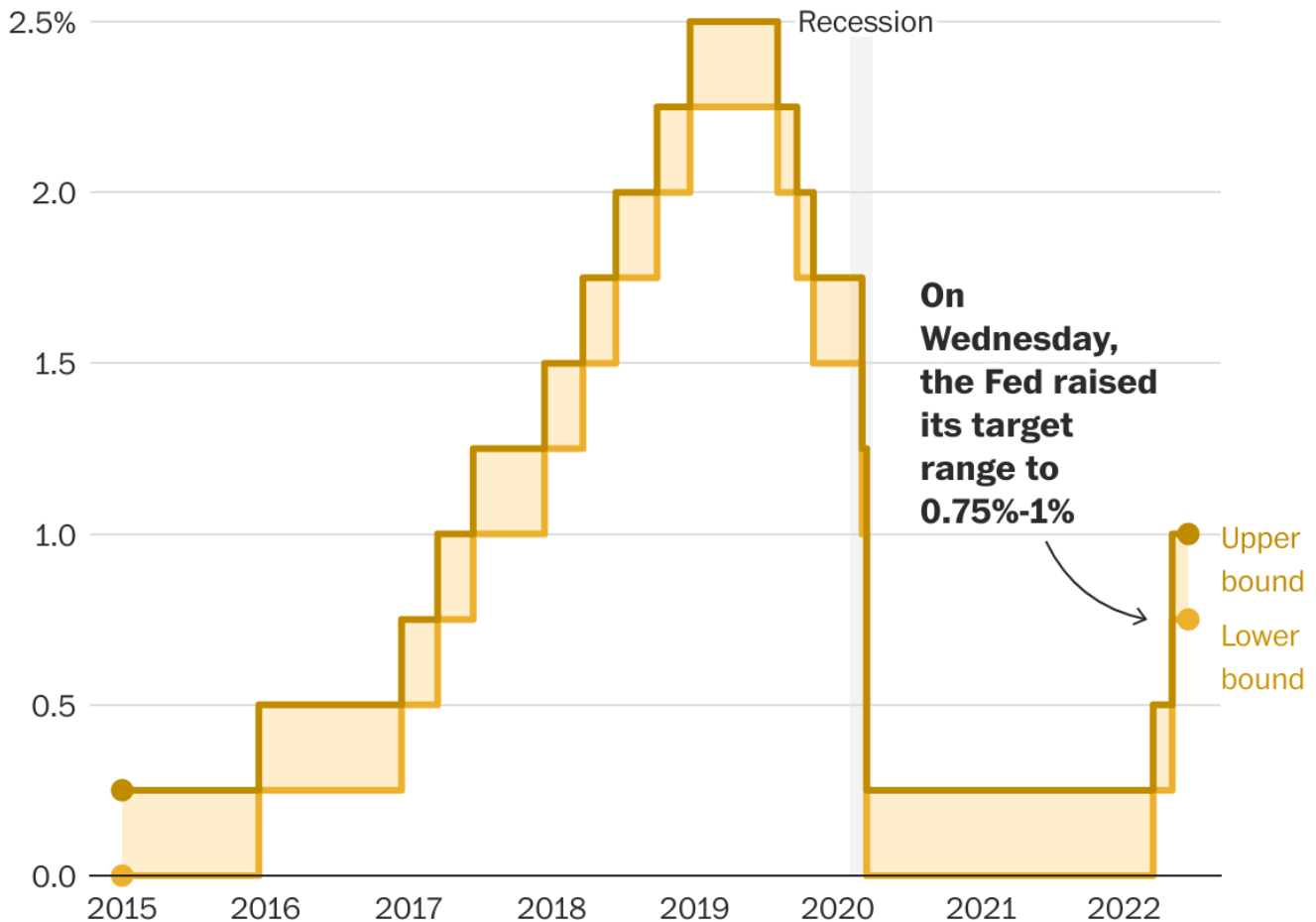


The Fed delivered on the promise to meet skyrocketing inflation with an appropriate policy response. So it [begins](#)....in [earnest](#). If they have any intestinal fortitude, we should be back above 2.5% on the Fed Funds Rate by the end of the year. Good times, good times!

Interest rates have liftoff

The Federal Reserve sets a narrow range for its target short-term interest rate



Source: Federal Reserve via FRED

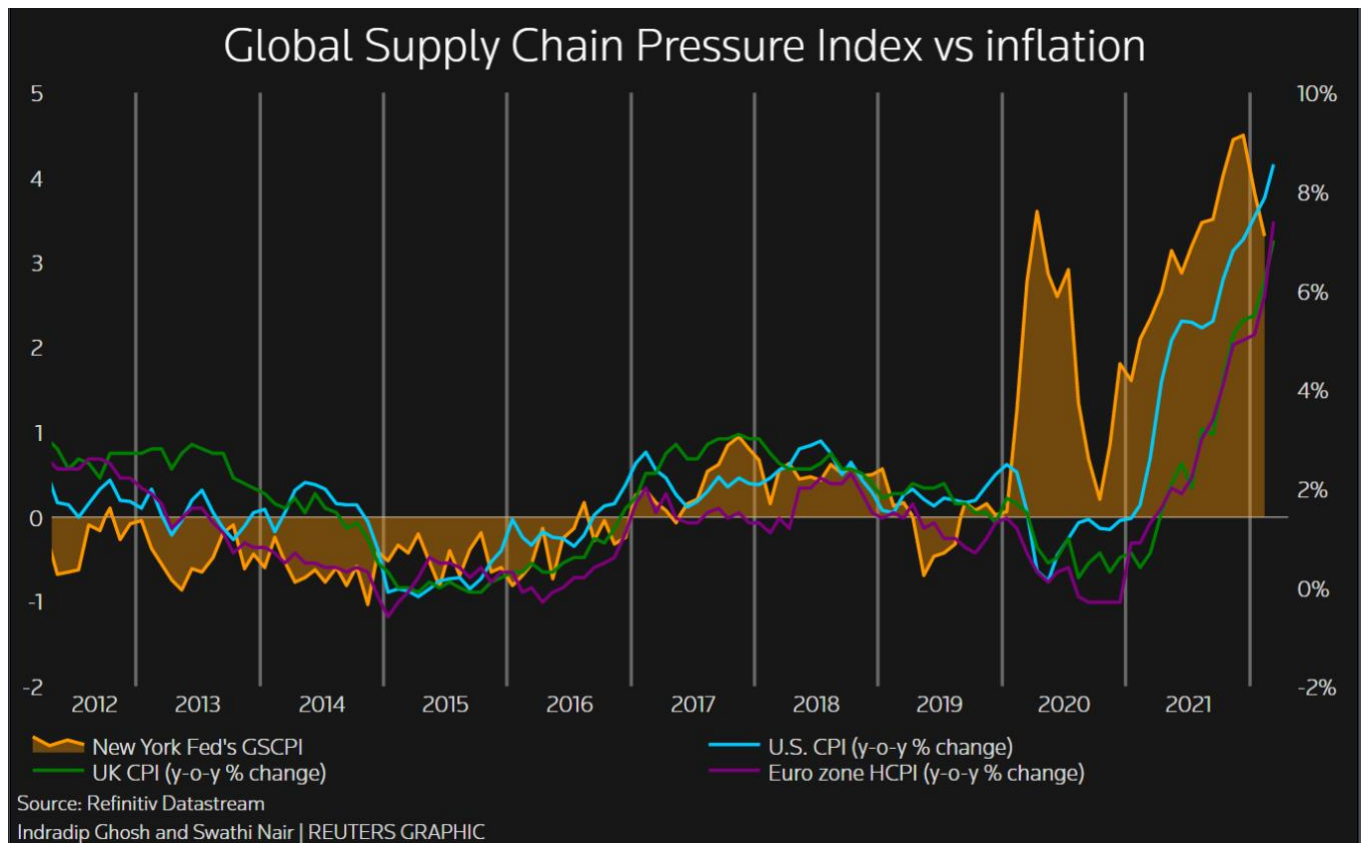
THE WASHINGTON POST

Here is what a whole host of Wall Streeters [had to say about it](#). Thank you, Bloomberg, you made our job easy this week. (Source: Bloomberg)

Limits of Policy

Nancy Davis, founder of Quadratic Capital Management:

“The focus now shifts to the further 200 basis points of rate hikes expected during the rest of the year. These hikes are already priced in. We are puzzled why the market thinks that Fed hikes are going to stop inflation. We believe that there is little monetary policy can do to calm inflation in the near term. We see inflation as driven by massive government spending, supply chain disruptions and, more recently, by Russia’s invasion of Ukraine.”



Unintended Consequences

David Page, AXA Investment Managers’ head of macroeconomic research:

Market reaction “was interesting and highlighted the difficulties of gauging the required scale of future policy tightening. Even as the Fed chief was seen as fulfilling market expectations for rate hikes this year and galvanizing the broader economy for the effect of rate hikes, financial markets appeared to react to the fact that the Fed was not considering 0.75% hikes – something that was little more than a risk case – and lowered their expectations.”

“This marked easing in financial conditions was unlikely to be what the Fed hoped or expected from its press conference. Whether that reflected a myopic focus on 75 basis points rate hikes, or a more considered fear of economic slowdown the easier financial conditions raise the chance of more Fed rate hikes to come.”

Bull Steepening

Ian Lyngen, head of U.S. rates strategy at BMO Capital Markets:

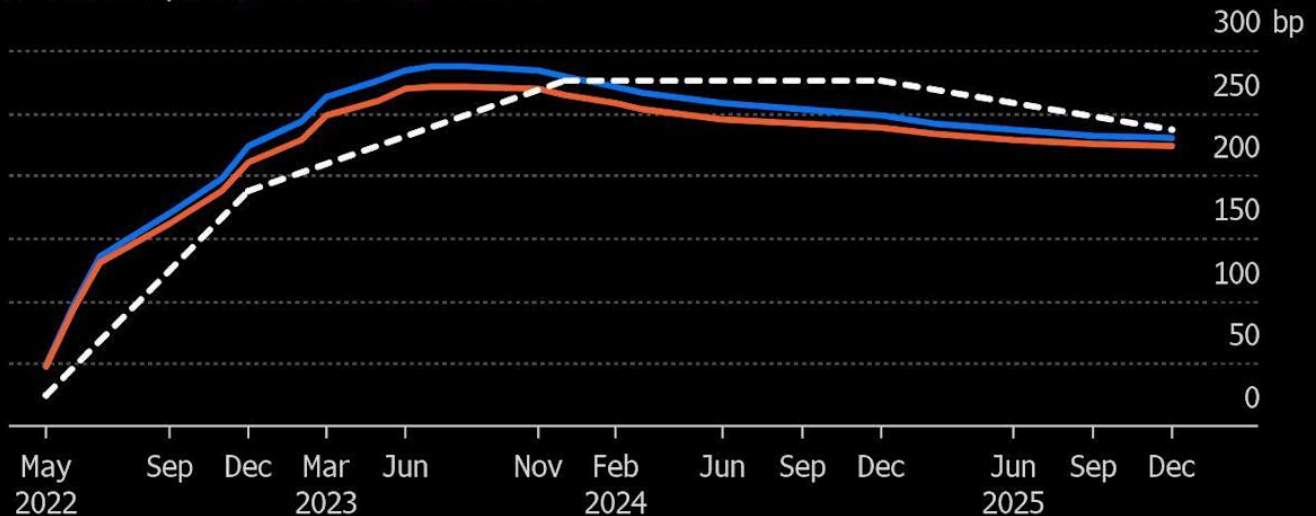
“We were encouraged by the bull steepening response in rates and the two-year sector rallying from 2.85% before the Chair took the podium to below 2.60% in the wake of his remarks as the more extreme hawkish pricing assumptions made their way out of valuations.”

“The steepening has room to run and we’re comfortable letting the price action play out over the next several sessions.” With a path for the balance sheet runoff laid out, “we suspect the process will move to the background in terms of providing new tradable information.”

What's Priced In Now

Fed rate hike premium eases from late 2022 into 2023 after March CPI

— Fed dot-plot — Pre-CPI — Post-CPI



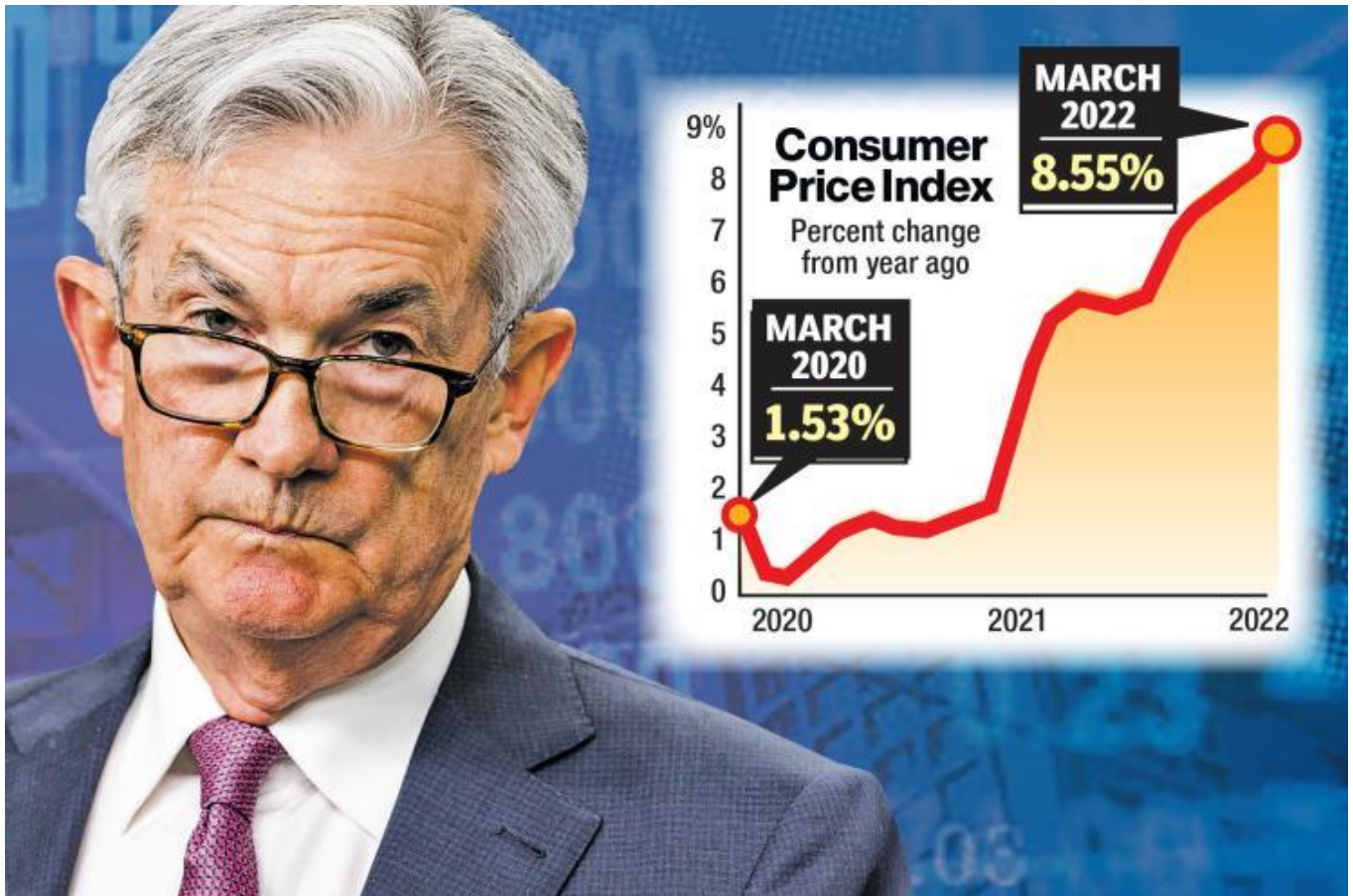
Bloomberg, CME
Change in Fed's interest-rate target implied by overnight index swaps and eurodollar futures

Bloomberg

Don't Rule Out Mega Hike

James Knightley, chief international economist, and Padhraic Garvey, regional head of research, Americas, at ING Financial Markets:

“Market pricing isn’t especially aggressive relative to history. It doesn’t look especially aggressive given the position the economy is currently in. While the Fed likely won’t admit it, we’re convinced they will be taking a close look at the impact on long run inflation expectations post the FOMC.”



“The 10-year inflation expectation is just about tolerably below a 3% handle. The risk, however, is for inflation expectations to break above 3%. Should that occur, the case for a 75 basis-point hike in June would build. The immediate reaction has been muted, on both real rates and inflation expectations, but we need to continue to monitor this important space. The FOMC’s focus on fighting inflation and front-loading rate hikes continues to point at a supported dollar in the summer months.”

Dovish Surprise

Jeff Klingelhofer, co-head of investments at Thornburg Investment Management:

“I was surprised to see a dovish statement slightly dismissive of inflation. In their hearts and minds, the Fed is clutching to the idea of transitory inflation — they just can’t say that out loud. At times, it feels like the Fed is super hawkish with off the cuff responses, but their tone changes to more dovish in official communications. I

believe the Fed continues to think that much of their work is already done. They could hike more aggressively if their concerns about inflation are so high.”

High-Wire Acts

Stephen Miller, investment strategist at GSFM:

“Through a demonstrated complacency about the magnitude and momentum in inflation through 2021, the engineering of a ‘first-best’ solution might now be beyond the Fed. It is now engaged in the most delicate of central bank high-wire acts.

“Despite a more aggressive approach from the Fed, and temporary relief reflected in financial markets, they remain in a volatile phase as they assess the success of the Fed in reining in inflation without risking a substantial economic dislocation.”

Favoring Commodities

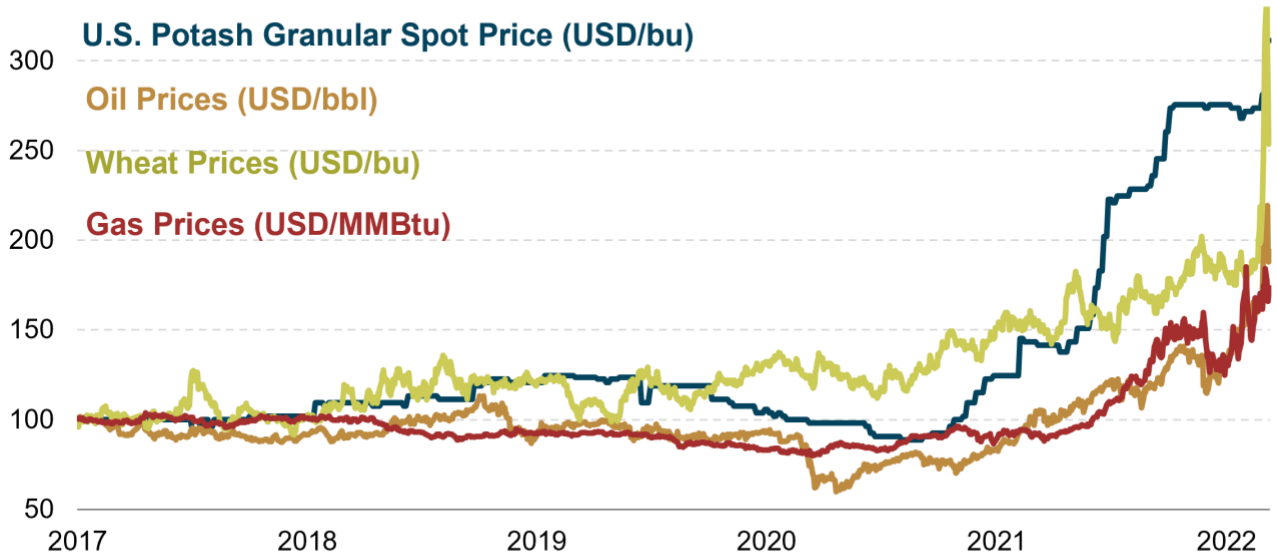
Alexander Saunders and strategists at Citigroup Inc.:

“Commodities outperform at this stage of a hiking cycle. Equities start to perform again mid-cycle after some initial indigestion, while credit remains pressured. Bonds should not be bought until the very tail end of the cycle. Broadly speaking, hiking cycles favor commodities, and are in line with underweights for bonds and credit.”

1

Key Commodity Prices Up Sharply in 2022

USD, Rebase 1/2017=100, As of 3/11/2022



Source: Macrobond, Brandywine Global

Expect Big Swings

Steven Englander, head of G-10 FX research at Standard Chartered Plc:

“Today’s tone shift is in line with our expectation that both inflation and activity will slow as 2022 progresses, and ultimately be reflected in a significantly lower fed funds path and USD level. However, until the slower growth trend is well established, the ups and downs of data could produce big swings in expectations and in the tone of Fed commentary.”



Rethinking Fixed Income

Rebecca Felton at Riverfront Investment Group:

“I think it was a collective sigh of relief across the board today.” Powell was measured and avoided hitting alarm buttons.

“We believe the worst is over for fixed income investors.” Riverfront is underweight fixed income but “will start rethinking that positioning here in the near term and that these are going to be more attractive asset classes.”

Worst of Times

Treasuries haven't dropped this much to start a year since at least 1980



Source: Bloomberg

NOTE: Returns are through Feb. 10 for years from 1995 onwards; before then returns are for first two full months

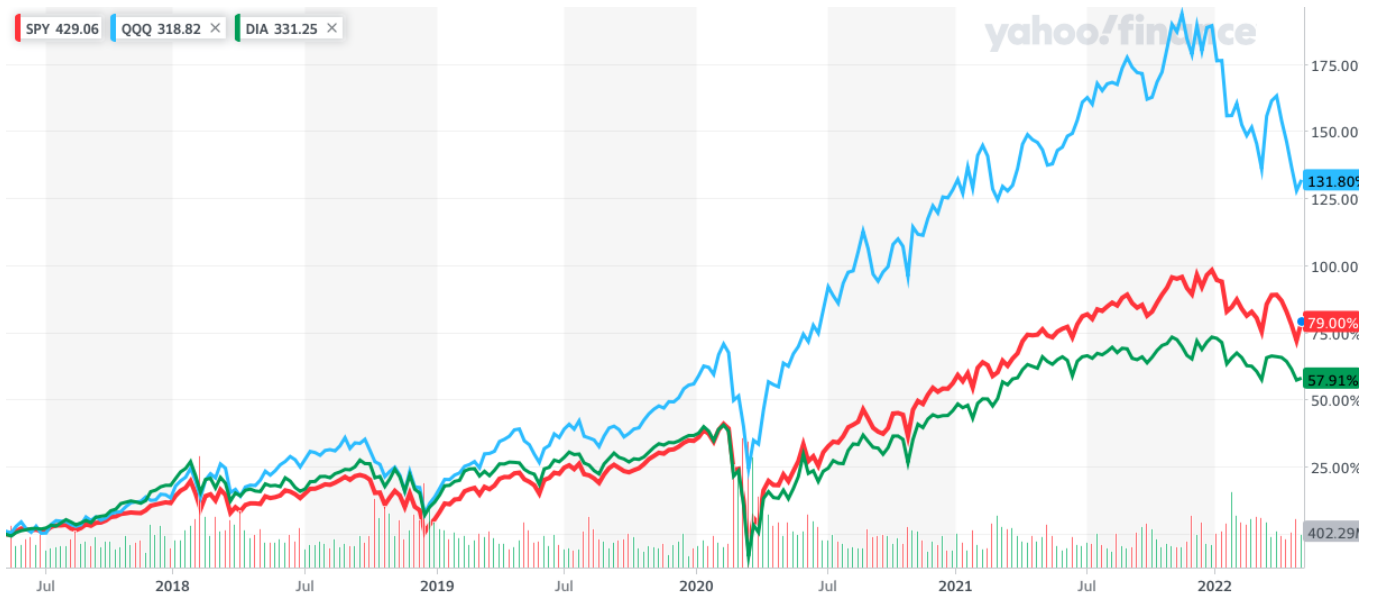
Bloomberg

Equity Bottom

Tina Teng, a markets analyst at CMC Markets:

“I see a bottom has been reached in the broader equity markets as the Fed’s projection on its rate hike roadmap could not be more aggressive as what the markets had priced in. The U.S. inflation also shows signs of peaking. Powell’s comment of an economic ‘soft’ landing indicates a softening tone of the tightening approach.”

Here is a look at the NASDAQ, S&P 500, and DJIA indexes. None of which are looking particularly good given the longer-term rollover they have been experiencing in the last six months. Remember that ‘head and shoulders’ top the QQQ was starting to form a month ago? It looks like that is now in place.



For a whole host of reasons, number one being that it's good for business, we hope the Fed does indeed feather this landing in. We also know what the business end of policy mistakes looks like. If that's the case, get all the foam known to man out there on the runway, the global economy is going to need it.



Opinions about how far, how fast, and how dangerous this tightening cycle is going to be might as well be a parlor game. Almost everyone talks their own

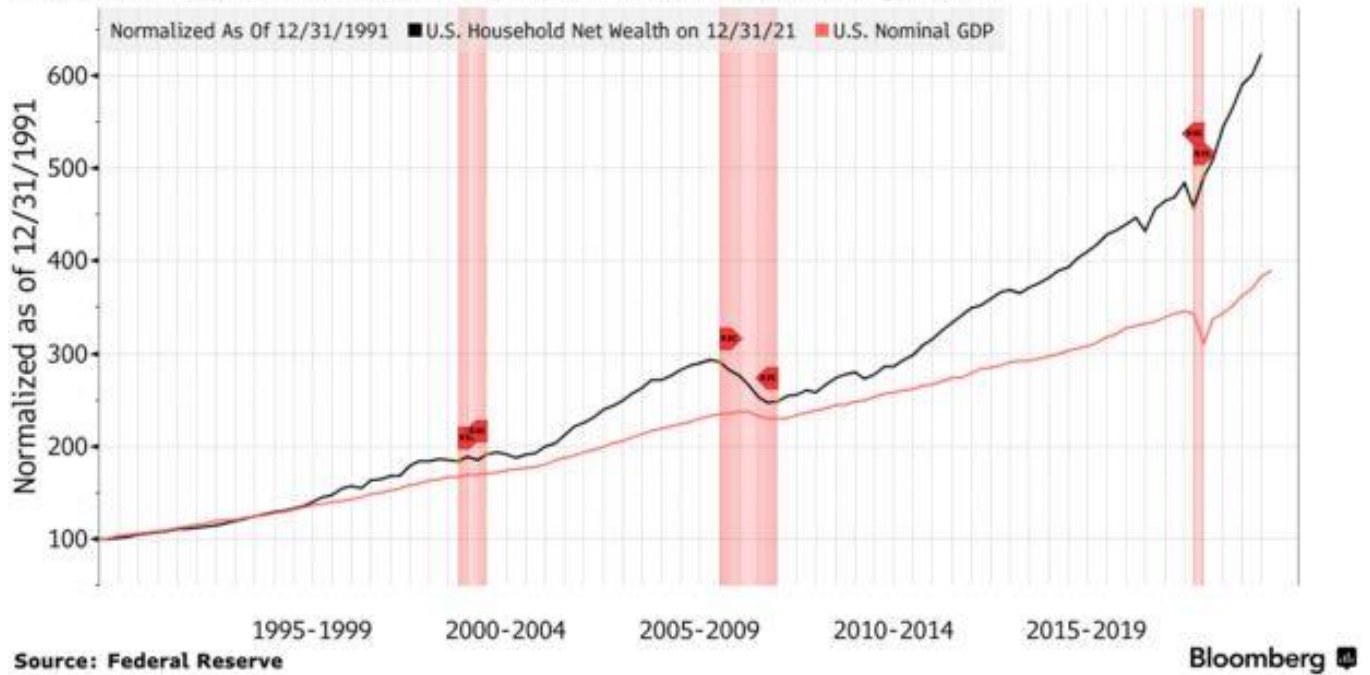
book, has honestly very little edge, and looks at the headlines for confirmation bias. We are as guilty as the next guy. In this case, the next guy is David Wright of Santa Monica based Sierra Investments. His call? The biggest bear market of his 78 year old life is now only in the [second inning](#). David looks like he could be an angry man. Maybe he knows something this time around, again.



A big reason why we think the economy is in a safe place this time around is that household balance sheets are as flush as they have been in forever. And if the consumer makes up 75% of GDP, why not think there is some insurance built in if a New York Strip Steak dinner is now \$55, versus the \$40 it was two years ago.

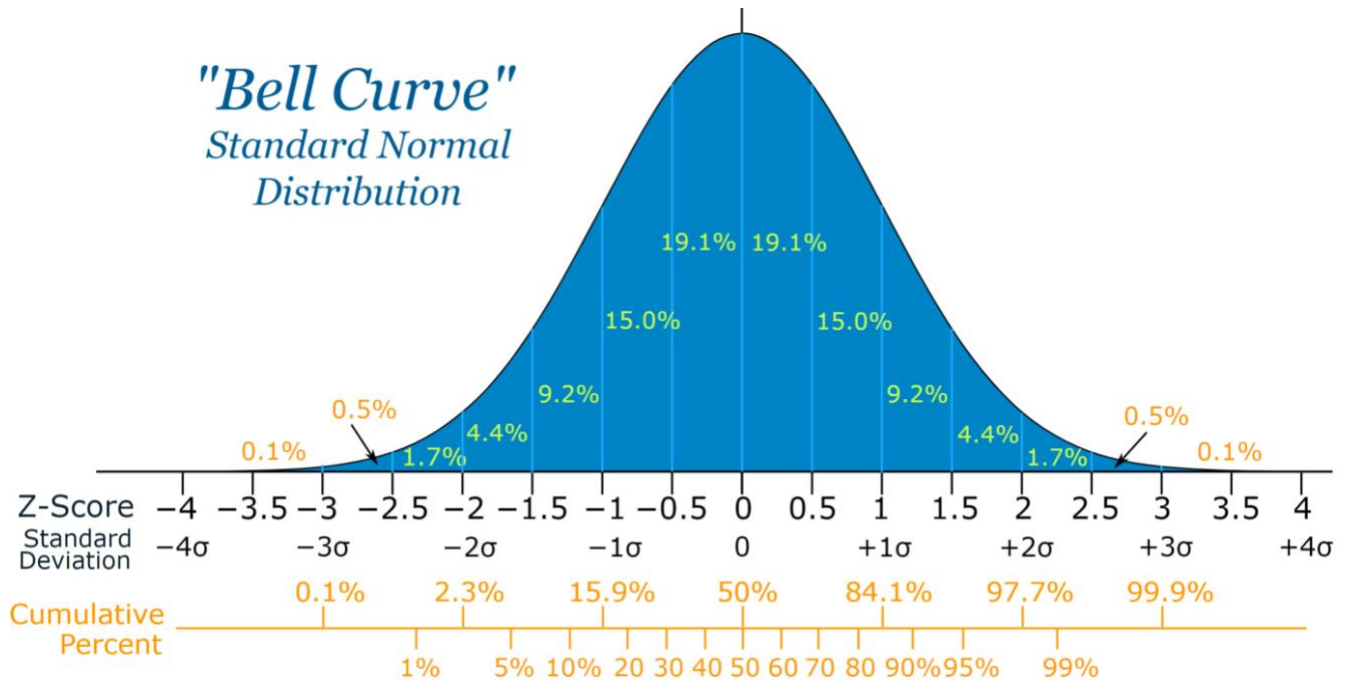
Flying Higher

Household net wealth runs well ahead of nominal GDP growth



Before we move, I want to emphasize once again how important the bell curve is to understand so many aspects of life, markets, sports, relationships, etc. About 70% of people came out of Covid better off financially than when they went in, and many came out way ahead. The more assets you had, the better you did. Bottom line, no arguing here. But as we say no crybabies in the casino. Some people were at the baccarat table to begin with, while the rest of us shmooes were playing \$10 blackjack.

"Bell Curve" Standard Normal Distribution



But by no means does that mean the pain wasn't acute in some places. If you came in on the left tail financially, chances are very good that you didn't come out on the other side in a materially better situation. This survey from Pew Research Center shows you in actual response form what our bell curve shows above, with a slight skew to the right tail.

About three-in-ten lower-income adults say their family's financial situation has worsened in the last year

% saying that, compared with one year ago, their financial situation (and that of their family) is now ...

	Better	Worse	About the same
All adults	30	21	49
Men	35	19	46
Women	25	22	53
White	30	17	52
Black	28	25	46
Hispanic	27	27	45
Asian*	35	24	40
Ages 18-29	37	24	39
30-49	33	23	43
50-64	27	22	51
65+	21	13	65
HS or less	25	23	52
Some college	29	25	46
Bachelor's+	36	15	49
Lower income	22	31	46
Middle income	32	18	49
Upper income	39	11	50

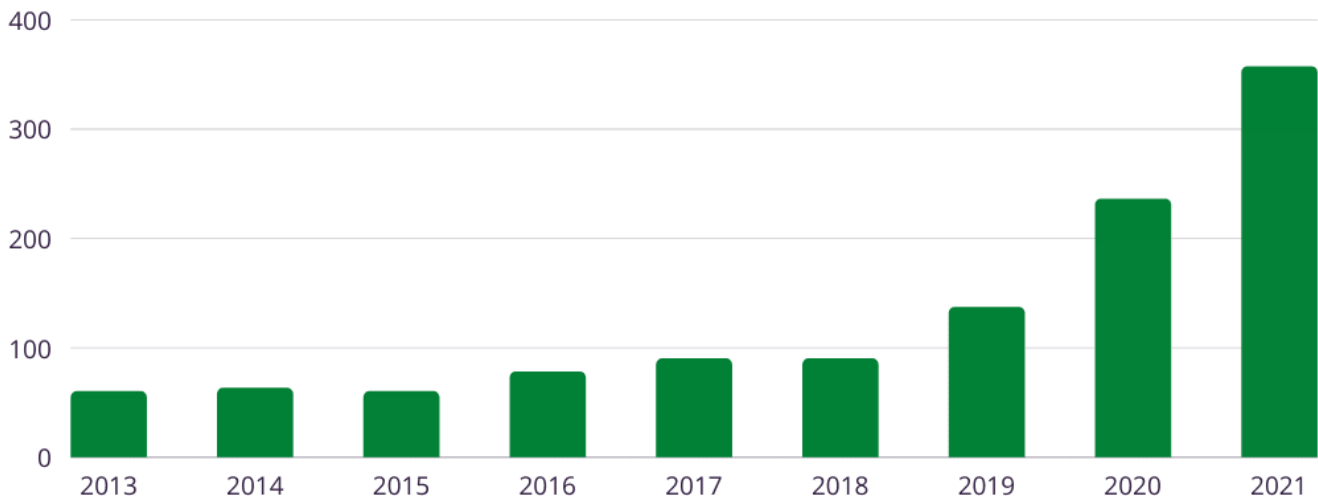
Back to investing, Bloomberg ran a piece this week highlighting the [explosion in ESG focused ETFs](#). This should come as no surprise as Wall Street is famous for creating demand via a call to action, and then filling the CTA solutions bucket so full it runs over with investible options. This is a primer for a bigger piece we plan on running in the next couple of weeks on ideas we have about how to integrate hedges into ESG investing, with a plug for our acumen doing so, naturally.

ESG funds gain momentum



U.S. sustainable fund assets grew to \$357 billion in December 2021

\$bn



Source: Morningstar Direct

Wunderkind Ken Griffin, at least he was a kid when he started, is [having a great year](#), and proving the hedge fund model works. His firm's \$50 billion Wellington fund was up 7.5% in April and is now scoring an impressive gain of 12.7% on the year, making money in all four trading styles it employs. Once again, it's good to be Ken. It's even better to be his first wife, with her \$1 million/month worth of spousal support. Is \$300,000 for private jet travel every 30 days even a lot of money anymore.



In news that is not so nice for the hedge fund set, a 25% position in Carvana has [led to a 43% loss for the formerly](#) \$2.2 billion Sosin Partners Fund. Once again, the perils of a concentrated portfolio rear their ugly heads. That said, Cliff Sosin has put up some absolute monster years in the past, so we must give credit where credit is undeniably due.

Security	Ticker	Source	Position	Pos Chg	% Out	Curr MVL
1) Hilton Grand Vacations Inc.	HGV US	13G	7,727,165	0	6.43	370.13MLN
2) Carvana Co Class A	CVNA US	13F	3,314,303	+9,275	3.13	217.88MLN
3) Cardlytics Inc	CDLX US	Form 4	5,416,116	+229,650	16.03	181.33MLN
4) World Acceptance Corp	WRLD US	13G	755,768	0	11.55	138.71MLN
5) Basic-Fit NV	BFIT NA	Annual Repo...	1,980,000	+1.98MLN	3.00	83.06MLN
6) Herbalife Nutrition Ltd	HLF US	13F	3,062,762	+66,300	2.79	79.75MLN
7) Party City Holdco Inc	PRTY US	Form 4	20,001,623	+3.55MLN	17.79	66.01MLN
8) At Home Group Inc	HOME US	13D	11,078,735	0	16.90	0

In a [painful sign of the times](#) for digital education support company Chegg, inflation and low levels of unemployment have people forgoing higher education

to chase income generating opportunities today. Part of this is pure choice, the other is a sober economic reality. This was management back on the day of the company's 2015 initial public offering.



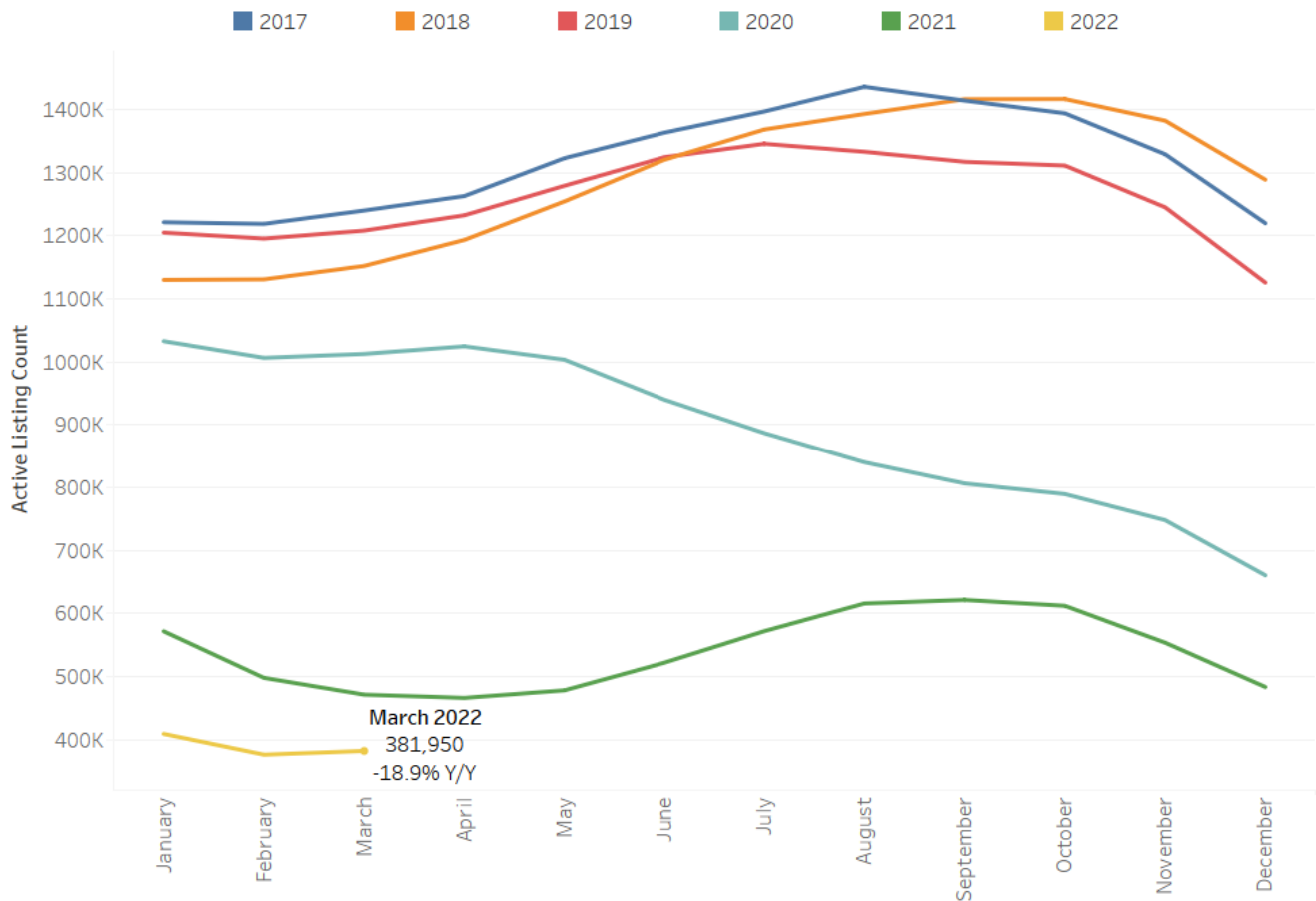
And this is the brutal four-year round trip from \$25, to \$115, back down to \$25 that the shares of CHGG have gone on. That said, we are pretty sure those people on the podium had plenty of time to sell as much stock was available at higher valuations than today. Easy come, easy go, as they say.



Last chart of the week is great if you own a home and are looking to sell it, but downright debilitating if you out there among those looking for a new place to move into. The inventory for unsold homes is [now one third of what it was](#) four years ago. That's correct, there are currently 70% fewer homes available today than there were in 2018. Happy hunting, if you want to go looking for a quarry.

Active Listing Count

Down 18.9% Y/Y in March 2022



That's what we have for you this week. As always, if you don't like the news, then go out and make some of your own. But in a good way, capiche. See you back here next week.

