

Deprcon warning: The Fed and the asset markets (05/04/2022)

Hi,

Junk bond ETF:s have sank quite notably faster than equity markets in the U.S. during the first months of the year and in recent days. While there has not been an actual crash in junk bonds, like there were during the corona-shock in March 2020, the fact that investors are pulling their money from the most speculative corner of the capital markets is something of a red flag, especially as it has accelerated in recent days going into the FOMC meeting today.

Rumors of a suprise 75 point hike are also circulating. The idea is that the Fed will have to surprise, because they are so badly behind 'the curve'. This may also lead them to announce an expedited asset roll-off (QT) program.

So, be prepared for a possible Fed surprise and increased volatility in the coming days. Some 'minicrash' in the asset markets is also not totally out of the question.

Be safe,

Tuomas

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