

Macro Microscope

Divergence and Dispersion



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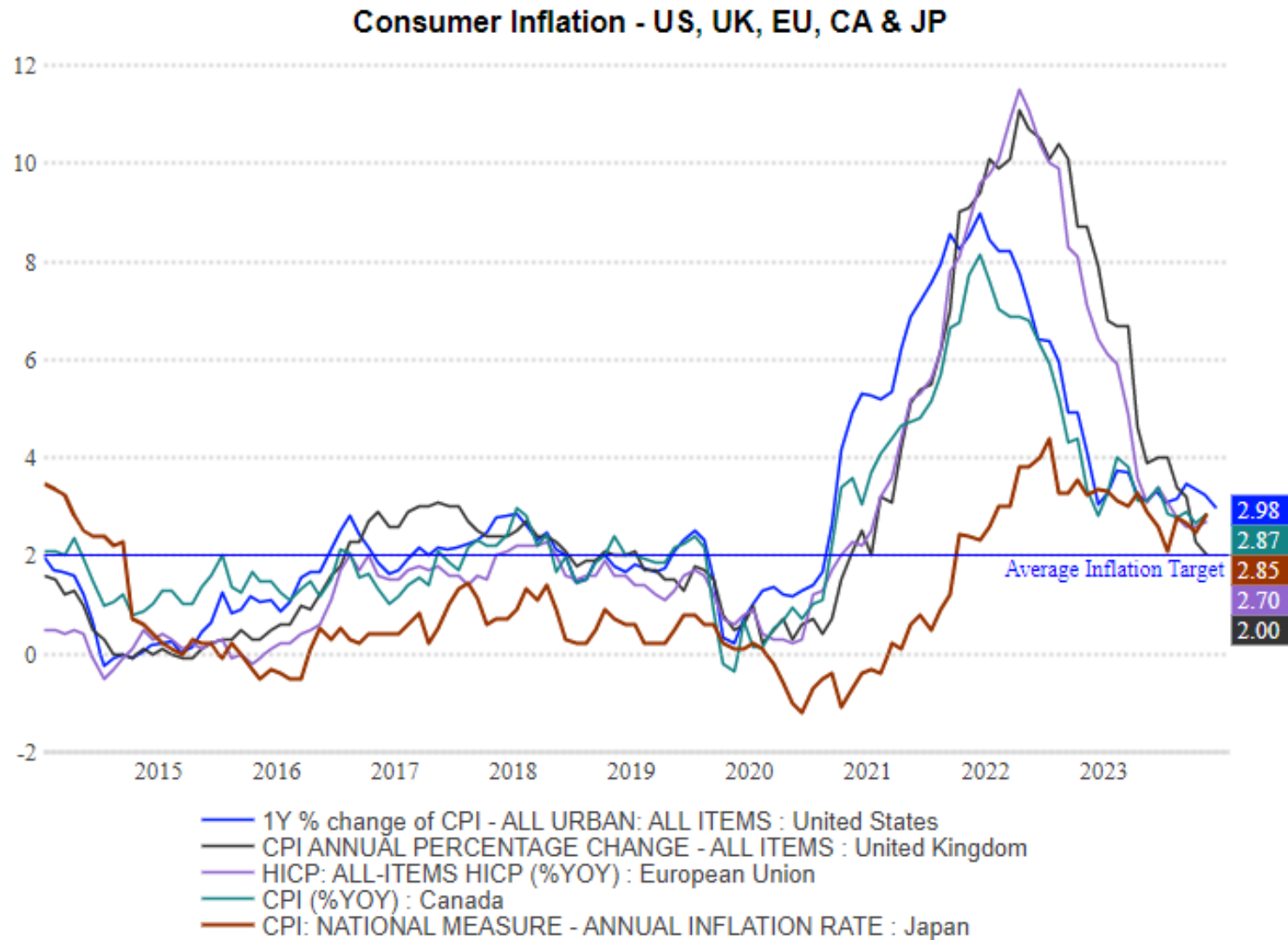
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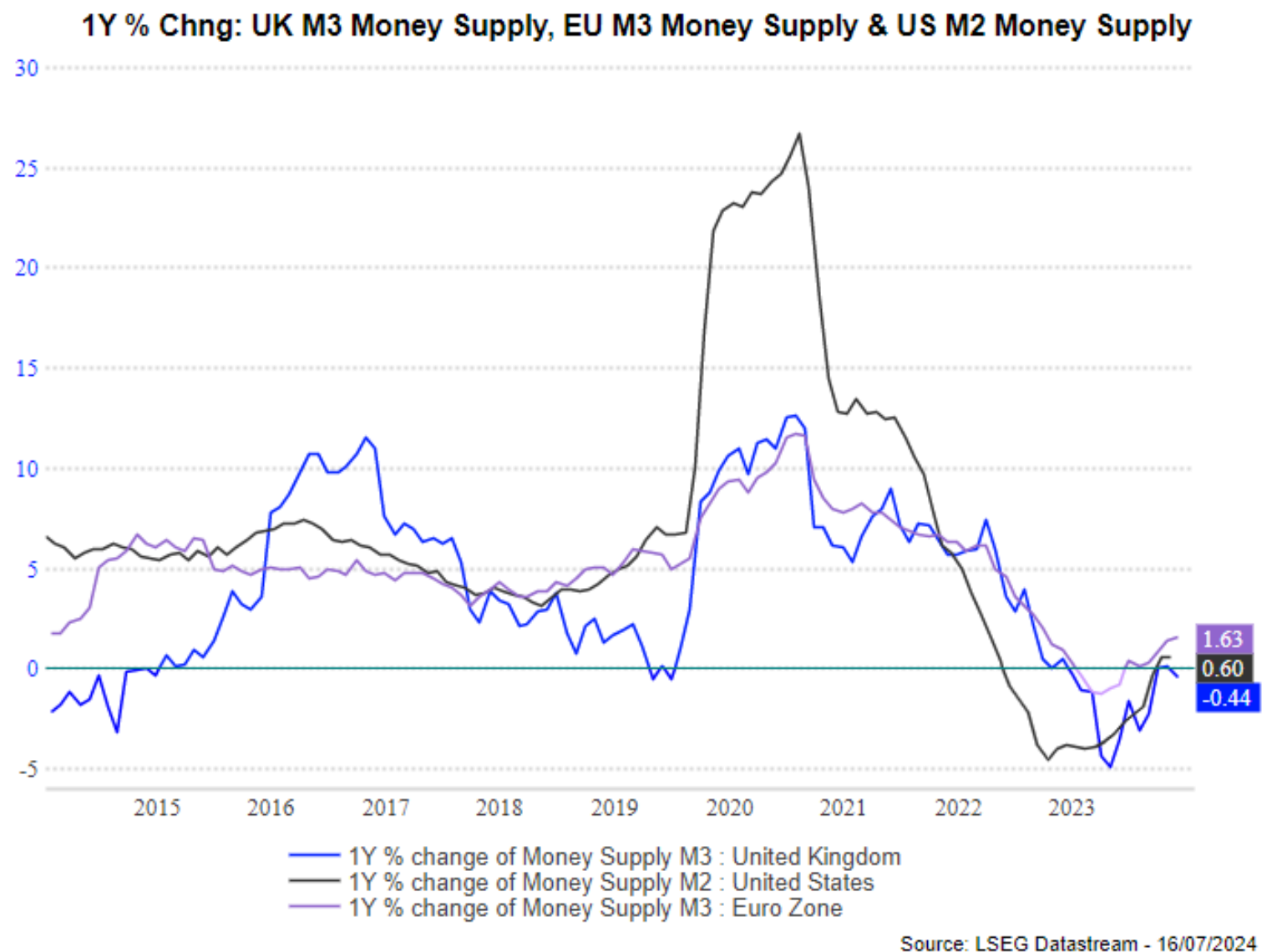
LSEG

Convergent Consumer Inflation

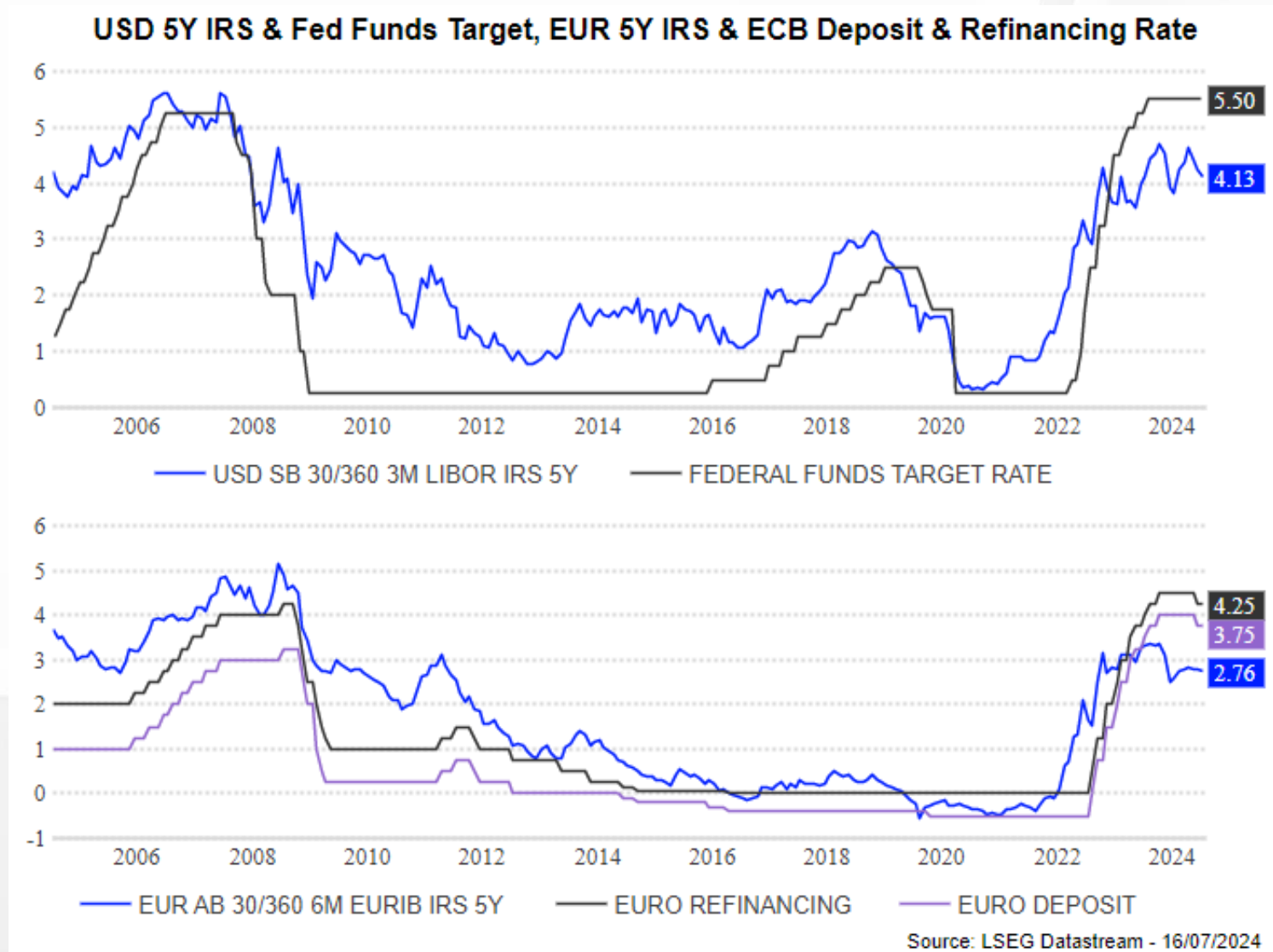


Source: LSEG Datastream - 16/07/2024

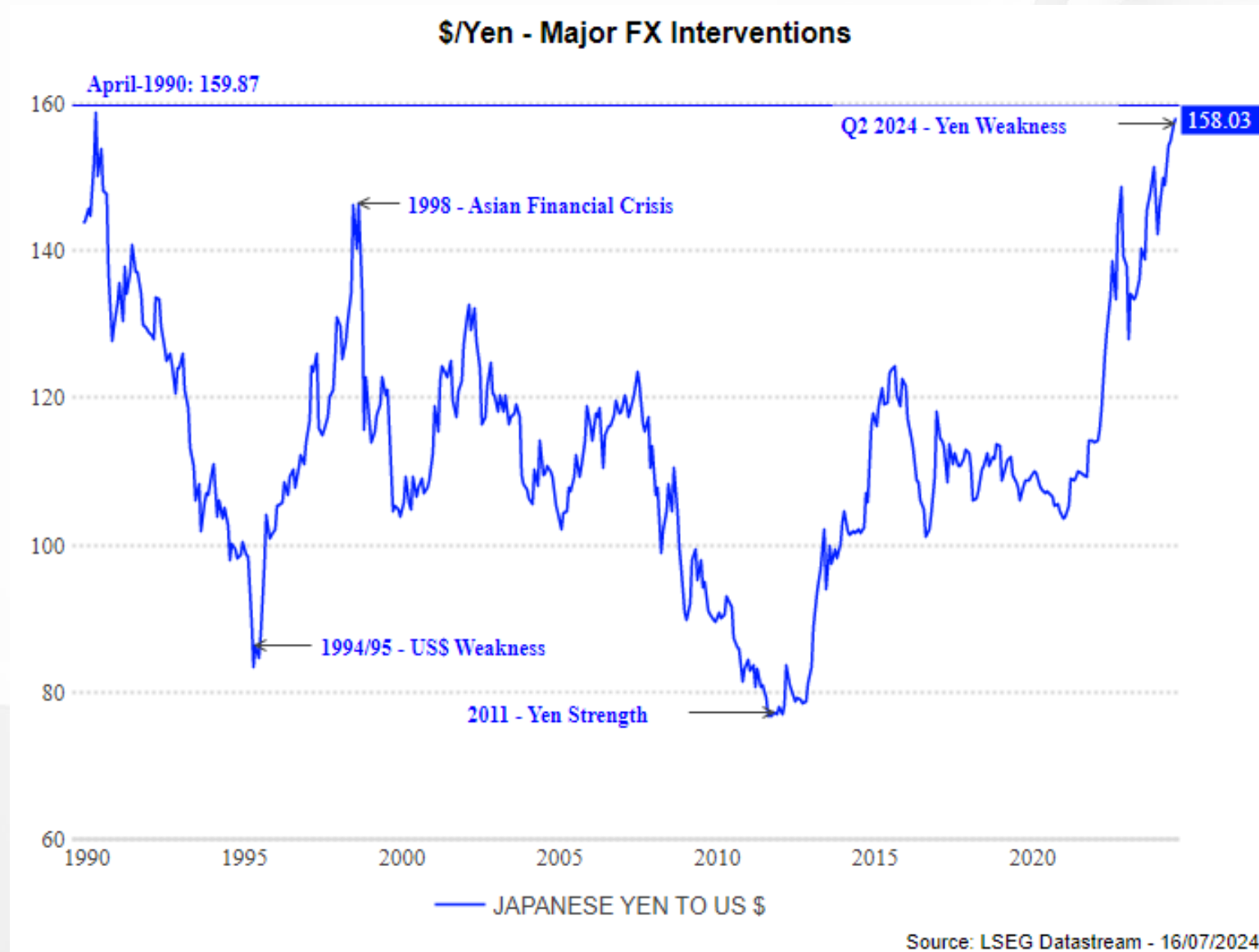
Divergent Money Supply Growth Rates



Financial Market Drivers – US and EU



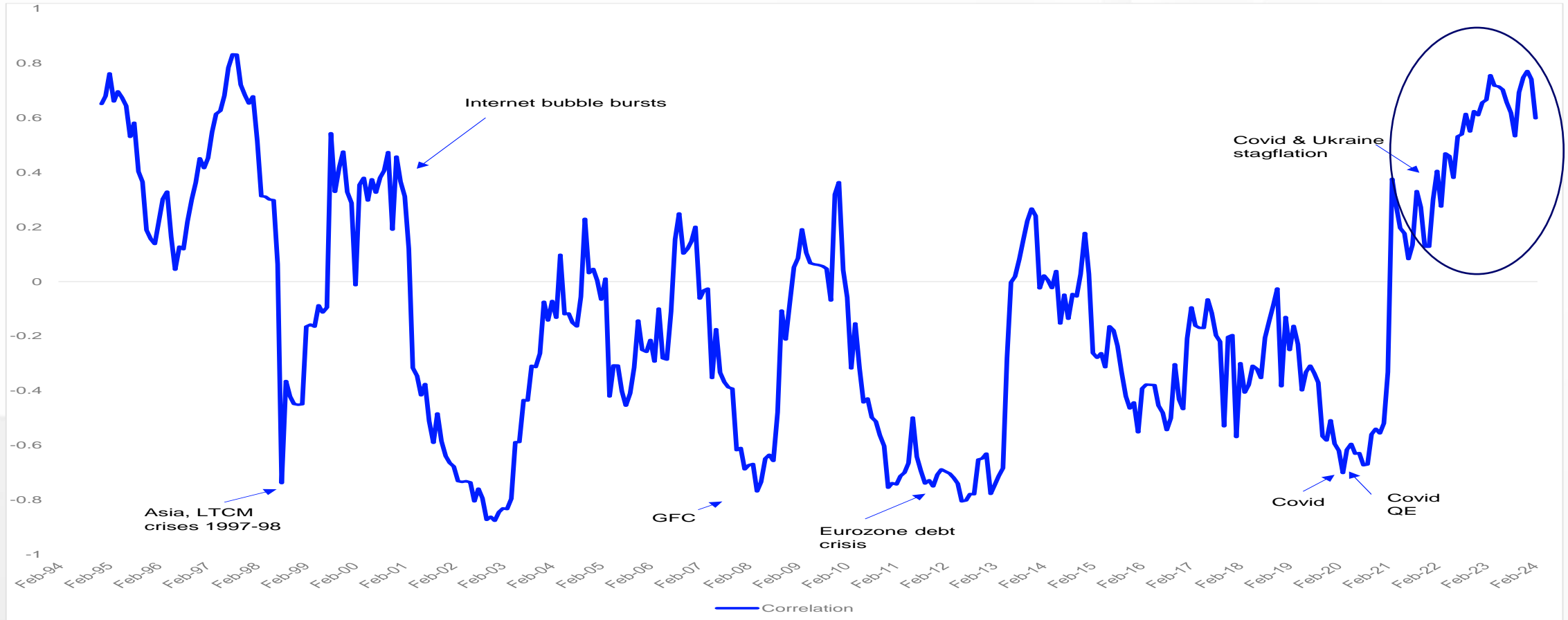
Financial Market Drivers – Japan



Correlation of asset returns (Rates & Equity) from mid -1990s

From the mid-1990s to Covid, low inflation and stable growth meant equities outperformed in cyclical upswings, and govt bonds outperformed in downswings, or after deflationary shocks.

Correlation of US 7-10 year US Treasury returns with Russell 1000 returns



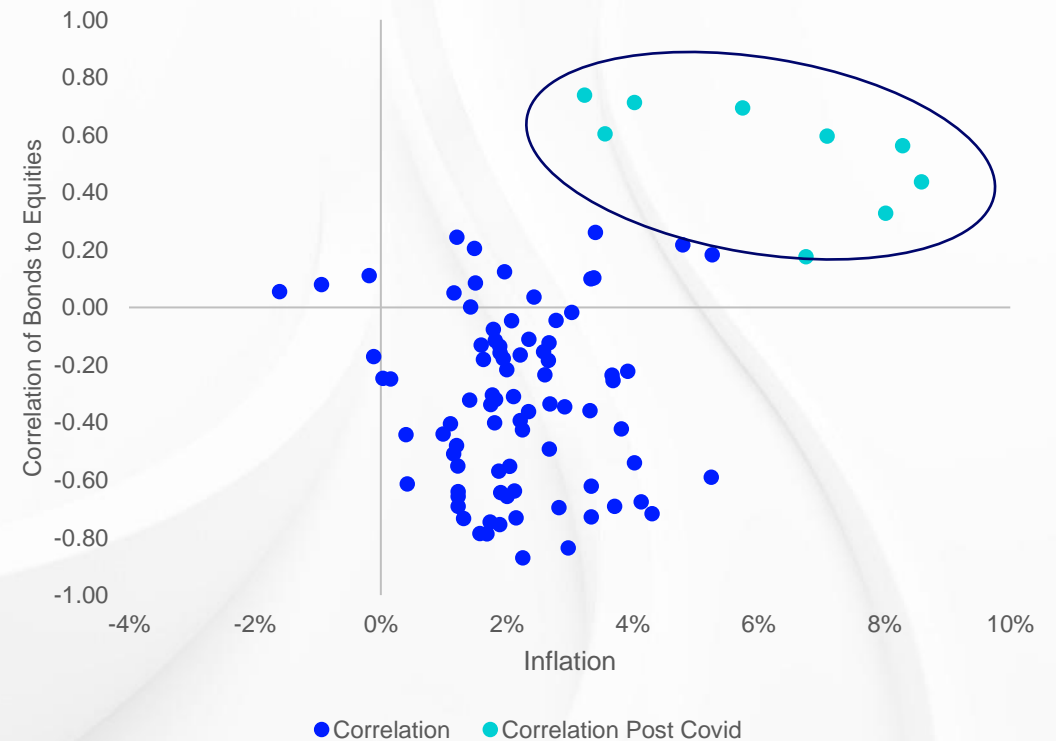
Source: FTSE Russell and LSEG. All data as of May 31, 2024. Past performance is no guarantee of future results.

Correlations spiked, with higher inflation, after Covid & Ukraine shocks

Higher inflation since Covid appears strongly correlated with higher correlation of asset returns, and may also be due to the higher rates that followed. The relationship appears non-linear.

- ❖ To assess the impact of US inflation, we looked at the **correlation of [inflation with the correlation of returns]**
- ❖ As inflation rates accelerated in 2021-22, there is a sharp increase in the correlation evident (Chart)
- ❖ This is supported by **longer term evidence showing higher correlations follow higher short rates & inflation**
- ❖ The **relationship appears non-linear**, and unstable...
- ❖ ...rising sharply if inflation is above key thresholds (4%?)

US inflation & correlation of bond/equity returns



Source: US Federal Reserve, FTSE Russell, data from 2000 to 2024

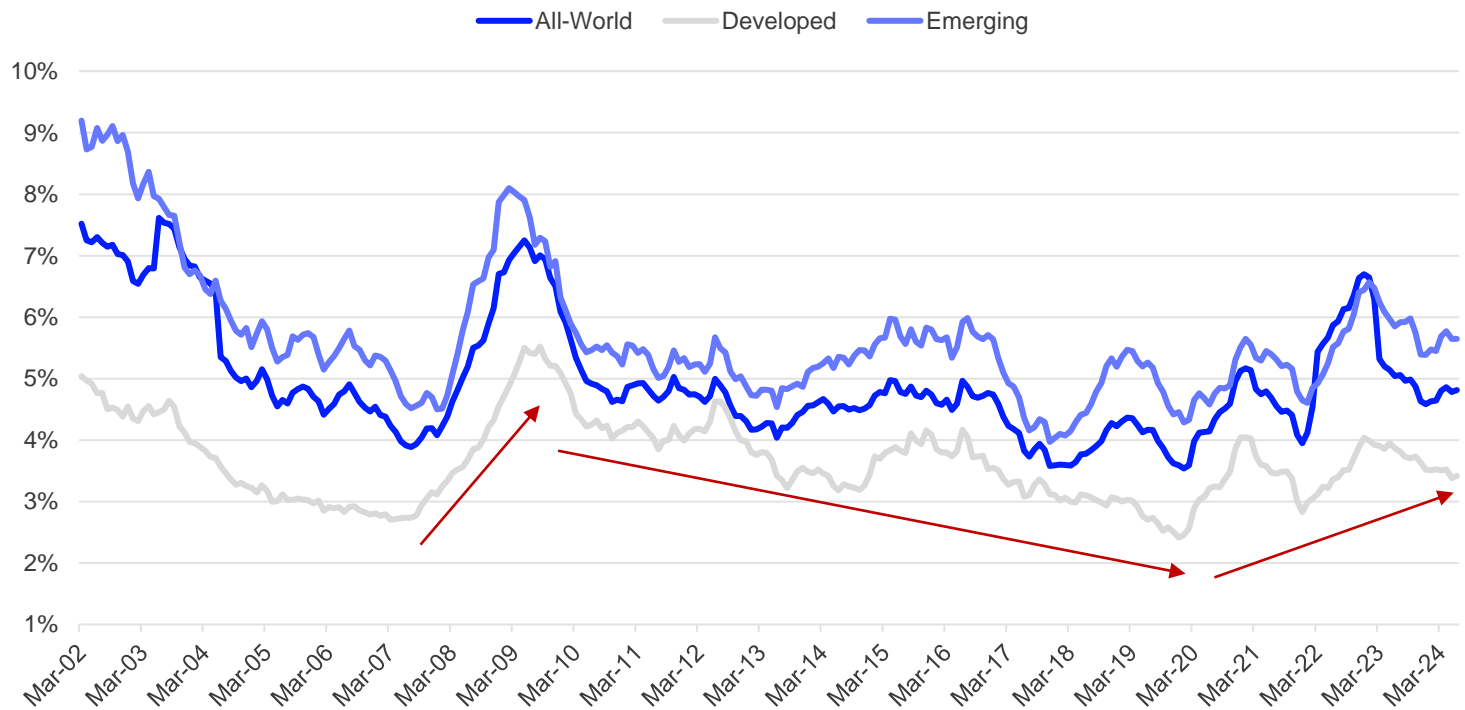
Source: FTSE Russell, New York Fed and LSEG. All data as of May 31, 2024. Past performance is no guarantee of future results.

12M moving average of cross-sectional return dispersion.

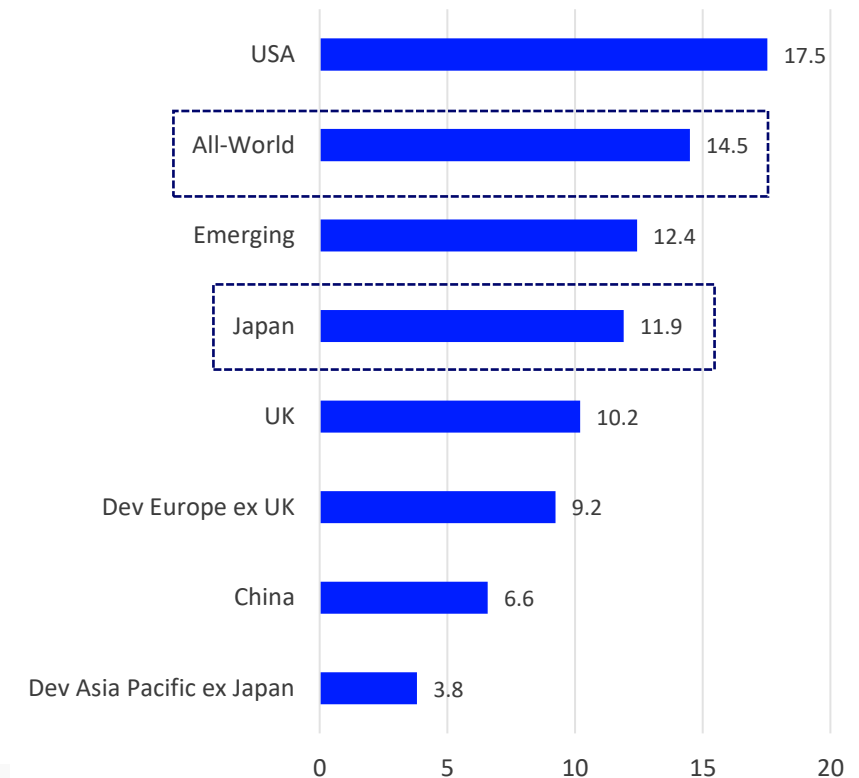
Opportunities in non-US equity markets – Japan’s come-back!

- ❖ GFC: return dispersion spiked as volatility rose
- ❖ Post-GFC to Covid-19: steady decline in return dispersion, benign macro backdrop (low and stable inflation & rates)
- ❖ Post-Covid-19: return dispersion rising again
- ❖ [What has led to Japan’s come-back? | LSEG](#)

12-month moving average of cross-sectional return dispersion



Total return 2024 YTD (% , USD)



Source: FTSE Russell and LSEG. Data as of June 30, 2024. Past performance is no guarantee of future results.

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