



# Challenging the cozy consensus

**Lee Ferridge**  
Head of Multi-Asset Strategy, The Americas  
[lferridge@statestreet.com](mailto:lferridge@statestreet.com)

June 2024

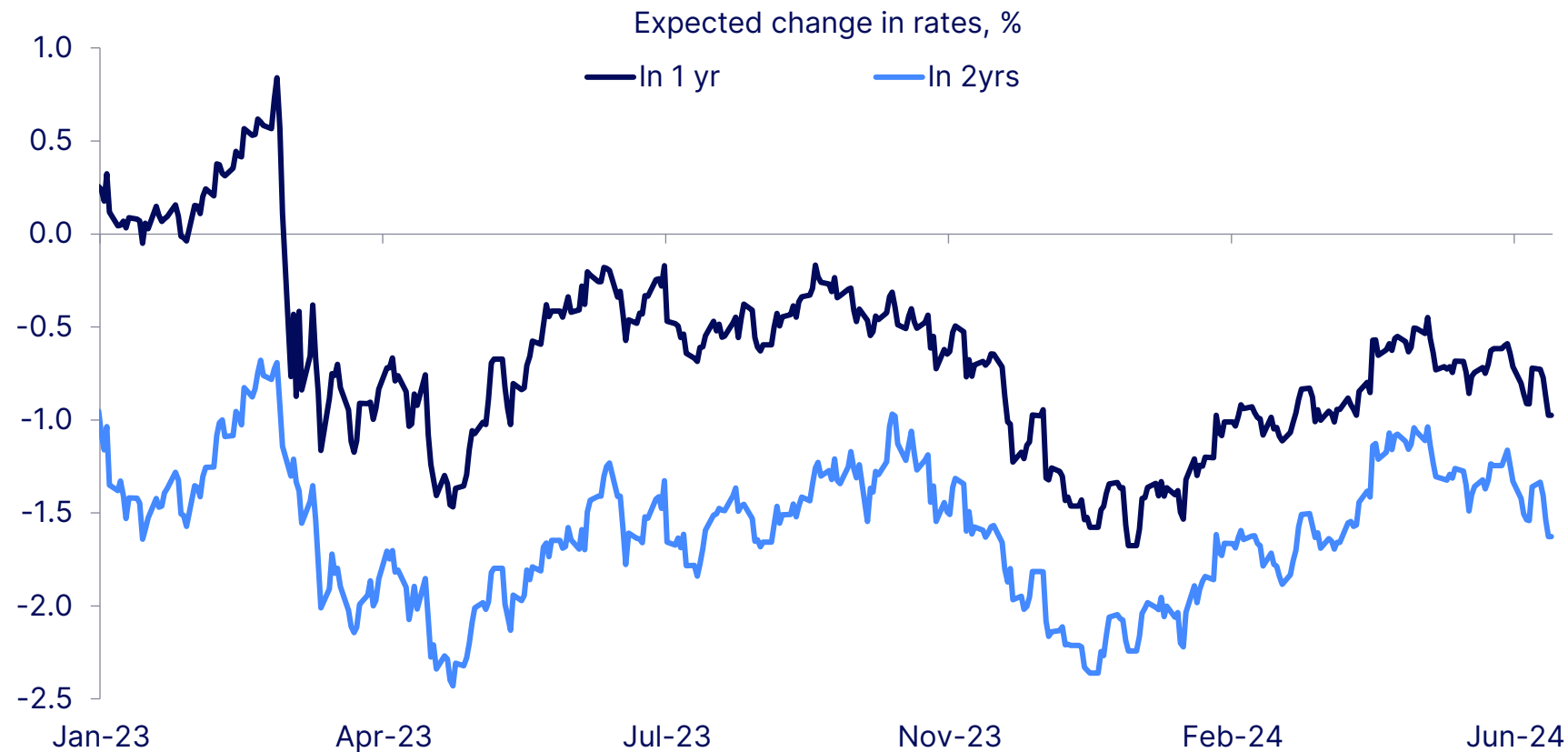


# The cozy consensus

# From SVB to today

Market has never given up on the easing story

Just a matter of time, right?



Source: State Street Global Markets, Bloomberg; data as of 6/14/2024

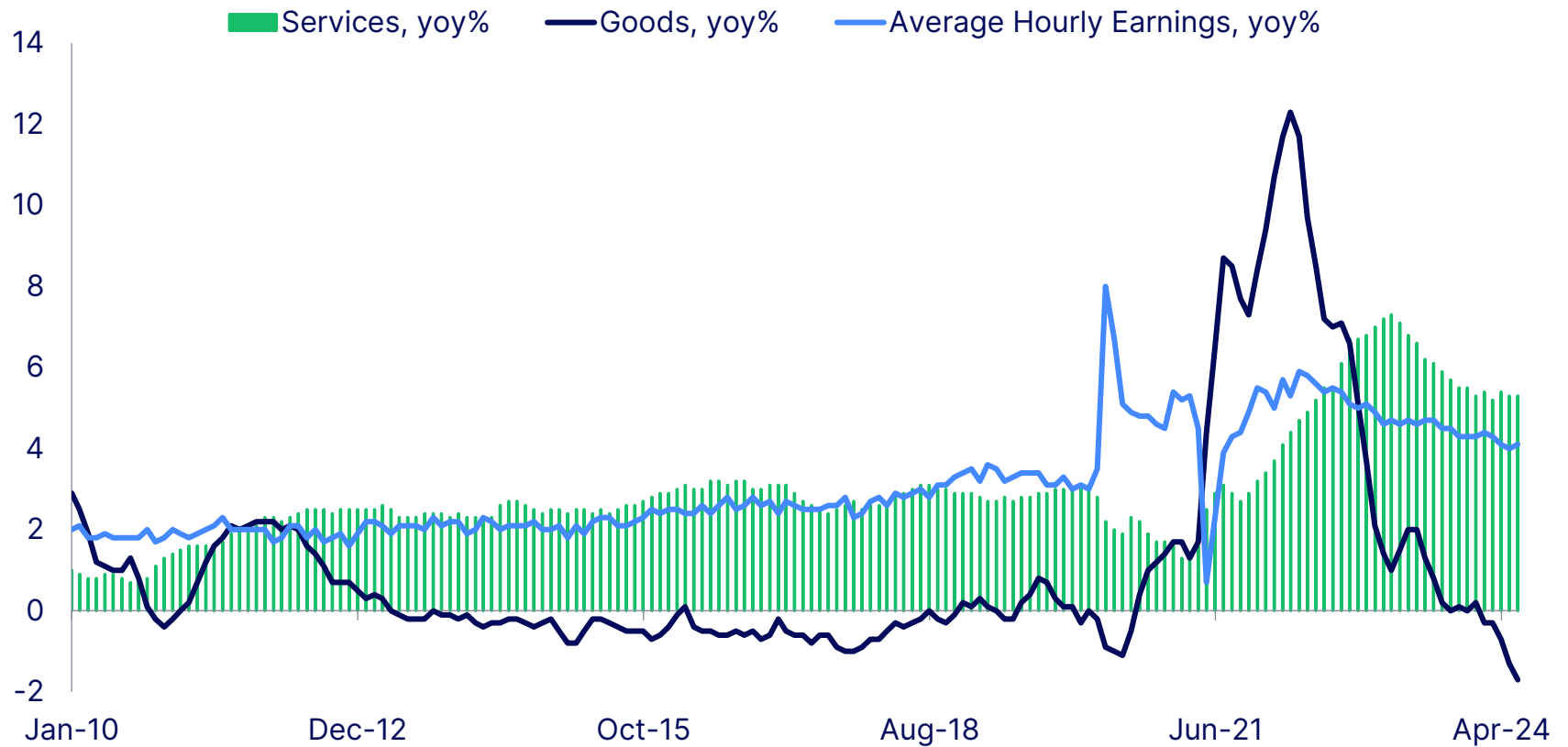


# **Inconvenient truths: The hike in the tail?**

# Not all inflation is falling

Services and wages remain sticky

Can't just rely on goods prices (CPI)

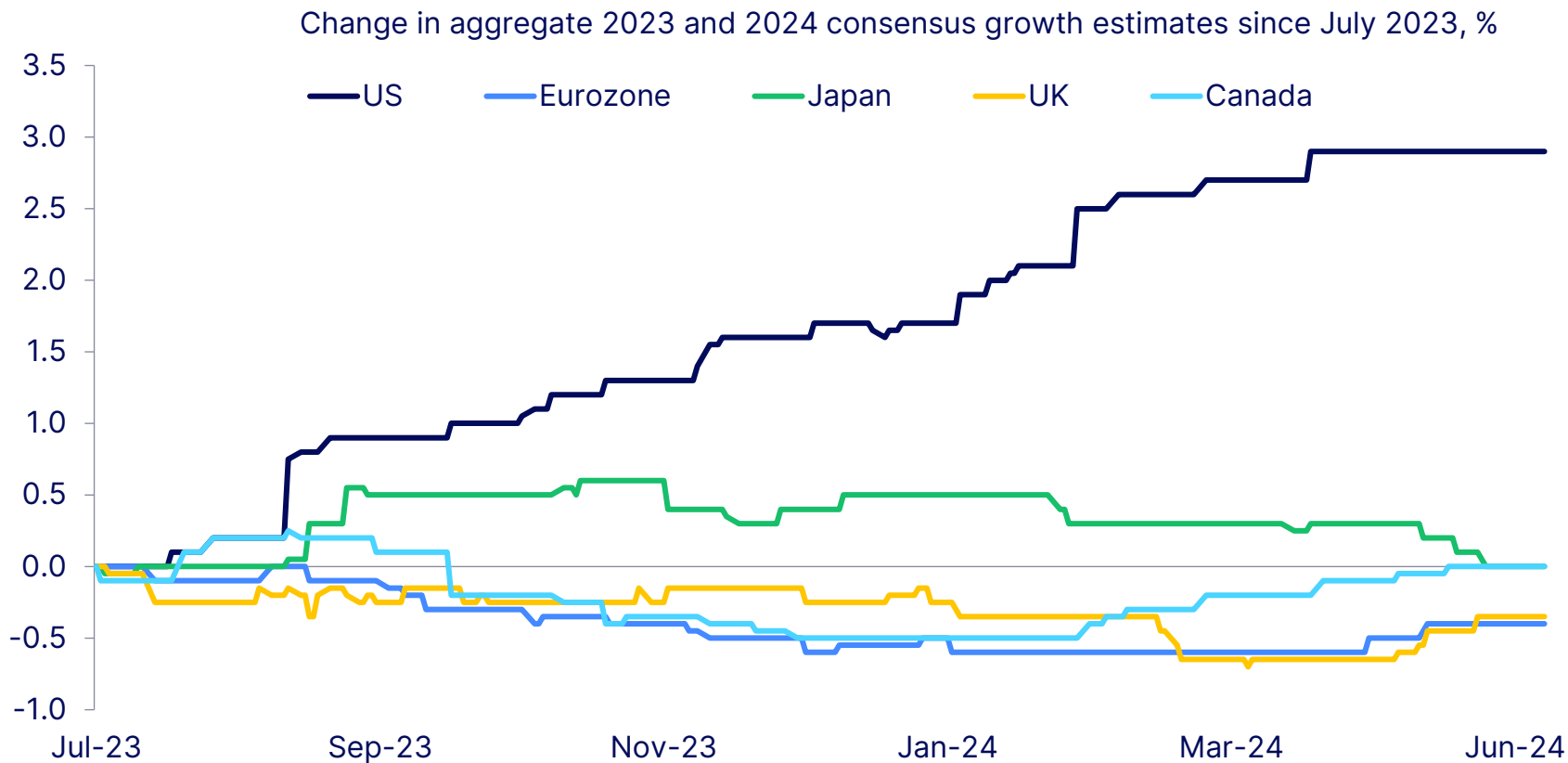


Source: State Street Global Markets, Bloomberg; data as of 6/14/2024

# Where is the landing?

Market persistently surprised by US data

Growth outlook has changed, why shouldn't the rate path?



Source: State Street Global Markets, Bloomberg; data as of 6/14/2024



---

# Challenge 1:

---

# Labour market

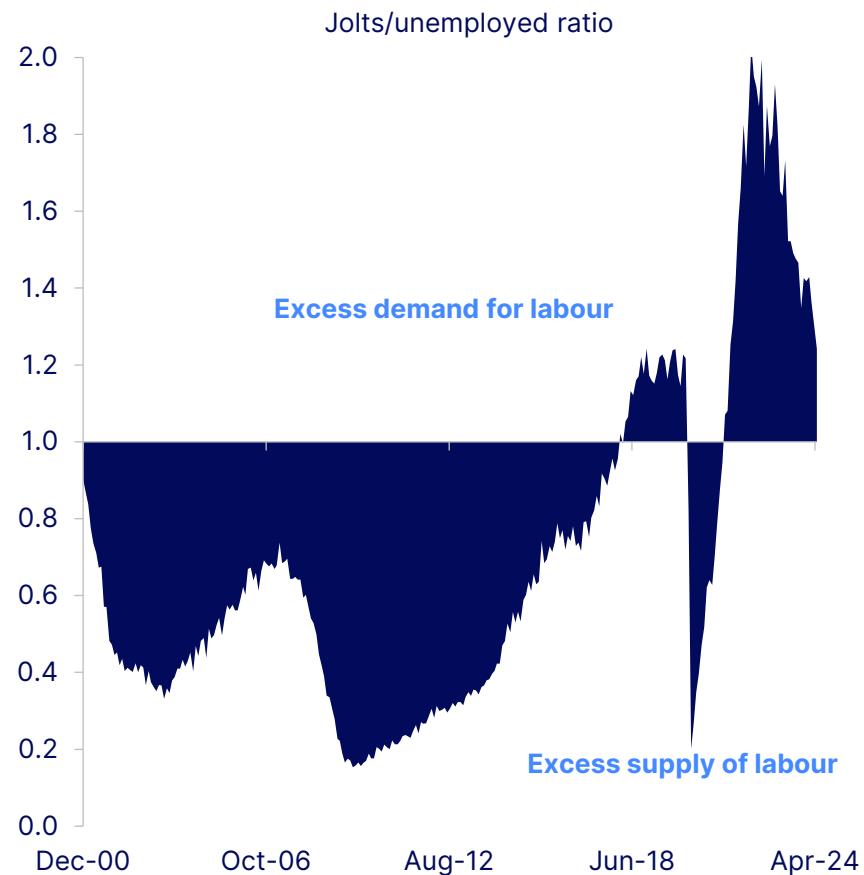


---

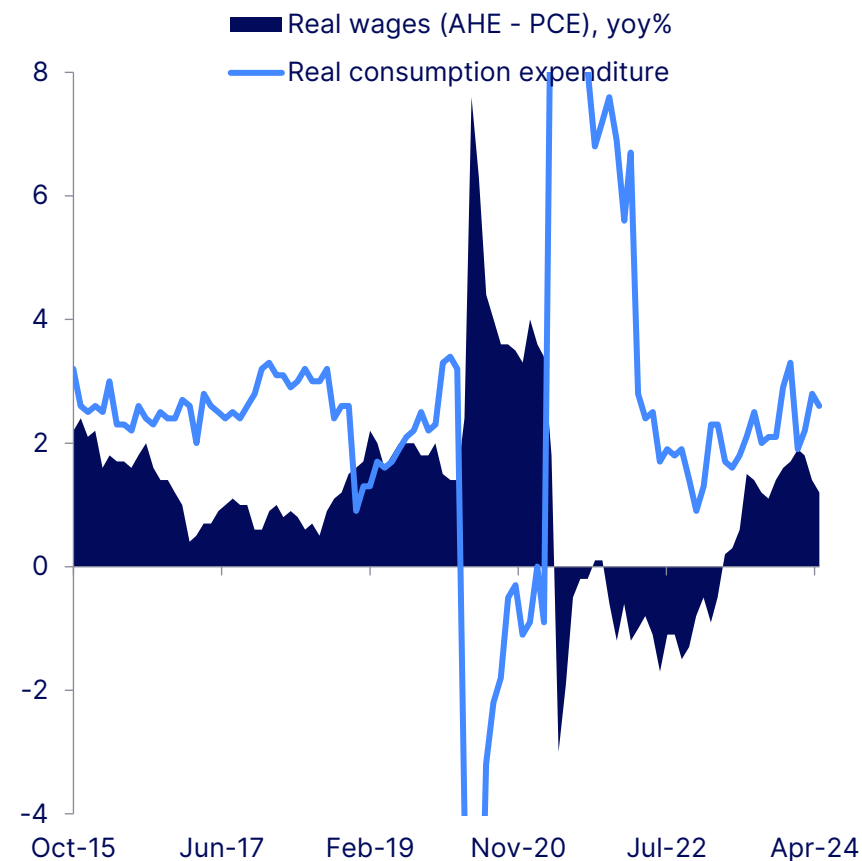
# It's simply supply and demand

Balance will not happen quickly

## From excess supply to excess demand



## Positive earnings fuelling spending power



Source: State Street Global Markets, Bloomberg; data as of 6/14/2024



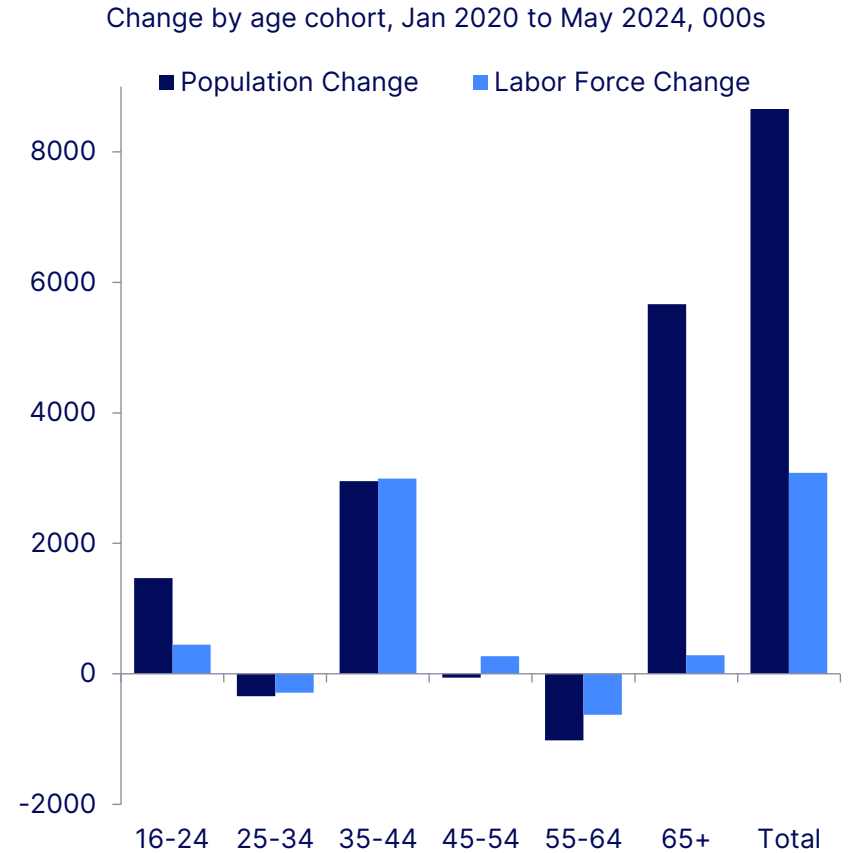
# Labour market will remain tight

Retirements explain the lack of workers

## Where are all the people?



## They retired

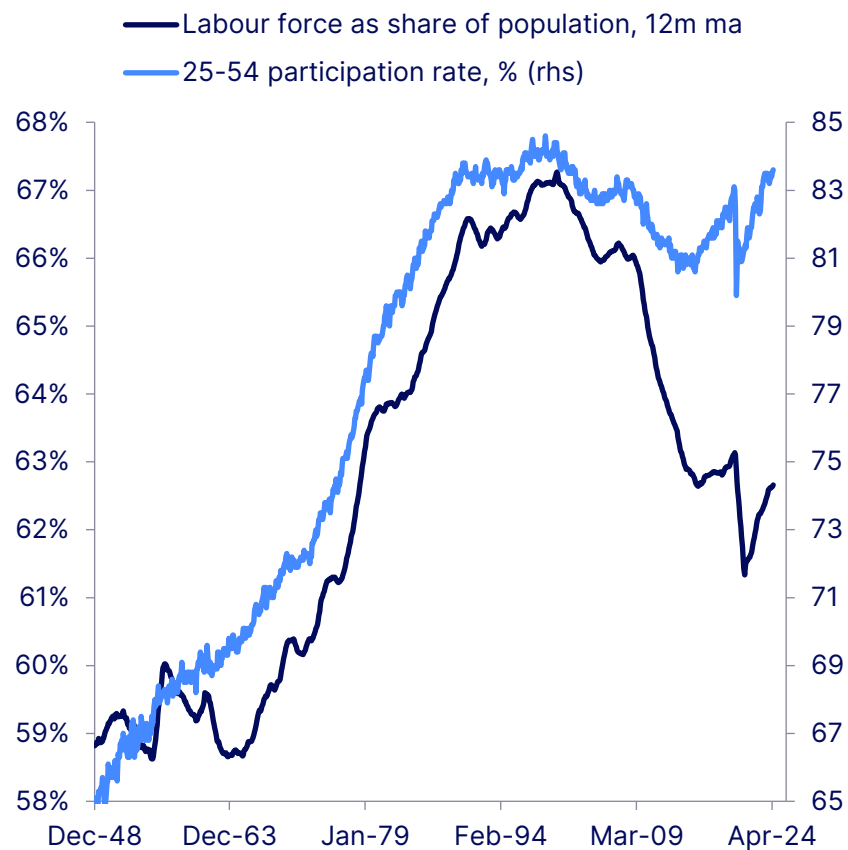


Source: State Street Global Markets, Bloomberg; data as of 6/14/2024

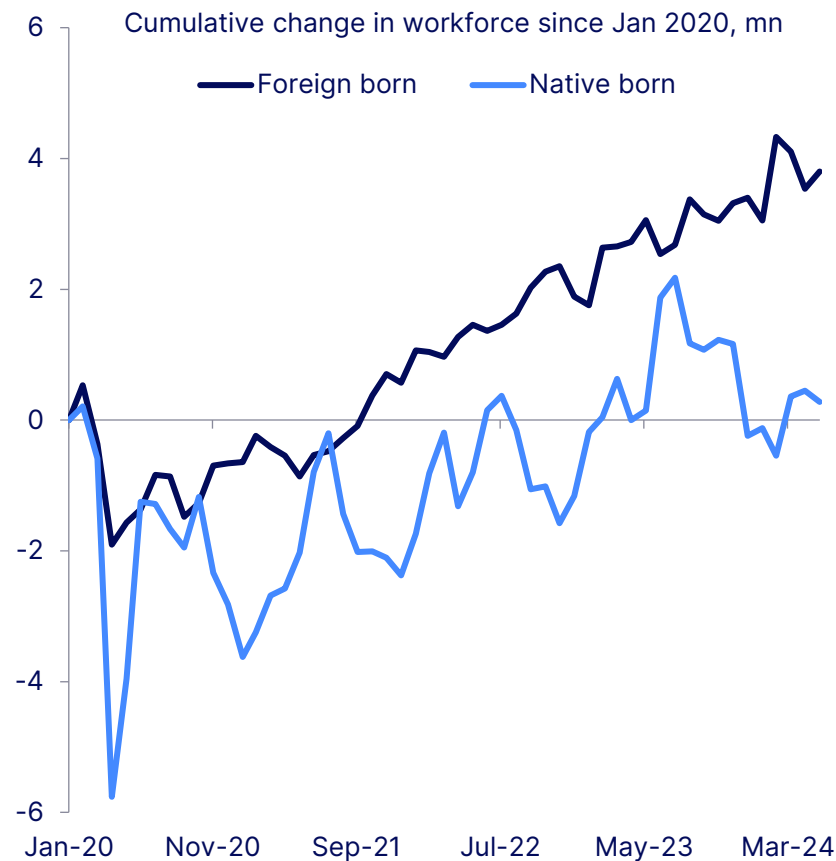
# Not a strong bench

Lack of workers set to persist

## Working age population is working



## No immigration = no growth in workers



Source: State Street Global Markets, Bloomberg, BLS; data as of 6/14/2024



---

# Challenge 2:

---

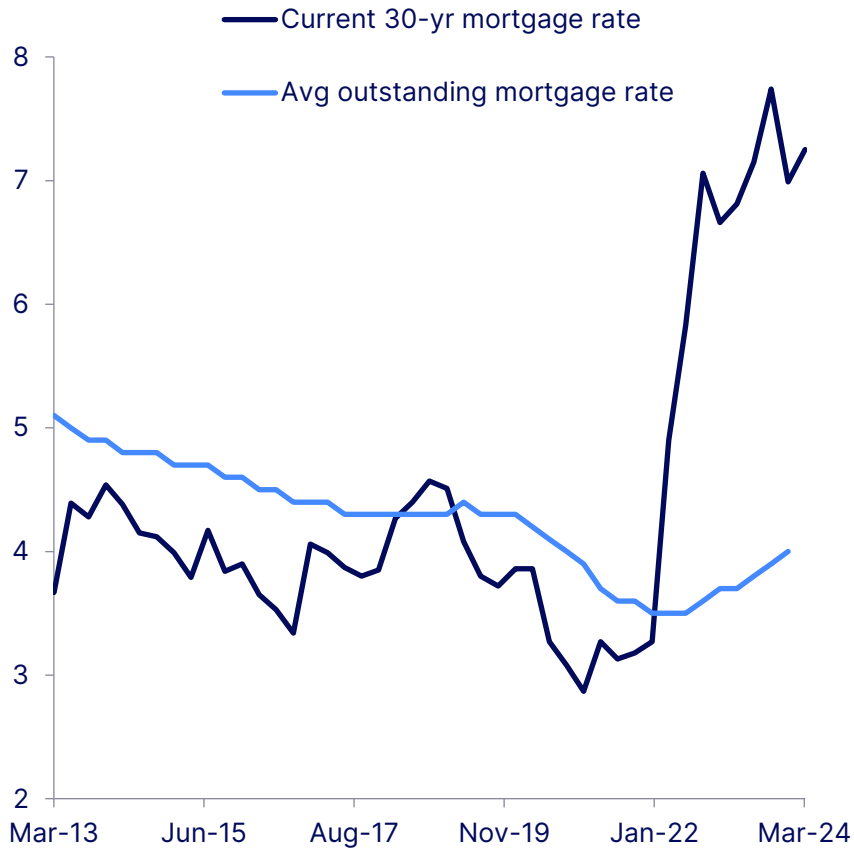
# Housing market

---

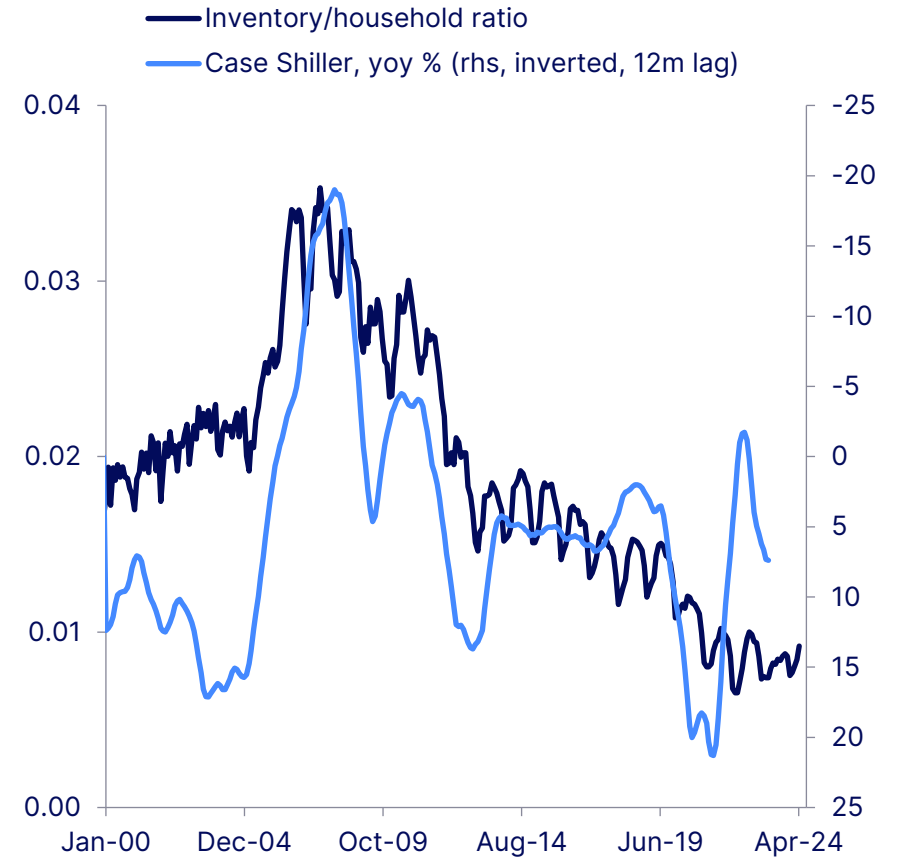
# Who wants to move?

Current rates a long way from most mortgage rates

## Moving not an option



## Hence, inventory close to record lows

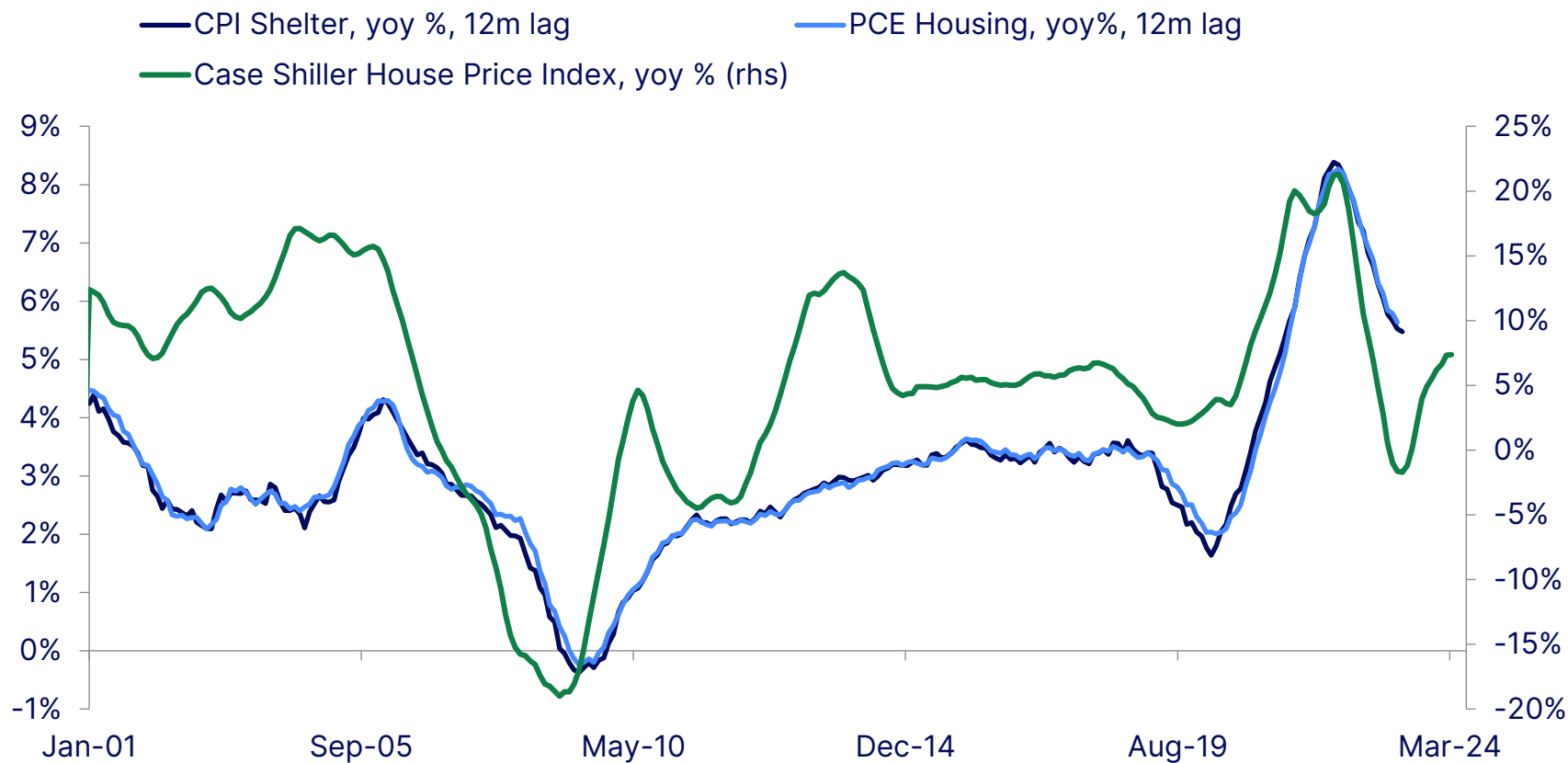


Source: State Street Global Markets, Bloomberg; data as of 6/14/2024

# H2 upturn anyone?

Housing market looks set to drive inflation higher again

## A worry for H2



Source: State Street Global Markets, Bloomberg; data as of 6/14/2024



---

# Challenge 3:

---

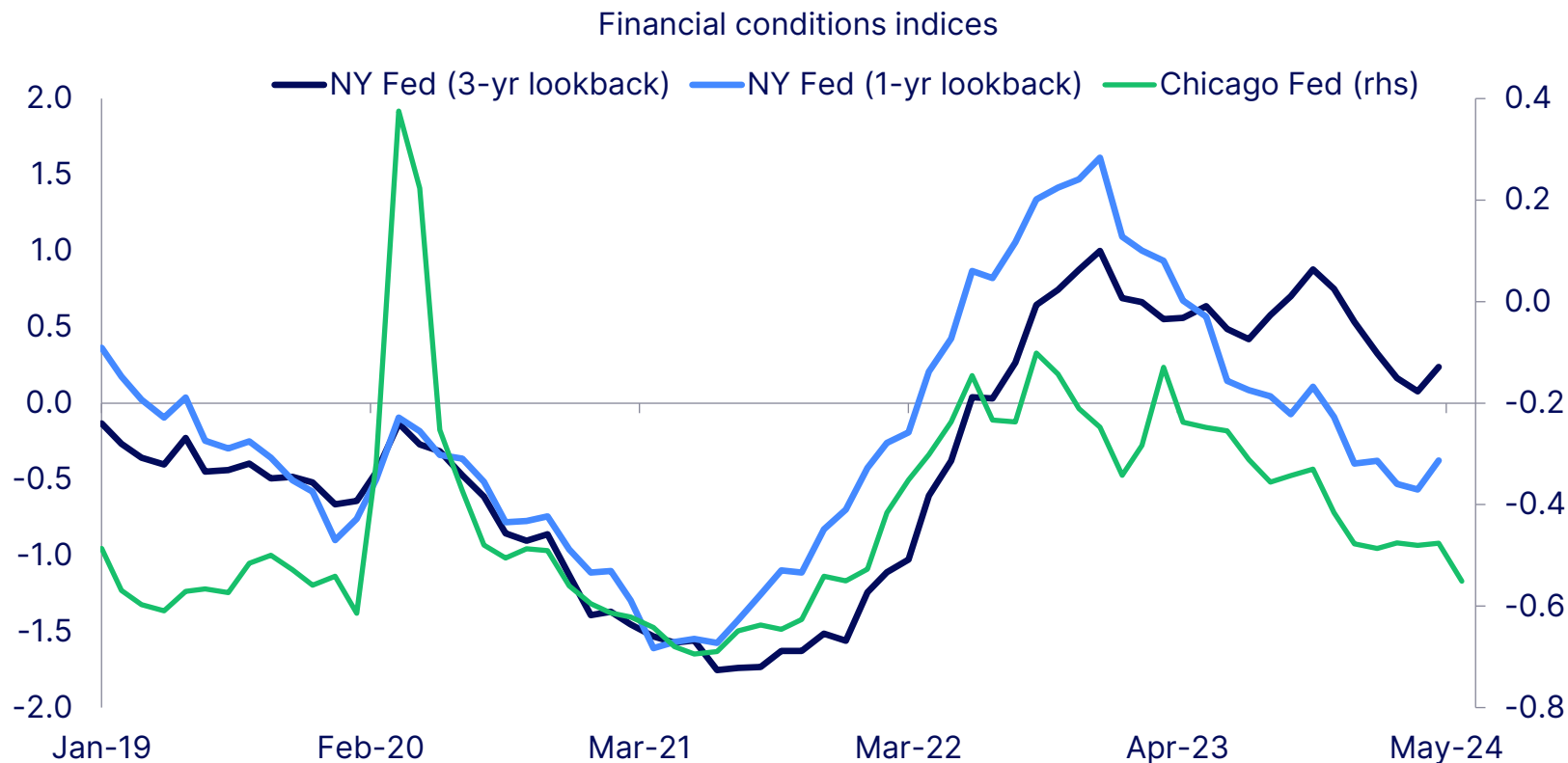
# Financial markets

---

# Do these matter anymore?

A big deal for the Fed in October and now, not so much

## Financial conditions loose across the board



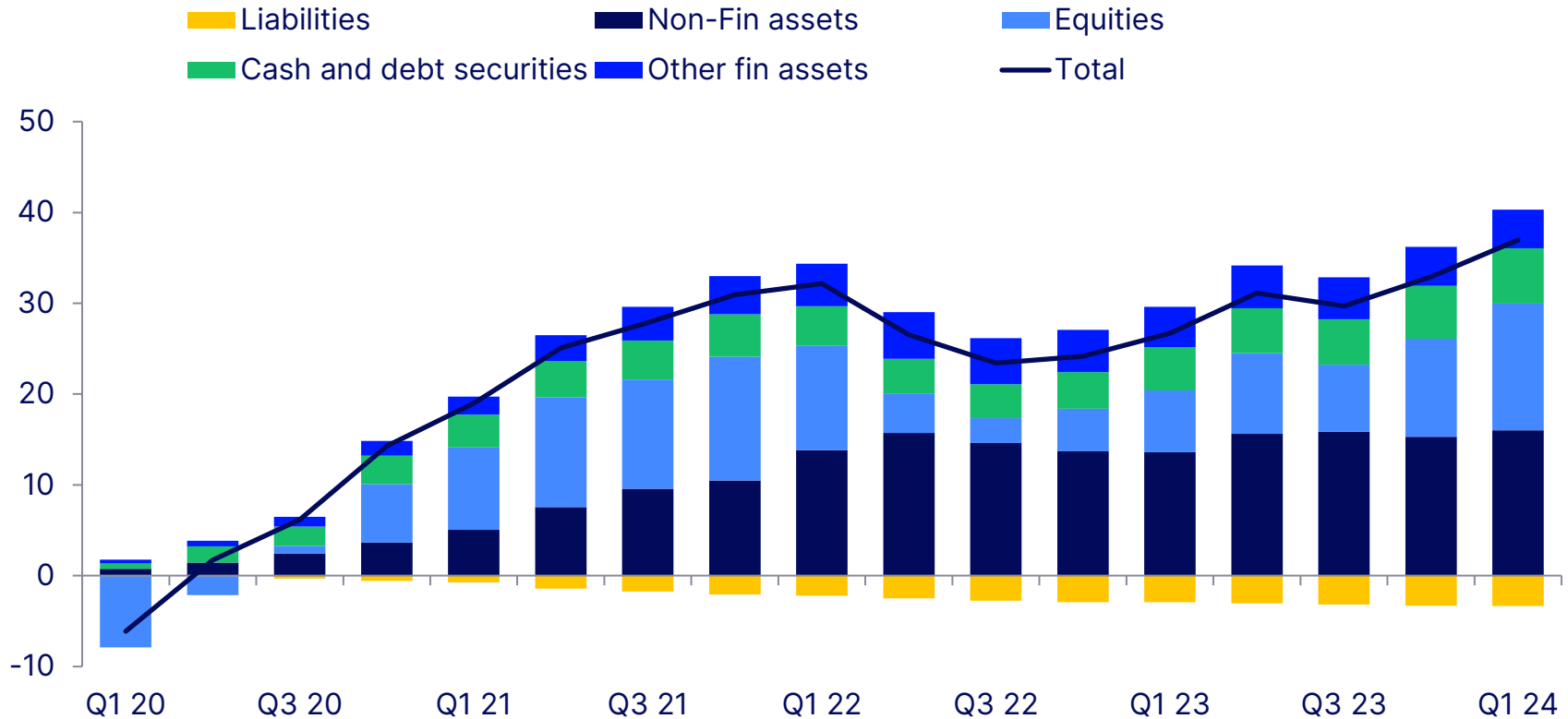
Source: State Street Global Markets, Bloomberg, NY Federal Reserve; data as of 6/12/2024

# Richie Rich

Huge increase in household net worth post pandemic

Up over 30%, even after we adjust for inflation

Change in US household real net worth since Q4 2019, US\$ tr



Source: State Street Global Markets, Bloomberg, Federal Reserve Board; data as of 6/14/2024



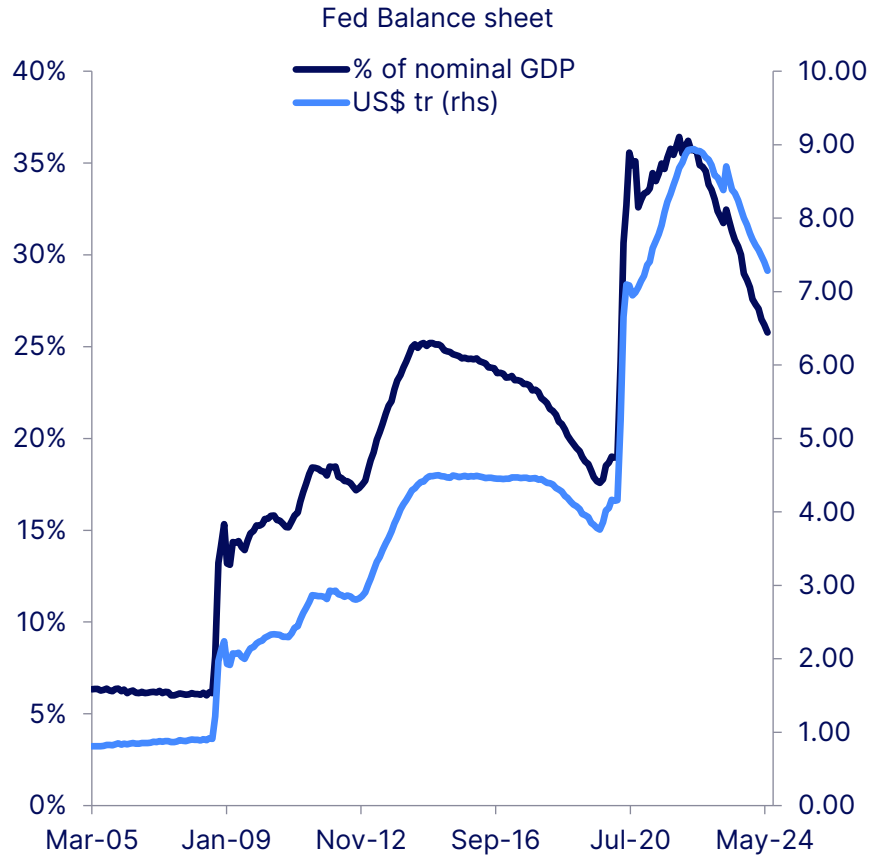


# Is policy restrictive?

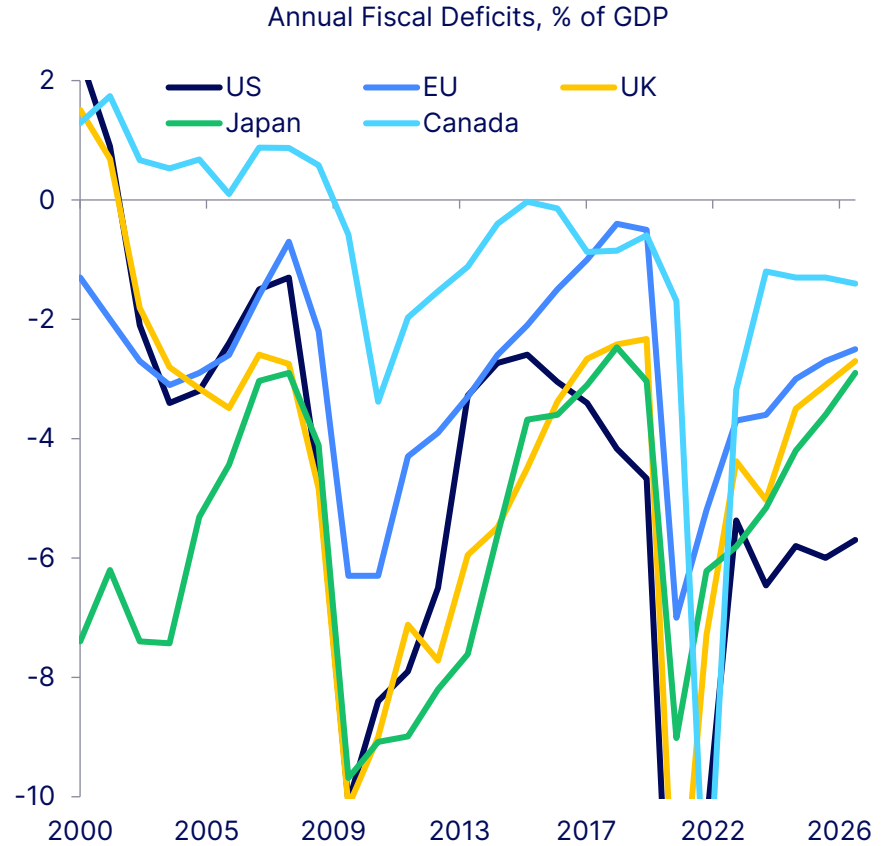
# Policy is not just rates

Rates just above neutral may not be enough

## It's the balance sheet



## And the fiscal deficit

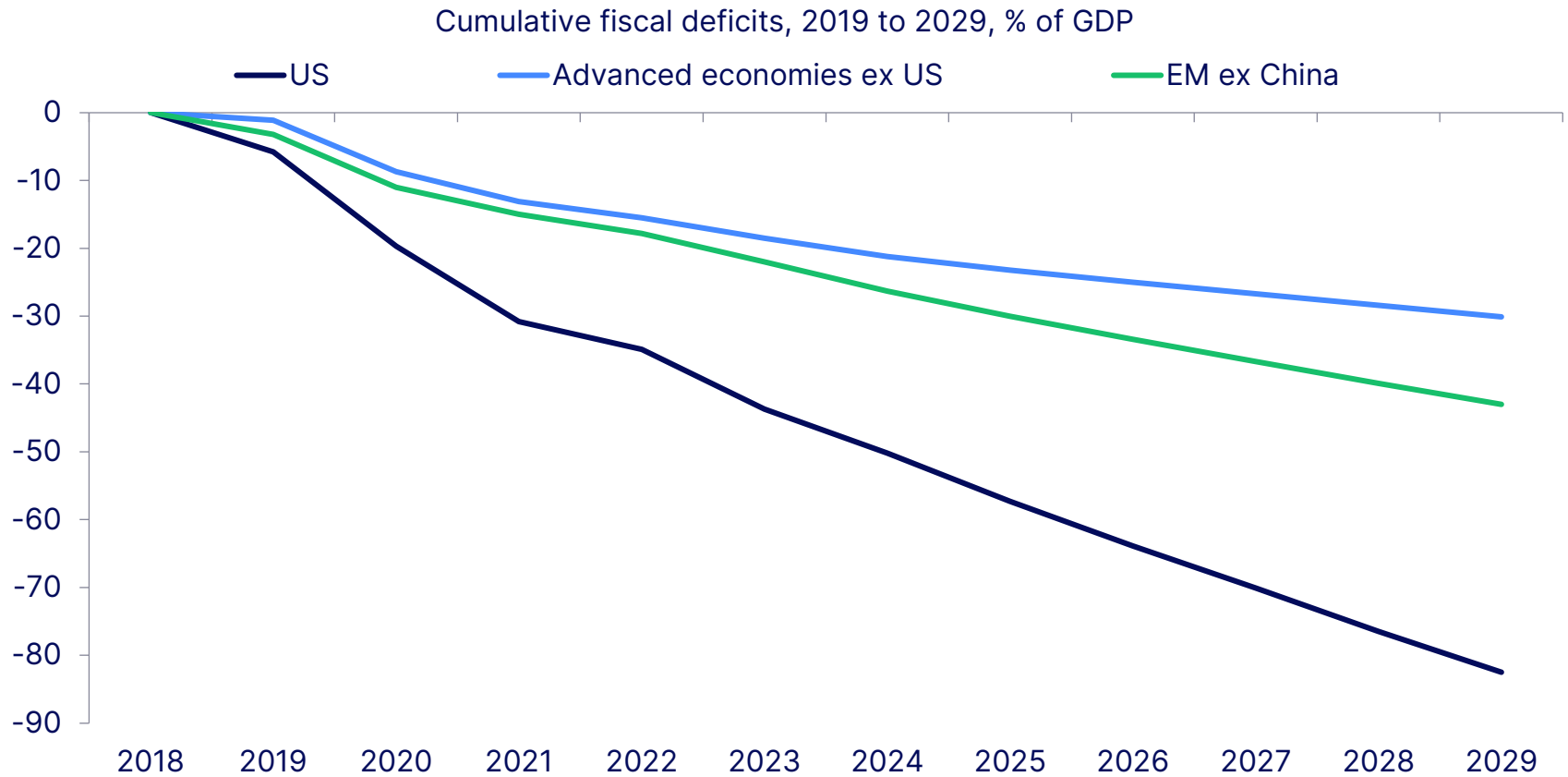


Source: State Street Global Markets, Bloomberg; data as of 6/14/2024

# US exceptionalism (but not the good kind)

On an unsustainable path?

Not a good picture

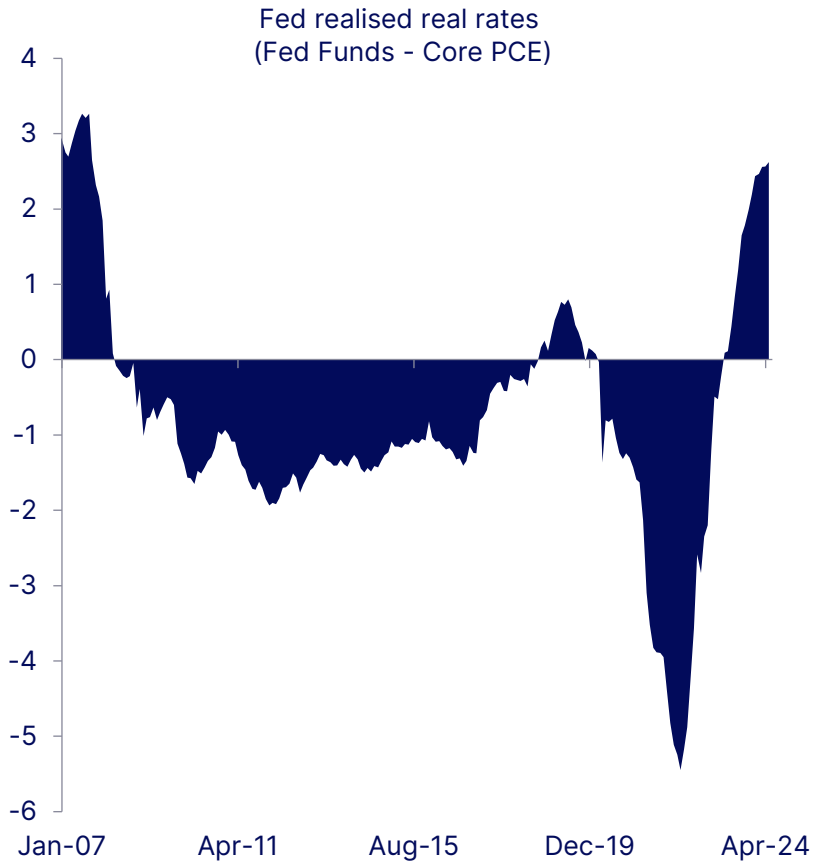


Source: State Street Global Markets, IMF Fiscal Monitor April 2024; data as of 6/14/2024

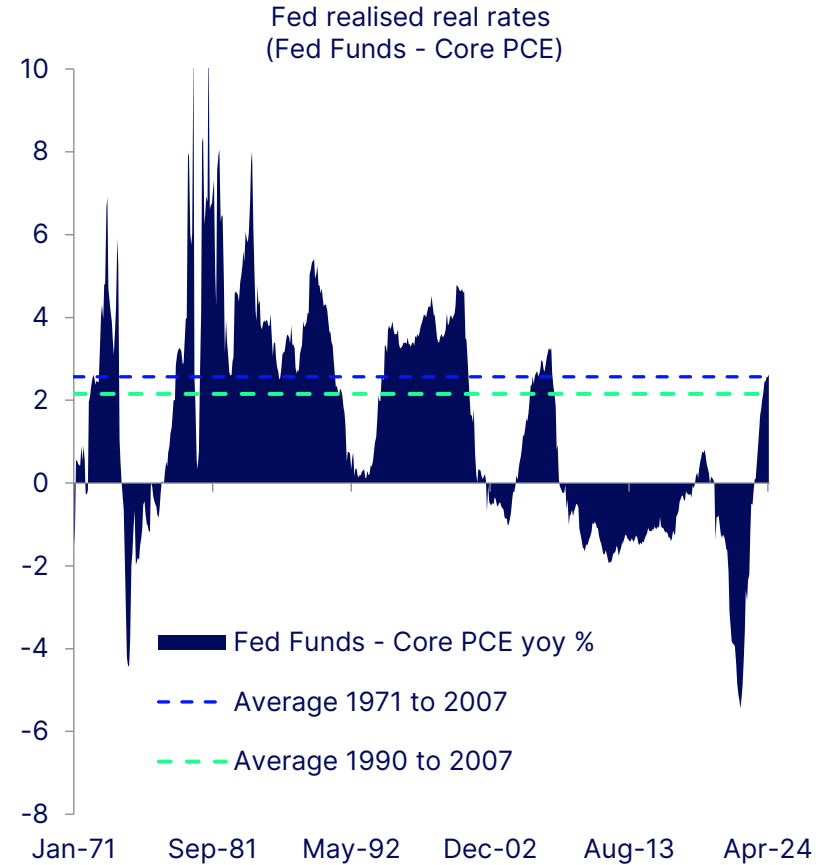
# The real rate argument

Rates are restrictive? All depends on your viewpoint

Certainly, when compared with post-GFC



But what is the new normal?

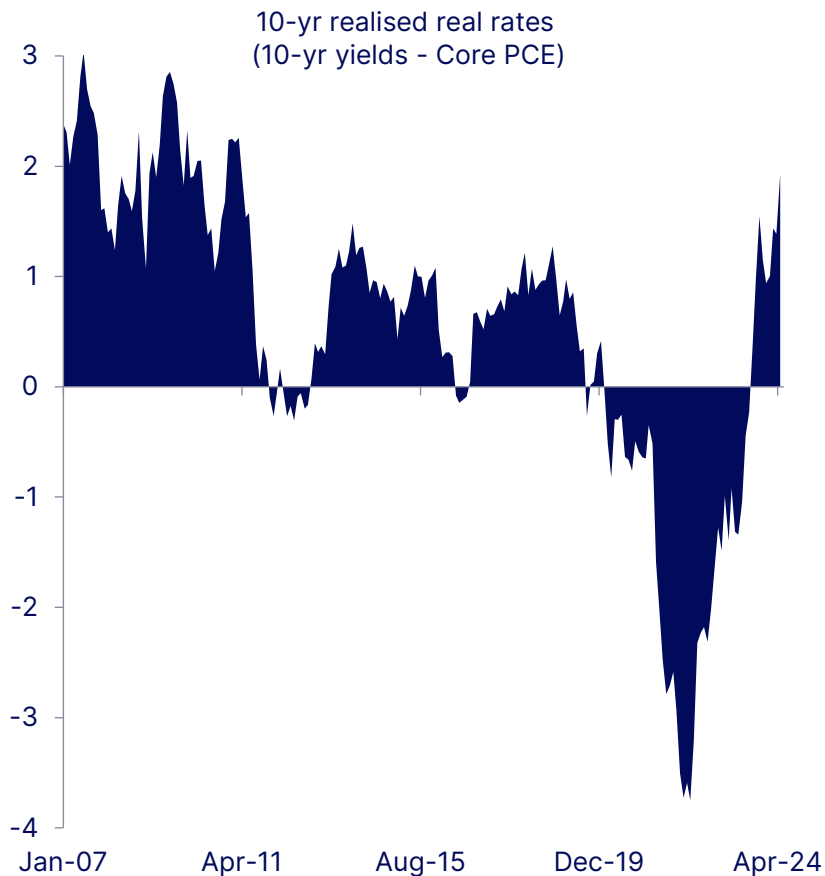


Source: State Street Global Markets, Bloomberg; data as of 6/14/2024

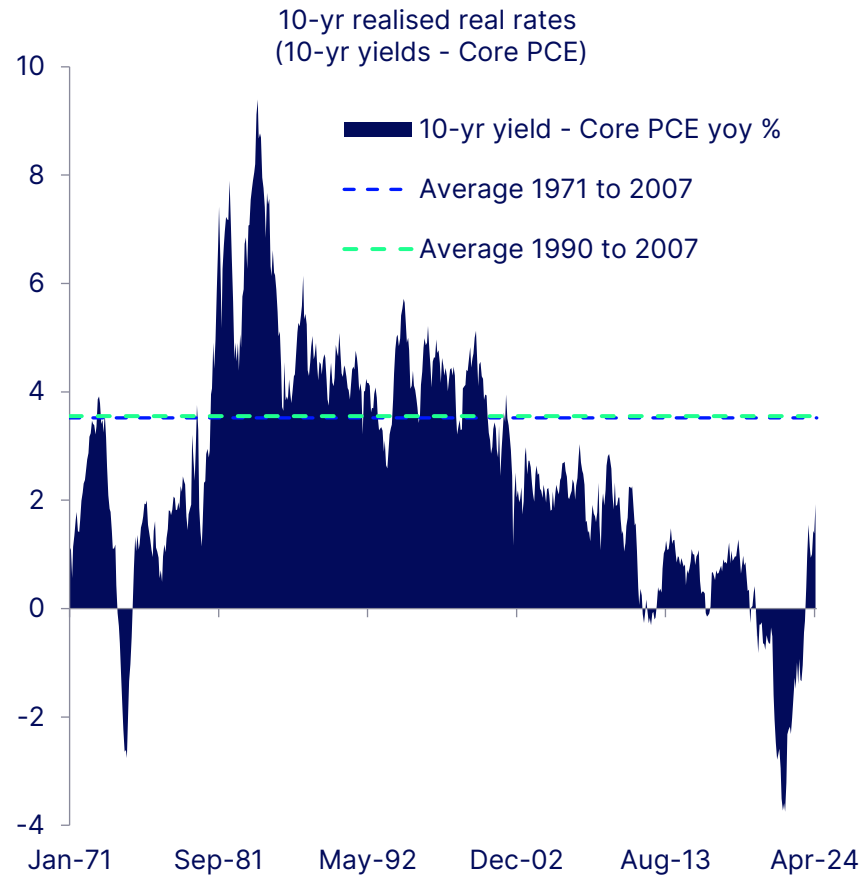
# What about longer-end real rates

Not even close to restrictive

Not even since the GFC



And certainly not from a long-term perspective



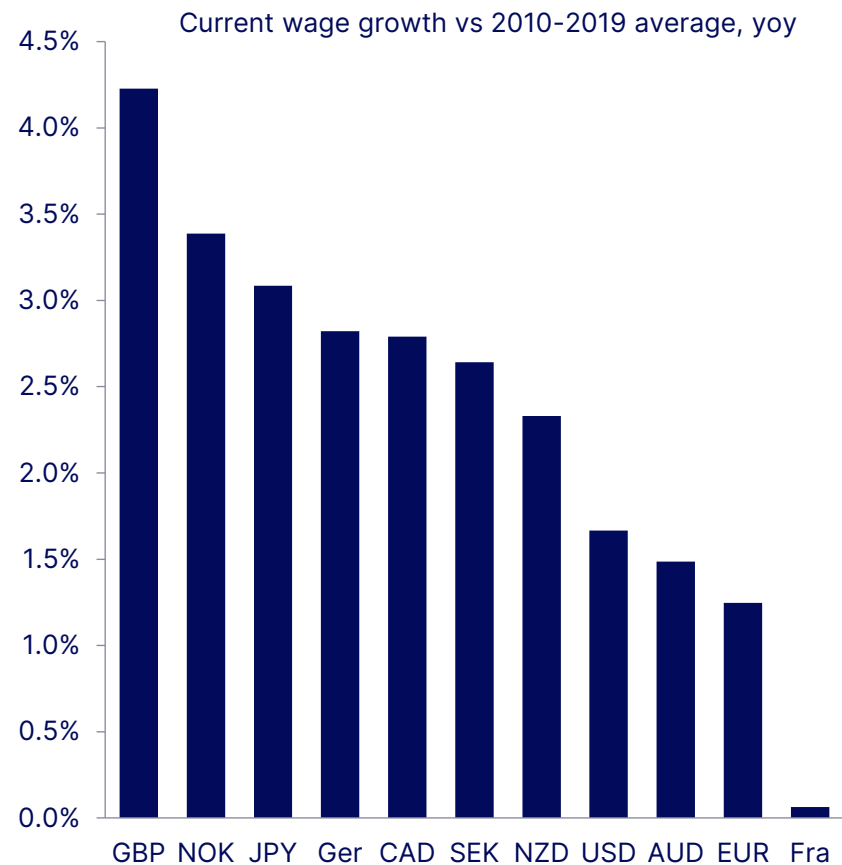
Source: State Street Global Markets, Bloomberg; data as of 6/14/2024

# Similar but different

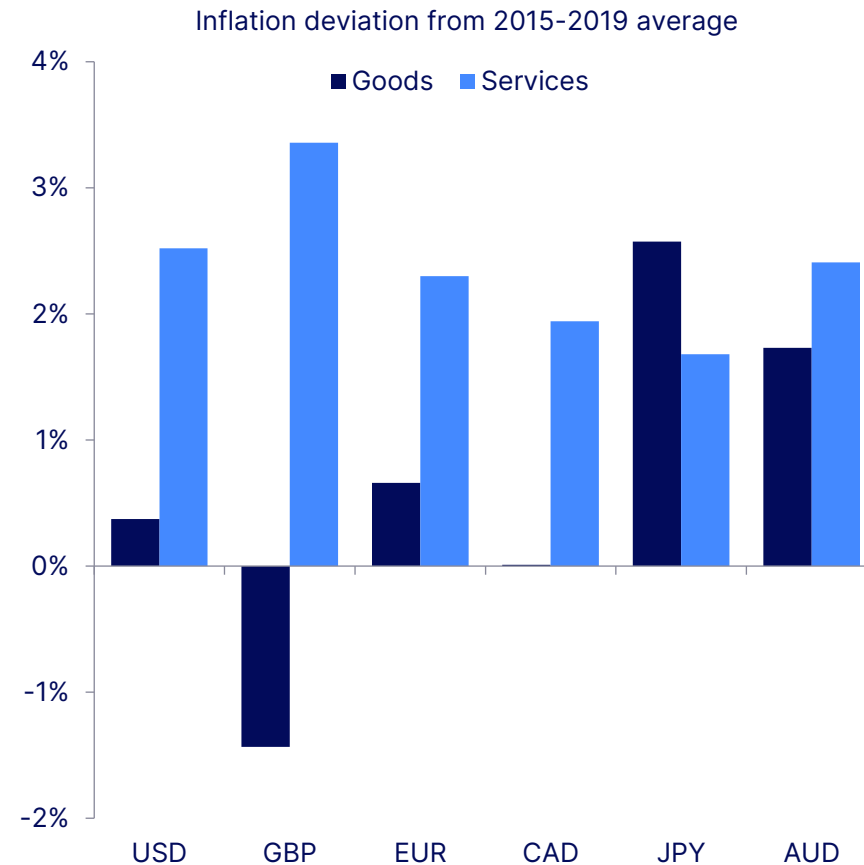
# Demographics are an issue everywhere

## Labour supply a problem across the DM world

### Which means higher wages



### And sticky services inflation

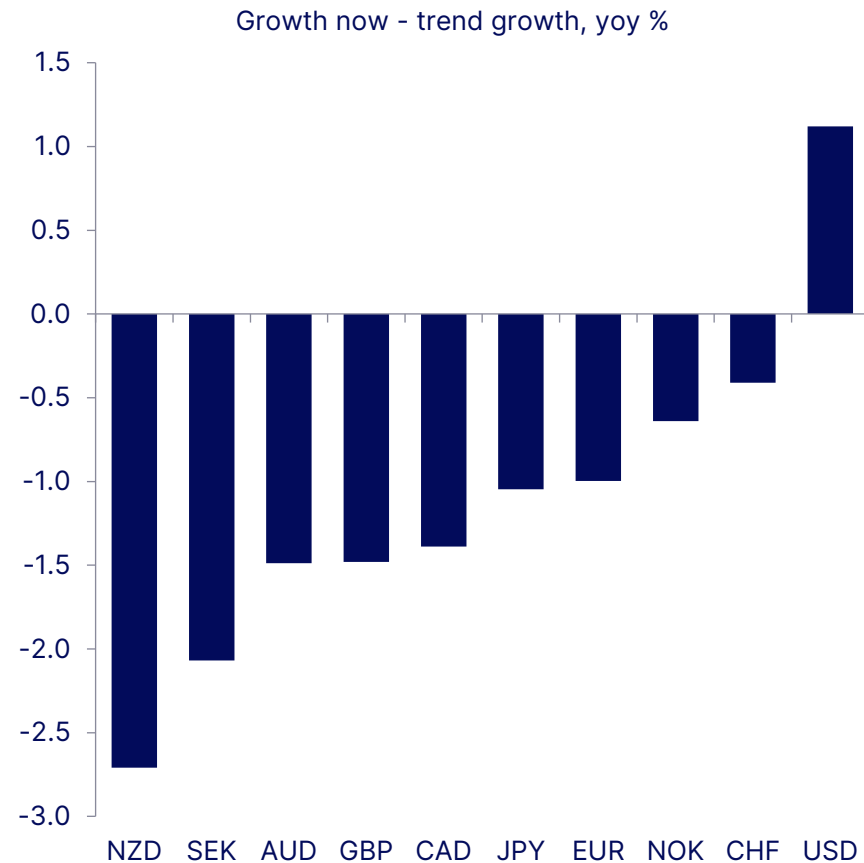


Source: State Street Global Markets, Bloomberg; data as of 6/14/2024

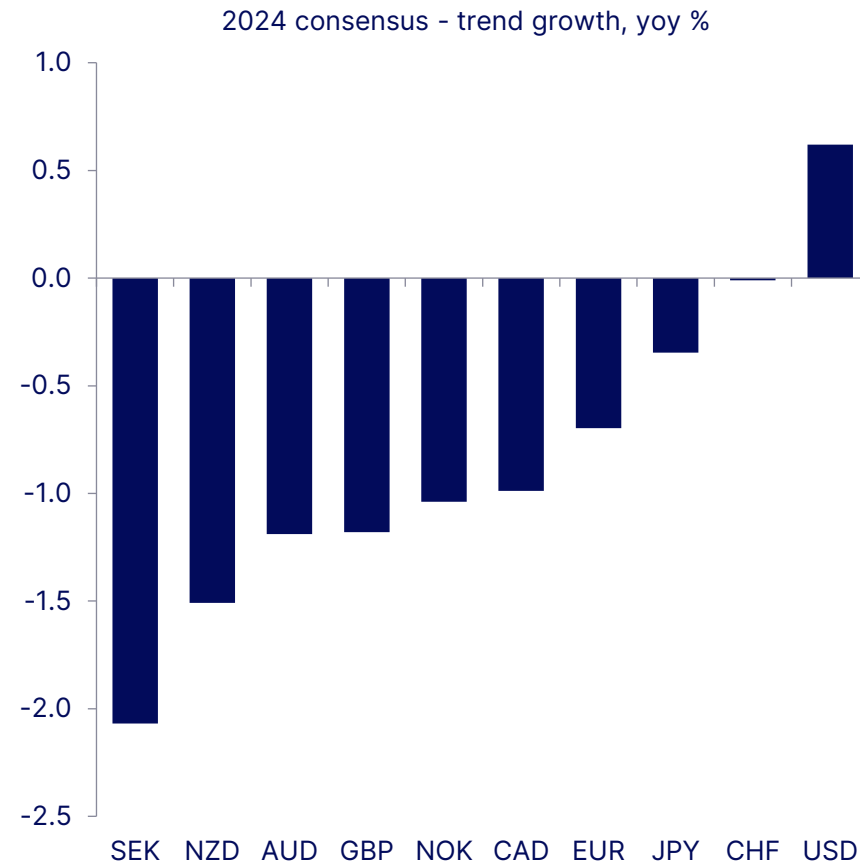
# The crucial difference

Its called trend growth for a reason

US only one above trend



And this is likely to continue



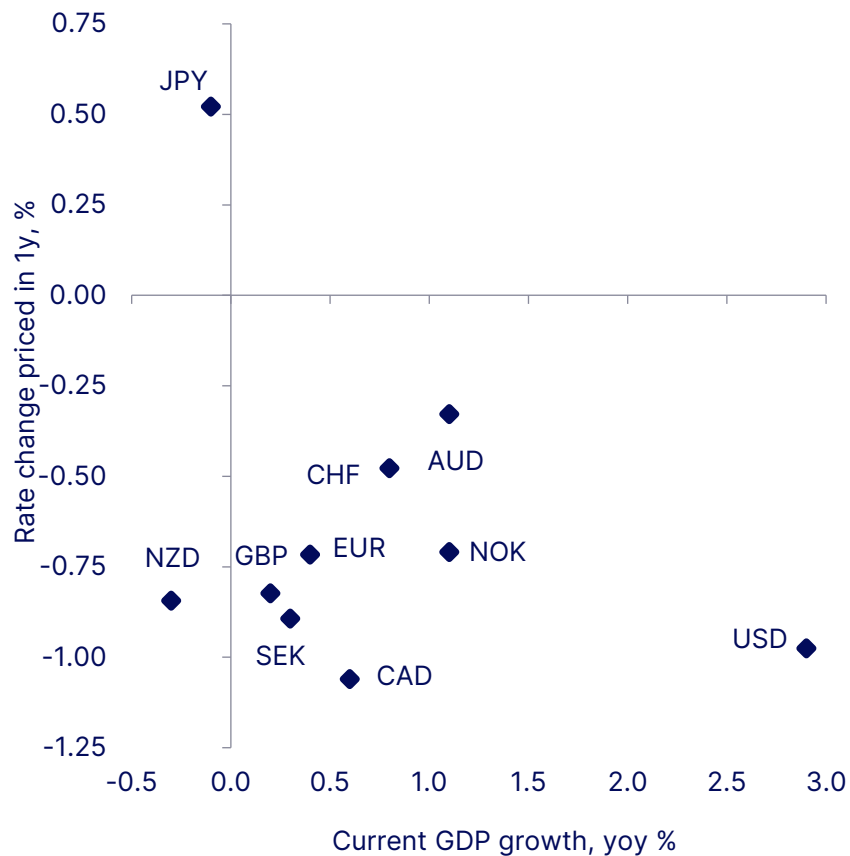
Source: State Street Global Markets, Bloomberg; data as of 6/14/2024



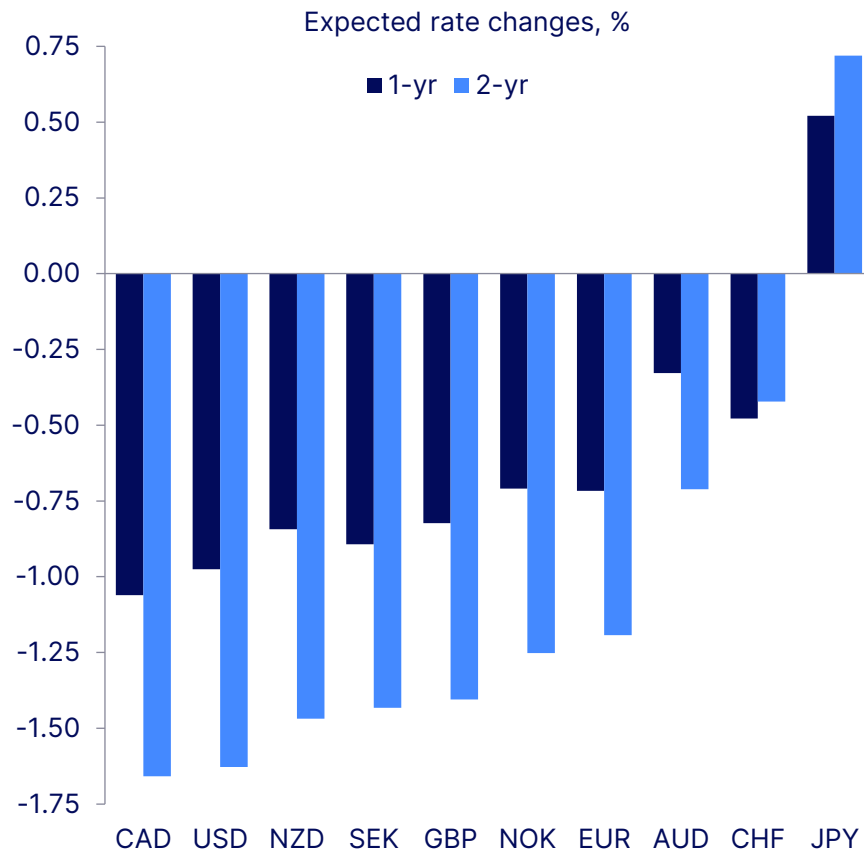
# So why aren't we pricing divergence?

US still seen as the same as the others

## Over the next year



## And even more over the next two

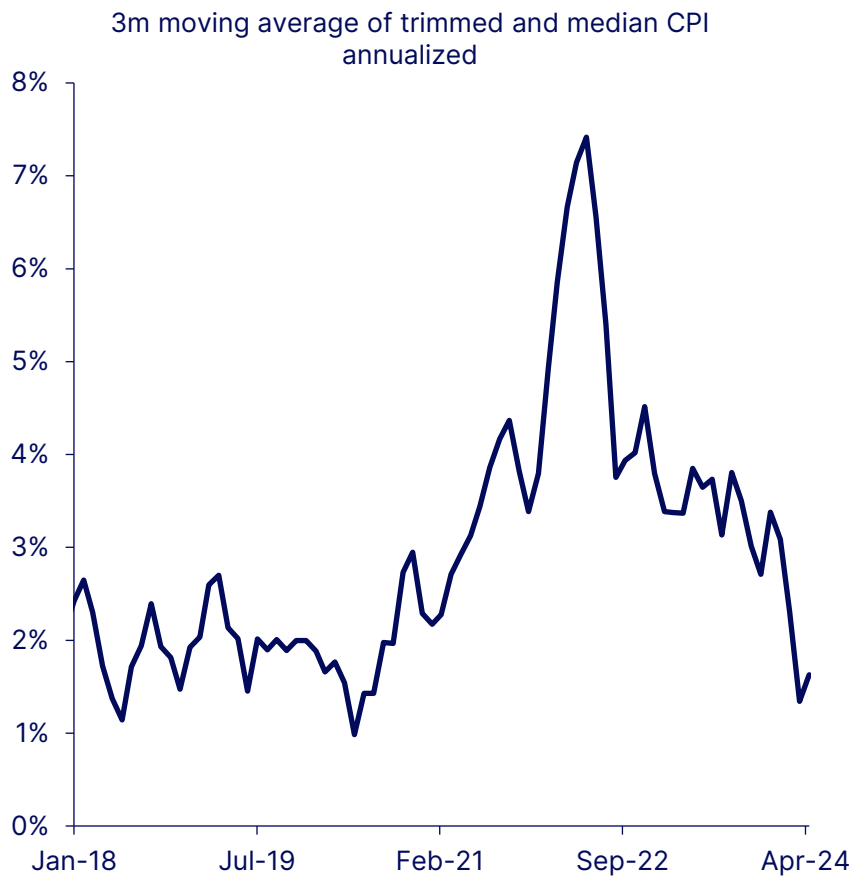


Source: State Street Global Markets, Bloomberg; data as of 6/14/2024

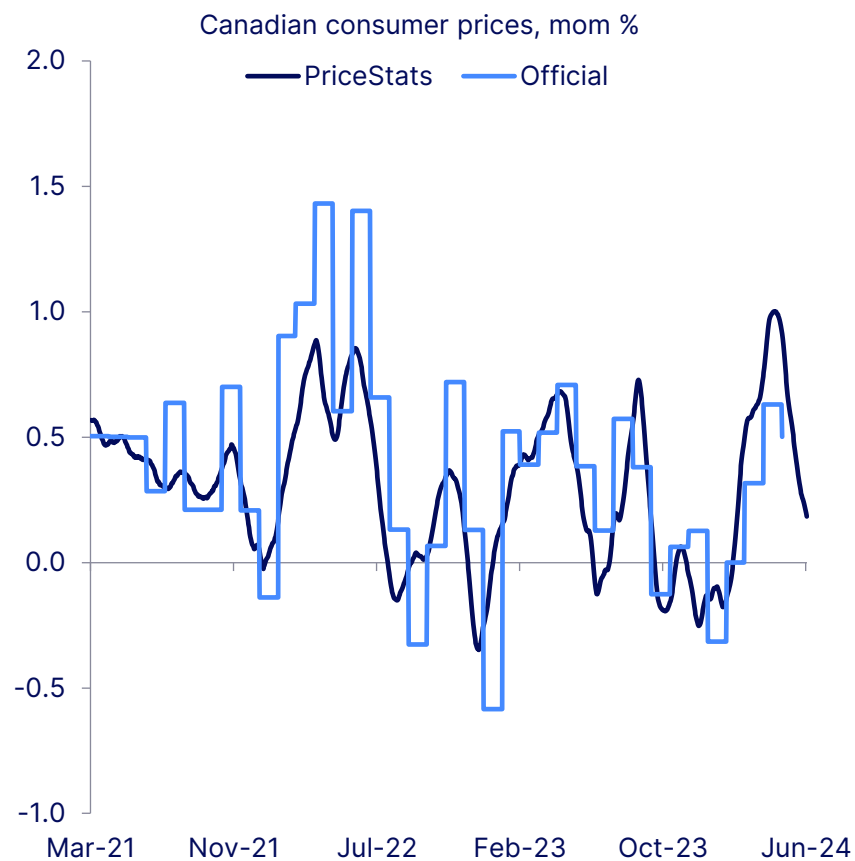
# CAD: Inflation picture improving

Core inflation rolling over, PriceStats says more to come

## 3m annualised core back to 1.6%



## Online prices rolling over again



Source: State Street Global Markets, Bloomberg; data as of 6/12/2024

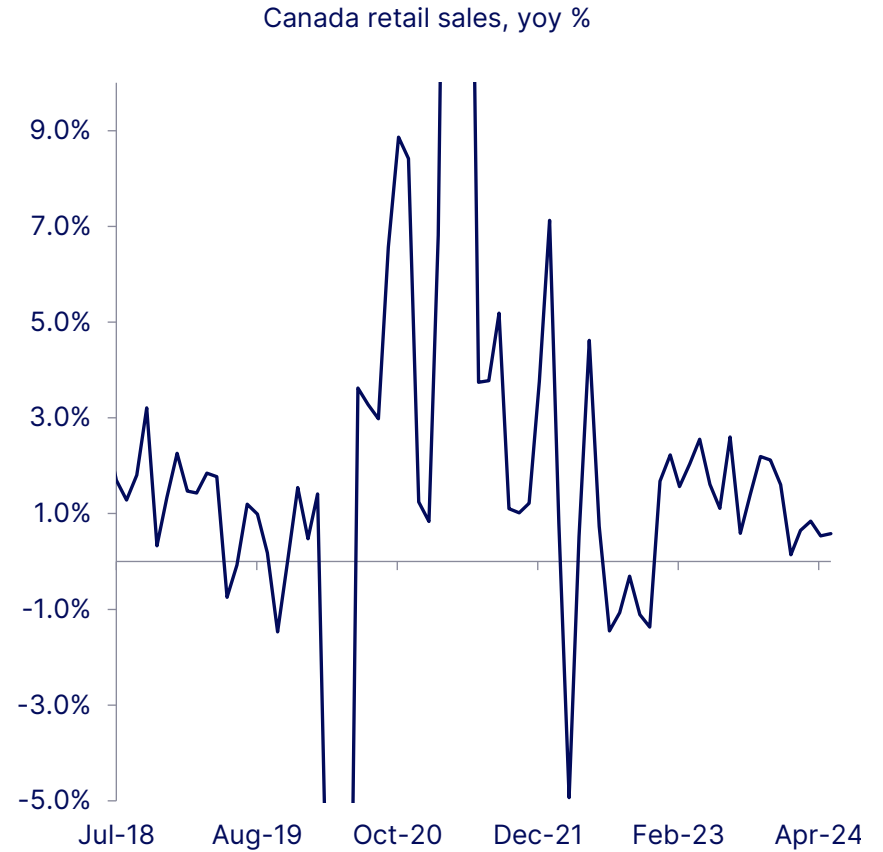
# CAD: Higher rates are working

Debt servicing costs are hurting demand

## Sticking at the highs



## And so hurting spending



Source: State Street Global Markets, Bloomberg; data as of 6/14/2024

# CAD: But wages are sticky

Canada not alone with sticky wages, but unemployment is rising

## Way above pre-pandemic levels



## But unemployment is rising



Source: State Street Global Markets, Bloomberg; data as of 6/14/2024

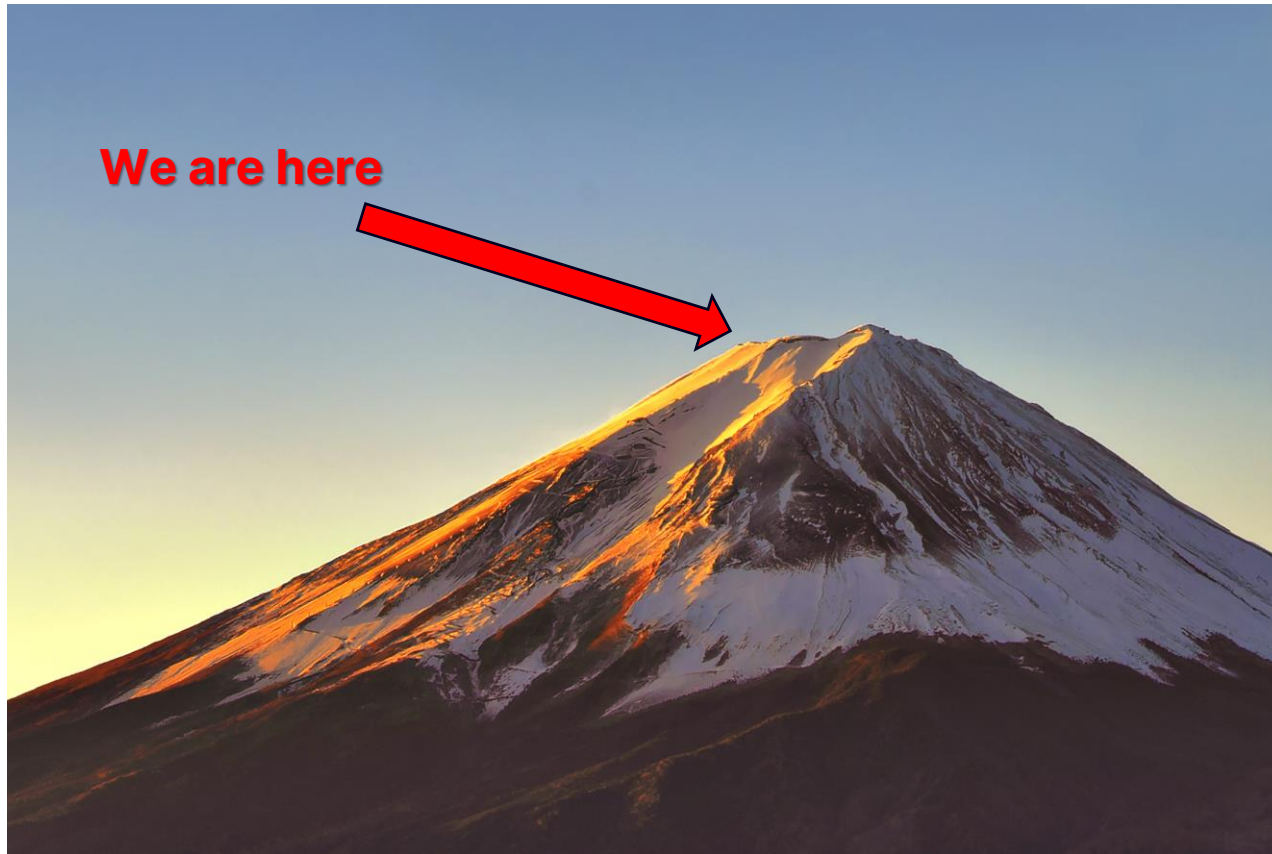


# What it all means

# Mount Carry on Risk Rally

We may have a bit further to go, but beware Q3

The best is behind us

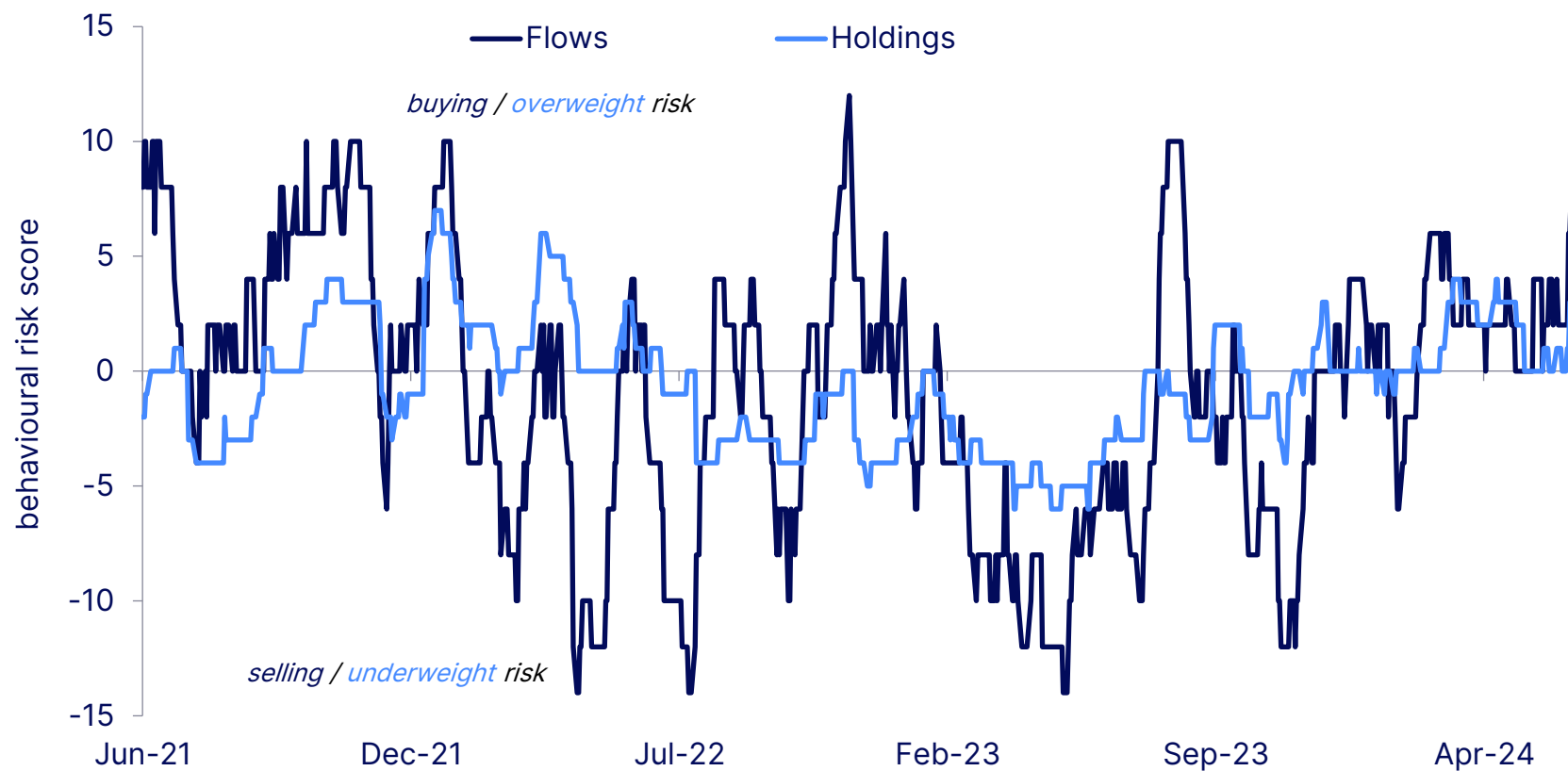


Source: State Street Global Markets, Google; data as of 5/23/2024

# Trying to be positive

Sentiment has been solid, but generally not spectacular

Glass is certainly half full

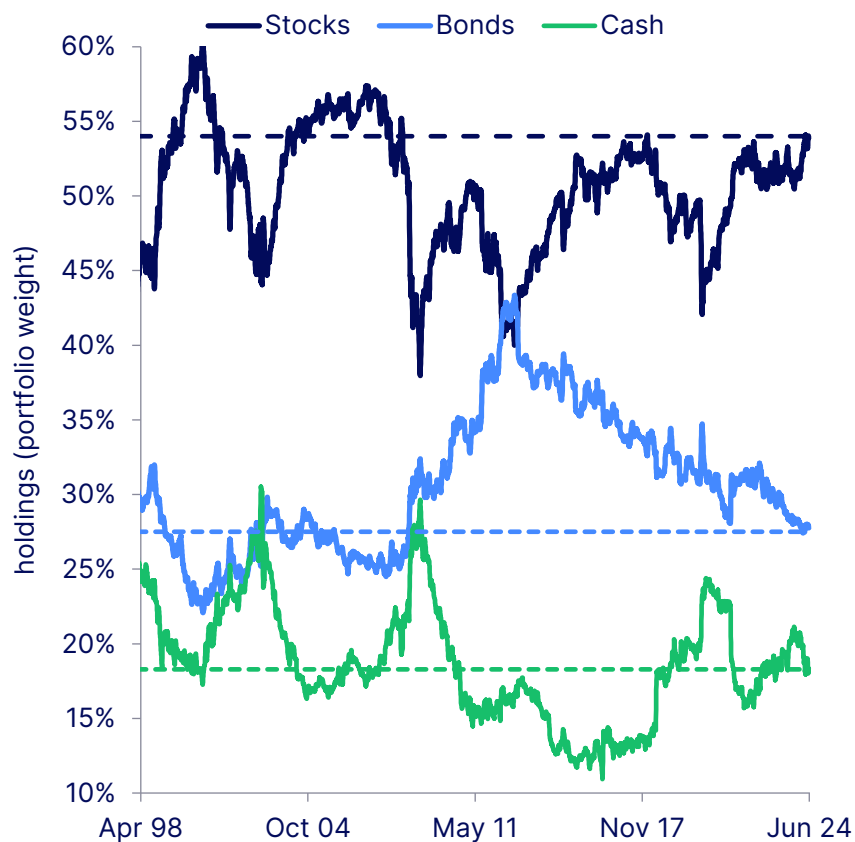


Source: State Street Global Markets; data as of 6/14/2024

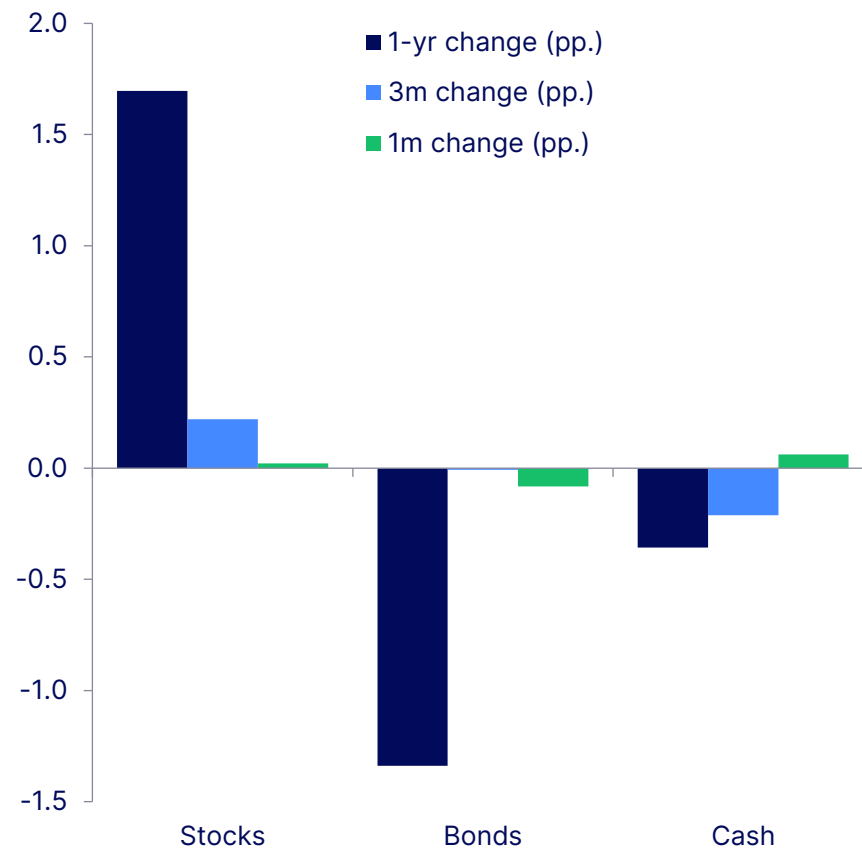
# All about stocks

## Highest equity weighting in 16 years

### Concentration risk



### But still building.. for now



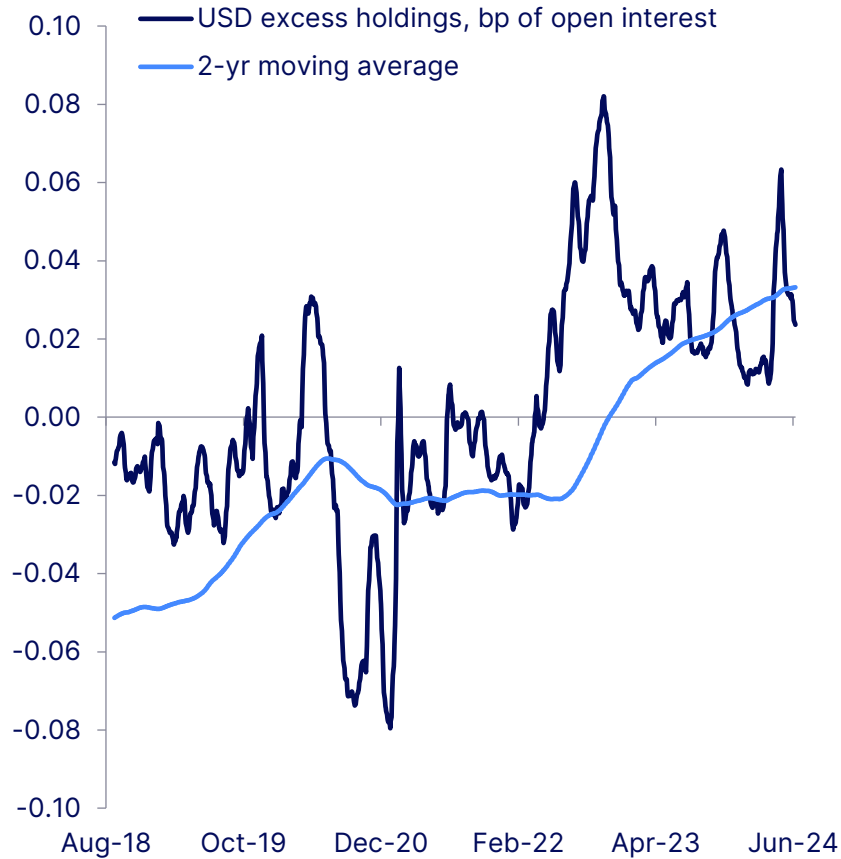
Source: State Street Global Markets; data as of 6/12/2024



# Dollar looks good to me

Holdings up again, but still below peaks

Holdings need to be watched



They do matter



Source: State Street Global Markets, Bloomberg; data as of 6/14/2024

# But things are different now

Its expensive to hedge the USD now

Rate divergence changes the hedge equation

For equities as well

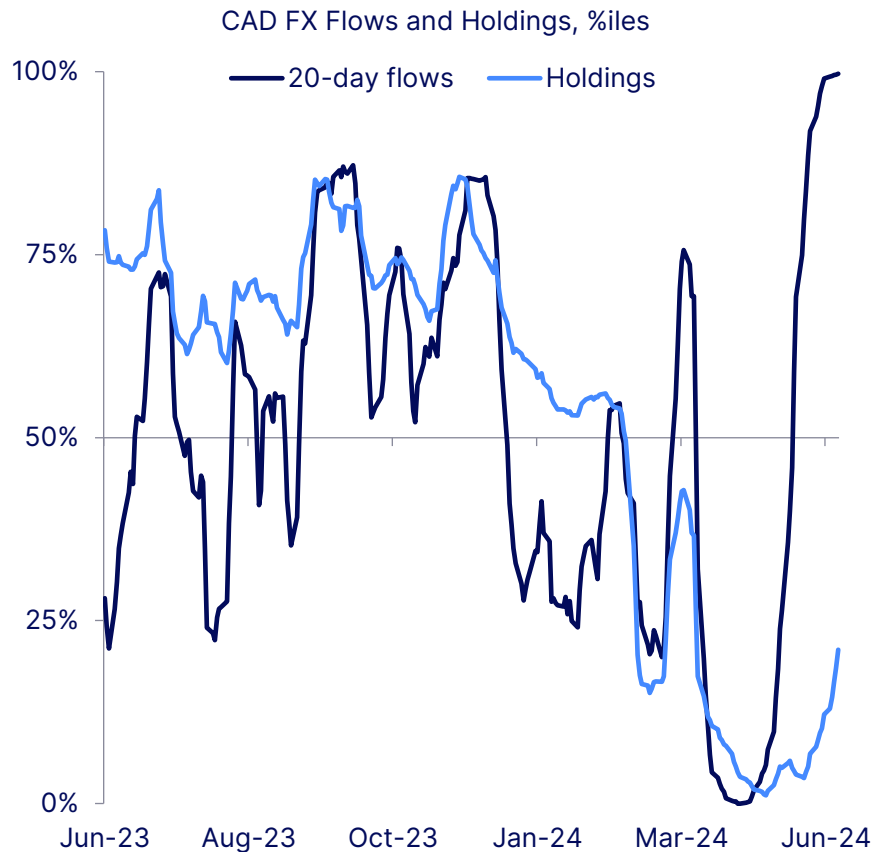


Source: State Street Global Markets; data as of 6/12/2024

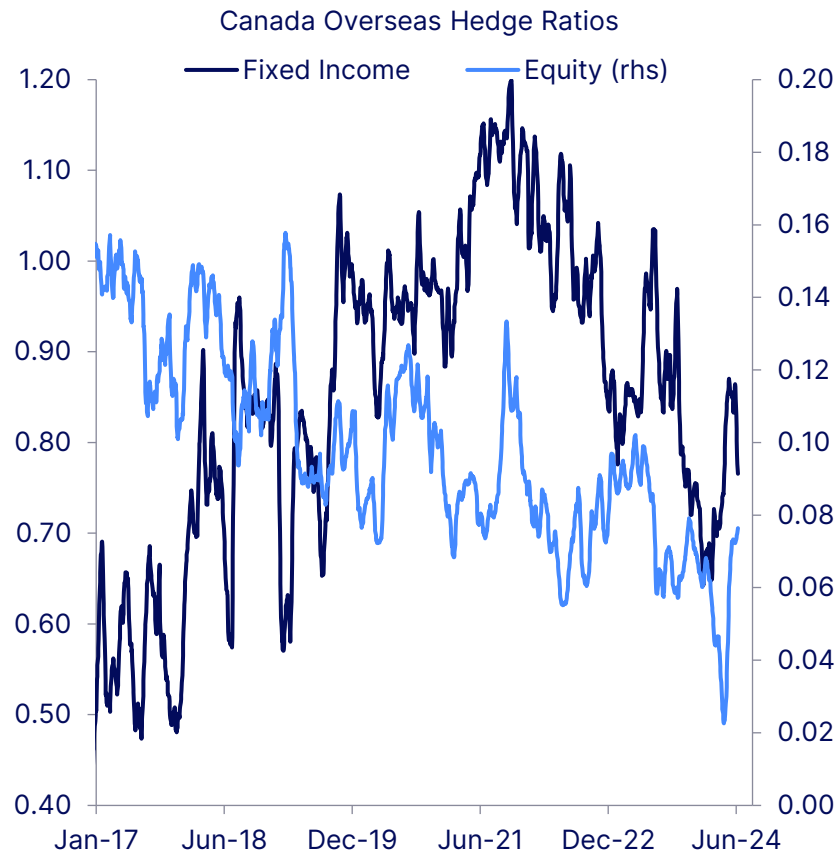
# CAD: Not going far

Negative versus USD, but ok elsewhere

## Underweight and buying



## But foreigners getting nervous on the CAD?

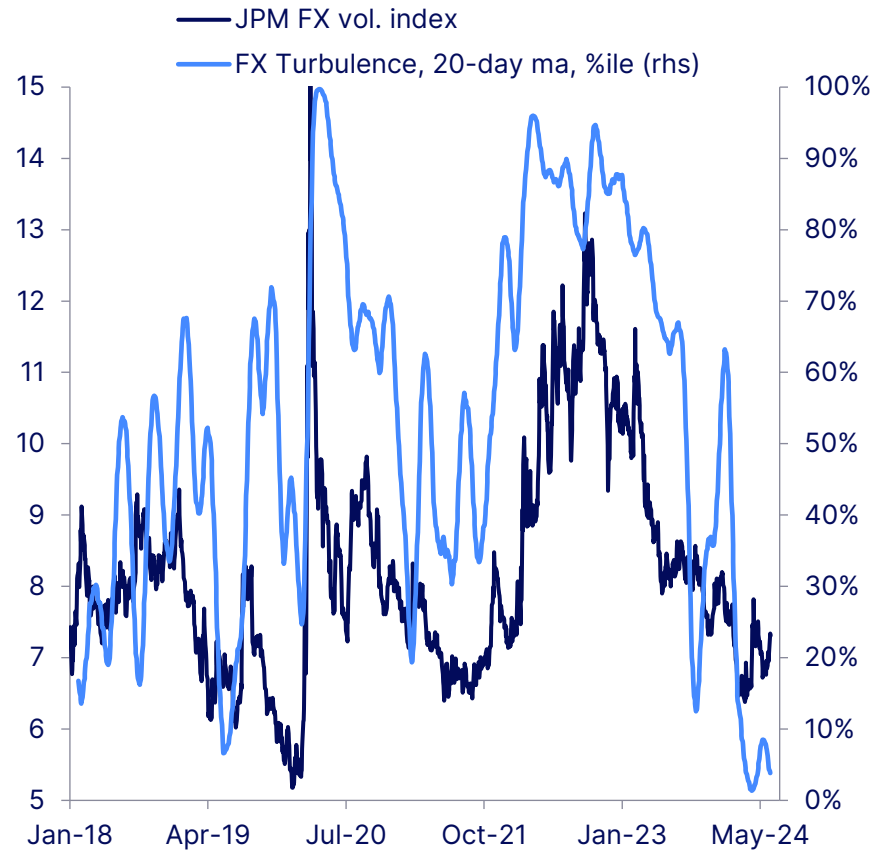


Source: State Street Global Markets, Bloomberg; data as of 6/12/2024

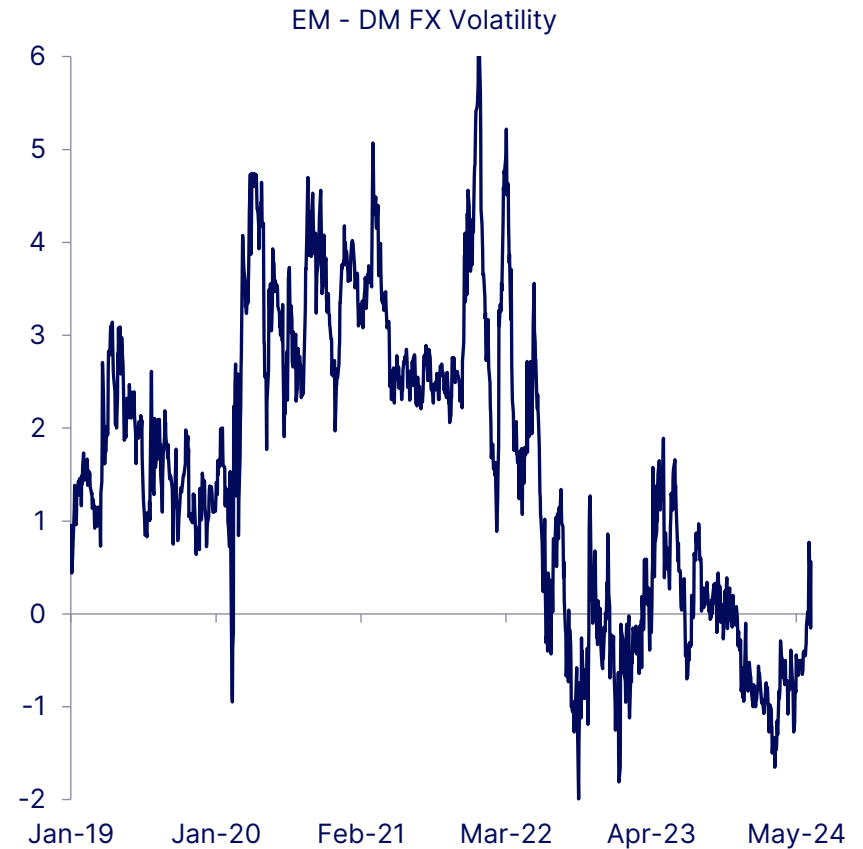
# Volatility still well-behaved

No real pick-up in G10 yet

Still close to the lows



But EM vol picking up

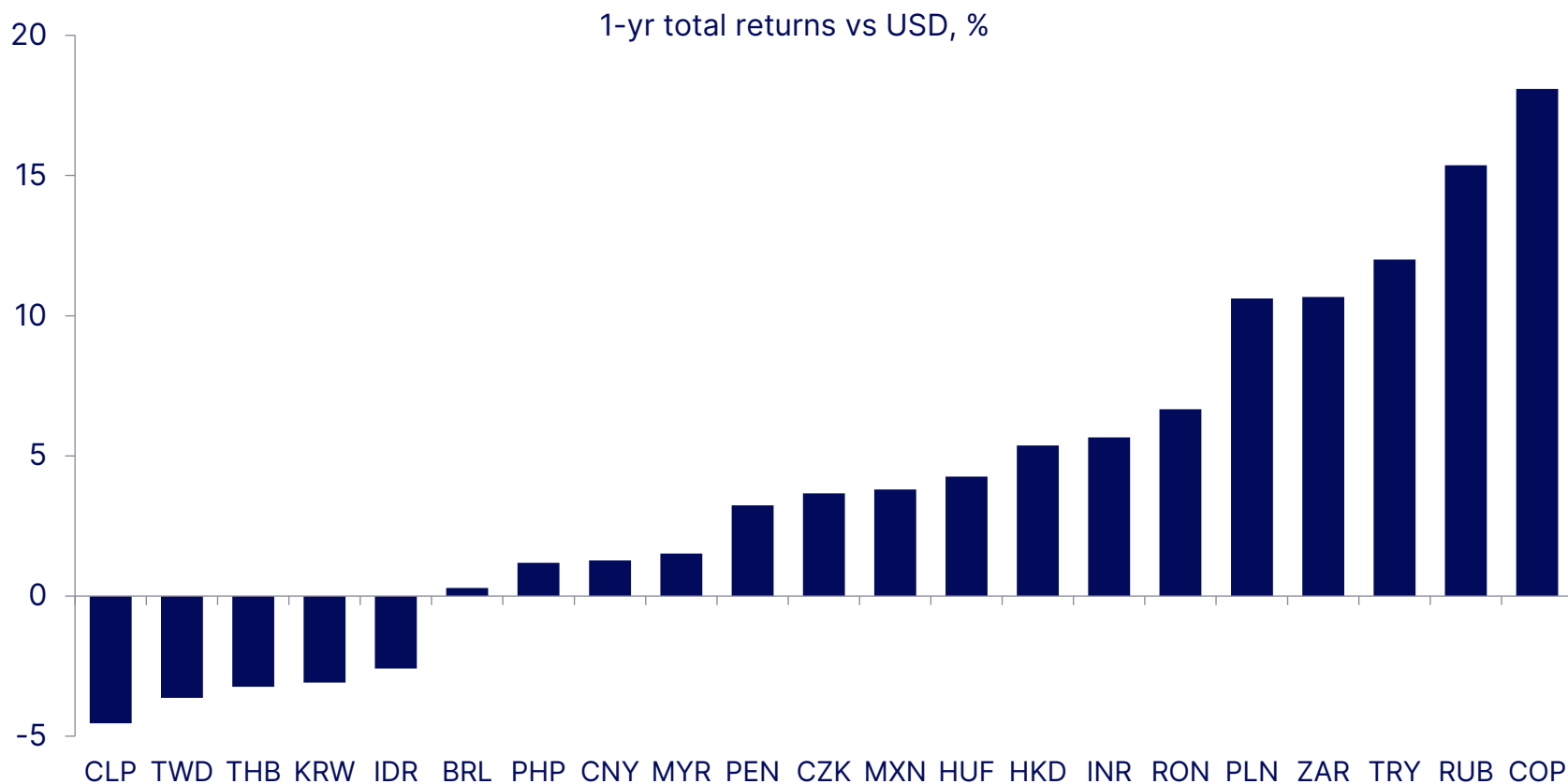
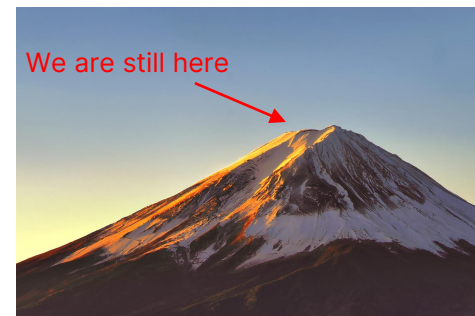


Source: State Street Global Markets, Bloomberg; data as of 6/12/2024

# EM carry is working

But individual stories matter

Going to become increasingly idiosyncratic



Source: State Street Global Markets, Bloomberg; data as of 6/12/2024

# Disclaimers and Important Risk Information [2024.01]

This communication is provided only to professional clients or eligible counterparties or their equivalent by State Street Bank and Trust Company or, where applicable and permissible, its bank and non-bank affiliates ("State Street"). State Street Bank and Trust Company is authorized and regulated by the Federal Reserve Board, registered with the Commodity Futures Trading Commission as a Swap Dealer, and is a member of the National Futures Association. State Street Bank International GmbH ("SSBI") is regulated by the European Central Bank ("ECB"), the German Federal Financial Supervisory Authority ("BaFin") and the Deutsche Bundesbank. Details about the extent of SSBI's regulation by the ECB, the BaFin and Deutsche Bundesbank are available from us on request. Products and services described herein may not be available in all jurisdictions or through all State Street entities. Activities described herein may be conducted from offshore. Information provided is of a general nature only and has not been reviewed by any regulatory authority. This communication is intended for general marketing purposes, and the information contained herein has not been prepared in accordance with legal requirements designed to promote the independence of investment research. It is for clients to determine whether they are permitted to receive research of any nature. Market commentary provided by trading desks is not investment research. This communication is not intended to suggest or recommend any transaction, investment, or investment strategy, does not constitute investment research, nor does it purport to be comprehensive or intended to replace the exercise of an investor's own careful independent review and judgment regarding any investment decision.

This communication is not intended for retail clients, nor for distribution to, and may not be relied upon by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to applicable law or regulation. This communication or any portion hereof may not be reprinted, sold or redistributed without the prior written consent of State Street. This communication and the information herein does not constitute investment, legal, or tax advice and is not a solicitation to buy or sell securities or any financial instrument nor is it intended to constitute a binding contractual arrangement or commitment by State Street of any kind. The information provided does not take into account any particular investment objectives, strategies, investment horizon or tax status.

The views expressed herein are the views of State Street as of the date specified and are subject to change, without notice, based on market and other conditions. The information provided herein has been obtained from sources believed to be reliable at the time of publication, nonetheless, we make no representations or assurances that the information is complete or accurate, and you should not place any reliance on said information. State Street hereby disclaims any warranty and all liability, whether arising in contract, tort or otherwise, for any losses, liabilities, damages, expenses or costs, either direct, indirect, consequential, special, or punitive, arising from or in connection with any use of this document and/or the information herein.

State Street may from time to time, as principal or agent, for its own account or for those of its clients, have positions in and/or actively trade in financial instruments or other products identical to or economically related to those discussed in this communication. State Street may have a commercial relationship with issuers of financial instruments or other products discussed in this communication.

This communication may contain information deemed to be forward-looking statements. These statements are based on assumptions, analyses and expectations of State Street in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes appropriate under the circumstances. All information is subject to change without notice.

Participating in trading any financial instrument, including but not limited to foreign exchange, equities, futures, fixed income or derivative instruments, or investments in non-liquid or emerging markets, or digital assets, or participating in securities lending, repurchase transactions or other collateral services present risks, which may include but are not limited to counterparty, collateral, investment loss, tax, and accounting risks. Where applicable, returns may increase or decrease as a result of currency fluctuations. Derivatives may be more volatile than the underlying instruments. Certain foreign exchange business, including spot and certain forward transactions, may not be regulated in all jurisdictions. Past performance is no guarantee of future results.

Please contact your State Street representative for further information.

To learn how State Street looks after your personal data, visit: <https://www.statestreet.com/utility/privacy-notice.html>.

© 2024 State Street Corporation – All Rights Reserved

## Global Markets Research Disclaimer Supplement [2024.01]

**Australia:** This communication is provided to wholesale clients by State Street Bank and Trust Company (Australian Business Number 70 062 819 630, Australian Financial Services License 239679).

**Brazil:** The products in this marketing material have not been and will not be registered with the Comissão de Valores Mobiliários - the Brazilian Securities and Exchange Commission ("CVM"), and any offer of such products is not directed to the general public within the Federative Republic of Brazil ("Brazil"). The information contained in this marketing material is not provided for the purpose of publicly soliciting investments from investors residing in Brazil and no information in this marketing material should be construed as a public offering or unauthorized distribution of the products within Brazil, pursuant to applicable Brazilian law and regulations.

**Israel:** State Street Bank and Trust Company is not licensed under Israel's Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995. This communication may only be distributed to or used by investors in Israel which are "eligible clients" as listed in the First Schedule to Israel's Regulation of Investment Advice, Investment Marketing and Portfolio Management Law 1995.

**Japan:** This communication is made available in Japan by State Street Bank and Trust Company, Tokyo Branch, which is regulated by the Financial Services Agency of Japan and is licensed under Article 47 of the Banking Act.

**Oman:** State Street Bank and Trust Company is not a bank or financial services provider registered to undertake business in Oman and is not regulated by the Central Bank of Oman or the Capital Market Authority.

**Qatar:** The information in this communication has not been reviewed or approved by the Qatar Central Bank, the Qatar Financial Markets Authority or the Qatar Financial Centre Regulatory Authority, or any other relevant Qatari regulatory body.

**Singapore:** This communication is made available in Singapore by State Street Bank and Trust Company, Singapore Branch ("SSBTS"), which holds a wholesale bank license by the Monetary Authority of Singapore. In Singapore, this communication is only distributed to accredited, institutional investors as defined in the Singapore Financial Advisers Act 2001 ("FAA") and its regulations. Note that SSBTS is exempt from Sections 27 and 36 of the FAA. When this communication is distributed to overseas investors as defined in the FAA, note that SSBTS is exempt from Sections 26, 27, 29 and 36 of the FAA. This advertisement has not been reviewed by the Monetary Authority of Singapore.

**South Africa:** State Street Bank and Trust Company is authorized in South Africa under the Financial Advisory and Intermediary Services Act, 2002 as a Category I Financial Services Provider; FSP No. 42671.

**United Arab Emirates:** The information contained within this communication is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

**United Kingdom:** State Street Bank and Trust Company is authorised and regulated by the Federal Reserve Board of the United States, authorised by the Prudential Regulation Authority ("PRA") and subject to regulation by the Financial Conduct Authority and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

State Street Bank International GmbH is authorised and regulated by the European Central Bank and the BaFin, deemed authorised by the Prudential Regulation Authority, and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website.



# Appendix



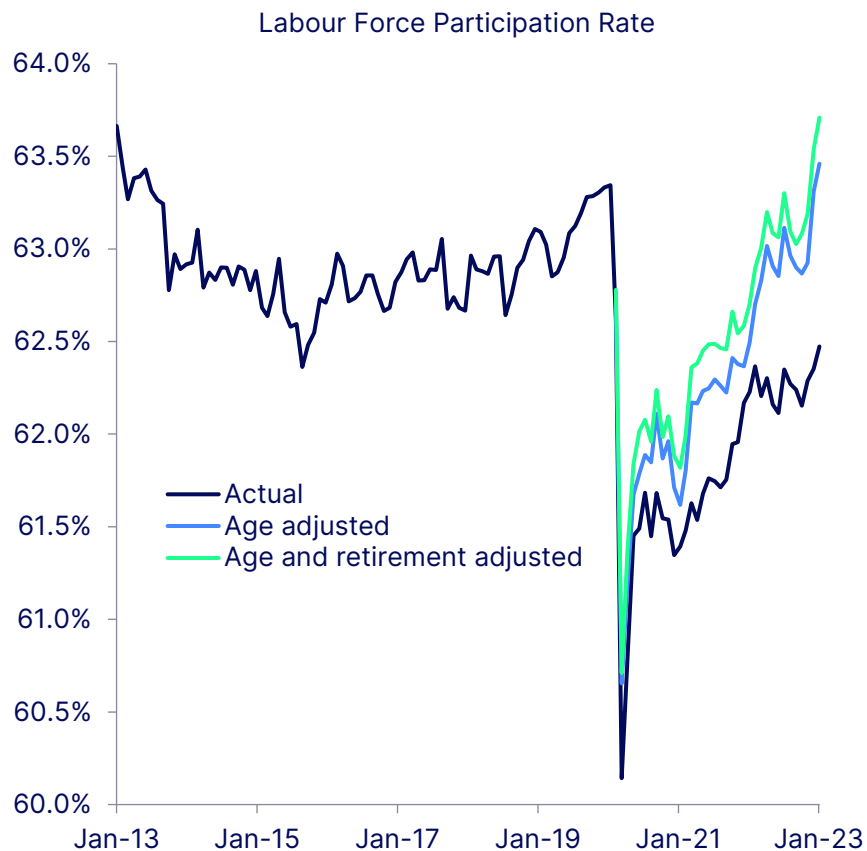
# Demographics



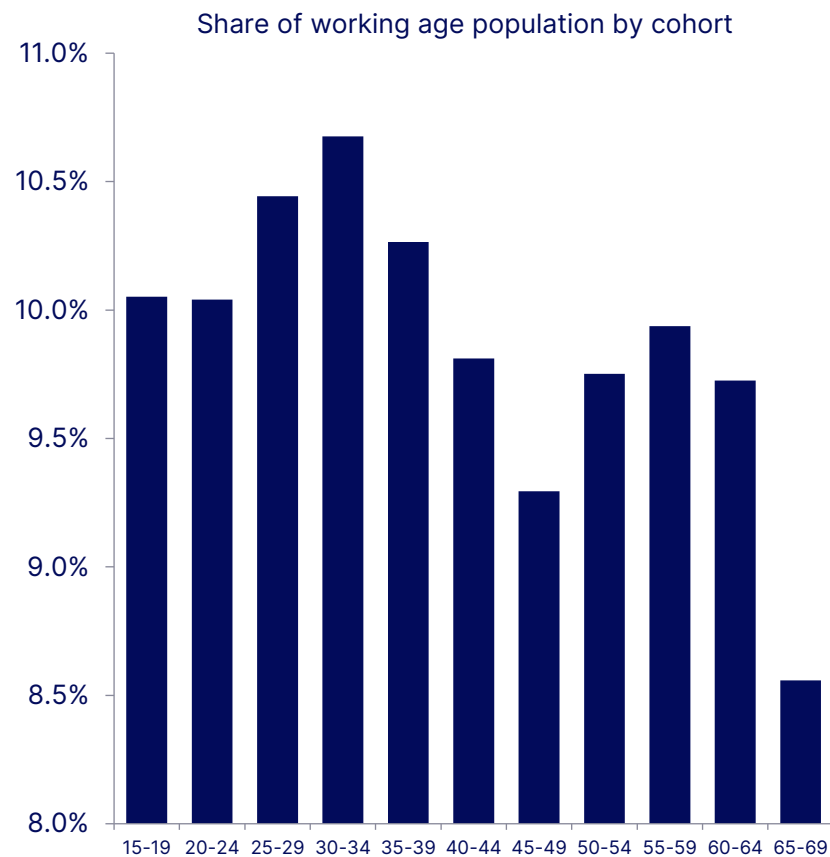
# And it won't get better

Age, not fear, behind retirements

## Just the normal retirement rate



## Baby boomers still moving through

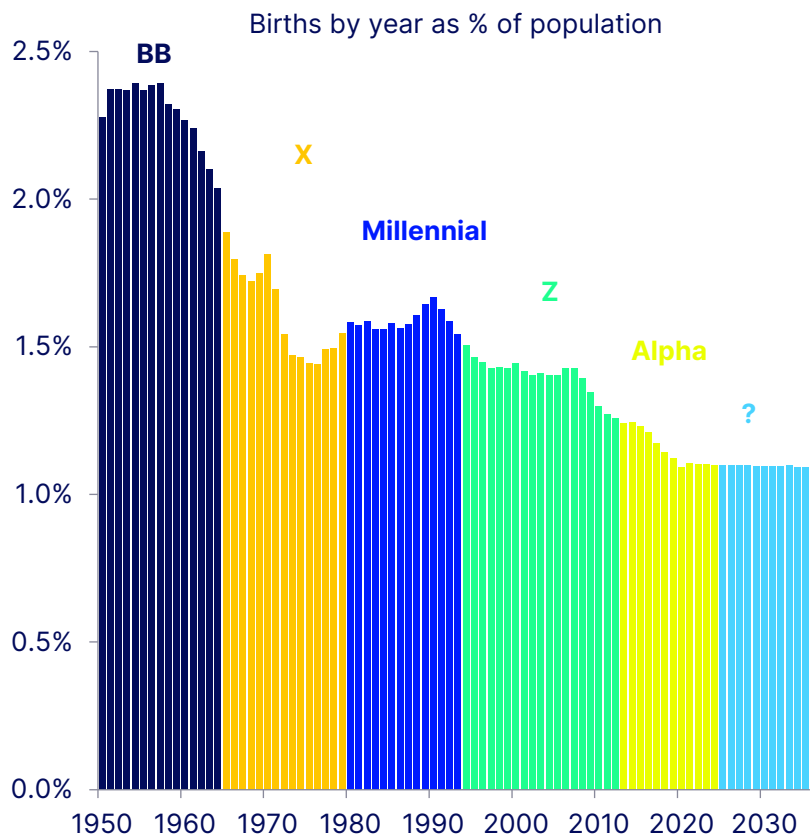


Source: State Street Global Markets, Liberty Street Economics, Bloomberg; data as of 1/29/2024

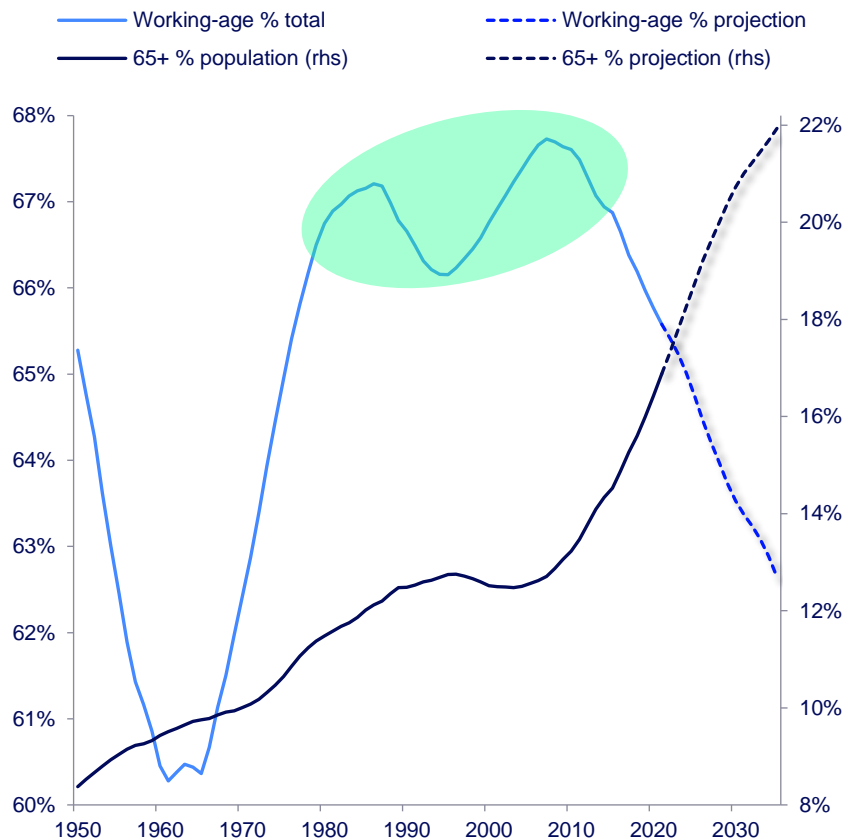
# Why it's happening now

## Baby boomer generation is retiring

### Putting it into context



### Sharp trend turns

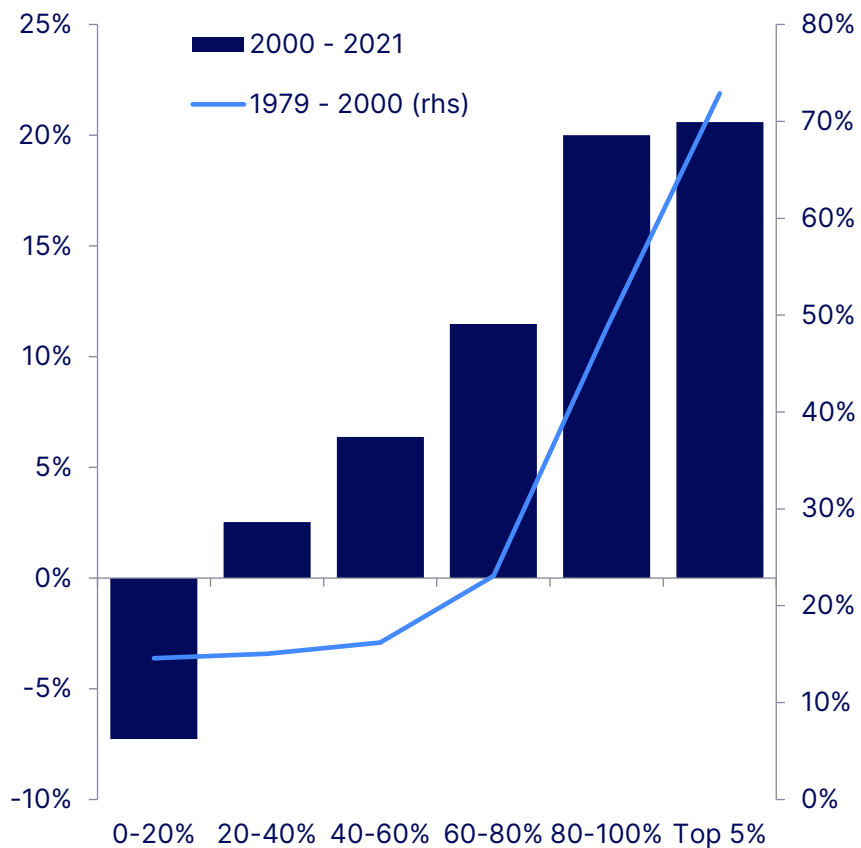


Source: State Street Global Markets, United Nations, Bloomberg; data as of 1/29/2024

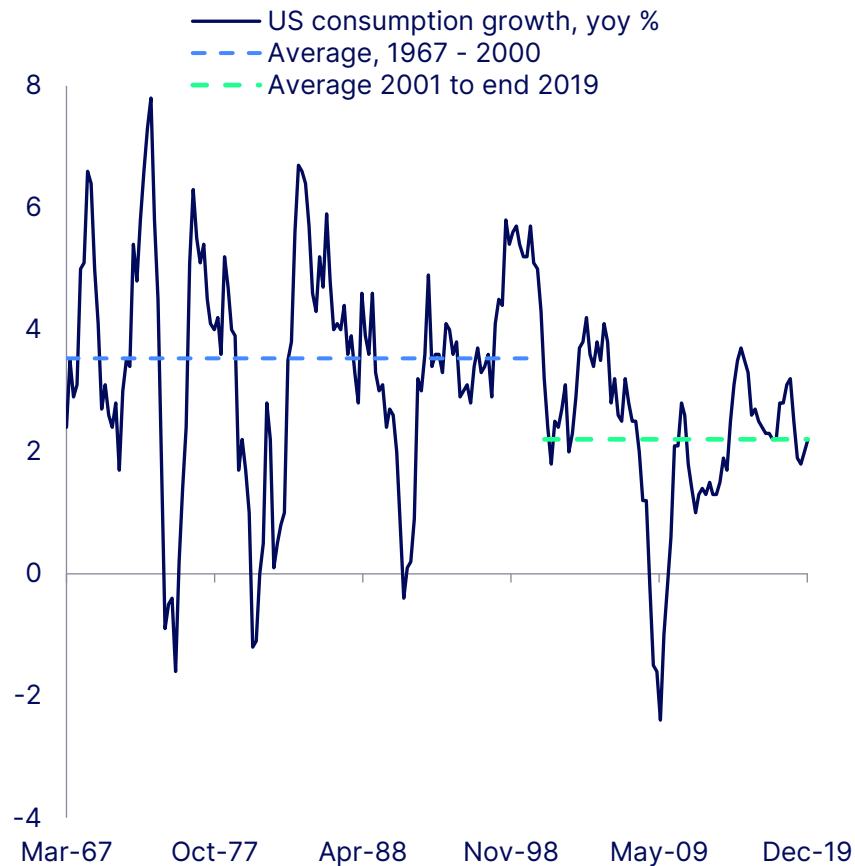
# Why inflation was so low for so long

It all comes back to the labour market

## Little 2000s wage growth for most



## And so, little demand growth



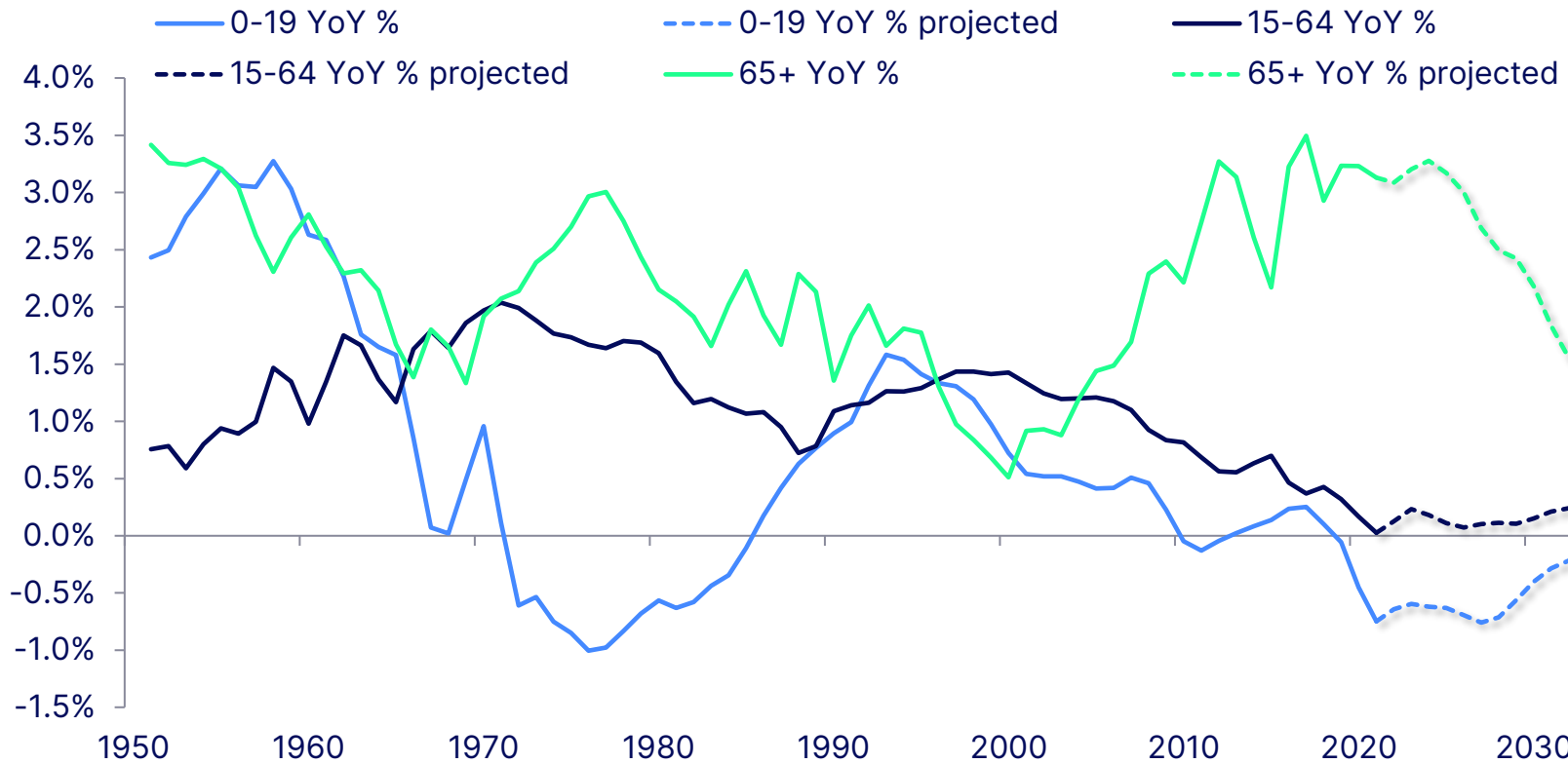
Source: State Street Global Markets, US Census Bureau, St Louis Fed; data as of 1/29/2024

# Its not going to get better

The easiest thing to predict

No labour force growth to come

Population growth trend by age cohort

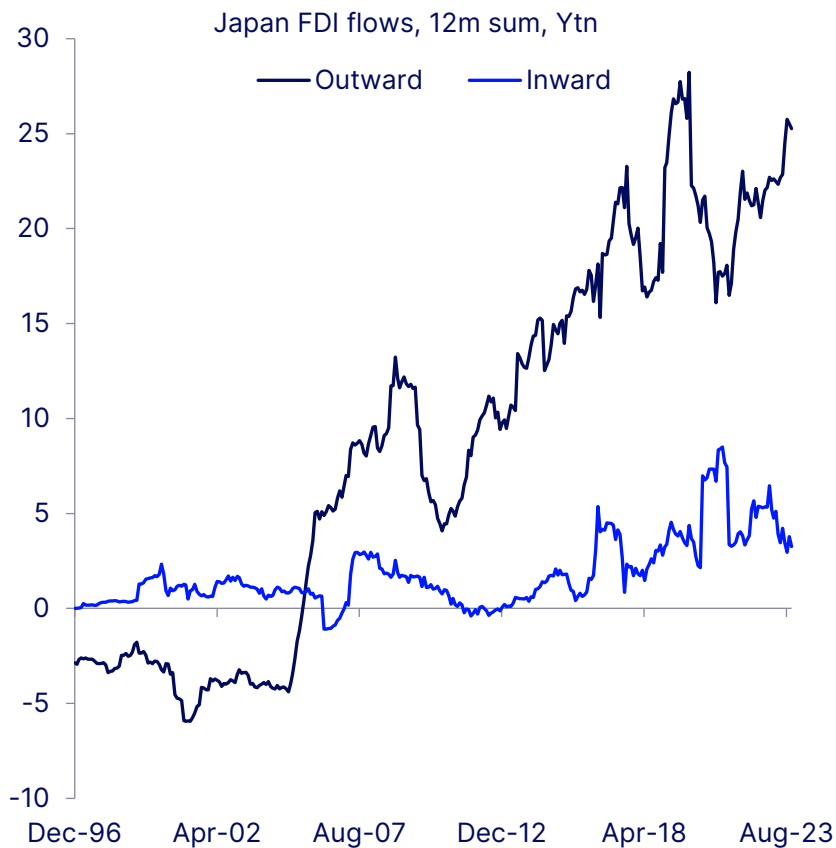


Source: State Street Global Markets, United Nations, Bloomberg; data as of 1/29/2024

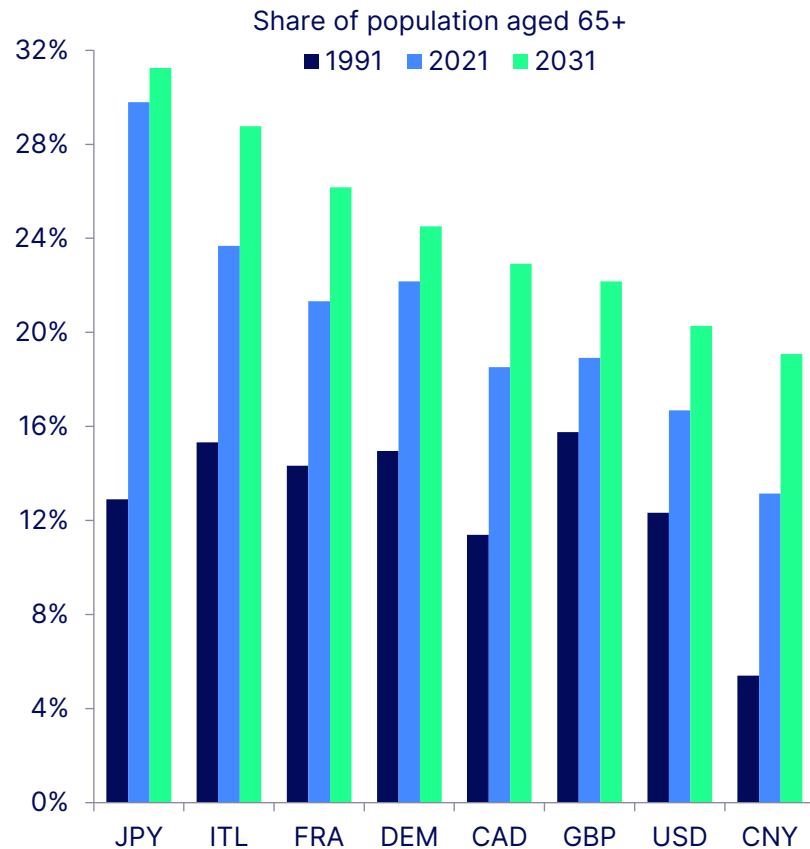
# What did Japan do?

Off-shoring, but that path is now largely closed

## Huge investment overseas



## Now a global shortage of workers

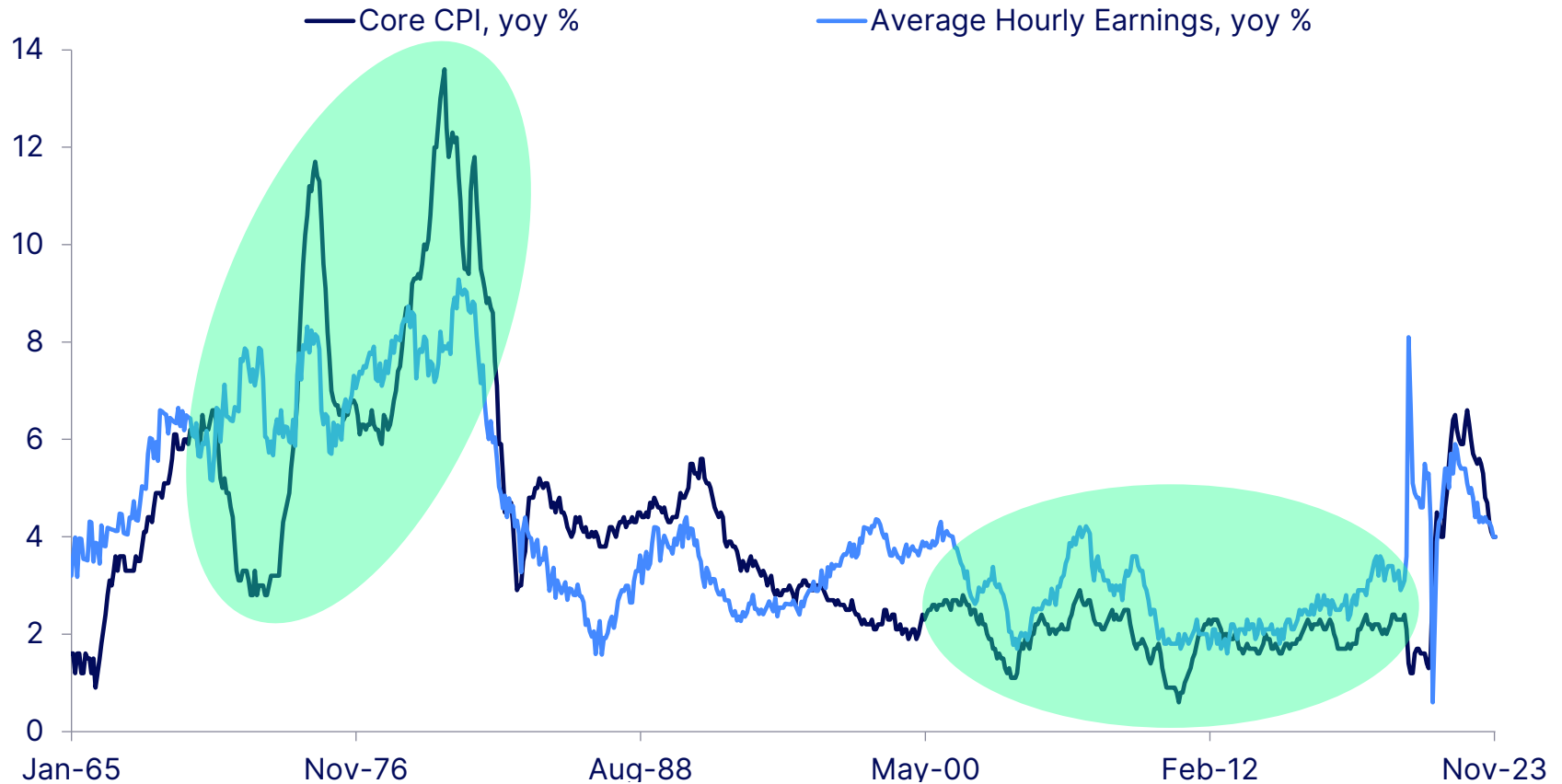


Source: State Street Global Markets, United Nations, Bloomberg; data as of 12/12/2023

# A new inflation era?

Not back to the 1970s, but somewhere in between

## The old normal?



Source: State Street Global Markets, St Louis Fed, Bloomberg; data as of 12/12/2023

# Our Research Advantage

## **Academic credentials**

Innovative solutions to investment challenges from our academic partners and journal articles.

## **Actionable ideas**

A track record of applying our indicators to the daily challenge of understanding the next move in markets.

## **Alternative data**

Daily indicators distill insights from our unique information set

## **Across asset classes**

Following 20+ years of development, our indicators and publications span asset classes, countries, sectors, factors and themes.

## Thought Leadership & Indicators

Award winning-research articles and innovative proprietary indicators to inform you investment process.

## Macro Strategy

Incisive commentary on equity, fixed income, and currency markets for a differentiated view on market trends, risks, and opportunities.

## Insights

Our interactive research puts Global Markets Research at your fingertips.

[globalmarkets.statestreet.com/insights](https://globalmarkets.statestreet.com/insights)



# Academic Partners

State Street Associates® advances an innovative research agenda in partnership with renowned academics



**Alberto Cavallo and Pilar Iglesias**

PriceStats®, inflation series



**Gideon Ozik and Ronnie Sadka**

MediaStats, sentiment indicators



**Ken Froot**

Macroeconomics and markets



**George Serafeim**

ESG and sustainability



**Mark Kritzman**

Risk, prediction, asset allocation



**Robin Greenwood**

Market froth, central banks, investor behavior



**Josh Lerner**

Private equity and entrepreneurship



**Antoinette Schoar**

Blockchain and cryptocurrencies

# Research Leadership Team

Our team of senior researchers lead our new ideas, research reports, product development, and client engagement.



**Alex Cheema-Fox**

Head of Investor  
Behavior Research, SSA



**Megan Czasonis**

Head of Portfolio  
Management Research,  
SSA



**Dwyfor Evans**

Head of APAC Macro  
Strategy



**Lee Ferridge**

Head of North  
America Macro  
Strategy



**Timothy Graf**

Head of EMEA Macro  
Strategy



**Michael Guidi**

Head of Alternative  
Data Research, SSA



**Will Kinlaw**

Global Head of  
Research



**Judianne Livermore**

Head of Research  
Infrastructure



**Michael Metcalfe**

Global Head of Macro  
Strategy



**David Turkington**

Global Head of State Street  
Associates (SSA)



**Nan R. Zhang**

Head of Product  
Implementation and  
Alternative Investment  
Research, SSA

# An Information Edge



## Institutional Investor Behavior and Peer Benchmarking

Our behavioral indicators span multi-asset, equity, fixed income and currency markets. We have data for 23 developed and 21 emerging equity markets (16 developed and 13 emerging market for fixed income); 12 developed and 21 emerging market currencies; 11 sectors, 25 industry groups, up to 73 industries; across 6 macroeconomic styles, 6 fundamental styles, and 3 quantitative factors and include the following indicators:

- Buying/selling activity (**Flow** Indicators)
  - Active
  - Benchmark
- Positioning (**Holdings** Indicators)
  - Excess
  - Benchmark
- Consensus in trading (**Flow Agreement** Indicators)
- Profitability (**Breakeven** Indicators)
- Hedging activity (**Hedge Ratio** Indicators & **Asset Class Weights**)
- Trading volume (**Volume** Indicators)



## Media (as captured by MediaStats)

Our media indicators deliver media-based measures for over 3,000 US companies, US sectors and industry aggregates, in addition to 44 global equity indices and 33 foreign currencies

- Tone of coverage (**Sentiment** Indicators)
- Volume of coverage (**Intensity** Indicators)
- Dispersion of sentiment (**Disagreement** Indicators)
- Co-mentions of related companies (**Linkages** Indicators)
- Earnings prediction (**Earnings Predication Technology** Indicators) for ~350 US companies, incl. Brand, In-store, and Web components



## Consumer Prices (as captured by PriceStats®)

Our PriceStats® indicators span inflation measurement in more than 20 individual and emerging market countries, US sectors and regional aggregates, in addition to PPP/real exchange rates for eight currencies versus the US Dollar

- Consumer Prices (**Inflation** Indicators) – 11 developed and 11 emerging markets:
  - **Regional aggregates:** World, World Diffusion, World Food, World Fuel, Developed Markets, DM Food, DM Fuel, Emerging Markets, EM Food, EM Fuel, Eurozone, Eurozone Food, Eurozone Fuel
  - **US Sectors:** Equipment, Food, Health, Recreation and Culture, Transportation
- Relative Price Levels (**Purchasing Power Parity** Indicators) – 8 currencies versus the US Dollar:
  - Real Exchange Rate
  - Relative Prices
  - Valuation (PPP Benchmark)
  - Valuation (Historical Benchmark)
  - Implied Nominal Exchange Rate (PPP Benchmark)
  - Implied Nominal Exchange Rate (Historical Benchmark)



## Risk Management and Crowding

Our market risk indicators span multi-asset, equity, fixed income and currency markets globally and include the following measures:

- Unusualness of returns (**Turbulence** Indicators)
  - Correlation breakdowns (**Correlation Surprise** Indicators)
  - Volatility changes (**Volatility Surprise** Indicators)
- Systemic risk (**Absorption Ratio** Indicators)
  - Asset importance and connectivity (**Asset Centrality** Indicators)

# Macro Strategy

Combining our indicators with macro context to produce our #1 ranked<sup>1</sup> strategy research



## PUBLICATIONS (selected)



## Cross-Asset



## Equities



## FX / Fixed Income



### Alternative data intelligence

**Inflation in Focus** *(monthly)*  
**Market Narratives in Focus** *(biweekly)*  
**Chart of the week** *(weekly)*

**Weekly World Flows** *(weekly)*  
**Country Chartbook** *(weekly)*  
**Sector Chartbook** *(weekly)*

**Investment Climate** *(weekly)*  
**FX Execution** *(weekly)*



### Actionable ideas

**Asset Allocation Monthly** *(monthly)*  
**Mr. Risk** *(ad-hoc)*  
**What We Said This Week** *(weekly)*

**Global Equity Strategy** *(weekly, monthly)*  
**Equity Market Insight** *(ad-hoc)*

**DM/EM FX Strategy** *(weekly)*  
**Mind and Machine FX** *(monthly)*  
**FI/FX Market Insight** *(ad-hoc)*



## WATCH OR LISTEN (selected)

**Street Speak** *(weekly)*  
**Three Thoughts** *(weekly)*


**Asset Allocation Webinar** *(monthly)*

**Market Huddle** *(biweekly)*  
**EM Research Week** *(weekly)*


<sup>1</sup> As measured by the Euromoney FX survey Customer Satisfaction Rating 2022. The publication frequencies shown represent typical schedules.

## Articles, Videos, more...


**EMERGING MARKETS WEEKLY**  
**Emerging Markets in 2023: 4 Themes in 15 Charts**  
 20 hours ago




**THREE THOUGHTS**  
**The Grinch is Back**  
 A few days ago



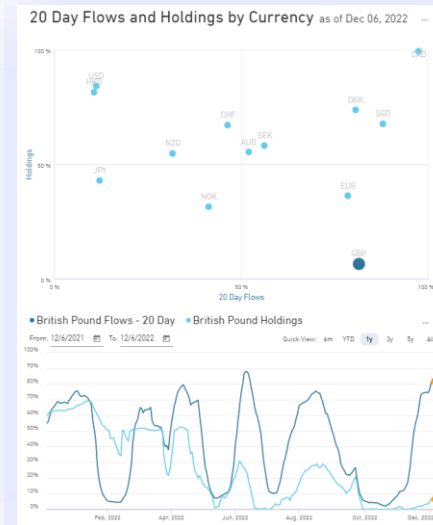
**RESEARCH A TRADE IDEA**  
**United States Financials**  
 Institutional Behavior Media Coverage  
 A moment ago



**EM INFLATION IN FOCUS**  
**It's All Going Down!**  
 3 days ago



## Indicators



## Custom Analysis

