Brave New World, or Dust Off the Old Playbook?

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Brave New World, or Dust Off the Old Playbook?

Will Leadership Change in the Next Cycle

The 40-Year Bond Bull Market Died in 2022

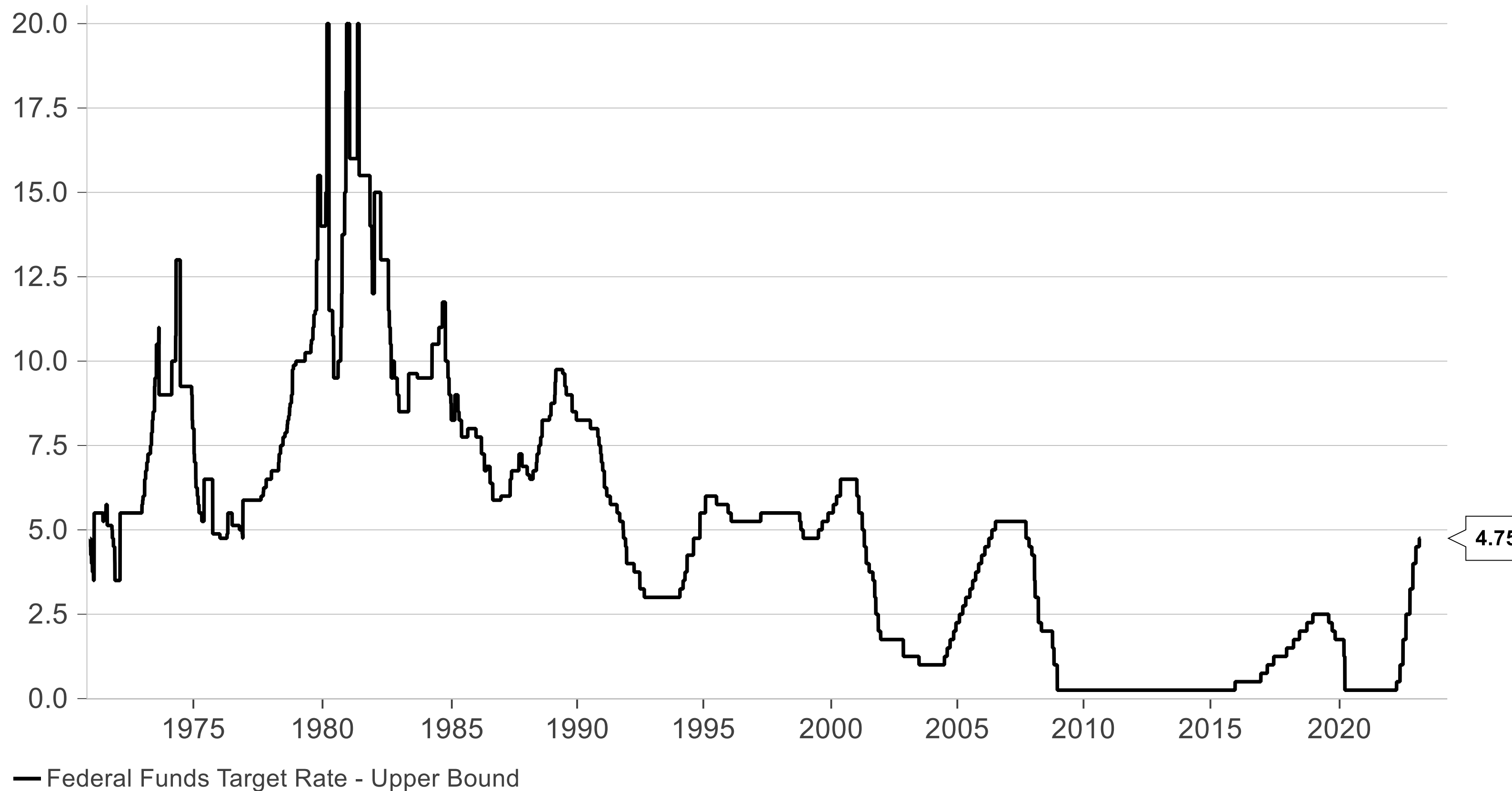
Source: NewEdge Wealth, Macrobond, Bloomberg

As of: 2/17/23

Will we shift into a regime of higher highs and higher lows (after the lower highs and lower lows downtrend of 1980-2021)?

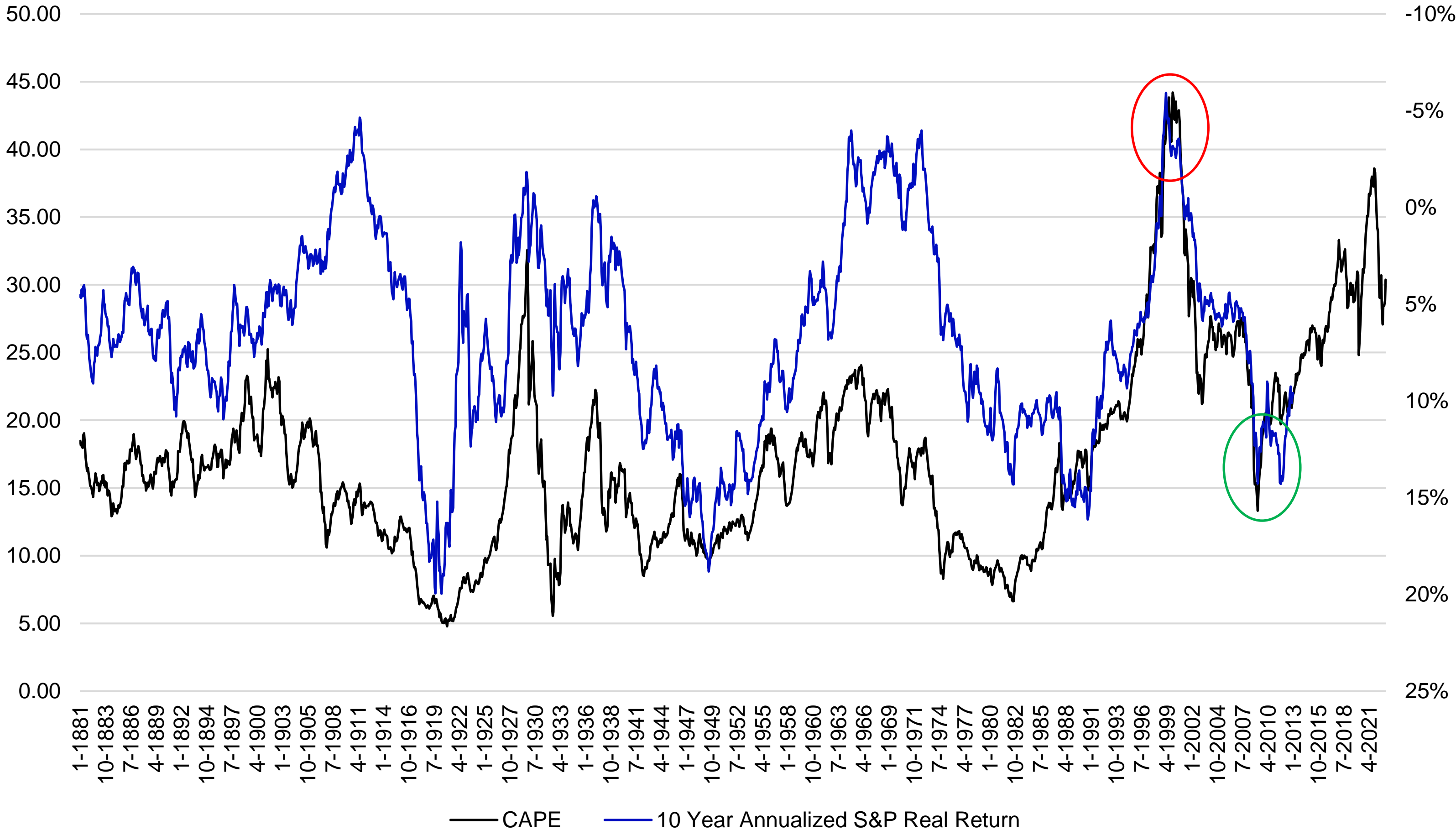
Yields will likely fall in the next recession, but will they return to the post-COVID lows?

The Trend of Lower Highs and Lower Lows is Over for Fed Funds as Well



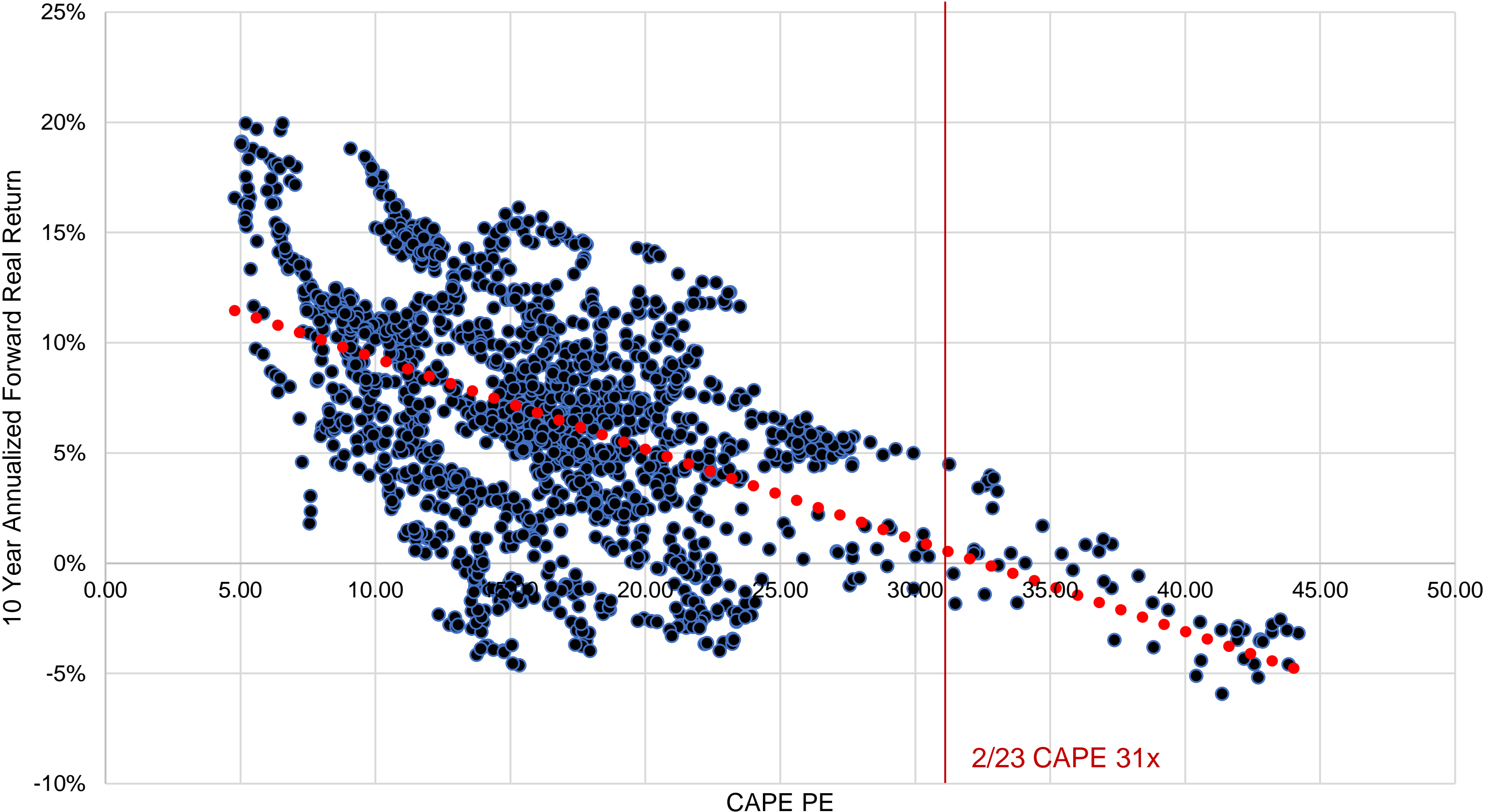
Post Volker, each hiking cycle went less high and each cutting cycle went lower. This trend is over in the post-COVID inflationary world.

Could Equity Returns Be Lower in the Next Decade vs. the Last? Yes.



Source: Shiller data, econ.yale.edu, NewEdge Wealth, as of 2/23

Could Returns Be Lower in the Next Decade vs. the Last?



Source: Shiller data, econ.yale.edu, NewEdge Wealth, as of 2/23

Long-term equity valuations remain elevated, which points to lower long-term returns for equites.

What Worked in the Last Cycle? Will it Work in the Next?

	2010-2021	2022	YTD
NASDAQ	594%	-33%	13%
S&P 500	328%	-19%	6%
Russell 1000 Growth	517%	-30%	10%
Russell 1000 Value	192%	-10%	4%
MSCI International Developed (EAFE)	48%	-16%	7%
MSCI Emerging Markets	24%	-22%	5%

Source: Bloomberg, as of 2/17/23

The last cycle was marked by ultra-low interest rates, ultra-loose liquidity, and benign inflation caused by excess supply.

This drove distinct outperformance by long-duration stocks (Growth, NASDAQ).

About half of the outperformance can be explained by superior earnings growth, but the other half was multiple expansion, driven by these liquidity conditions.

Growth vs. Value: The Bubble is Over, Be Aware of Mean Reversion

As of 2/17/23

The blow-off top of the post-COVID bubble in Growth stocks over Value stocks ended and began to unwind in 2022.

Given such sharp underperformance in 2022, Growth stocks could briefly bounce in 2023, but the trend is lower for Growth vs. Value (meaning any relief rally in Growth could be short lived).

We consider this dynamic as we think about leadership in the next cycle, which could look different from the 2010-2021 cycle that clearly favored expensive Growth darlings.

NewEdge WEALTH

International Consolidating

MSCI International Developed EAFE Index (MXEA) Absolute and Relative to U.S.

Emerging Markets Retreating

MSCI Emerging Markets Index (MXEF) Absolute and Relative to U.S.

NewEdge WEALTH

But Remember the Long-Term, Structural Underperformance

MSCI International Developed EAFE Index (MXEA) Absolute and Relative to U.S.

This time may be different with non-US stocks, meaning the recent rally we have seen could be the start of a sustained period of non-US outperformance.

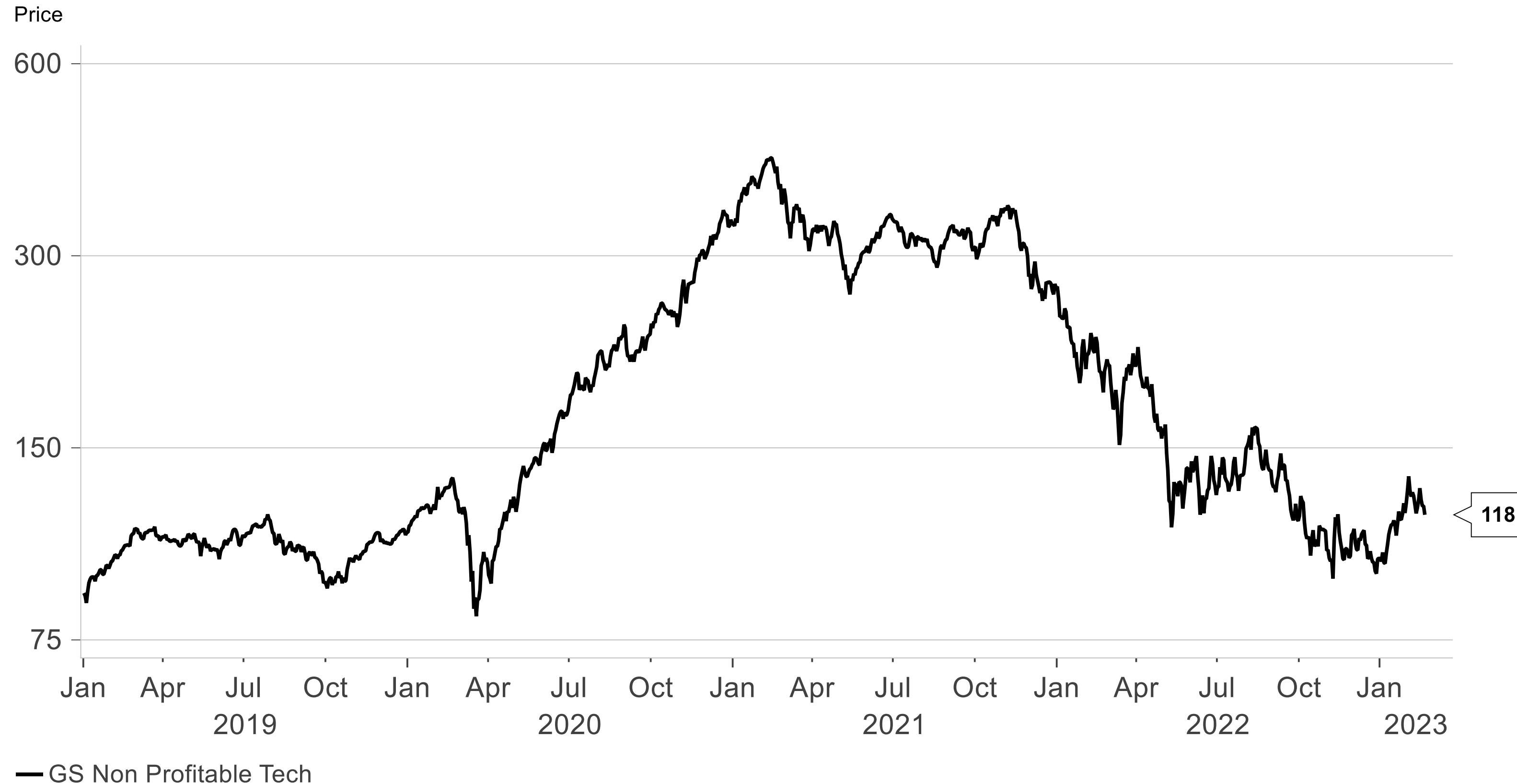
However, it is important to keep this move in context: the relative performance of EAFE vs. the U.S. remains in a 15-year downtrend, while the absolute performance still has not taken out the 2007 highs.

The strength of the recent bounce is more reflective of how *oversold* non-US stocks got in 2H22.

This bounce can continue if we see continued USD weakness.

Emerging Markets Still in a Down-Trend

The YTD Rebound in Profitless Tech



After a brutal bear market in 2022, non profitable tech has staged a powerful rebound (+21% YTD, reached a peak of +35% on Feb 2).

This rebound has occurred without the help from additional liquidity (like what happened in 2020-2021).

Source: NewEdge Wealth, Macrobond, Bloomberg

As of 2/17/23

What is the Right Price to Pay?

Source: NewEdge Wealth, Macrobond, Bloomberg

As of 2/17/23

Bubble valuations for non profitable tech reached a fever pitch in 2021 of 9x earnings. They fell all the way to 2x earnings in 2022's bear market. To start this year valuations have begun to rebound.

Companies have been focusing on cost control in order to achieve profitability. Those that are guiding to positive earnings in 2023/2024 are seeing their stocks pop.

But as costs are cut, will growth slow?

What will the "right" multiple be for former high growth companies?

2023 Outlook

Enjoy what you can, endure what you must
-Goethe

The Paths of 2023

"Can't Touch This" Resilient Growth High Inflation	**"PTSD"** Resilient Growth Lower Inflation	**"Stag-Do"** Weak Growth High Inflation	**"Pain and Gain"** Weak Growth Low Inflation
Economy: Positive GDP in 2023 (no recession), no meaningful ↑ unemployment, inflation remains >4%	**Economy:** Positive GDP in 2023 (no recession), no meaningful ↑ unemployment, inflation 2-4%	**Economy:** Negative GDP in 2023 (recession), ↑ unemployment, inflation remains >4%, exogenous shock	**Economy:** Negative GDP in 2023 (recession), ↑ unemployment, inflation 2-4%
Fed: Stays hawkish, higher terminal Fed Funds (>5.25%), no cuts in 2023 or early 2024, continued QT	**Fed:** Raises to 5-5.25% and pauses (per the dot plot), no cuts in 2023 (on risk of inflation return), continued QT	**Fed:** Raises to 5-5.25% and pauses, talks about "balance of risks", but no cuts with inflation high, cont'd QT	**Fed:** With growth and infla low, can be accommodative, but not as much as 2019 or 2020, risk they are slow
Macro: ↑ Interest rates across curve ↑ USD	**Macro:** ↑ Interest rates across curve ? USD (depends ECB/BOJ)	**Macro:** Interest rates mixed USD (starts weak, ends strong)	**Macro:** ↓ Interest rates across curve ↓ USD (maybe ↑ safety)
Markets: -Negative-neutral equities with ↓ P/E from higher rates but ↑ EPS on better growth and inflation -Credit spreads contained <u>Helps</u>: Value, int'l (USD headwind), cyclicals, real assets <u>Hurts</u>: Growth, FI duration <u>Strategy</u>: stay quality, valuation discipline	**Markets:** - ST ↑ equities on relief rally, but then flat/ ↓ with ↓ P/E from higher rates and ↓ EPS on less inflation/revenue growth -Credit spreads ok <u>Helps</u>: Value, cyclicals, international <u>Hurts</u>: Growth, FI duration <u>Action</u>: stay quality, valuation discipline	**Markets:** -Negative equities/sideways chop with ↓ P/E from Fed pushback against cuts and ↓EPS from lower growth, -Credit spreads widen, credit event <u>Helps</u>: real assets <u>Hurts</u>: cyclicals <u>Action</u>: stay quality and defensive, take advantage volatility	**Markets:** **-Stage 1** bad equities on recession ↓ PE and ↓ EPS; **Stage 2** good equities on Fed pivot ↑ PE -Credit spreads widen, credit event <u>Action</u>: **Stage 1** stay defensive (quality equities and bonds, cash), **Stage 2** risk-on (HY, high beta/low quality equities, small cap)

How Soon is Now?:

When could the U.S. economy enter a recession?

When you say it's gonna happen now
When exactly do you mean?

-The Smiths, *How Soon is Now?*

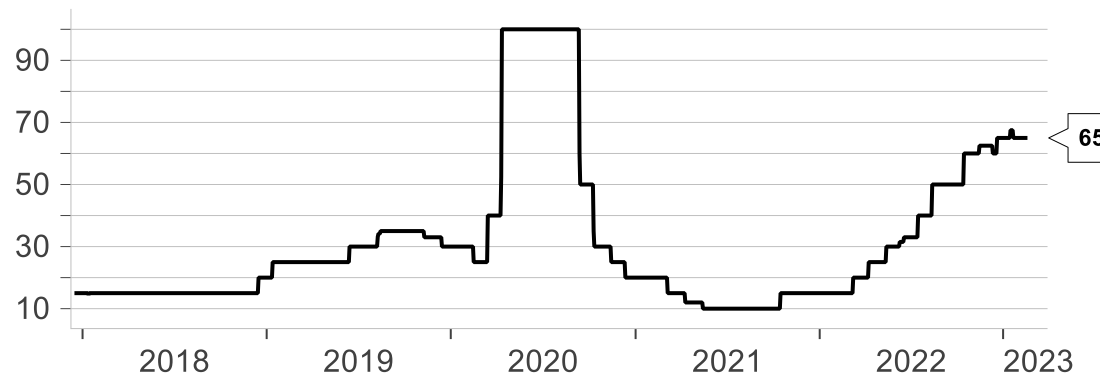
NewEdge WEALTH

Are 2023 U.S. Growth Estimates Too Low? Possibly Yes

US Economic Forecasts (Bloomberg Consensus and Fed)

	Street 2022E	Street 2023E	*Fed 2023E*	Street 2024E	*Fed 2023E*
Real GDP	**1.9%**	**0.3%**	***0.5%***	**1.3%**	***1.6%***
Consumer Spending	2.3%	1.0%		1.4%	
Government	-0.8%	1.1%		1.0%	
Private Investment	3.7%	-2.4%		1.7%	
Exports	7.3%	2.2%		2.2%	
Imports	8.7%	0.3%		1.7%	
PCE	**6.3%**	**3.5%**	***3.1%***	**2.3%**	***2.5%***
Core PCE	5.0%	3.6%	*3.5%*	2.4%	*2.5%*
Unemployment	**3.6%**	**4.4%**	***4.6%***	**4.8%**	***4.6%***

Source: Bloomberg, as of 1/10/23; Federal Reserve December 2022 Summary Economic Projections



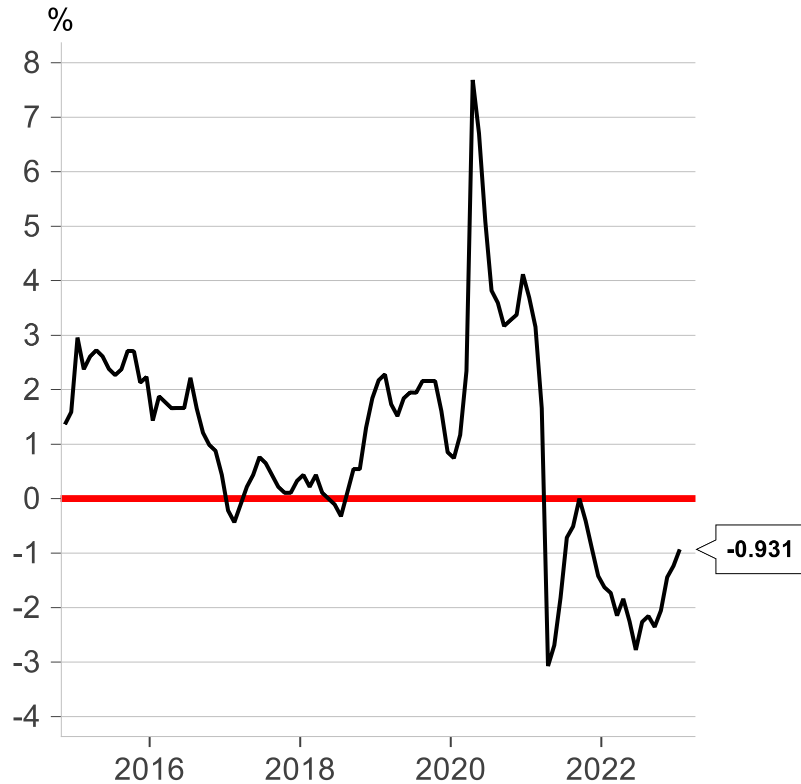
As of 2/17/23

Forecasters expect very little for U.S. economic growth in 2023, with a currently forecasted 65% probability of a recession in 2023.

However, based on strong data exiting 2022, we see potential that U.S. growth surprises to the upside in 2023, at least in 1H23.

We do not think we experience a recession in 1H23, but will watch labor data closely to judge the likelihood of slipping into a recession in 2H23.

U.S. Consumer Recently Helped By Falling Inflation

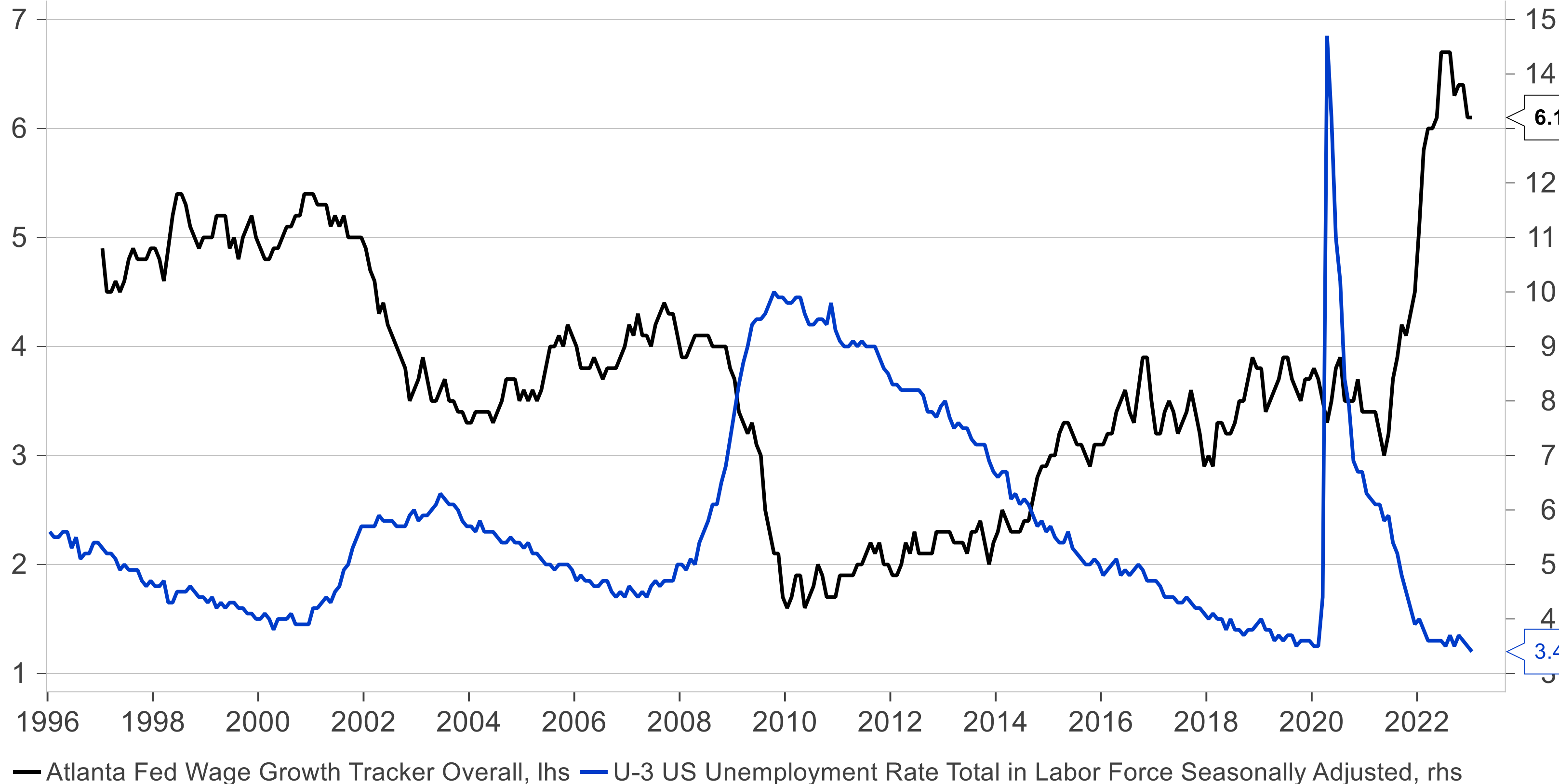


As of 2/17/23

Wage growth has started to slow in the U.S., however, so has inflation to an even greater degree (mostly driven by falling gasoline prices).

This means that *real* wage growth has been improving. Better real wage growth means that consumers' money goes further, allowing them to spend more in real terms. Along with this rebound in real wage growth, we have seen a rebound in consumer sentiment.

The Labor Market is Still Tight



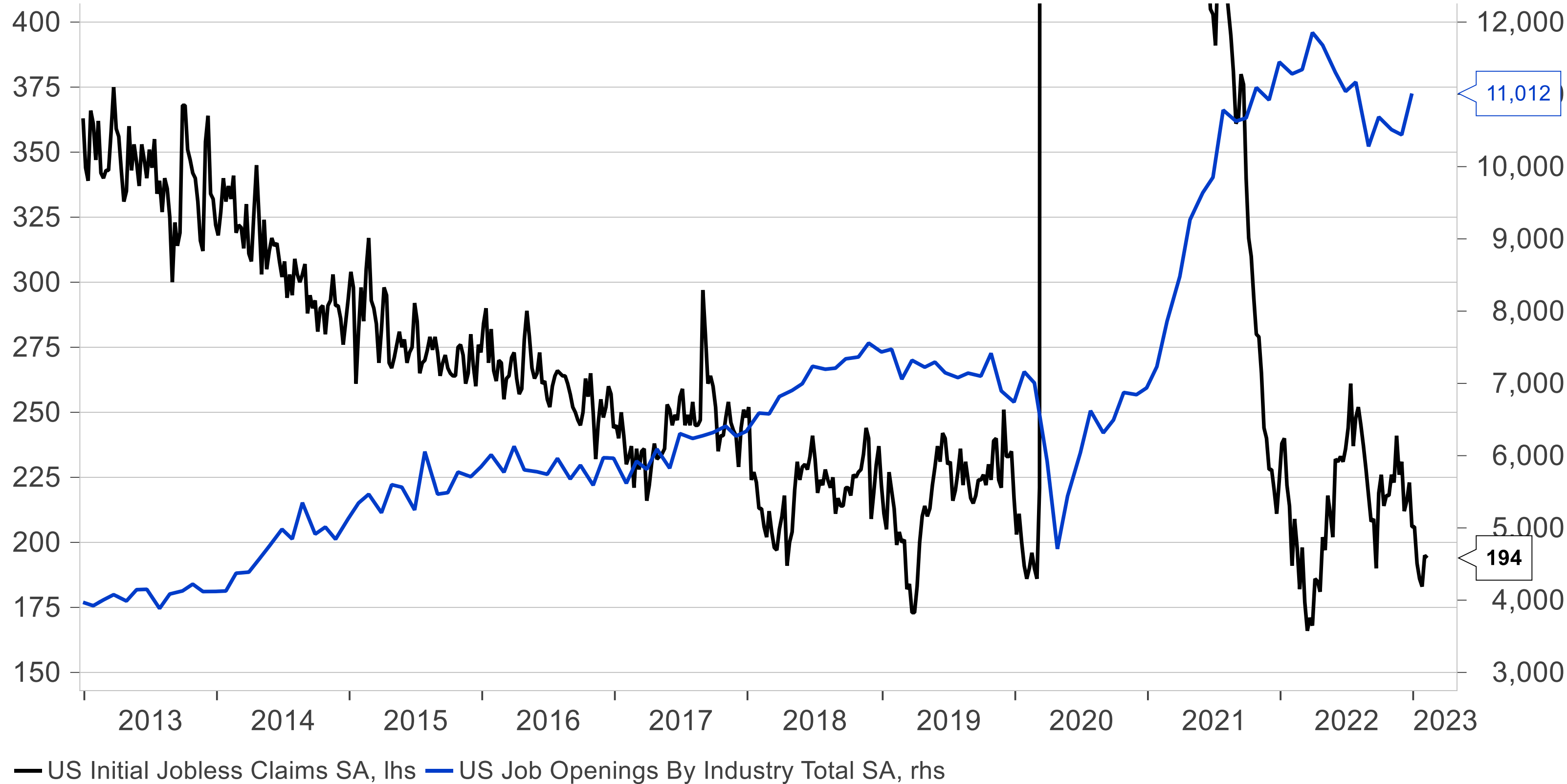
As of 2/17/23

The labor market remains resilient (unemployment near a 50-year low at 3.5%), while wage growth remains robust.

There are early signs that wage growth is starting to moderate, but for now, there is little slack in the labor force, keeping wage inflation a key risk for the Fed.

The progression of labor data in 2023 will be critically important for predicting if and/or when the U.S. economy slips into recession.

Fired Workers Are Quickly Finding New Jobs



As of 2/17/23

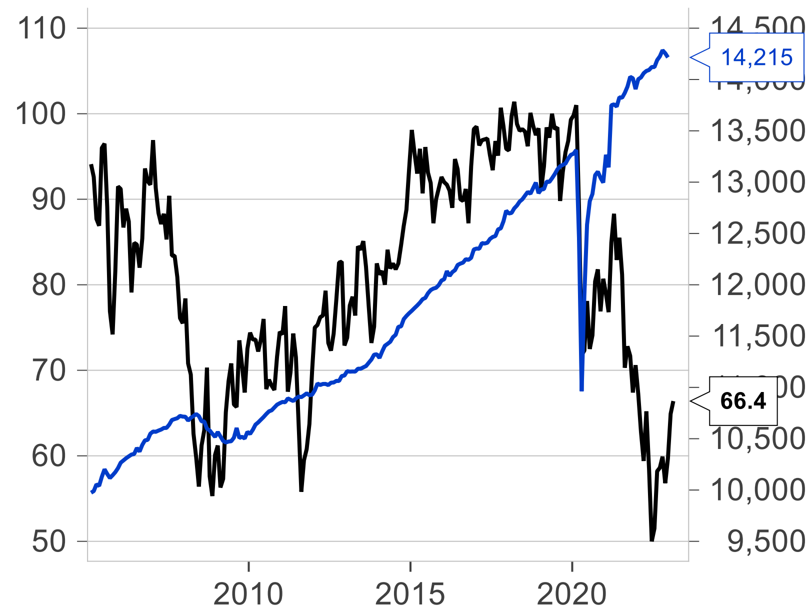
One reason for the tight labor market is that despite big headlines of lay-offs, many laid-off workers have been able to find jobs quickly (so we haven't seen an uptick in initial jobless claims yet). This is partially due to the large number of job openings, that remain well above pre-pandemic levels.

The key question for 2023 will be one of contagion: will job losses in a few sectors (like tech) spread to other parts of the economy?

Watch What They Do, Not What They Say: Soft vs. Hard Data

Consumer Sentiment Terrible, But Consumer Spending Resilient

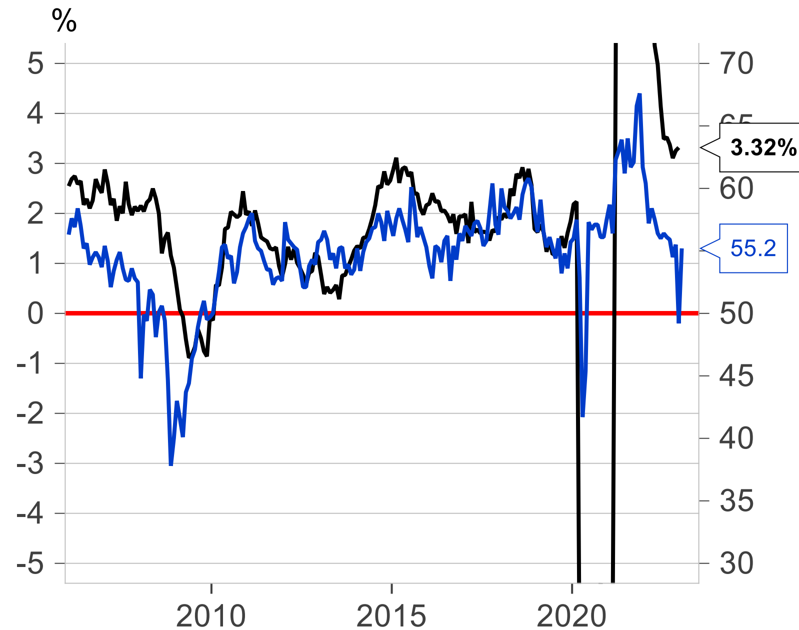
University of Michigan Consumer Sentiment and US Real Personal Consumption Expenditures



Source: NewEdge Wealth, Macrobond, Bloomberg

Services PMI Sips Into Contraction While Services Spending Growth Still Strong

US PCE Services (YoY%) and ISM Services PMI



Source: NewEdge Wealth, Macrobond, Bloomberg

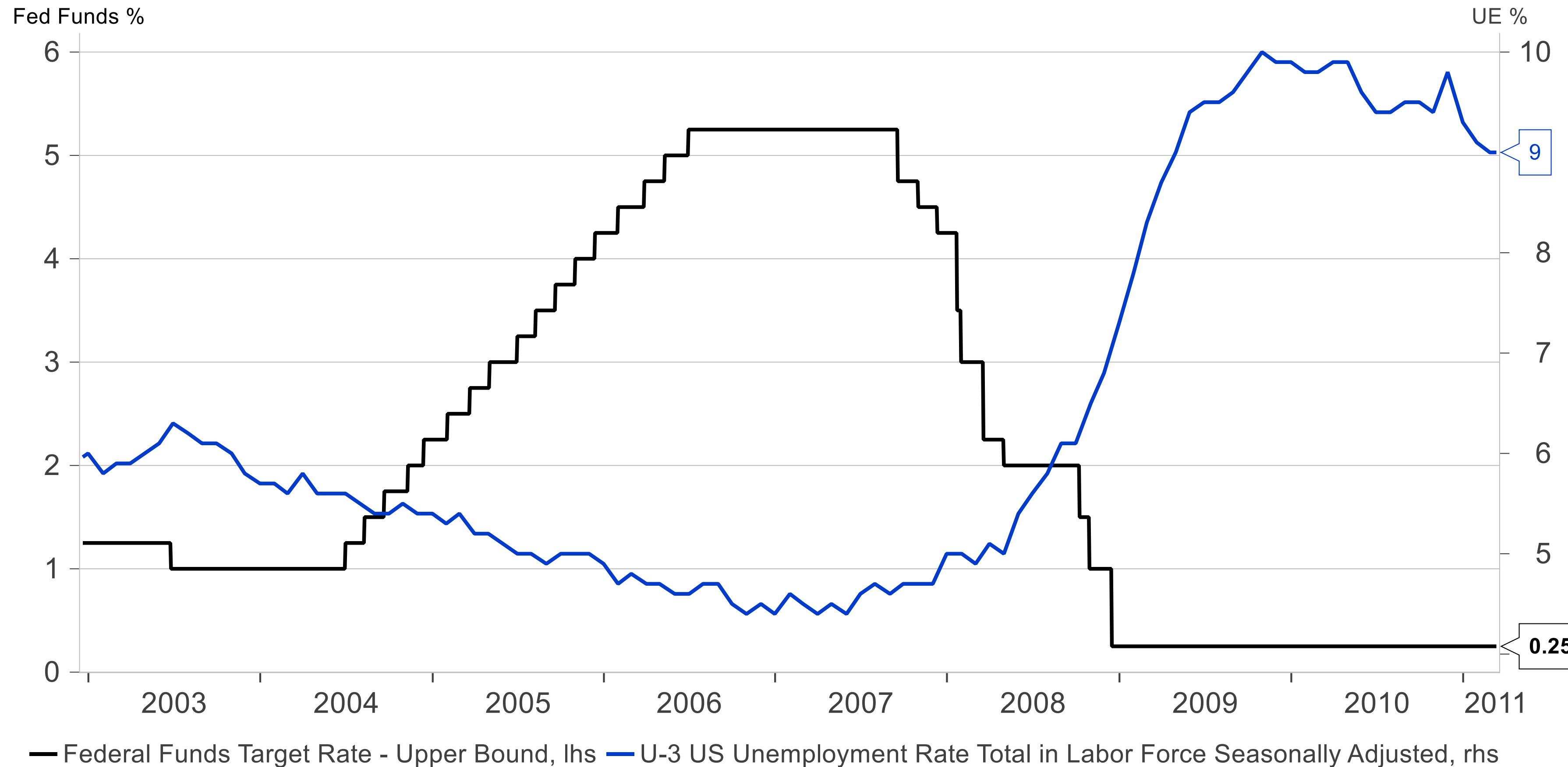
As of 2/17/23

All through 2022 consumers and businesses *felt* awful, but despite this sour sentiment, they continued to spend, hire, and grow.

Said another way, soft data was very weak in 2022, while hard data was resilient.

The key question for 2023 is if this weak soft data and weak sentiment is a false signal, or a valid leading indicator of more pronounced weakness to come.

A Significant Lag Between Rate Hikes and Unemployment

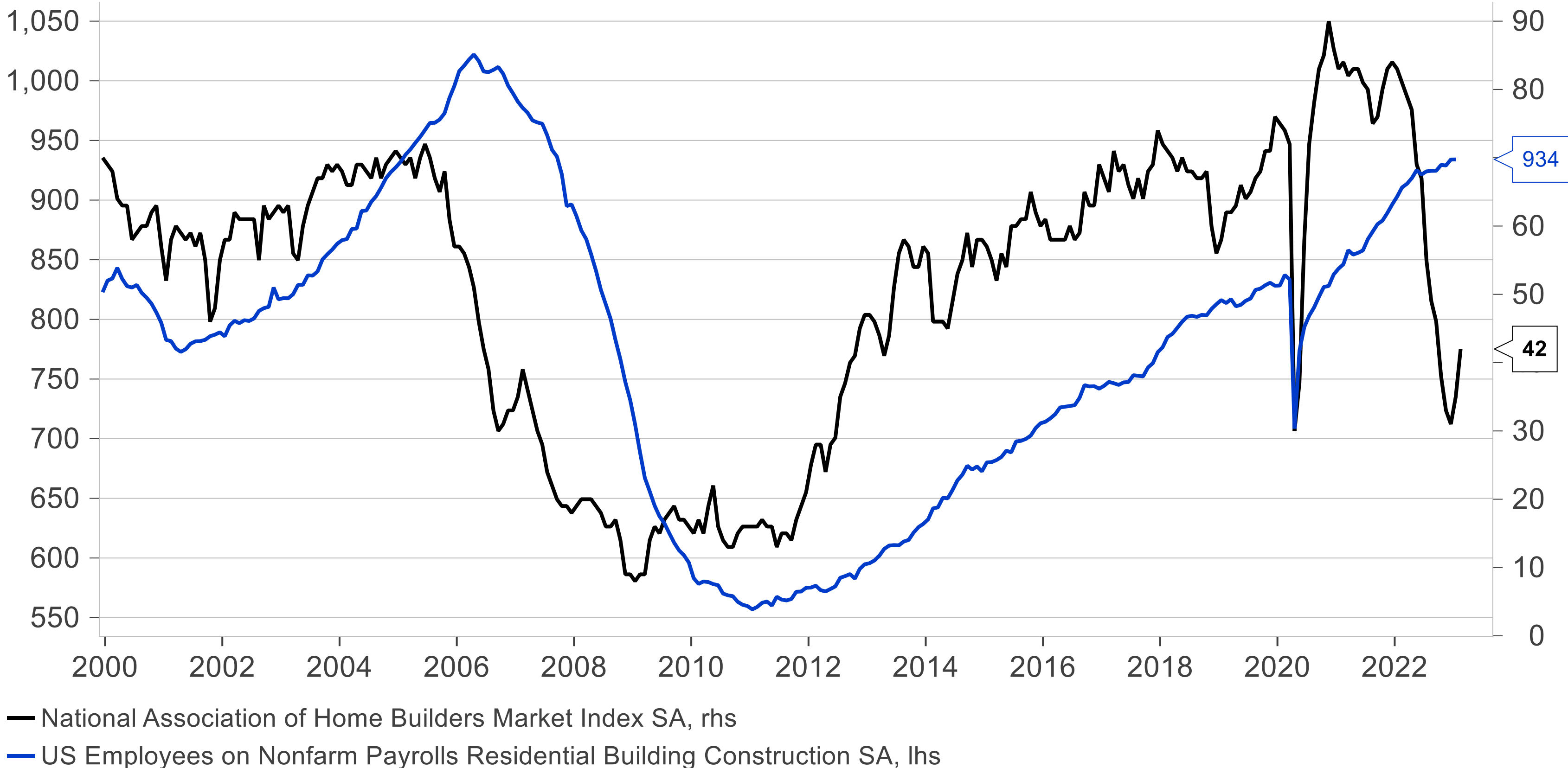


Source: NewEdge Wealth, Macrobond, Bloomberg

As of 2/17/23

NewEdge WEALTH

Even Interest Rate Sensitive Sectors See a Lag Between Sentiment and Real Data

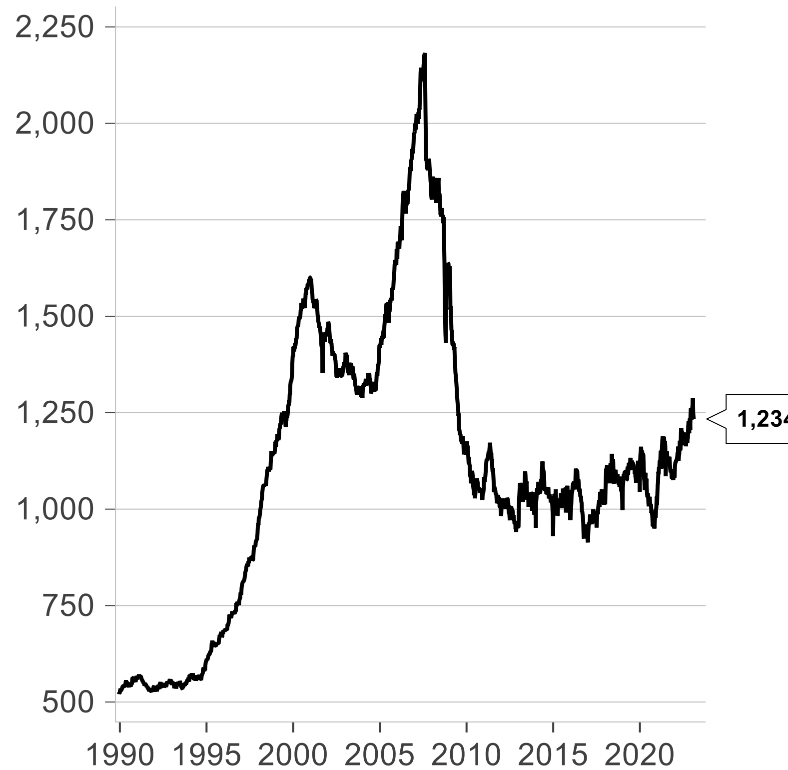


Source: NewEdge Wealth, Macrobond, Bloomberg

As of 2/17/23

NewEdge WEALTH

Why So Resilient, U.S. Economy? Possibly Less Sensitivity to Short Term Rates Immediately

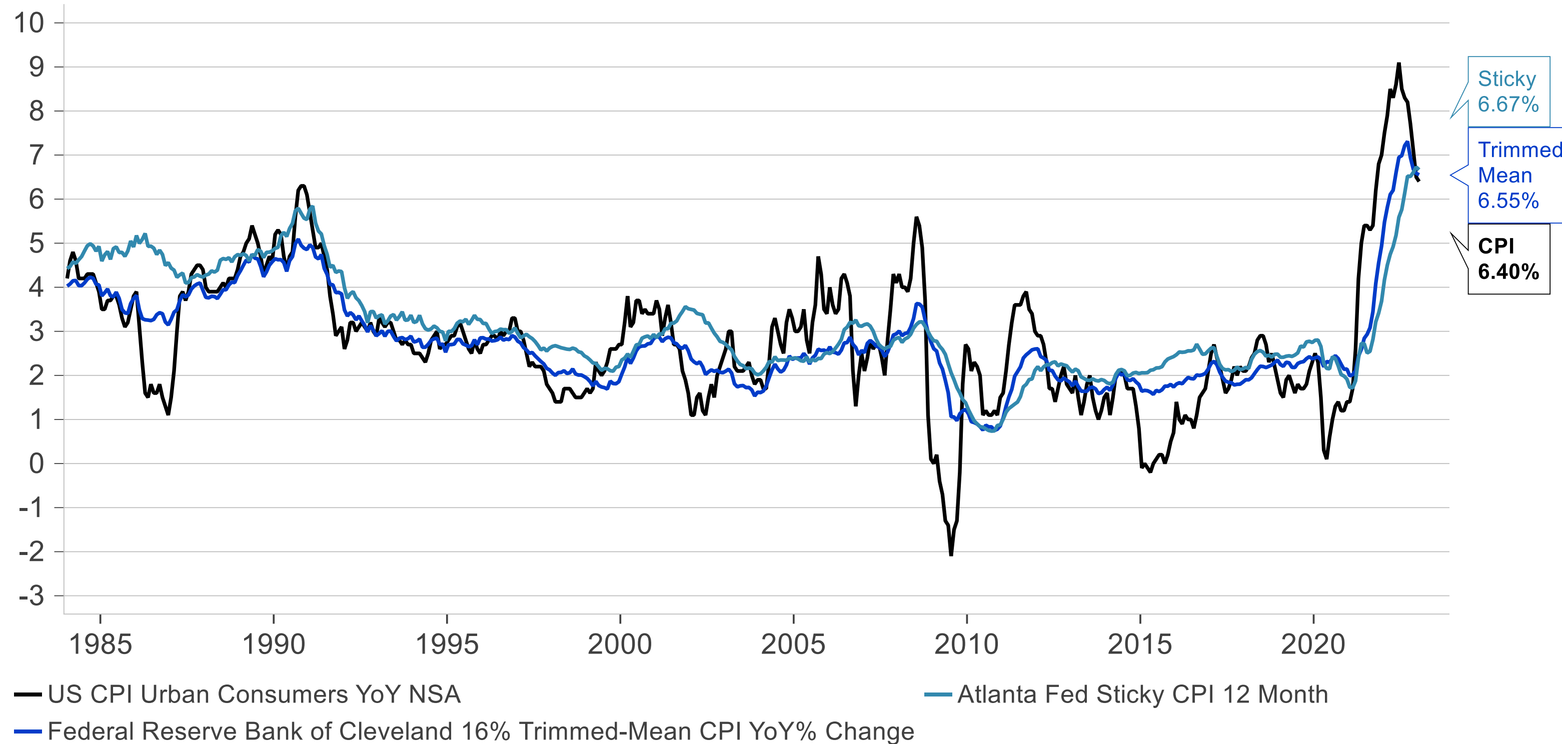


As of 2/17/23

Over a decade of zero interest rate policy allowed borrowers to extend the duration of their loans. The end result of more longer-term/ less variable-rate debt is that, despite higher overall debt levels, as interest rates have risen, both consumers and corporates have not been impacted as much, or as quickly, as they were in prior cycles.

Consider the much lower % of floating rate mortgages for consumers compared to pre-GFC, and the lower use of very short-term commercial paper by corporates.

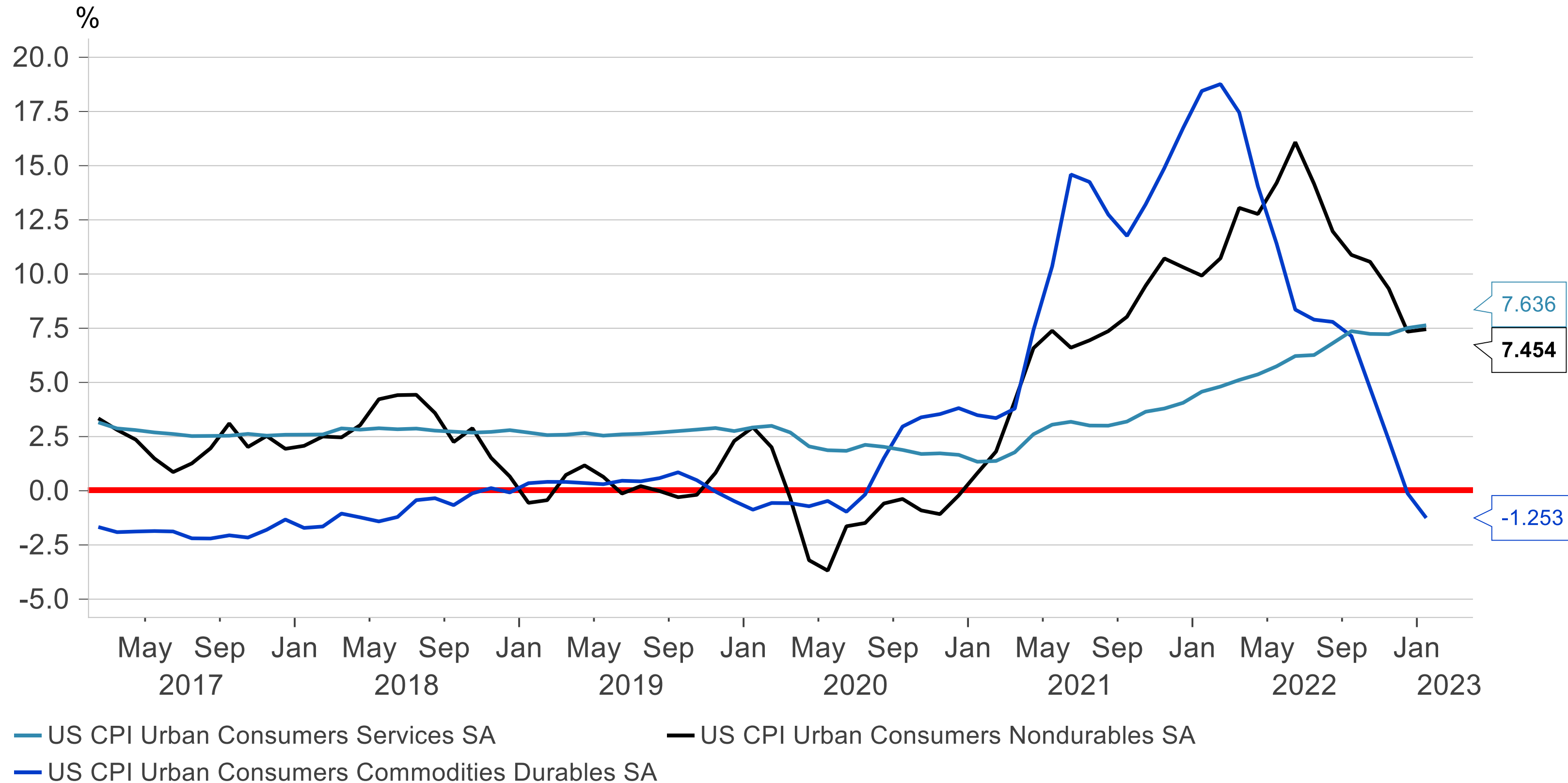
Inflation Peaked in 2022, But Price Increases Still Broad and Sticky



As of 2/17/23

Rapid declines in a few items (gasoline, used car prices) contributed to falling inflation rates in 2H22. However, measures of inflation breadth (like Trimmed Mean which throws out extreme readings on the high and low end) and Stickiness (those components that are less volatile) remain elevated and point to inflation readings staying above the Fed's 2% target in 2023.

Goods Disinflation Was Well Underway in 2022



Source: NewEdge Wealth, Macrobond, Bloomberg

As of 2/17/23

Economy watchers should note that Goods disinflation has been occurring since the beginning of 2022.

Durable Goods inflation peaked at 18% in February 2022 and fell all the way down to -0.1% in December (tracked the falling container shipping prices as supply chains healed).

Nondurable Goods inflation (includes food and energy) has been moderating since summer 2022, when gasoline prices peaked.

Services inflation remains elevated due to high shelter/housing inflation, along with elevated wage growth.

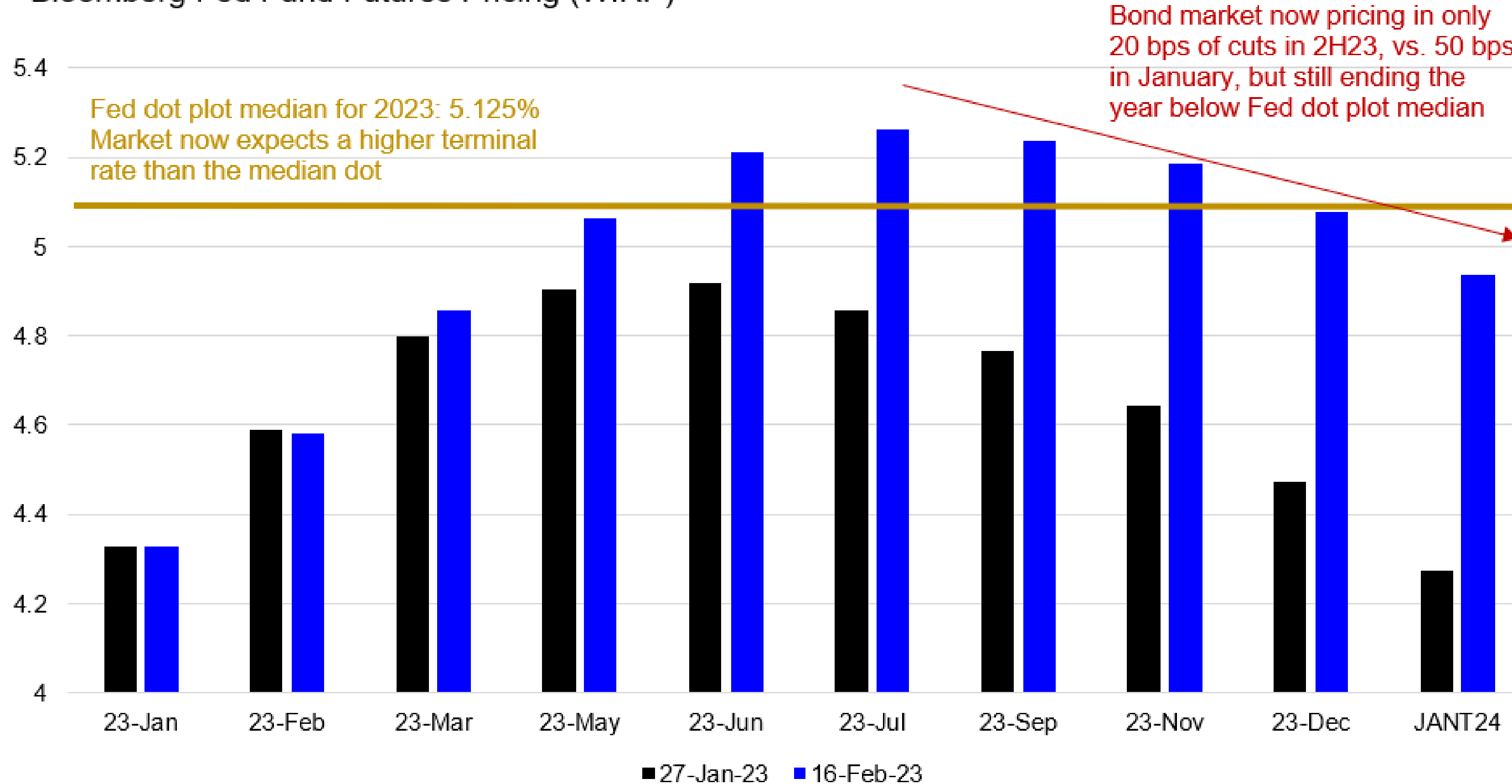
Hate to Say I Told You So:

The Fed's Path in 2023

Hate to say I told you so, all right!
Come on!
Do believe I told you so

-The Hives, *Hate to Say I Told You So*

The Bond Market is Starting to Believe the Fed



Source: Bloomberg, NewEdge Wealth, as of 1/27/23

Don't Believe the Bond Market Blindly…

As of 2/17/23

The bond market has been just as off-base as the Fed in its 1-year ahead projection of policy rates.

Back in January of 2022, the futures market only expected the Fed Funds rate to be 1% in February of 2023, compared to the current projection of 4.65%.

So, when we look at bond market pricing 1+ year out, remember that these forecasts have a poor track record and are very sensitive to the progression of data and Fed policy/speak.

Are Easy Financial Conditions Testing the Fed's Resolve?

As of 2/17/23

Easy financial conditions have contributed to the reacceleration in growth (there is a strong relationship between financial conditions and nominal GDP).

The Fed used a very narrow definition of financial conditions at the latest press conference (only looking at real yields), which ignores the wealth effect impact from higher asset pries, plus credit conditions.

The Long and Winding Road to Nowhere:

Equities in 2023

But still they lead me back
To the long winding road

-The Beatles, *The Long and Winding Road*

Well, we know where we're goin'
But we don't know where we've been
And we know what we're knowin'
But we can't say what we've seen

-The Talking Heads, *Road to Nowhere*

Potential S&P 500 Outcomes

S&P 500 2023 Potential Price Levels at Various EPS and PE

Change vs. 2022	2023 EPS	14x	15x	16x	17x	18x	19x	20x	21x
		PE on 2023 EPS							
-24%	$170	2,380	2,550	2,720	2,890	3,060	3,230	3,400	3,570
-19%	$180	2,520	2,700	2,880	3,060	3,240	3,420	3,600	3,780
-15%	$190	2,660	2,850	3,040	3,230	3,420	3,610	3,800	3,990
-10%	$200	2,800	3,000	3,200	3,400	3,600	3,800	4,000	4,200
-6%	$210	2,940	3,150	3,360	3,570	3,780	3,990	4,200	4,410
-1%	$220	3,080	3,300	3,520	3,740	3,960	4,180	4,400	4,620
3%	$230	3,220	3,450	3,680	3,910	4,140	4,370	4,600	4,830
8%	$240	3,360	3,600	3,840	4,080	4,320	4,560	4,800	5,040
12%	$250	3,500	3,750	4,000	4,250	4,500	4,750	5,000	5,250

S&P 500 2023 Potential % Change from 2022 Close at Various EPS and PE

Change vs. 2022	2023 EPS	14x	15x	16x	17x	18x	19x	20x	21x
		PE on 2023 EPS							
-24%	$170	-38%	-34%	-29%	-25%	-20%	-16%	-11%	-7%
-19%	$180	-34%	-30%	-25%	-20%	-16%	-11%	-6%	-2%
-15%	$190	-31%	-26%	-21%	-16%	-11%	-6%	-1%	4%
-10%	$200	-27%	-22%	-17%	-11%	-6%	-1%	4%	9%
-6%	$210	-23%	-18%	-12%	-7%	-2%	4%	9%	15%
-1%	$220	-20%	-14%	-8%	-3%	3%	9%	15%	20%
3%	$230	-16%	-10%	-4%	2%	8%	14%	20%	26%
8%	$240	-12%	-6%	0%	6%	13%	19%	25%	31%
12%	$250	-9%	-2%	4%	11%	17%	24%	30%	37%

Source: Bloomberg, NewEdge Wealth, as of 1/18/23

The blue outlined box shows our expectations for potential upside and downside based on fundamentals for the S&P 500 in 2023.

Of course, we can trade outside of these bands at any given time. Oftentimes technicals, positioning, and sentiment can cause short term prices to diverge from medium-term fundamentals.

We use a range of $200-220 (-10% to flat) for our 2023 EPS and a wide range of 16x-19x for the PE multiple.

We lean towards the lower end of this valuation band given Fed hawkishness and the level of interest rates, which could put downward pressure on valuations.

The current PE is 17.1x forward, which is slightly above the long-term average.

Wall Street Consensus for 2023

Low: 3,200

High: 4,750

2022 Close: 3,839

What is the right PE multiple?

S&P 500 Forward PE Ratios

	Over 10 Years	Over 20 Years	2010-2019
Average	17.3x	15.7x	15.2x
Standard Deviation +1	19.6x	18.2x	17.2x
Standard Deviation -1	15.1x	13.2x	13.1x
High	22.3x	22.3x	18.3x
Low	13.1x	10.5x	10.5x
Current Forward PE	**17.2x**		

Source: Bloomberg, NewEdge Wealth, as of 1/18/23

We think that one of the biggest impediments to significant and sustainable near-term upside for the S&P 500 is valuation.

Today's valuation is just about average, not "cheap". The still-full multiple after a 20%+ drawdown is because we entered the bear market from bubble-like valuations.

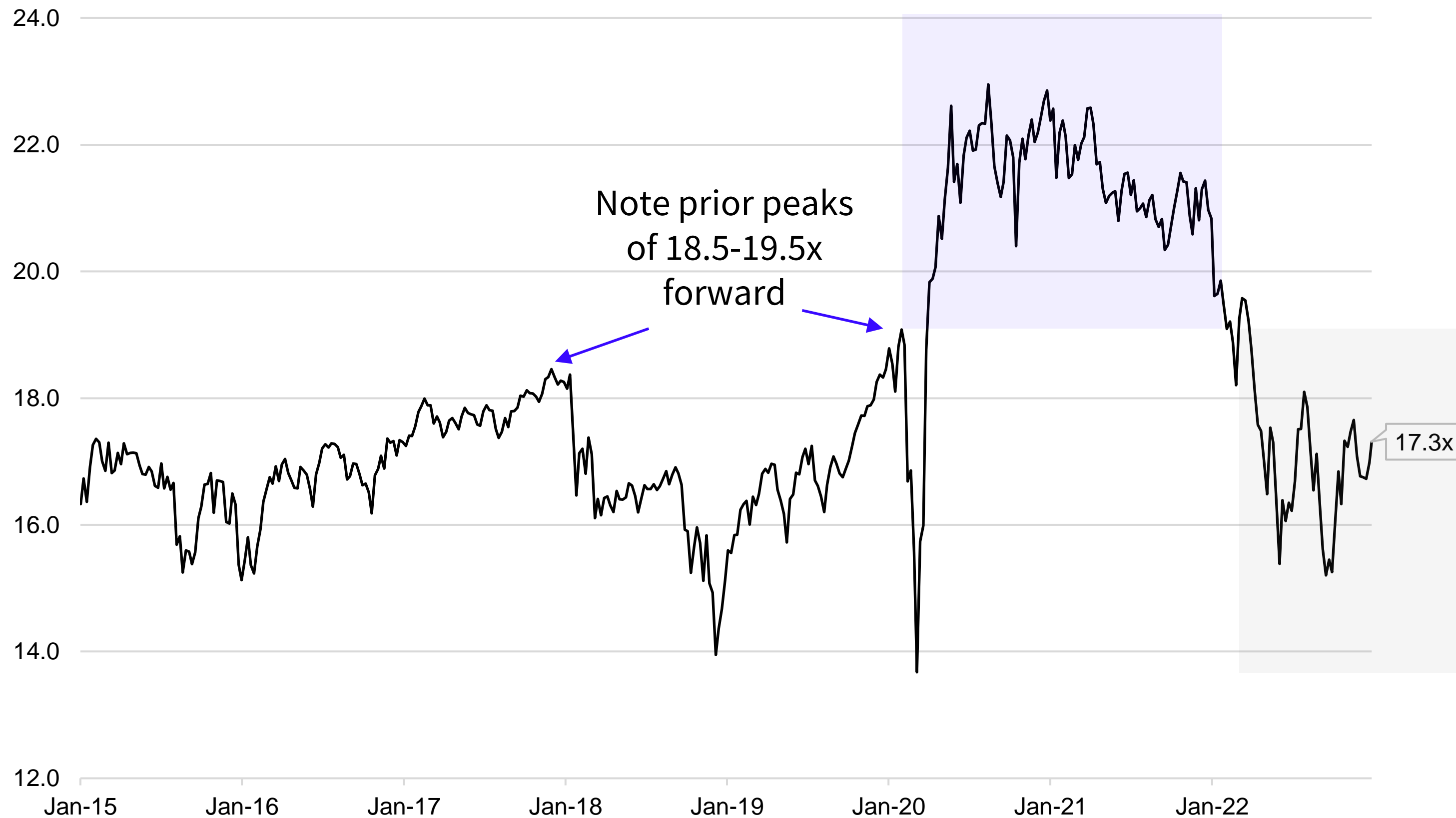
We do not think that the 2020-2021 valuation highs are achievable in the near term and likely not until the next cycle (we had not traded to such high valuations since the tech bubble of the 1990s).

We do not think it is prudent to count on returning to this high valuation levels sustainably, even if we get a Fed pivot, given the pivot is unlikely to be as powerful as the COVID rescue.

We think 15-17x forward is reasonable given the current liquidity and interest rate backdrop.

Why Stocks Are Unlikely to Trade Back to COVID Era Valuations

S&P 500 Blended Forward 12 Month PE



Source: Bloomberg, NewEdge Wealth, as of 1/11/23

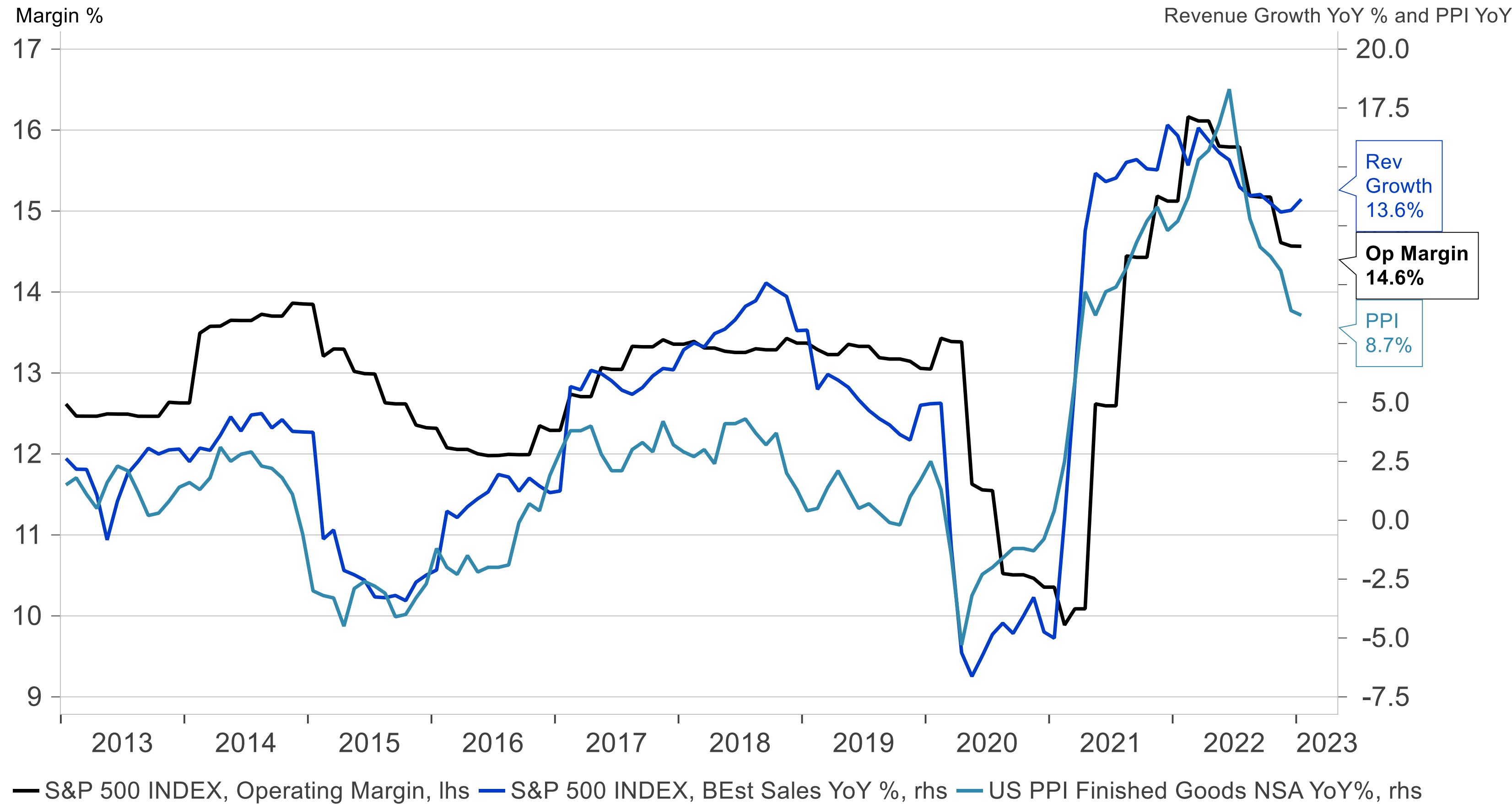
COVID Era:

- M2 Money Supply Growth 15-20%
- Fed Balance Sheet expansion +$5T
- Interest rates 0%

Today:

- M2 Money Supply Growth 0%
- Fed Balance Sheet expansion -$1T
- Interest rates 4.5%+

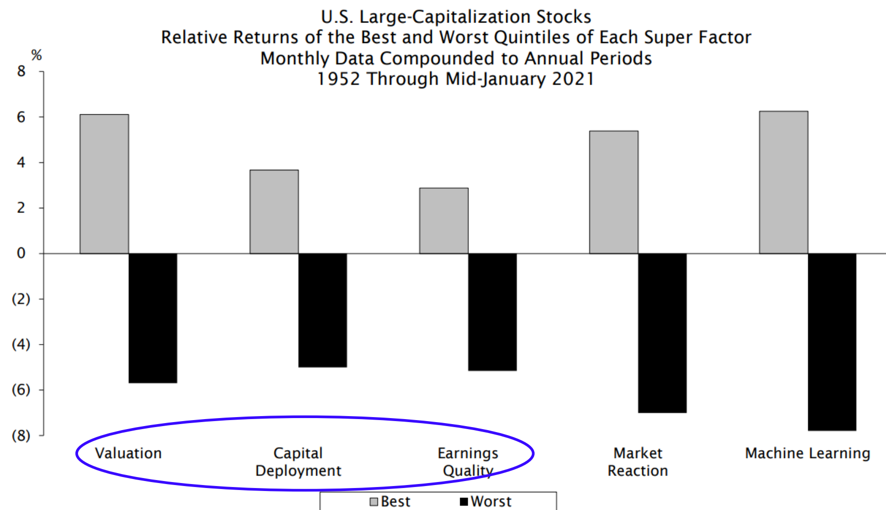
An Earnings Recession Without an Economic Recession?

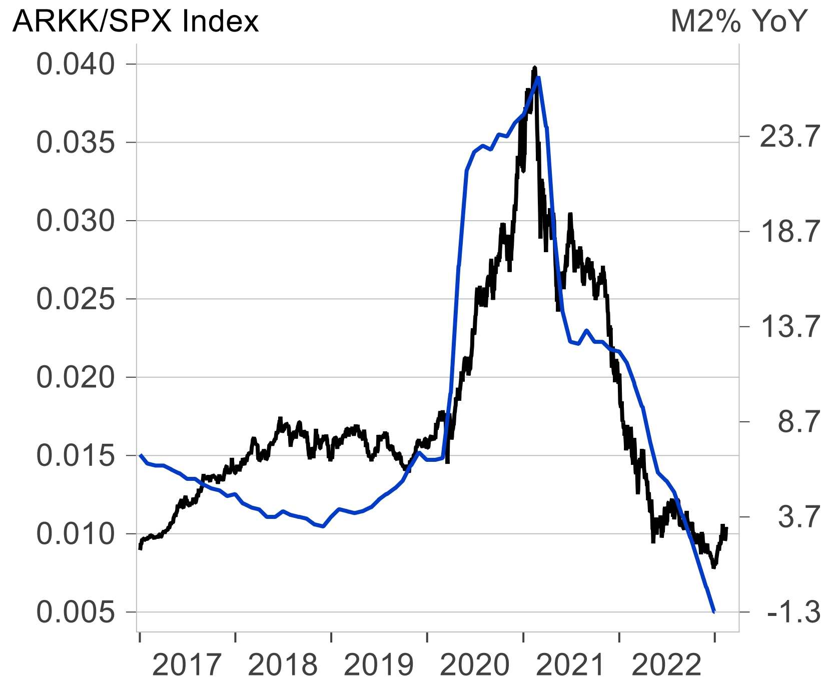


The biggest driver of upside to S&P 500 margins in 2021 was strong revenue growth (creates operating leverage, high incremental margins) made possible by high inflation (gave companies pricing power).

As inflation slows, so will pricing power, and thus revenue growth should slow as well. The risk is that as revenue growth slows, margins will fall, creating a headwind for earnings.

Long Term Quality, Short-Term Low-Quality Beta Not Supported by Liquidity





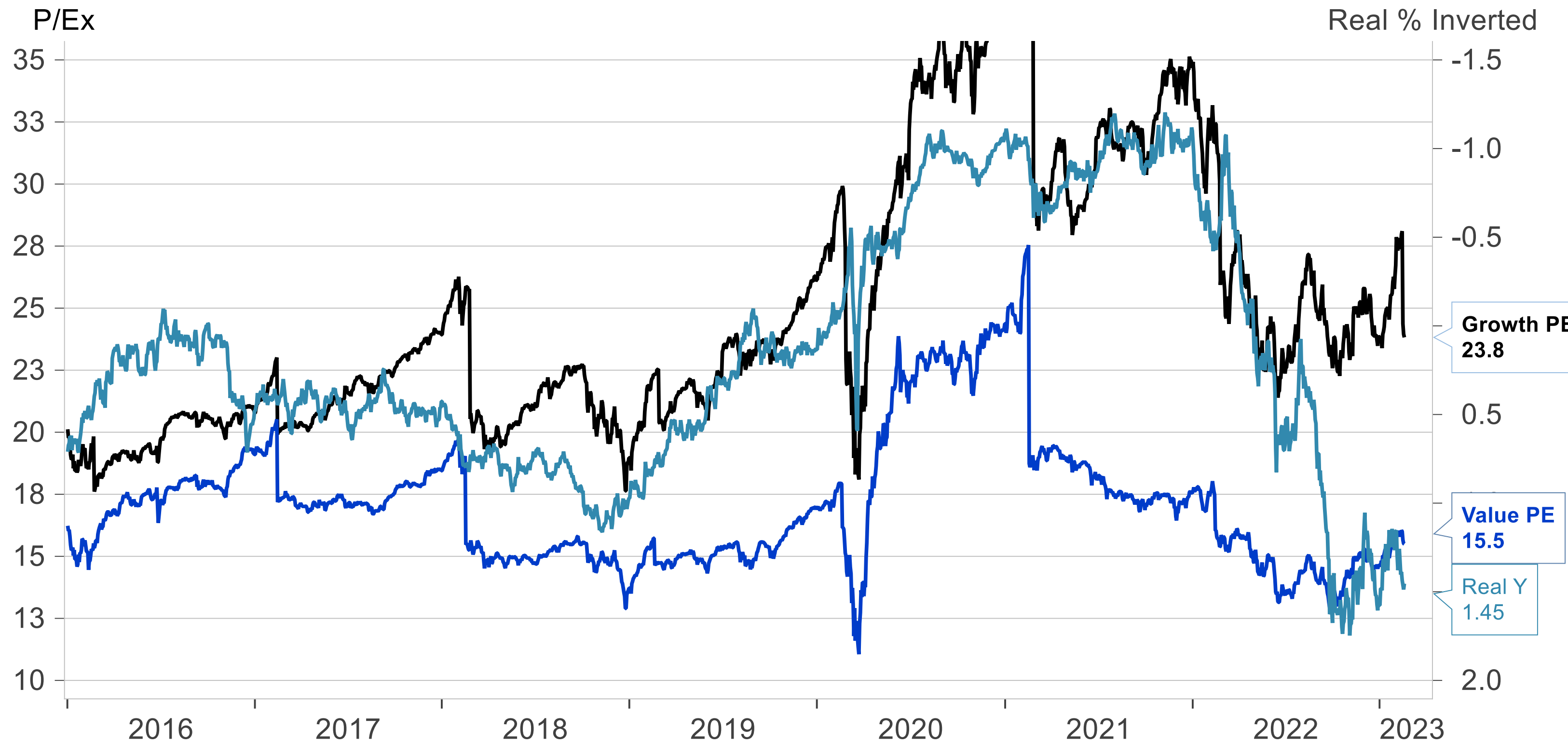
As of 2/17/23

For the long-term, quality continues to be a key driver of relative equity performance, with the Empirical Research Partners showing the long-term outperformance of high-quality companies (those with strong balance sheets, good earnings quality/cash generation, and disciplined capital deployment) over low quality companies.

There are times that low quality companies have huge outperformance, such as 2020-2021. The risk is that low quality companies often “give back” their outperformance during downturns, as they did in 2022.

To start 2023, we have seen low quality lead the market, but would note that we have not seen a turn in the liquidity cycle that would make this low-quality outperformance sustainable.

Valuation Still a Risk for Growth, While Value Less Stretched



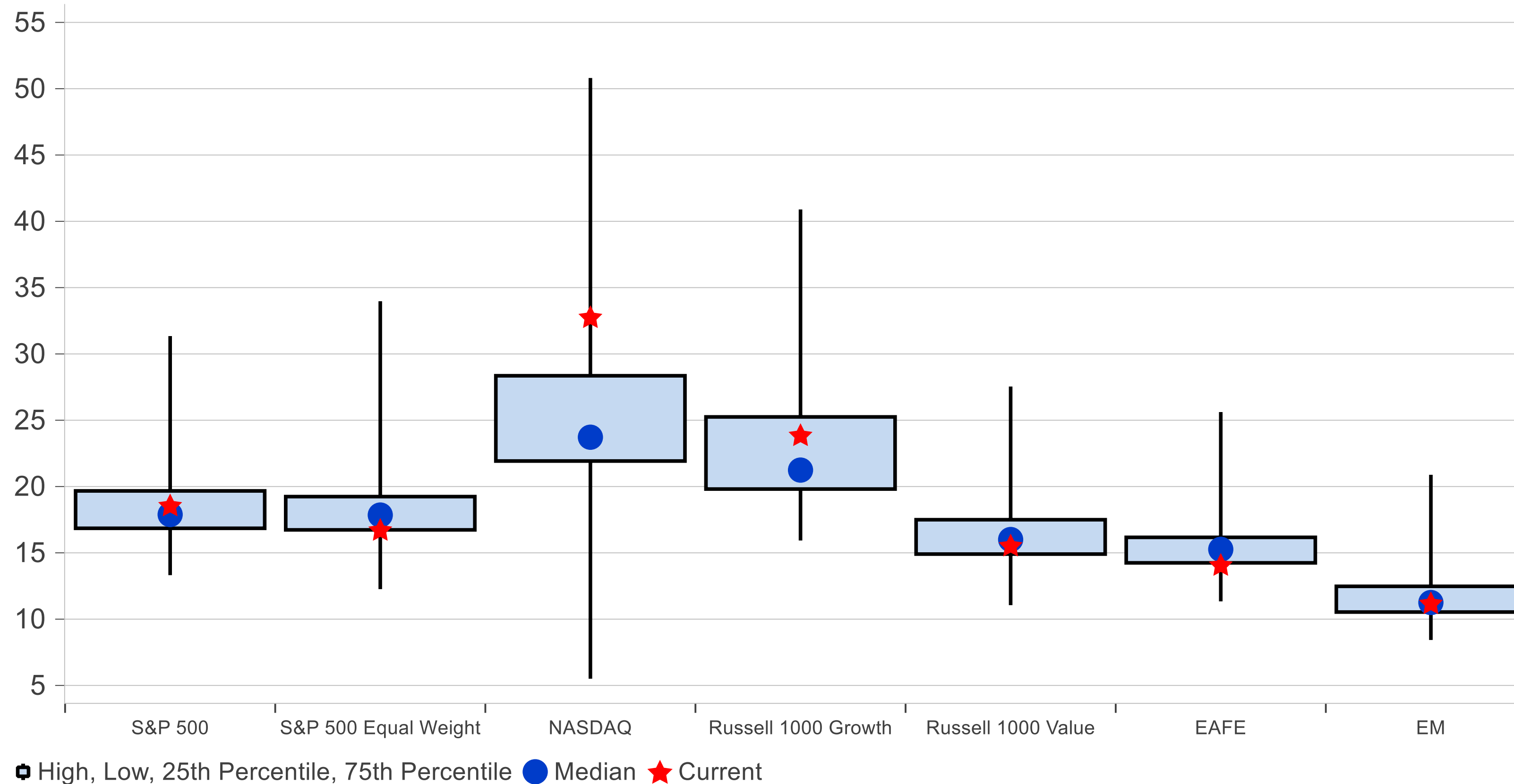
Source: NewEdge Wealth, Macrobond, Bloomberg

As of 2/17/23

Growth stocks still trade at a 50% premium to Value stocks. This is down from a 100% premium at the peak in late 2-2021 during the COVID bubble, however above the 20-40% premium range experienced in the prior cycle before the late-2018 “Powell pivot” that saw real interest rates plunge.

Some Growth names face earnings risk as well, as many of them were the greatest beneficiaries of COVID dynamics that pulled forward demand.

Most Equity Markets Have Average Valuations, Not Cheap, Not Expensive



As of 2/17/23

Despite 2022's weak markets, most major equity indices have valuations in line with their 10-year median multiples.

Not cheap, but also not expensive.

Notably some indices (NASDAQ, Growth) still have valuations above their 10-year medians, while other indices (Equal Weight S&P, Value, EAFE) have valuations below their 10-year medians.

We expect relative valuation to continue to be a driver of returns in 2023, as it was in 2022.

Watch Near Term Momentum Softening

S&P 500 with MACD

World Turning:

Macro Factors (Yields and the USD)

Everybody's trying to say I'm wrong
I just wanna be back where I belong

-Fleetwood Mac, *World Turning*

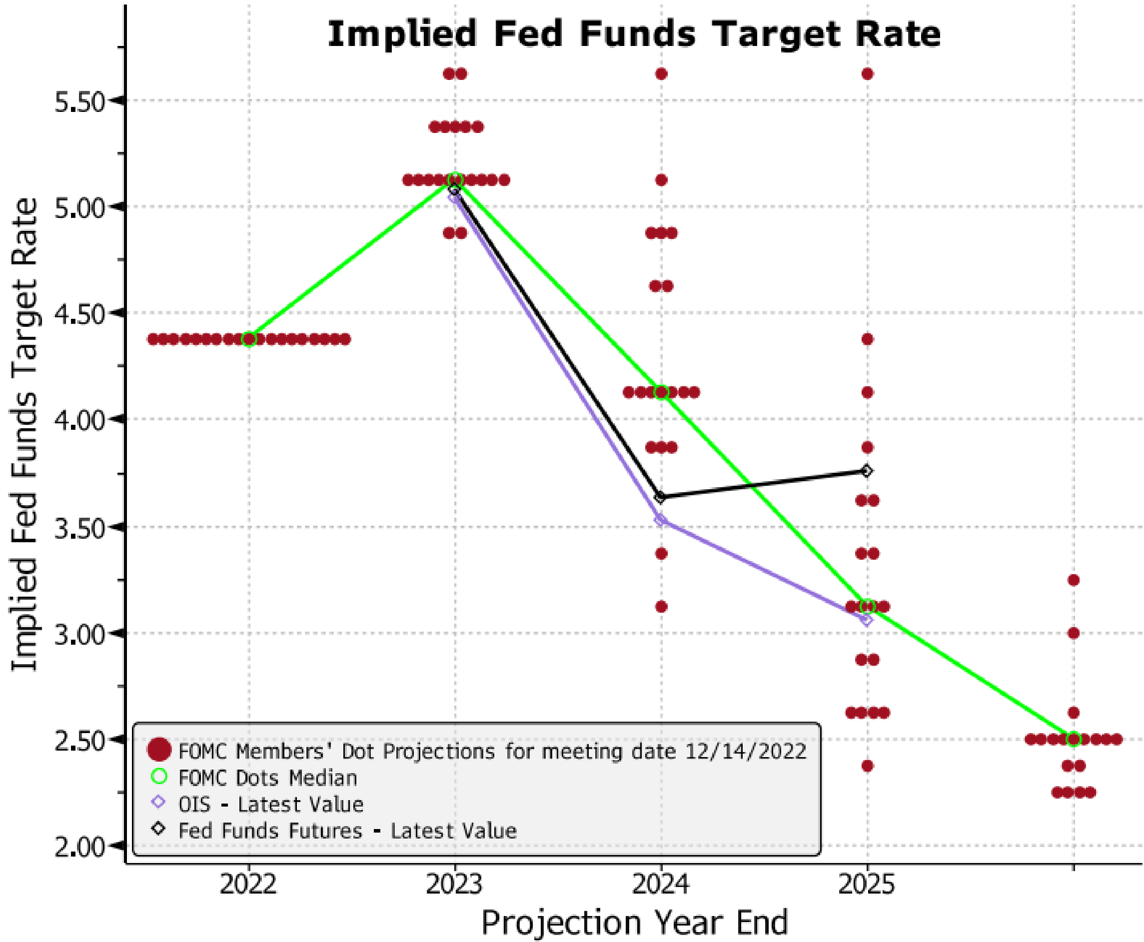
10 Year: Climbing Back

U.S. 10 Year Treasury Yield

2-Year: Surging Towards New Highs

Dots Are Divergent in 2024 and Beyond

Fed Dot Plot as of December FOMC Meeting with 2/17/23 Market Pricing

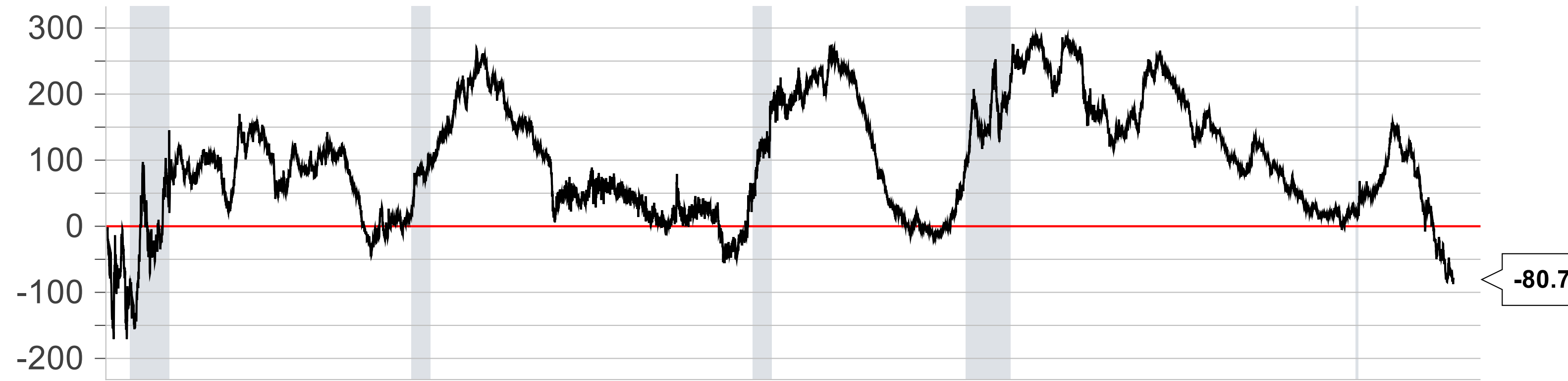


NewEdge WEALTH

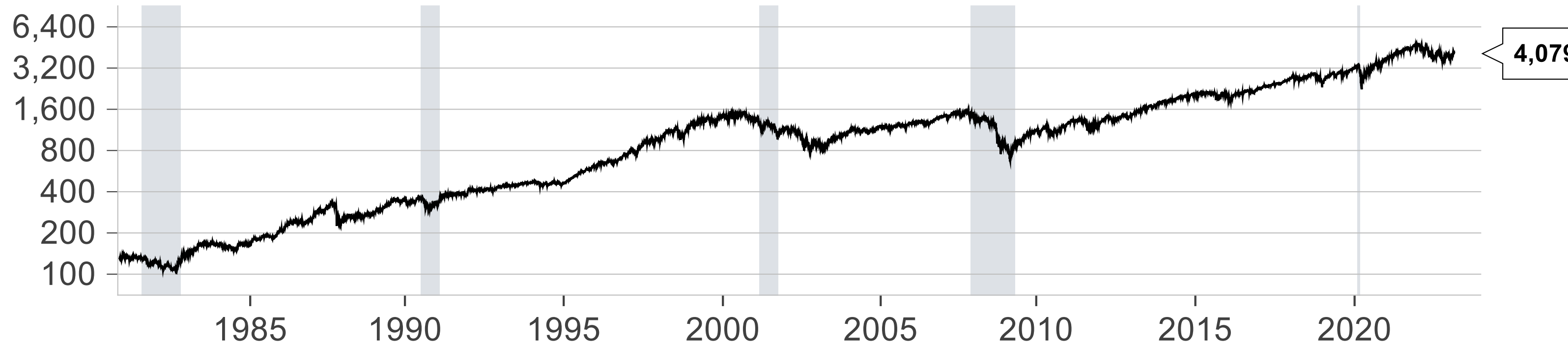
It's Not the Inversion, It's the Re-Steepening That Gets You

Re-Steepening of the Yield Curve Occurs Before Recessions Begin and Risk Assets Bottom

US Treasury 2s10s Curve (NBER Recessions Shaded)



S&P 500 (NBER Recessions Shaded)



Source: NewEdge Wealth, Macrobond, Bloomberg

As of 2/17/23

As mentioned with the 2-year, a sharp drop in short-term yields signals an imminent recession and rate cuts.

This is why a re-steepening of the yield curve (when short-term yields start to drop faster than long-term yields, called a bull steepener) is the a much better signal for the timing of a recession than the inversion of the curve itself.

Note that the re-steepening has typically begin before or in the early days of a recession, while risk assets have not bottomed until the re-steepening is well underway.

USD: Rebound Off of Oversold

USD (DXY Index)

The powerful uptrend in the USD in 2022 is over, with a breakdown in the USD below its 50-week moving average and now a “death cross” where the 50-day has crossed below the 200-day (often seen as a sign of a weakening trend and further weakness to come).

This weakness in late 2022 was driven by stepped up hawkishness by the Bank of Japan (softening the stance on yield curve control), and a return to optimism about European growth/stability as the worst case scenario of an energy crisis was avoided. The deceleration in US Fed hikes also contributed to USD weakness.

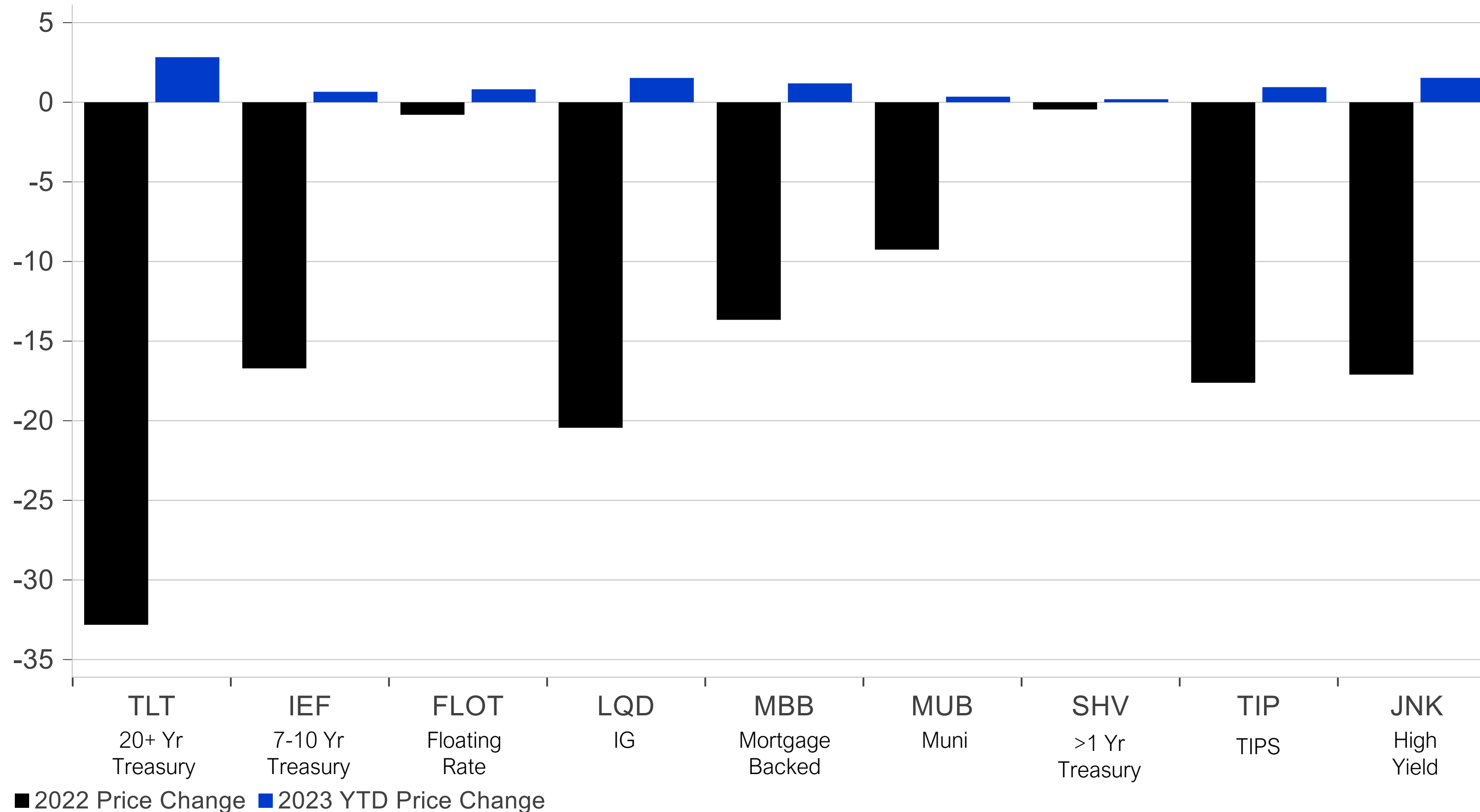
Back in Black:

Fixed Income in 2023

Back in black
I hit the sack
I've been too long, I'm glad to be back

-AC/DC, *Back in Black*

After an Ugly 2022, Stabilization to Start 2023



Source: NewEdge Wealth, Macrobond, Bloomberg

As of 2/17/23

We do not expect the Great Bond Bear Market of 2022 to continue into 2023, helped by moderating inflation and the likelihood that most Central Banks around the world have completed the majority of their rate hikes for this cycle.

Of course, if economic data comes in better than expected (including higher inflation), this could cause bond yields to rise/bond prices to fall again. However, given the reset higher in rates that already occurred in 2023, we would not expect a repeat of 2022's degree of losses in this scenario.

Traders Are Betting On/Staying Hedged For Higher Rates

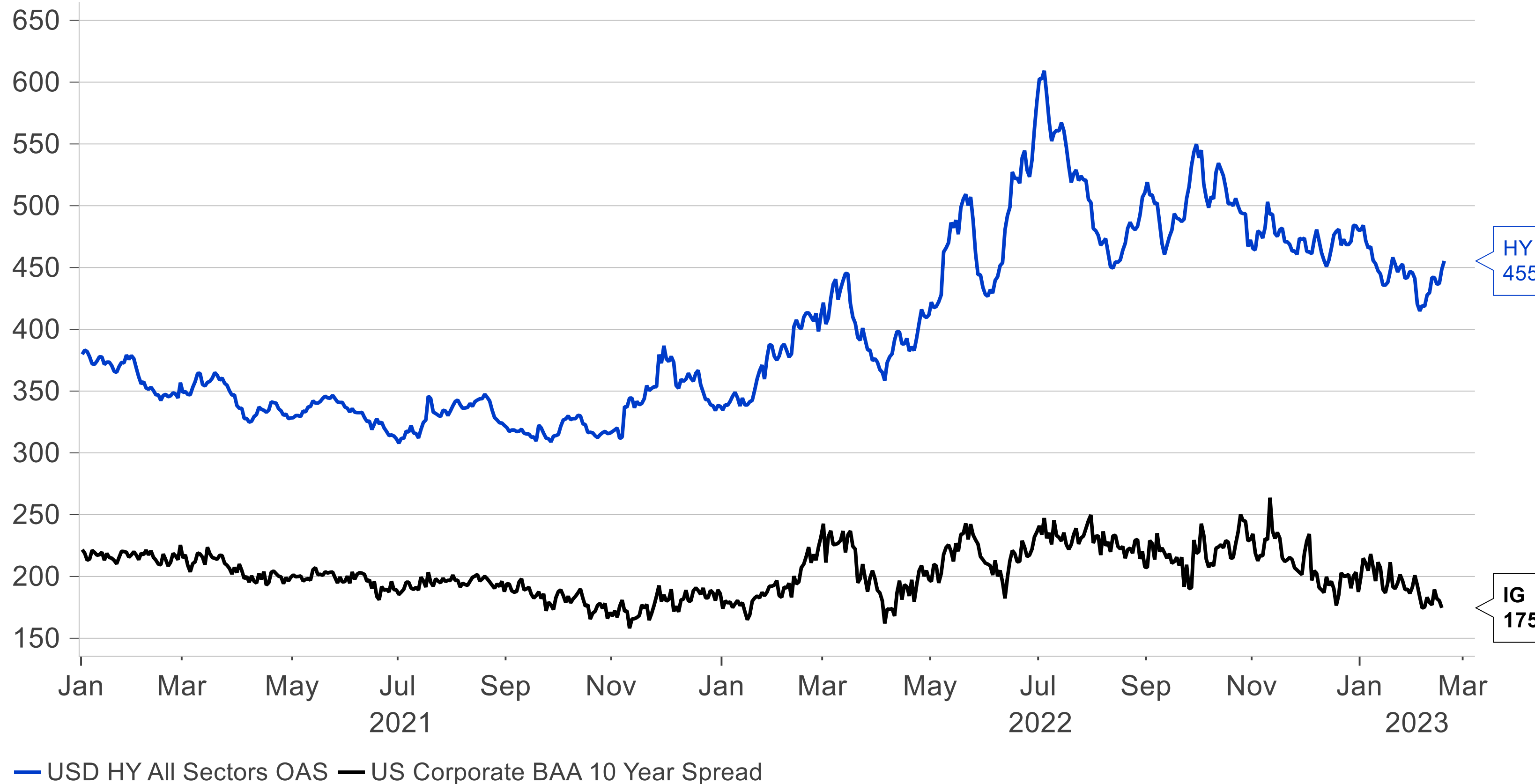
As of 2/17/23

Over the course of 2022's Great Bond Bear Market, large traders (captured by the Commodity Futures Trading Commission report on net futures positioning) became very short Treasuries across the curve, essentially betting on further rate rises.

This short positioning could be quickly/sharply unwound (meaning traders have to buy Treasuries, causing yields to fall and prices to rise) if economic data comes in weaker, inflation comes in lower, and/or the Fed signals greater accommodation.

We have started to see these shorts get covered to start 2023.

Credit Spreads Show Few Signs of Stress

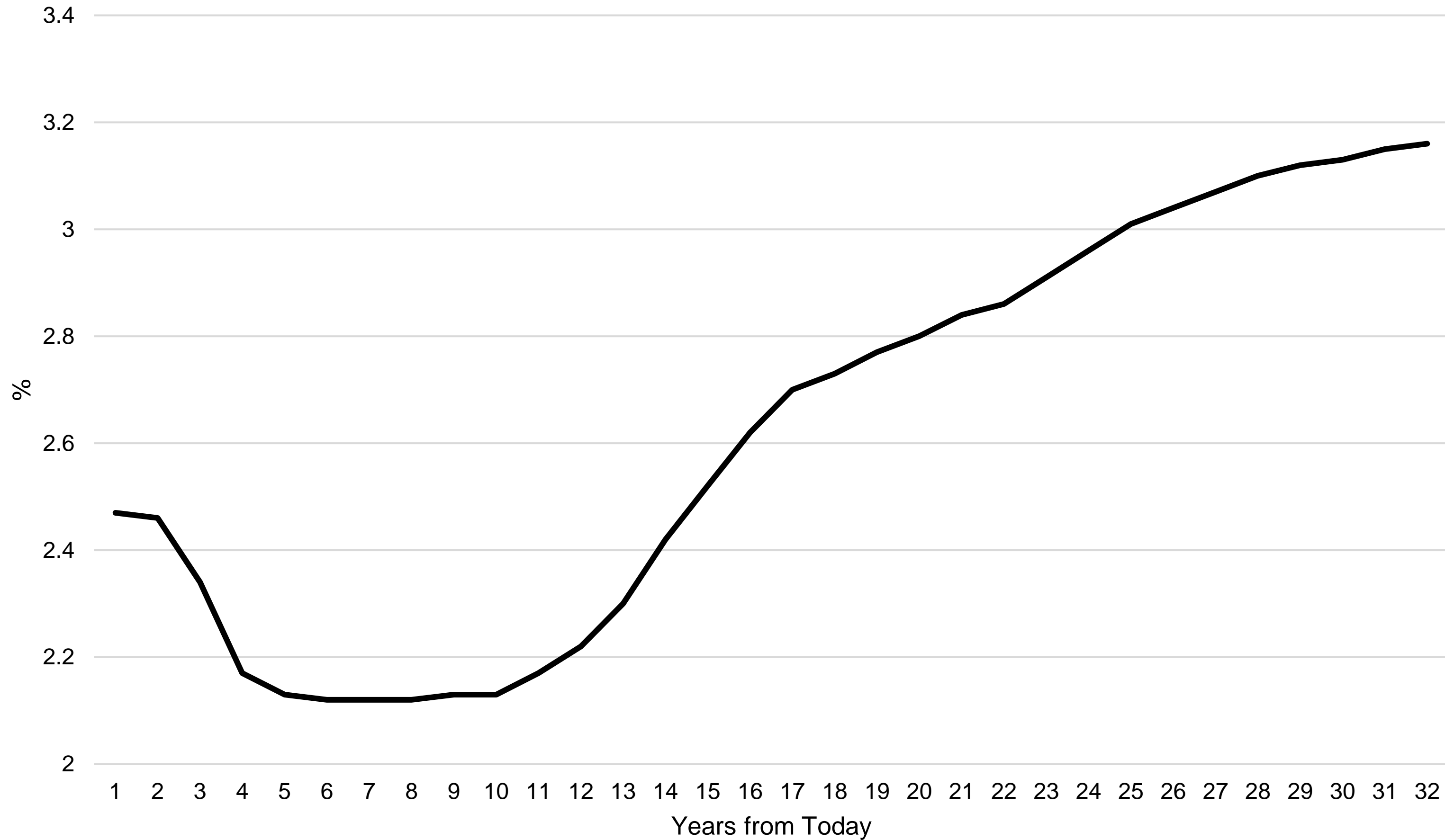


Source: NewEdge Wealth, Macrobond, Bloomberg
As of 2/17/23

Despite fears of a recession, credit spreads (the extra compensation lenders demand for lending to riskier borrowers) have been falling since mid-2022.

If a recession does materialize in 2023, we would expect credit spreads to widen again as investors grow concerned about borrowers' financial health.

Selectivity in Munis After the Rally



Source: Bloomberg, NewEdge Wealth, as of 1/18/23

We think municipal bond investors will need to be selective as they look for opportunities in munis, as the recent rally in munis have left the after-tax spreads that munis yield over Treasuries more attractive (higher) at some maturities than others.

Display 1: AAA Muni/US Treasury After-Tax Spread (Basis Points)

	Jan 13, 2023	Oct 28, 2022	5-Yr. Average
Two-Year	–24	53	16
Five-Year	2	73	23
10-Year	26	105	52
15-Year	76	125	74
20-Year	78	131	81
30-Year	109	168	91

As of January 13, 2023
Source: Municipal Market Data and AllianceBernstein (AB)

Running on Empty:

Real Assets in 2023

Running on (running on empty)
Running on (running blind)
Running on (running into the sun)
But I'm running behind

-Jackson Browne, *Running on Empty*

Could WTI Crude Have a Floor ~$70?

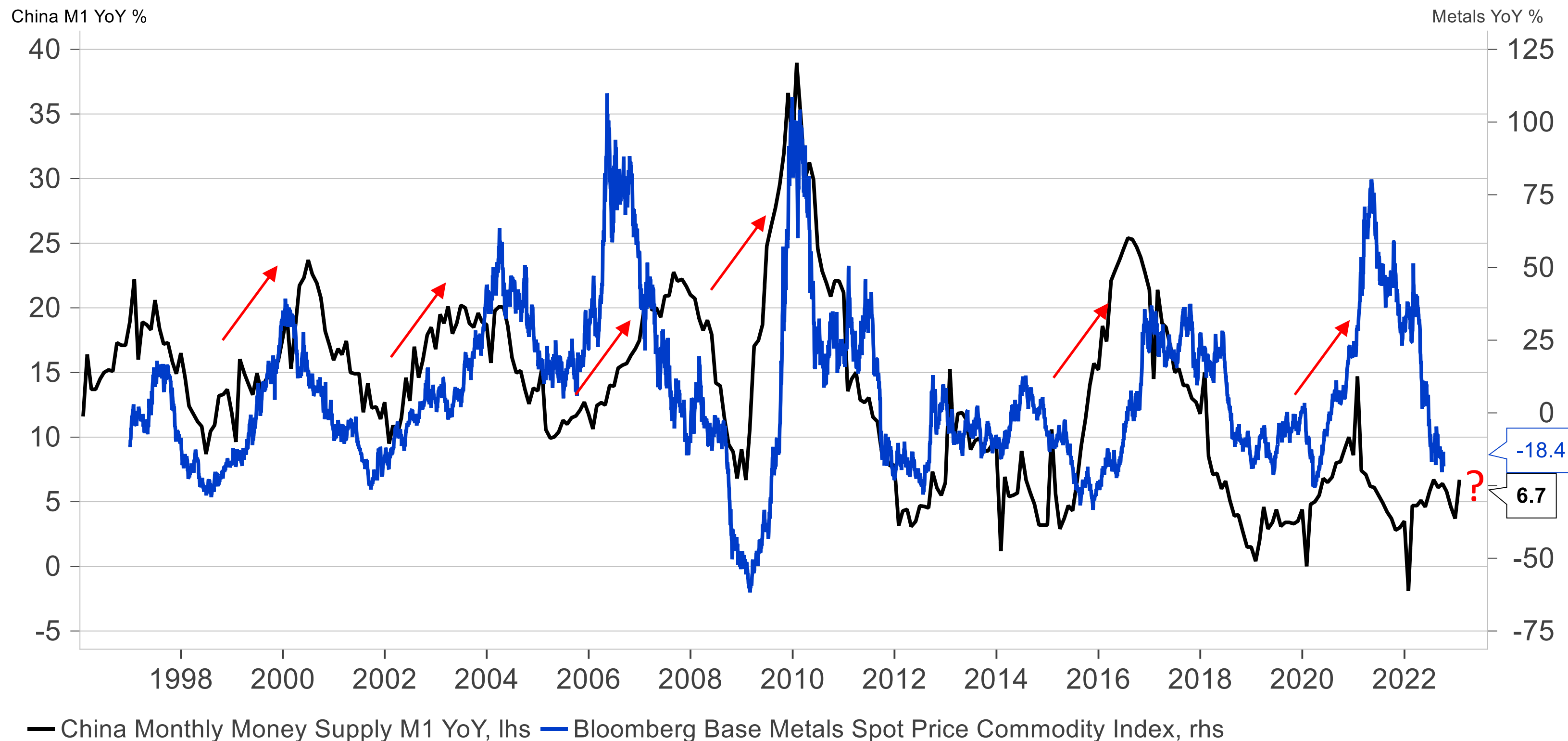
WTI Oil Price

Oil prices falling in 2H22 were a key driver of falling headline inflation, moderating inflation expectations, improving consumer sentiment, and recovering real wage growth.

But could crude be finding a floor ~$70, with the U.S. signaling that it would consider replenishing the Strategic Petroleum Reserve below $70, OPEC+ signaling greater production cuts below $70, and the likelihood that Chinese oil demand reached its near-term nadir in December 2022.

Tight global inventories are an upside driver, while risk of a recession is a downside driver.

If China Stimulates as it Reopens, Will We See Base Metals Rally?



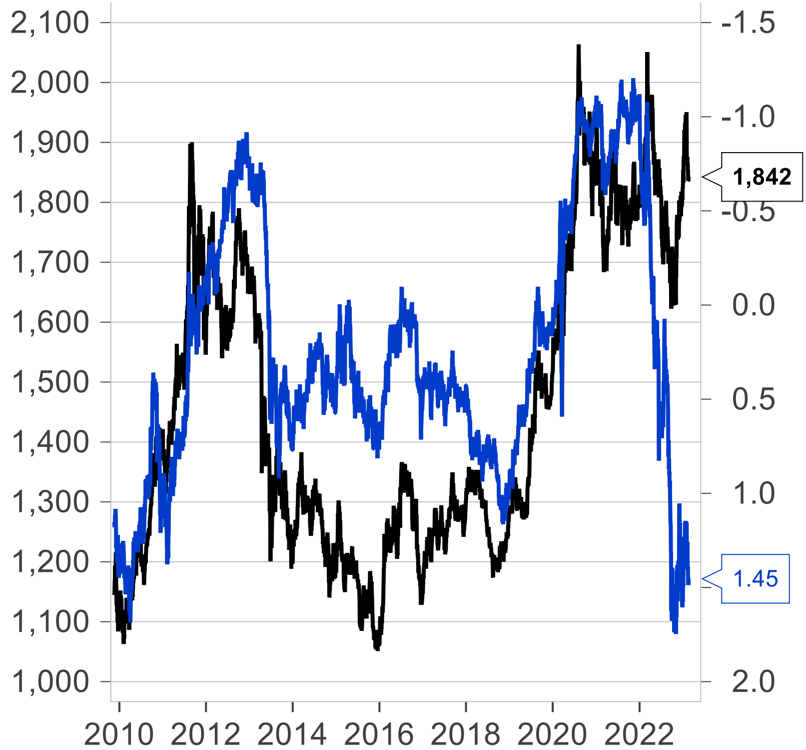
As of 2/17/23

In past easing/stimulus cycles by the Chinese government, we have seen base metals(copper, iron ore, etc.) respond with jumps in their prices on a YoY basis due to the greater demand from China.

There are two questions for 2023: will China stimulate (accelerate money supply growth) as it reopens? And will this stimulus benefit the “old economy” infrastructure/construction (which boosts base metals), or will the stimulus be more consumer focused?

Gold and Real Yields Divergence, But Gold Lockstep with the USD

Gold Prices and Real Yields Inverted (10 Year)



Source: NewEdge Wealth, Macrobond, Bloomberg

Gold Prices and USD Inverted (1 Year)

Source: NewEdge Wealth, Macrobond, Bloomberg

For most of the prior cycle, Gold traded inversely with real yields (10 Year Treasury Yield minus inflation).

In late 2022 this relationship broke down, with Gold rallying despite the rise in real yields.

Instead, Gold has been trading lockstep with the USD inversely, with a weaker USD sparking higher Gold prices.

Heavy central bank buying likely also contributed to higher Gold prices.

As of 2/17/23

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When referencing asset class returns or statistics, the following indices are used to represent those asset classes, unless otherwise notes. You cannot invest directly in an index. Index returns shown are total returns which includes interest, capital gains, dividends, and distributions realized over a given period of time. An individual who purchases an investment product which attempts to mimic the performance of a benchmark or index will incur expenses such as management fees and transaction costs which reduce returns.

TIPS: Bloomberg Barclays Global Inflation-Linked: U.S. TIPS Total Return Index Unhedged
Municipals 5-Year: Bloomberg Barclays Municipal Bond 5 Year (4-6) Total Return Index Unhedged USD
Core Bond: Bloomberg Barclays US Agg Total Return Value Unhedged USD
U.S. MBS: Bloomberg Barclays US MBS Index
High Yield Municipals: Bloomberg Barclays Muni High Yield Total Return Index Value Unhedged USD
High Yield: Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged USD
Foreign Bond: Bloomberg Barclays Global Aggregate ex-USD Total Return Index Value USD (50/50 blend of hedged and unhedged)
EM Debt (unhedged): J.P. Morgan GBI-EM Global Diversified Composite Unhedged USD
U.S. Large Cap: S&P 500 Total Return Index
U.S. Small Cap : Russell 2000 Total Return Index
International Developed: MSCI EAFE Net Total Return USD Index
Emerging Markets: MSCI Emerging Markets Net Total Return USD Index
World: MSCI ACWI Net Total Return USD Index
U.S. Equity REITs: FTSE Nareit Equity REITs Total Return Index USD
Commodities: Bloomberg Commodity Total Return Index
Midstream Energy: Alerian MLP Total Return Index
Hedge Funds: Hedge Fund Research HFRI Fund of Funds Composite Index
U.S.: MSCI USA Net Total Return USD Index

Europe: Euro Stoxx 50
United Kingdom: UK FTSE 100
Japan: Tokyo TOPIX Stock Exchange Index
China: Hang Seng Index
Brazil: Ibovespa Brasil Sao Paulo Stock Exchange Index
India: NSE Nifty Index
South Korea: Korea Stock Exchange KOSPI Index
Taiwan: Taiwan Stock Exchange Index

REITS Diversified: FTSE Nareit Eqty Diversified Total Return Index
REITS Healthcare: FTSE Nareit Eqty Health Care Total Return Index
REITS Industrial: FTSE Nareit Eqty Industrial Total Return Index
REITS Lodging/Resorts: FTSE Nareit Eqty Lodging/Resorts Total Return Index
REITS Office: FTSE Nareit Eqty Office Total Return Index
REITS Residential: FTSE Nareit Eqty Residential Total Return Index
REITS Retail: FTSE Nareit Eqty Retail Total Return Index
REITS Self Storage: FTSE Nareit Eqty Self Storage Total Return Index
REITS Data Centers: FTSE Nareit Equity Data Centers Total Return Index
REITS Specialty: FTSE Nareit Equity Specialty Total Return Index
Real Assets Agriculture: Bloomberg Sub Agriculture Total Return Index
Real Assets Industrial Metals: Bloomberg Sub Industrial Metals Total Return Index
Real Assets Precious Metals: Bloomberg Sub Precious Metals Total Return Index
Real Assets Energy: Bloomberg Sub Energy Total Return Index

Any questions?

Contact: