

Macro & Geopolitical Quick Takes

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This will be a quick summary of the topics grabbing our attention at the moment.

Russia

Russia and the Wagner Group remain as question marks.

Today at 1:30pm ET, Academy will host a Russia focused **webinar** ([register here](#)). Rachel Washburn is back in her role as moderator and Air Force General (ret.) Deptula (who is on Putin's list of sanctioned Americans) and Marine Corps General (ret.) Robeson should provide some great insights. China's relationship with Russia will also be a topic of conversation.

Sunday's [Ride of the Valkyries](#) is a good starting point on the subject and it links to recent [SITREPs](#) on the crisis in Russia.

AI

If you missed it, please watch last week's [AI Webinar replay](#). Admiral (ret.) Barrett was great as always and recommended reading the National Institute of Standards and Technology ([NIST](#)) [Artificial Intelligence Risk Management Framework](#) paper. General (ret.) Groen also had some great insights.

Month-End Rebalancing

With stocks selling off in the last week, the need to sell equities and buy bonds for monthly and quarterly rebalancing purposes will be reduced (still large, but will be relatively smaller). It is difficult to determine how much rebalancing has already been done, but that may have contributed to recent equity weakness.

The T-Bill Deluge

Academy's money market team has pointed out that the Treasury Department has done an excellent job of issuing T-bills with limited market impact. They have been priced well in line with other money market instruments.

Will the ongoing need to issue Treasuries act as a headwind for risk? On May 31st, the Treasury Reverse Repo facility stood at \$2.25 trillion, but it declined to \$1.96 trillion yesterday. Presumably, money is coming out of this facility and is going into T-bills (that is the lowest balance in RRP in over a year).

With the potential for T-bill issuance to shrink deposit reserves and ongoing balance sheet reduction at the Fed, we may have more headwinds for risk assets (QT was interrupted by the need to provide funds to some banks through the discount window and other special facilities).

Jobs

Next week we will get more jobs data. It is all piled into two days (the 6th and 7th) due to the midweek holiday.

We have seen an uptick in unemployment claims and I'm sticking to my theory that it is [Highly Unlikely that Economists Got it So Wrong](#). The probability that so many analysts, working independently, all missed the Establishment number (Household number was negative) seems unlikely. In addition, the incredibly low response rate that the BLS is getting on its job surveys ([BLS response rates](#)) raises further questions about the data. How are they treating the lower response rate?

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Jobs have been the single biggest argument against a recession and I'm looking for more cracks to be exposed.

Rangebound Fed

It will be incredibly difficult for the Fed to hike more than 50 bps this year (in addition to what they have already done). We will likely get 25 bps at the next meeting, and I doubt that we get the other 25 bps.

It also seems incredibly difficult for the Fed to cut this year given the effort that they have made to drive "higher for longer" into our heads. However, my view is that the economic data will push them to a far less hawkish stance, if not dovish.

So, I like the front end of the curve and expect less inversion between 2s and 10s.

Credit versus Equity

I expect credit to outperform equities. High yield might have some susceptibilities, but we are facing valuation/crowded trade issues more than deep recession issues and credit is well positioned to handle that. We mentioned vol and other metrics that point to credit being "cheap" relative to equities in our [Mid-Year Outlook](#). The other supporting feature will be a slowdown in IG new issuance.

Earnings

For the second quarter in a row, I'm very interested in earnings. While during the **last quarter it seemed enough to say that "we survived" the hikes**, this quarter might have a higher standard for stocks to respond positively. I will be examining reports for discussions on "**pricing power**" and whether this still exists for companies. As supply chains righted themselves and commodity prices dropped, pricing power played a key role in driving corporate profits. It is unclear if that positive driver remains intact.

The one thing that I'm certain of is that 99% of companies will mention AI. I find it difficult to believe that this isn't fully priced into stocks (especially AI stocks) at this point, so I don't expect a repeat of last quarter's "mention AI" boost.

The Business of Building New Homes versus Housing

We've mentioned this before (in our Mid-Year Outlook's **Location** section), but I want to mention it again. Homebuilders do well when people are moving to new areas. This is especially true when existing homeowners are reluctant to sell one of their biggest "assets" with a low interest rate mortgage. I only mention this as new homes and homebuilders are not as indicative of the overall housing market as many would think. This is probably always the case, but so many trends are in favor of the builders, that I wouldn't extrapolate as much from their strength as I normally would.

Banks, Commercial Real Estate, and More

I've run out of time for today, but these are all topics on which we will receive more information in the coming months that will help shape the direction of the market.

Have a great day, enjoy our webinar, and see some of you in Philly later on tonight and tomorrow!

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