What a Mess!

I've been more confused than usual by markets since late last week. I am **struggling to figure out the "tell"** in what seems like very confusing, messy, and even unusual markets. **On the war front and longer-term ramifications of sanctions**, Who Needs Who? sums it up well. In the meantime, let's just run through a few things that I find most confusing:

- In the U.S., we have **7s and 10s inverted**. We also have **20s and 30s inverted**. I cannot think of any rate cycle scenario this represents, except for ones so convoluted that I can't bring myself to discuss them. It is also worth pointing out that no other major sovereign debt curve has that many kinks. This is unique to the U.S. and is tied, I suppose, to buying behavior (10s and 30s are what buyers get forced into). I cannot help but shake the feeling that these kinks and the relatively wide bid/offer spreads in "off the run" bonds indicate a depressingly low level of "true" liquidity.
- Oil prices seem to have some effect on the "risk-off" or "risk-on" tone, but **the direction of oil prices seems to matter more than the magnitude of any move**. The link is weak at best, but it really seems as though some algo is triggered by whether oil is up or down, not by how much it is up or down. This helps explain why WTI is closing in on recent highs, but equities are substantially above their lows.
- Back to rates. **Rates used to move higher with commodity prices** (inflation). That relationship seems flimsy at best. **I'm old enough to remember when higher yields used to spook big tech stocks** (maybe because that was only a couple of weeks ago). Now we seem to be in more of a "risk-on" or "risk-off" mode.
- **Do we need to fight housing cost inflation right as housing might be rolling over?** New home and existing home sales have slowed. According to bankrate.com, the national average for 30-year mortgages has surged from 3.07% in November to 4.53% now! And it isn't just 30-year rates that have surged - across the curve, mortgage rates have increased. **Refinancing activity has plunged**. I cannot help but wonder that if we got so far behind the curve, have we missed the curve entirely?
- Ignoring the pandemic, you must **go back to early 2016 to see a "less easy" Chicago Fed's Financial Condition index!** Basically, financial conditions have tightened (they are still "easy," just a lot less easy) and back in late 2018, the tightening to less easy conditions caused the Fed to halt their tightening. Now, we are just beginning!
- **Credit, after a strong rally, has resumed some outflows in the high yield bond market** (leveraged loan funds and floating rate funds continue to see inflows). But the underlying conditions seem even stranger than that as liquidity for any individual credit seems extremely low**. In credit, more than anywhere, liquidity is abysmal in both directions**.
- **China was "un-investable" two weeks ago, now it is a market darling?** I see nothing that shows China deviating from the shift to an "internal" centric policy. Please see China's Going Away Party.

With all this going on, I'm stuck in the view that we are still in a bear market for risk, but I am reminded how powerful bear market rallies can be! The S&P 500 is about even on the week, though it feels like its up 5% to me!

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From a macro perspective, the one thing markets **struggle with (more than anything) is rapidly shifting correlations**. Yes, volatility spikes are painful, but usually manageable. When correlations shift or behave randomly, it is difficult for many macro funds to trade successfully. It seems that we are still in that sort of period, which may explain what seemed like a relentless short covering bid.

On the rates side of things, I am trying to see if there is **any evidence of selling by foreign central banks** (with China as the focal point), but also Saudi Arabia, which seems to be in discussions about selling more oil to China and doing it in yuan rather than dollars.

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