

Disconnected Markets

Global connectedness hit an all-time high in 2017.¹ Financial markets don't seem to have noticed. Prices have never seemed more disconnected from traditional fundamentals (risk free rate, beta, market risk premium, term premiums, etc.), in part because they are still drowning in the massive liquidity injected into markets following the Great Recession.

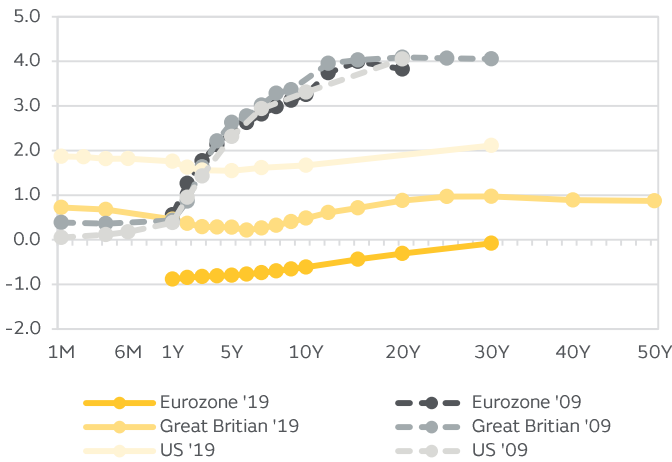
Market participants and central bankers can no longer rely on traditional ways to dissect the basics of liquidity, stimulus, risk and prices. In this environment, we see price distortion as a risk to both investors and policy makers. For investors, this makes diversification much more challenging.

Yield curves are flat to negative in the US and UK providing little incentive for longer term investing. Meanwhile in Europe, while the curve may be positive rates are negative. Furthermore, in the most short-dated liquid markets we've recently experienced a ~240% spike in the SOFR due to "regulatory changes, rising Treasury bond issuance and steady declines in [bank] deposits."²

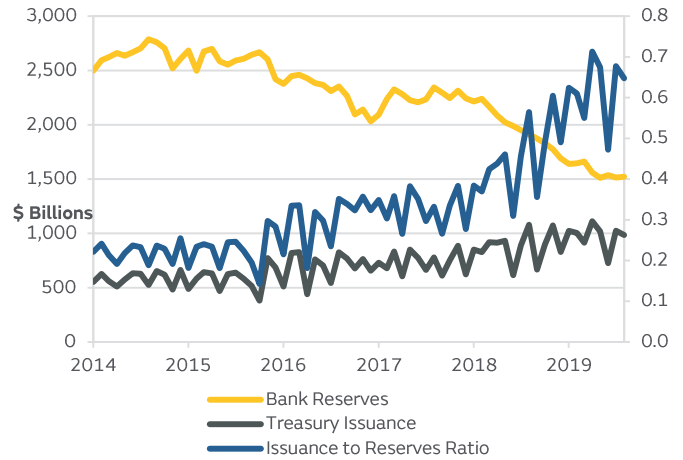
The traditional return premium of equities over fixed income has disappeared. In fact the entire relationship between equities and fixed income has become entirely disconnected over the last ten years. Meanwhile unicorns' private market valuation has not translated in public market sentiment.

The new normal is disconnected. Careful diversification within and across markets is today's challenge.

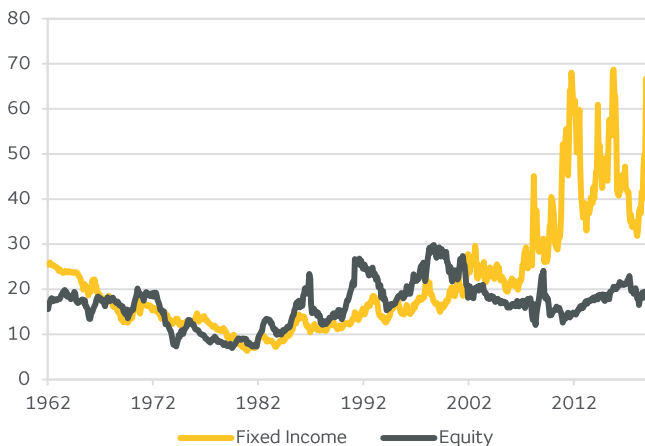
Select Sovereign Yield Curves (2009-2019)³



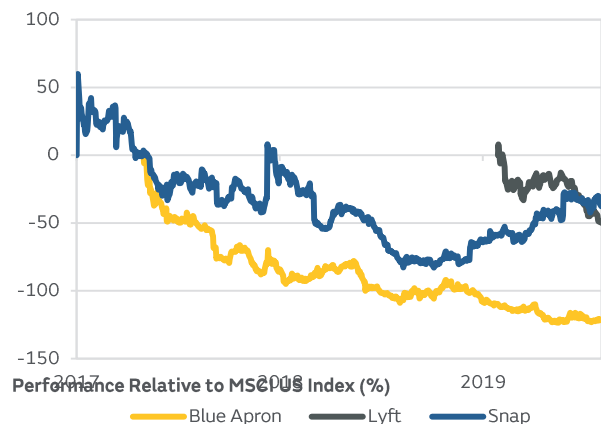
Repo Squeeze⁴



"Earnings Ratios"^{5/7}



Select Dual Class IPOs Performance Relative to MSCI US Index⁶



1 Steven A. Altman, Pankaj Ghemawat, and Phillip Bastian, "DHL Global Connectedness Index 2018," Deutsche Post DHL, February 2019
 2 The Wall Street Journal – 'Why Were They Surprised?' Repo Market Turmoil Tests New York Fed Chief (Sept. 29, 2019)
 3 Source: Bloomberg; 4 Source: FRED, SIFMA; 5 Source: Bloomberg; 6 Source: Bloomberg
 7 Note: Equity is S&P 500 P/E Ratio, Fixed Income is 100 divided by US treasury 10 year yield to simulate an "Earnings Ratio" for fixed income

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