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**Global interest rates and the Great Crash: What is going on**?

**Summary:** There are no global trends, period. ECB and BoJ have hiked, US has not moved and PBOC has cut. Worse the Fed is moving its inflation target, quietly but firmly, thus confusing further the investment outlook .Results, among others, the Crash

**The Great Monday 6th Crash with a dose of tangled reality**

**Reasons:** (a)Poor US economic outlook. Nothing too new here especially after the labour data, see the zig-zagging Fed. (b)Higher Japanese interest rates, totally nothing new here, they started hiking in March (c) Stronger Yen, hence, Japanese exporters hit...really? BoJ hikes rates and expects the JPY to weaken? (d) The real reason? An overvalued S&P500 throughout a period of high rates with the Fed ambivalent when and how to cut? So sudden release of reality when the Fed finally looks like cutting thus confirming that the economy is not doing that well. But wait a minute, the Fed is supposed to cut because inflation has been defeated and that is good news for equities. Yes, a tangled mess of reasoning and the millennials running US equities books facing their first 1987.My advice to my clients had been for weeks now keep off US equities and stay in Treasuries and keep these yummy defence stocks, see below. Data as of midnight Monday 5th .Red is S&P500, rest biggest US and EU defence stocks. Will not name them as I am not licensed to name names but can recommend sectors. here Defence! All since 2022=100, the start of the wars, Ukraine, Gaza etc. From a 138% to 562 % outperformance of S&P 500.Not bad.

**The US Fed**. Concern is to ensure that inflation falls after two years plus, of high rates. If inflation is falling the rates can be cut. But "two percent" target is very likely gone. True, the Fed cannot wait till the actual inflation rate is 2.0% and then cut. But irrespective which US price index is used the trend is clearly not anywhere near towards 2.0%. Please do check CPI, CPI core, the Fed's favorite PCE both the simple and core. All are over 2.0% with no downward trend. So the Fed says it will cut while missing its target, or it has changed the target but did not announce it.

**BoJ**: Concern in Japan used to be too low inflation hence zero rates for years. Now inflation is accelerating, and interest rates must rise to keep it under control. The BoJ has now hiked twice in March and July 2024. Inflation target is 2.0.There are four main price indices. The National CPI which is well over 2.0% and is rising, its core version which is now below 2.0% and the Tokyo CPI also over 2.0% and its core version below 2.0%. So policy is broadly consistent to the extent that inflation in general above 2.0% and is being met with higher rates.And then the market crashes and it looks that BoJ will not hike for now.

**ECB:** Concern is to ensure that inflation falls after years of high rates. Rates were cut in June 2024.Inflation target is 2.0% but current CPI is over the 2.0% with little downward trend. Like the Fed the ECB may not wait to cut rates till inflation is at or less than 2.0% No sign of ECB is shifting targets

**PBOC:** The PRC is registering near zero and even deflation. The PBOC is concerned about investment and consumer spending and has now cut its key rates after the Plenum meeting. Policy is consistent with very low inflation and with rates falling to boost aggregate demand.

**Investment conclusions ( see also above suggestions in the "great crash")**

Mistrust the Fed for now, clearly equities have done so profitably and hence investment decision are being taken based on other factors and not whether the Fed will cut or not and when

Keep ignoring the Fed rate decisions.

Added confusion by the elections and the likelihood that Trump may not win after all which would have been short term bullish for the energy sector.

Clearly bullish, eventually, for JPY vs USD but likely neutral/positive for EUR vs USD.

The cut in interest rates in China should be matched by macro policies addressing deflation which is a symptom and not a cause of the poor outlook for the economy and will continue to press on equities

Outlook for HK better with the Fed cutting but again interest rates are not the only consideration while China is slow.

DEFENCE