

LIQUIDITY & BS DRIVING REAL YIELDS (REPUBLISH)

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- Dollar bid
- Guilty pleasures
- Catching the falling knife of real yields
- Will SPX crack under the liquidity drain?

For a detailed analysis check our our updates and new pages here:

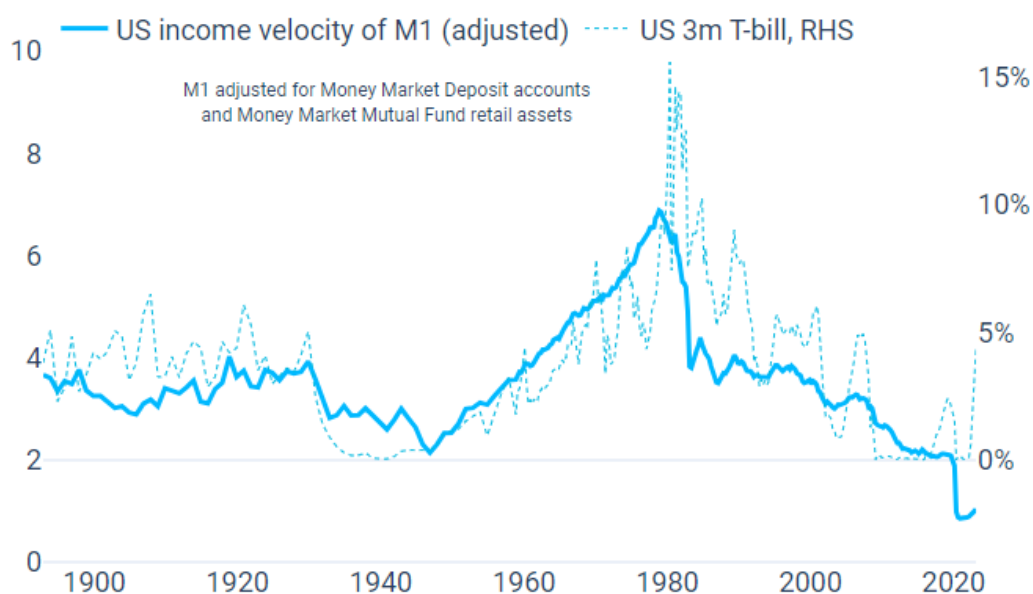
Major update to [Real yields page](#)

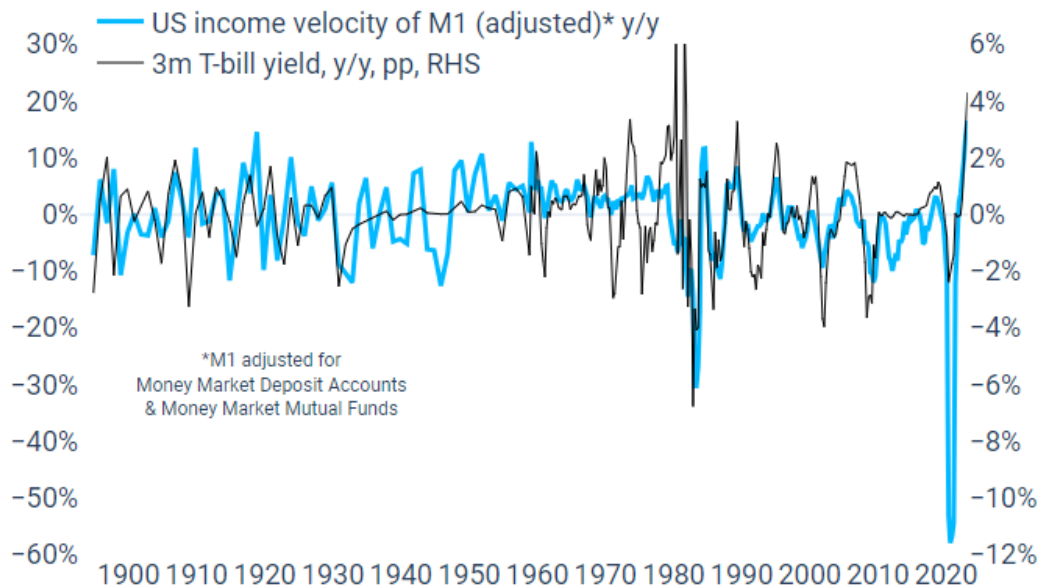
Update to market implications of [Impulses flows and stocks page](#)

Home page of our [Liquidity and flow of funds playground](#)

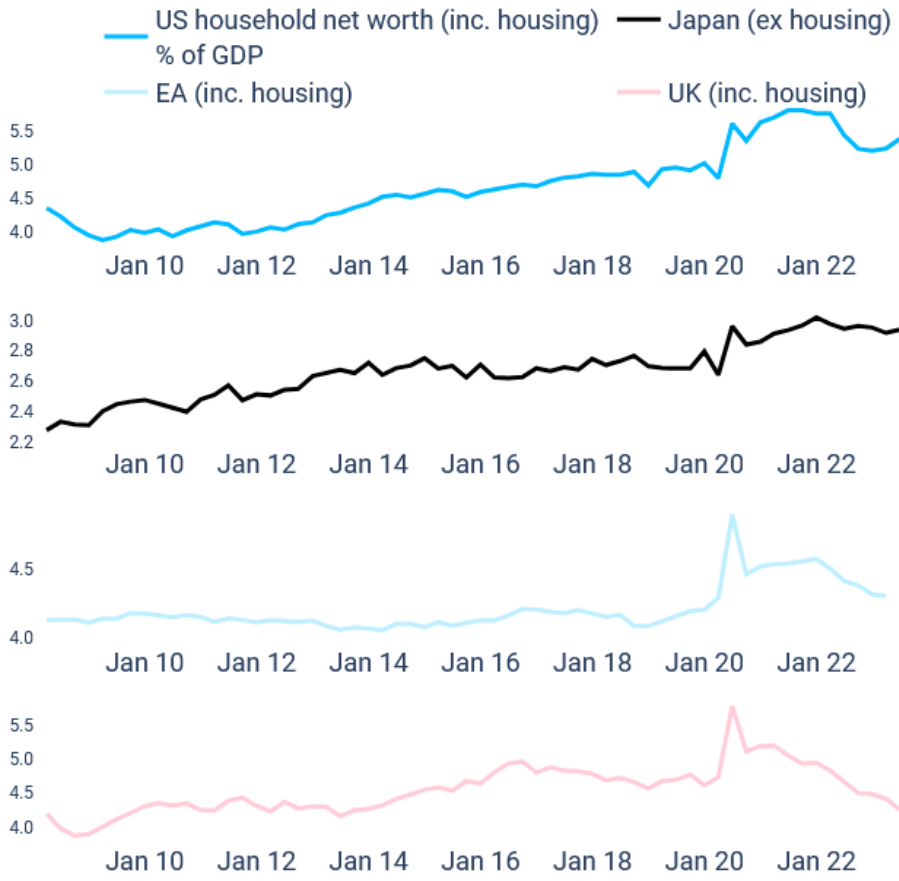
Summary of updates

This month's Global Financial Trends makes clear the need to re-emphasize the reason for rising real yields. At least in part, the updraft results from the authorities draining the swamp. This tightening of liquidity conditions continues to chip away at the resilience of the real economy. Until recession arrives, however, the authorities will continue the drainage and the upward pressure on yields continues. The equity market could be next. *This is a republish of the earlier note due a formatting error.*

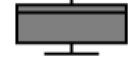




The Fed can't afford to allow the equity market to get away. Deeper cross-country analysis of stimulus-generated wealth shows why the US economy remains the standout performer, with household wealth still far above pre-pandemic trends and rising again this year. This wealth acts as a cushion against tightening, but our analysis of impulses leans marginally in favour of further growth slowdown, as long as equities don't run away. In contrast, European growth and inflation bears early signs of damage from overtightening, reinforcing our conviction that the dollar will remain bid. The wealth cushion in the UK has turned negative and the economy remains more acutely exposed to tightening through the structure of its mortgage market. Gilts continue to outperform within the bond space, since our [call](#) on June 19, and could soon be followed by European govies, though scope for yields to fall amid QT is dubious. US recession remains the base case as tight policy feeds through and the credit impulse stays negative, but the time frame is muddled by the stimulus overhang. Until then, tightening liquidity conditions will keep upward pressure on yields and pose an increasing threat to equities, followed by the likelihood of more significant real economy slowdown.



US household net worth (inc. housing) % of GDP, 19-22 distribution



Japan (ex housing), 19-22 distribution



EA (inc. housing), 19-22 distribution



UK (inc. housing), 19-22 distribution