April 2025

On t'Mark – tin hats on

Well, it's been a while; according to my records, nearly five years have passed since the last 'On t'Mark' hit the inboxes. How time flies when you're having fun! Given the current market environment, I have been asked to pick up the quill and give things a spin again.

You'll be please to know that my daughter Emily (now 16) only just gave up rugby and managed to tour Fiji with the boys last year. She is learning to drive and has started her IB, with hopes to be a vet. She has conned me into joining her for a half marathon in July. Meanwhile, my son Ethan (now 14), is still playing rugby, and I am still coaching his team. He's crazy about robotics, building and writing code for them. Next month, he heads off to the World Robotics Championship in Dallas.

Sounds like they are both in control of their futures, which is not what could be said about the markets. I have seen the James Carville (Bill Clinton's chief of staff) quote bandied around a fair bit in the last week: *"I used to think that if there was reincarnation, I wanted to come back as the President or the Pope or as a .400 baseball hitter. But now I would want to come back as the bond market. You can intimidate everybody."*

Personally, I prefer the Mike Tyson quote, *"Everybody has a plan until they get punched in the face."*

And also citing Deutsche Bank's macro team, as they reviewed the seven days since Liberation Day*: "For instance, this period has seen the S&P 500 post its worst day since the pandemic turmoil of March 2020, as well as its best day since the GFC in 2008. Moreover, the 10yr Treasury yield has just posted its biggest weekly jump since 2001, and the 10yr Treasury-bund spread has just seen its biggest weekly widening in data going back to German reunification in 1990."*

So, with the extra volatility in the market, it is no surprise that the end of year equity market forecasts have been trimmed. But where does that leave credit? I entered this year believing that fundamentals, while weakening slightly, would remain robust, and that the danger was a sentiment driven sell-off probably from equities pricing perfection. I wish I had foreseen it being caused by the Liberation Day sell-off - but this has given me some opportunities in credit.

In terms of rates, I have been pretty bullish on United States Treasury (USTs) – more from the point of protecting from a potential sell-off in equities, leading to the classic flight to safety. However, given what I thought was an overreaction to call for central banks to do emergency cuts, I reversed that. Given the subsequent pull back in rates, I'm not sure which direction they will now head.

It does appear that China has been selling down its UST holdings. Also, the highly leveraged basis trade between the cheapest to deliver 10yr UST and the futures seems to be slowly coming to an end. So once those flows end, we may get to more fundamental trading, but unfortunately that is anything but clear.

I'd prefer to stick in the short end, where I still think there is a very high bar for emergency Central Bank (CBs) interest rate intervention. Don't get me wrong, if markets become dysfunctional, CBs will intervene and unlike the GFC days of 2007/08, as now they have more appropriate and appropriately sized tools in the toolkit. For example, I can imagine the Fed's SMCCF (Secondary Market Corporate Credit Facility) getting a good dust off.

In summary, I am a lot more relaxed than back in 2007/08. I see the financial system as better able to withstand a shock; banks are in a stronger capital position, authorities and CBs are better equipped and more ready to act.

This current market volatility has been largely caused by Trump's tariffs and he can easily change them again (as he has done already). This view has again been reinforced over the weekend, as Trump exempted smartphones, computers and other electronics from "reciprocal tariffs". This gives me, maybe misplaced, confidence that Trump will ensure that the US economy is not hit too hard. And don't get me wrong - I think the lasting impact will be that the US becomes more isolated on the global scene, with countries choosing to export their goods elsewhere, and the US being seen as an untrustworthy trading partner. Given the heightened uncertainty, the US consumer will be forced to cut back. Even Trump's 'Big Beautiful Bill" cutting taxes may not be enough to boost confidence.

On Friday 11 April 2025, US equities closed up 1.6-2.1%. European bourses closed largely down 0.1-0.9%, with only the UK's FTSE bucking the red and gaining 0.6%.

UST 10yr yields closed at 4.49% (+6bp). ACGB 10yr yields closed at 4.40% (-7bp). The Aussie dollar was 0.5c higher at USD62.9c.

Credit was mixed: US IG closed at 73 (12) and HY was at 430 (-6). In European credit, IG closed at 77 (unch.) and XO was at 392 (+1). Aussie iTRAXX was at 106 (-3). US economic data were soft: PPI Final Demand – MISS; PPI (ex-Food & Energy) – MISS; University of Michigan Consumer Confidence – MISS; and University of Michigan 1yr Inflation Expectation – HIT.
Elsewhere, oil was up 1.4%. Iron ore was up 0.5%.

Tin hats on!

Have a good week. Stay safe and enjoy!!!

Mark.