The Bond Market is Sick. Can It Recover?

Andy Sparks, Head of Portfolio Management Research at MSCI, discusses the depressed state of the bond market, the historical perspective, Fed action and the path to recovery.

1

00:00:06,645 --> 00:00:10,846

[Jenna] Hello and welcome back

to the Asset TV Fixed Income Summit.

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00:00:11,274 --> 00:00:14,491

Up next, we'll take a closer look

at the bond market recovery

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00:00:14,491 --> 00:00:15,756

with Andy Sparks,

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00:00:15,954 --> 00:00:20,449

Managing Director and Head of Portfolio

Management Research at MSCI.

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00:00:20,782 --> 00:00:22,622

Andy, great to have you back

with us.

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00:00:23,342 --> 00:00:26,608

[Andy] Thank you, Jenna,

it's a real pleasure being back.

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00:00:27,503 --> 00:00:32,057

The bond market's been very wild now

for quite a while,

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00:00:32,617 --> 00:00:37,517

and I think a big question for investors

is whether it'll be calming down or not,

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00:00:37,794 --> 00:00:40,877

but it's a pleasure to be back

on the show with you.

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00:00:41,846 --> 00:00:45,541

[Jenna] And I think many people are hoping

that it will be calming down soon,

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00:00:45,541 --> 00:00:47,913

because it's no secret

that the bond market

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00:00:47,913 --> 00:00:50,103

has performed badly this year.

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00:00:50,103 --> 00:00:52,773

Andy, what's the extent

of the damage?

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00:00:53,449 --> 00:00:57,964

[Andy] Well, we're definitely experiencing

the worst environment

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00:00:57,964 --> 00:00:59,495

for bonds in many decades.

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00:01:00,497 --> 00:01:03,844

The pain has been not just deep,

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00:01:03,844 --> 00:01:07,487

but also very broad,

touching every sector.

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00:01:08,106 --> 00:01:11,367

Government securities

have been hit very hard,

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00:01:11,912 --> 00:01:14,788

but it's even worse

for corporates and munis,

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00:01:15,337 --> 00:01:19,513

with credit spreads widening

on top of the general backup and yields.

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00:01:19,884 --> 00:01:24,044

Within fixed income,

the relatively better performing sectors

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00:01:24,044 --> 00:01:28,368

have been floating rate securities

and bonds with shorter durations.

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00:01:29,055 --> 00:01:32,504

[Jenna] Now, I know it's been

a very unprecedented year, Andy,

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00:01:32,504 --> 00:01:35,560

but how does this look

from a historical perspective?

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00:01:36,274 --> 00:01:39,913

[Andy] Well, we're definitely experiencing

the worst environment

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00:01:39,913 --> 00:01:42,128

for bonds in quite a few decades.

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00:01:42,726 --> 00:01:45,176

And from a historical perspective,

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00:01:45,176 --> 00:01:49,277

we recently did an analysis

looking at the past 50 years

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00:01:49,277 --> 00:01:51,425

of returns on US treasuries.

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00:01:51,850 --> 00:01:56,386

And 2022 easily represents

the worst year of performance.

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00:01:56,602 --> 00:01:58,884

It's really not even close to other years.

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00:01:59,507 --> 00:02:03,653

And it's even worse when looking

at returns on an inflation adjusted basis,

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00:02:03,997 --> 00:02:06,718

given this year's

exceptionally high inflation.

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00:02:07,470 --> 00:02:11,432

[Jenna] And inflation is not a happy word

to hear in the bond markets.

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00:02:11,432 --> 00:02:12,280

Is it?

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00:02:12,509 --> 00:02:14,130

[Andy] No, no, it is not.

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00:02:15,137 --> 00:02:17,605

[Jenna] And of course, you know,

this is something that's top of mind

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00:02:17,605 --> 00:02:18,871

for the Fed right now,

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00:02:18,871 --> 00:02:24,774

trying to tame that unruly inflation

that we're experiencing,

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00:02:25,339 --> 00:02:28,707

but we're experiencing

such a different environment right now,

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00:02:28,707 --> 00:02:31,588

than we were a year ago, two years ago,

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00:02:31,588 --> 00:02:33,238

with all of the rate cuts.

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00:02:34,101 --> 00:02:37,882

Would you say the Fed is to blame

for the current environment that we're in?

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00:02:38,641 --> 00:02:43,494

[Andy] Well, it bears quite

a bit of the blame,

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00:02:43,494 --> 00:02:47,650

but I think it's also worth

cutting them a little bit of slack.

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00:02:48,349 --> 00:02:50,843

So we had

some unprecedented events,

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00:02:50,843 --> 00:02:52,606

in the form of a pandemic,

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00:02:53,070 --> 00:02:57,740

that was the situation the market

had not previously experienced,

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00:02:58,194 --> 00:03:01,300

generated,

as we well know, not just lockdowns

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00:03:01,300 --> 00:03:03,539

but also supply chain bottlenecks,

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00:03:03,881 --> 00:03:06,539

There is an unprecedented amount

of stimulus,

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00:03:06,539 --> 00:03:09,933

both monetary and fiscal stimulation.

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00:03:10,134 --> 00:03:12,494

The Fed might blame it

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00:03:12,494 --> 00:03:18,514

for excessively

injecting monetary stimulus,

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00:03:18,514 --> 00:03:23,453

but they did not have direct control

over the fiscal stimulus.

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00:03:24,027 --> 00:03:27,654

And, then more recently,

of course, the Ukraine war,

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00:03:28,046 --> 00:03:31,177

the spike in commodity prices.

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00:03:31,177 --> 00:03:33,144

These are very, very big events.

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00:03:34,251 --> 00:03:35,448

And so, like I said,

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00:03:35,448 --> 00:03:39,592

I think that the Fed

should be allowed some slack here.

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00:03:39,592 --> 00:03:41,183

They've had a very difficult job,

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00:03:41,183 --> 00:03:45,158

but fundamentally,

inflation is the Fed's job.

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00:03:45,158 --> 00:03:46,700

I think Chair Powell and the Fed

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00:03:46,700 --> 00:03:50,785

have definitely taken ownership

of that over the longer term.

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00:03:51,238 --> 00:03:54,178

And of course,

that's been the subject of the markets

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00:03:54,178 --> 00:03:56,134

since focus over the past year.

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00:03:56,134 --> 00:03:58,862

So, is the Fed to blame?

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00:03:58,862 --> 00:04:02,007

Yes, I think there is definitely

a partial blame.

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00:04:02,007 --> 00:04:05,629

In particular, I think where

there is some legitimate critique,

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00:04:06,068 --> 00:04:12,983

is that there was a spike in inflation

during the first half of 2021,

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00:04:13,389 --> 00:04:15,716

and the Fed, as well as the market,

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00:04:16,163 --> 00:04:21,313

thought that spike in inflation

was going to be transitory.

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00:04:21,790 --> 00:04:23,942

It was not, as we all know.

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00:04:24,571 --> 00:04:25,960

And fundamentally,

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00:04:25,960 --> 00:04:30,252

this year's dramatic repricing

of both bonds and equities

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00:04:30,499 --> 00:04:35,344

reflects the view that inflation

is much worse than previously thought,

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00:04:35,788 --> 00:04:40,076

and that the Fed will aggressively

push rates up to lower inflation,

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00:04:40,358 --> 00:04:44,784

even if that results

in a sharp economic contraction.

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00:04:46,184 --> 00:04:50,119

[Jenna] Yeah, the word transitory

has become a transitory phrase,

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00:04:50,119 --> 00:04:52,985

that we've been hearing

that not so much anymore.

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00:04:53,510 --> 00:04:56,574

But you've raised an important point

about inflation.

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00:04:56,574 --> 00:04:59,929

Part of the Fed's dual mandate

is that price stability,

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00:04:59,929 --> 00:05:04,256

but the Fed can't control fiscal policy

or supply chains

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00:05:04,256 --> 00:05:07,967

and whether people

can get furniture from abroad,

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00:05:07,967 --> 00:05:08,905

that sort of thing,

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00:05:08,905 --> 00:05:13,605

which is certainly put pressure on inflation

and same with energy.

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00:05:14,079 --> 00:05:18,608

Now, the Fed recently hiked rates

by 75 basis points.

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00:05:18,608 --> 00:05:22,280

Again, what do you think the Fed

should be doing right now?

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00:05:23,774 --> 00:05:30,078

[Andy] Well, the Fed has basically

been playing catch up all year long

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00:05:30,078 --> 00:05:32,215

to try to restore credibility.

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00:05:32,964 --> 00:05:37,011

So the Fed's credibility

had suffered quite a bit,

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00:05:38,409 --> 00:05:41,001

as there was increasing evidence,

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00:05:41,001 --> 00:05:44,653

that inflation was going

to be much higher than previously thought.

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00:05:44,653 --> 00:05:48,501

So the Fed has been trying

to restore its credibility this year.

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00:05:48,833 --> 00:05:53,586

And particularly going back

to the Jackson Hole speech,

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00:05:53,586 --> 00:05:57,237

that the Chair Powell

gave on August 26th,

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00:05:58,256 --> 00:06:03,120

extending through

this most recent September FOMC meeting

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00:06:03,120 --> 00:06:05,475

and the following press conference.

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00:06:05,475 --> 00:06:11,065

But recent Fed communications

have been very crisp,

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00:06:11,065 --> 00:06:12,587

and in clear language.

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00:06:13,050 --> 00:06:16,404

And they seem to now be having

the intended effect

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00:06:16,404 --> 00:06:18,004

of convincing the market

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00:06:18,365 --> 00:06:21,617

that the Fed really means business

about pushing up rates

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00:06:21,999 --> 00:06:25,935

until, to use Chair Powell's words,

until the job is done.

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00:06:26,475 --> 00:06:34,084

And so, I think the market is really looking

for the Fed to be very transparent

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00:06:34,084 --> 00:06:37,084

in its policies and to speak very clearly.

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00:06:37,404 --> 00:06:42,998

And effectively, the market is waiting

for inflation to come down.

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00:06:43,493 --> 00:06:50,059

And as that occurs, the Fed's credibility

with market participants will increase.

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00:06:50,851 --> 00:06:52,579

[Jenna] Now, how do you think

the bond market

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00:06:52,579 --> 00:06:56,649

will recover from all of this, Andy

and how long might this take?

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00:06:57,507 --> 00:07:02,874

[Andy] Well, the easy prediction

is that the bond market will get better.

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00:07:04,200 --> 00:07:06,984

The entry point as I think the big issue.

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00:07:06,984 --> 00:07:09,688

So, the good news for bond investors,

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00:07:09,688 --> 00:07:12,716

and particularly for those investors

who've been on the sidelines,

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00:07:13,494 --> 00:07:15,648

over the past year and half,

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00:07:16,138 --> 00:07:18,788

has been that yields,

particularly real yields,

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00:07:18,788 --> 00:07:22,695

after inflation adjusted yields,

are much more attractive now.

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00:07:23,237 --> 00:07:25,862

And so, I think

that is tempting some investors

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00:07:25,862 --> 00:07:27,591

to come back into the market.

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00:07:28,044 --> 00:07:31,204

But, I think a real question is,

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00:07:31,204 --> 00:07:36,455

that as we've seen just immediately

following the September FOMC meeting,

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00:07:36,455 --> 00:07:40,221

a very, very significant backup

in market yields.

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00:07:40,768 --> 00:07:49,347

And the reality is that,

no one has that strong of a grasp

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00:07:49,347 --> 00:07:54,346

of how inflation might evolve

in coming months.

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00:07:54,788 --> 00:07:57,882

And Chair Powell, basically said as much

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00:07:57,882 --> 00:08:02,417

at the at his September press conference, following the FOMC meeting.

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00:08:02,828 --> 00:08:06,769

And so, you could say we're sailing

a bit into uncharted territory here.

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00:08:07,160 --> 00:08:09,741

It's potentially a new inflation regime,

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00:08:10,023 --> 00:08:13,123

and as commodity prices

have come down,

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00:08:13,123 --> 00:08:15,325

as the price of oil has come down,

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00:08:16,203 --> 00:08:18,618

headline inflation has been coming down,

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00:08:18,618 --> 00:08:23,489

but it looks like the broader,

it looks like core inflation,

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00:08:23,702 --> 00:08:28,380

it looks that it firmed up

in the most recent CPI read

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00:08:28,380 --> 00:08:30,522

and that definitely surprised the market.

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00:08:30,522 --> 00:08:34,026

So the market will be paying

very close attention

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00:08:34,026 --> 00:08:36,350

to incoming inflation data.

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00:08:37,466 --> 00:08:39,696

It may overreact, it may underreact,

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00:08:39,696 --> 00:08:41,330

to various data points,

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00:08:41,330 --> 00:08:44,162

but I think what the market's

really looking for

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00:08:44,162 --> 00:08:49,839

is a period of sustained declines

in inflation,

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00:08:50,307 --> 00:08:55,246

without hopefully, tipping the economy

into real sharp contractions.

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00:08:55,246 --> 00:09:01,832

So I think if this sort of scenario did,

was realized,

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00:09:02,164 --> 00:09:05,918

I think it would help restore Fred credibility

with investors

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00:09:05,918 --> 00:09:07,553

and it would boost the bond market.

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00:09:07,553 --> 00:09:10,822

But you know, we'll have

to take wait-and-see approach.

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00:09:11,771 --> 00:09:15,996

Bond market is definitely very nervous

with elevated volatility.

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00:09:17,889 --> 00:09:22,363

[Jenna] Although one positive

that has come from all of this pain is that,

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00:09:22,721 --> 00:09:25,453

I was speaking with Ann Walsh,

Guggenheim CEO

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00:09:25,453 --> 00:09:28,084

for Fixed Income

about this during the Summit as well.

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00:09:28,586 --> 00:09:30,790

Fixed income has income again,

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00:09:30,790 --> 00:09:33,848

she was joking that she was going

to make t-shirts that say that.

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00:09:34,734 --> 00:09:36,473

[Andy] Yes, yes it does.

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00:09:36,473 --> 00:09:41,967

And to me, a crucial, we pay a lot

of attention to the level of real yield.

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00:09:41,967 --> 00:09:45,819

So these are after

inflation adjusted yields,

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00:09:45,819 --> 00:09:48,704

derived from the prices of US treasuries.

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00:09:48,704 --> 00:09:52,005

And if you look at the term structure

of real yields,

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00:09:52,005 --> 00:09:57,381

it's now very flat across maturities,

even at the one-year maturity.

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00:09:57,381 --> 00:10:00,066

So whereas a year ago,

or even six months ago,

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00:10:00,066 --> 00:10:02,143

we had really negative real yields,

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00:10:02,371 --> 00:10:06,934

particularly for shorter maturities

as nominal treasury yields

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00:10:06,934 --> 00:10:09,162

were very low,

but inflation was very high,

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00:10:09,162 --> 00:10:12,538

just created a very bad dynamic

for real yields.

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00:10:12,584 --> 00:10:16,892

But with the backup

in the bond market,

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00:10:17,639 --> 00:10:19,727

that has really noticeably improved.

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00:10:19,727 --> 00:10:22,531

And I think the real question

for investors is,

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00:10:22,597 --> 00:10:24,819

what is the right level of real yield?

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00:10:24,819 --> 00:10:27,857

So, they've gone up a lot,

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00:10:28,218 --> 00:10:30,507

but do they need to go up much further?

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00:10:30,722 --> 00:10:33,065

And I think that's

where a lot of the debate

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00:10:33,065 --> 00:10:35,953

will increasingly play out

in the bond market.

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00:10:36,270 --> 00:10:38,693

[Jenna] And then

another potential positive too.

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00:10:38,693 --> 00:10:41,031

I mean, we've spent so much energy

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00:10:41,031 --> 00:10:44,906

and focus on the Feds hiking

of interest rates,

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00:10:44,906 --> 00:10:46,473

to try to reign in inflation,

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00:10:46,473 --> 00:10:48,864

but eventually things will reverse,

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00:10:48,864 --> 00:10:51,688

and the Fed

will likely start cutting rates

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00:10:51,688 --> 00:10:54,936

and we're starting to hear more

conversations around that.

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00:10:54,936 --> 00:10:57,918

So, when that happens,

there could be some opportunities as well.

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00:10:59,183 --> 00:11:00,481

[Andy] Yeah, absolutely.

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00:11:00,481 --> 00:11:03,727

And the Fed's been having

a little bit of a tug of war

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00:11:03,727 --> 00:11:07,021

with the market going back

about a couple of months,

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00:11:07,021 --> 00:11:11,897

because the Fed even

going back several meetings,

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00:11:12,301 --> 00:11:15,772

to the July meeting

and even the June meeting of the FOMC,

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00:11:15,772 --> 00:11:21,389

they had been talking, talking aggressively about hiking rates,

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00:11:21,437 --> 00:11:23,289

doing whatever it takes,

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00:11:23,289 --> 00:11:26,034

but there'd been a lot of skeptics

in the bond market

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00:11:26,087 --> 00:11:31,993

about whether they'd really follow

through on those statements.

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00:11:32,426 --> 00:11:35,620

And so if you looked

at prices of the futures,

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00:11:36,439 --> 00:11:39,416

the futures market and rates,

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00:11:39,416 --> 00:11:44,052

was showing Fed cuts in 2023,

significant Fed cuts.

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00:11:45,625 --> 00:11:49,186

And the Fed has really been trying

to talk that down,

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00:11:49,186 --> 00:11:52,685

and, frankly, I think they have

had quite a bit of success.

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00:11:52,685 --> 00:11:57,424

So if you look at the most recent survey

of economic projections,

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00:11:57,424 --> 00:12:00,887

which the Fed released

at the September FOMC meeting,

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00:12:01,687 --> 00:12:04,995

the projections from Fed policymakers,

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00:12:05,220 --> 00:12:07,861

for the Fed funds rate for 2023,

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00:12:07,861 --> 00:12:11,779

are very close to what the future's market

are now indicating.

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00:12:11,779 --> 00:12:14,291

So this gap between the market,

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00:12:14,291 --> 00:12:16,735

as well as the Fed

seems to have narrowed,

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00:12:17,196 --> 00:12:22,057

and maybe there'll be fewer surprises

as a result to for investors,

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00:12:22,057 --> 00:12:24,995

which I think is also a good sign

for the market.

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00:12:25,698 --> 00:12:28,104

[Jenna] Having everyone

on the same page there.

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00:12:28,209 --> 00:12:29,243

[Andy] Exactly.

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00:12:30,129 --> 00:12:32,711

[Jenna] Now, I know that this is

the fixed income summit,

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00:12:32,711 --> 00:12:35,813

but I do want to quickly

get your take on stocks

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00:12:35,813 --> 00:12:38,285

and how they've been moving

with bond markets,

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00:12:38,285 --> 00:12:40,927

because there's been

a higher correlation.

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00:12:41,012 --> 00:12:43,505

You mentioned how tough

it's been for fixed income,

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00:12:43,505 --> 00:12:48,116

Well, equity markets

had their worst start to the year

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00:12:48,116 --> 00:12:49,341

in more than 50 years.

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00:12:49,341 --> 00:12:52,699

So, what are the implications

of this for investors?

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00:12:53,637 --> 00:12:56,699

[Andy] Yeah, that's

really important question, Jenna.

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00:12:57,057 --> 00:13:00,883

And this year's abysmal performance

of bonds

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00:13:01,543 --> 00:13:04,989

has coincided

with sharply negative equity returns.

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00:13:05,198 --> 00:13:11,160

And investors with mixed portfolios

of bonds and equities have been hit hard.

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00:13:11,786 --> 00:13:17,290

And in fact, the popular,

60% equity, 40% bond portfolio,

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00:13:17,692 --> 00:13:20,842

is at its worst performance

of the past 50 years.

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00:13:21,471 --> 00:13:23,876

This surpasses

even the poor performance

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00:13:23,876 --> 00:13:27,034

of the 60, 40 in the early 1970s,

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00:13:27,338 --> 00:13:30,686

as well as

during the 2008 Financial crisis.

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00:13:31,292 --> 00:13:34,156

And I think

it's also important to note

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00:13:34,156 --> 00:13:37,232

that in these prior periods

of poor performance,

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00:13:37,538 --> 00:13:40,605

it was equities driving negative returns.

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00:13:41,147 --> 00:13:43,338

In fact, in the early '70s,

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00:13:43,603 --> 00:13:46,366

bonds generated small positive returns,

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00:13:46,366 --> 00:13:48,712

when equities were selling off sharply.

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00:13:49,005 --> 00:13:51,254

And particularly in 2008,

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00:13:51,254 --> 00:13:55,260

when equities had a performance

in the US markets

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00:13:55,260 --> 00:13:57,663

of almost -35%.

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00:13:57,888 --> 00:14:01,235

Bonds actually had

a very particularly US treasuries

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00:14:01,235 --> 00:14:03,611

had a very significant

positive performance

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00:14:03,611 --> 00:14:08,190

which really reflected

the Fed's huge intervention,

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00:14:08,190 --> 00:14:13,306

and it's first real serious effort

at quantitative easing.

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00:14:13,306 --> 00:14:19,532

So in these prior periods

of poor 60/40 performance,

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00:14:19,532 --> 00:14:23,332

bonds actually

did offer diversification benefits.

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00:14:23,796 --> 00:14:26,355

But this time around

it has not occurred.

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00:14:26,355 --> 00:14:30,716

And so, this year's

very large negative returns

238

00:14:30,716 --> 00:14:32,597

of both bonds and equities,

239

00:14:32,791 --> 00:14:35,082

represents a direct challenge

to the view,

240

00:14:35,510 --> 00:14:38,924

that bonds offer

important diversification benefits

241

00:14:38,924 --> 00:14:40,760

in 60/40 portfolios,

242

00:14:41,374 --> 00:14:46,753

and more generally in mixed portfolios,

including equities in other asset classes.

243

00:14:46,753 --> 00:14:51,721

So I think the crucial question

facing investors is,

244

00:14:51,721 --> 00:14:55,902

will bonds resume their role

as an anchor in portfolios,

245

00:14:56,363 --> 00:14:59,212

or will they just be added dead weight.

246

00:14:59,355 --> 00:15:02,267

And in a dark scenario,

247

00:15:02,443 --> 00:15:06,231

the Fed's efforts to tame inflation fail,

248

00:15:07,252 --> 00:15:09,865

and its credibility

with investors suffers,

249

00:15:10,547 --> 00:15:12,257

inflation remains high,

250

00:15:12,663 --> 00:15:16,499

and the Fed is forced to maintain

its tight monetary policies

251

00:15:16,499 --> 00:15:17,809

for an extended period,

252

00:15:18,599 --> 00:15:23,832

even in the event of sustained weak

or negative economic growth.

253

00:15:24,229 --> 00:15:28,469

In this case, MSCI modeling

suggests that bond returns

254

00:15:28,469 --> 00:15:31,560

tend to move in the same direction

as equity returns,

255

00:15:31,892 --> 00:15:35,333

and provide only marginal

diversification benefits.

256

00:15:35,333 --> 00:15:40,362

So that's a very, very bad scenario

for investors,

257

00:15:40,362 --> 00:15:42,579

who hold bonds in mixed portfolios.

258

00:15:42,724 --> 00:15:45,273

Now, in a more optimistic scenario,

259

00:15:45,394 --> 00:15:46,797

let's not forget that,

260

00:15:47,749 --> 00:15:50,301

the Fed succeeds

in bringing inflation down

261

00:15:50,781 --> 00:15:53,139

within the 2 to 3% range,

262

00:15:53,325 --> 00:15:56,542

without causing

a sharp economic contraction.

263

00:15:57,043 --> 00:16:00,308

The Fed's credibility

with investors is restored,

264

00:16:00,799 --> 00:16:03,997

and in this event,

bonds could once again

265

00:16:03,997 --> 00:16:07,151

become a source

of portfolio diversification,

266

00:16:07,674 --> 00:16:10,294

protecting against

equity market volatility.

267

00:16:12,580 --> 00:16:16,319

[Jenna] Now, Andy, to quickly turn

around that crucial question on you,

268

00:16:16,319 --> 00:16:21,051

do you think that bonds will return

as the anchor in portfolios?

269

00:16:21,051 --> 00:16:24,623

And what's your outlook

for fixed income, moving forward?

270

00:16:24,623 --> 00:16:25,968

Where do we go from here?

271

00:16:26,880 --> 00:16:30,648

[Andy] I think this year's event

has been so extreme.

272

00:16:31,746 --> 00:16:36,108

I think it would be difficult to say that

this will continue for a long time.

273

00:16:36,218 --> 00:16:39,728

Ultimately, bonds will price back

to the right level,

274

00:16:40,199 --> 00:16:44,399

and this huge positive correlation

we've seen really dating back

275

00:16:44,399 --> 00:16:46,472

to approximately last September.

276

00:16:47,604 --> 00:16:50,837

It's still may be positive

but will not be as positive.

277

00:16:50,837 --> 00:16:53,812

And so if you just look,

it's quite interesting.

278

00:16:53,812 --> 00:16:57,655

If you look at months,

279

00:16:57,655 --> 00:17:01,634

where equities

have returned below -2%

280

00:17:02,830 --> 00:17:04,116

over the past year,

281

00:17:05,581 --> 00:17:09,227

bonds have performed

extremely negatively too.

282

00:17:09,227 --> 00:17:12,872

There's just been

no negative diversification.

283

00:17:12,872 --> 00:17:18,503

And so I think

that sort of extreme outcome,

284

00:17:18,503 --> 00:17:22,401

is unlikely to be repeated

over a longer period of time.

285

00:17:22,401 --> 00:17:24,799

Over a short period of time,

and we've seen it, frankly,

286

00:17:25,148 --> 00:17:27,869

we saw it last month

in the August returns,

287

00:17:28,075 --> 00:17:31,141

and we're seeing it already

in the September returns, again,

288

00:17:31,222 --> 00:17:33,246

sharp selloffs in equities,

289

00:17:33,462 --> 00:17:36,445

accompanied by sharp selloffs

in fixed income.

290

00:17:36,445 --> 00:17:40,104

And so the short term dynamic

is not real positive,

291

00:17:40,396 --> 00:17:41,570

but like I said,

292

00:17:42,052 --> 00:17:44,931

at some point,

it probably will not be as extreme,

293

00:17:45,305 --> 00:17:48,381

and it could go the other way

if, as I said before,

294

00:17:48,381 --> 00:17:52,651

if the Fed really does begin

to get inflation under control.

295

00:17:52,928 --> 00:17:54,460

[Jenna] Well, Andy, before I let you go,

296

00:17:54,460 --> 00:17:56,342

anything you'd like

to leave our viewers with?

297

00:17:58,127 --> 00:18:00,151

[Andy] Well, hold onto your hat.

298

00:18:00,151 --> 00:18:03,630

It's a very volatile environment,

299

00:18:03,630 --> 00:18:08,954

and it's true not just in the US,

but it's true in other countries as well.

300

00:18:08,954 --> 00:18:12,278

And frankly, it could even be

a lot worse in Europe,

301

00:18:12,278 --> 00:18:15,985

they're facing greater hits

to economic growth

302

00:18:16,537 --> 00:18:22,596

because of their previous dependence

on a lot of energy imports from Russia.

303

00:18:23,685 --> 00:18:25,452

Price shocks are larger there,

304

00:18:25,875 --> 00:18:29,953

and I don't want to say

that Fed has an easy job

305

00:18:29,953 --> 00:18:32,987

but the ECB probably

has a tougher job.

306

00:18:32,987 --> 00:18:35,810

[Jenna] Well, Andy, thank you so much

for joining us.

307

00:18:36,540 --> 00:18:38,918

[Andy] Thank you, Jenna,

it's been a real pleasure as always.

308

00:18:39,782 --> 00:18:41,603

[Jenna] And thank you

to everyone watching.

309

00:18:41,603 --> 00:18:44,690

Once again, that was Andy Sparks,

Managing Director,

310

00:18:44,690 --> 00:18:47,853

and Head of Portfolio Management Research

at MSCI.

311

00:18:48,197 --> 00:18:51,433

You're watching

the Asset TV Fixed Income Summit.