

Financial Advisory Roundtable

Financial Stability and Monetary Policy Across Advanced Economies

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May 31st, 2024

The information contained in this document is current as of the date presented unless otherwise noted.

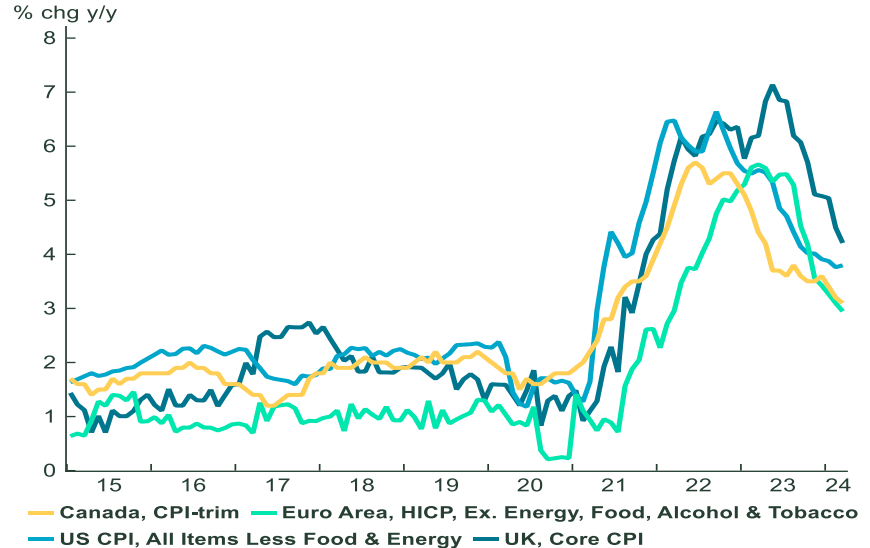
Policy Rates Tend to Move Together But Can Exhibit Short-Term Differences

Overall CPI



Sources: Macrobond, SSGA Economics, ONS, BLS, Eurostat, StatCan
Updated as of 4/26/2024

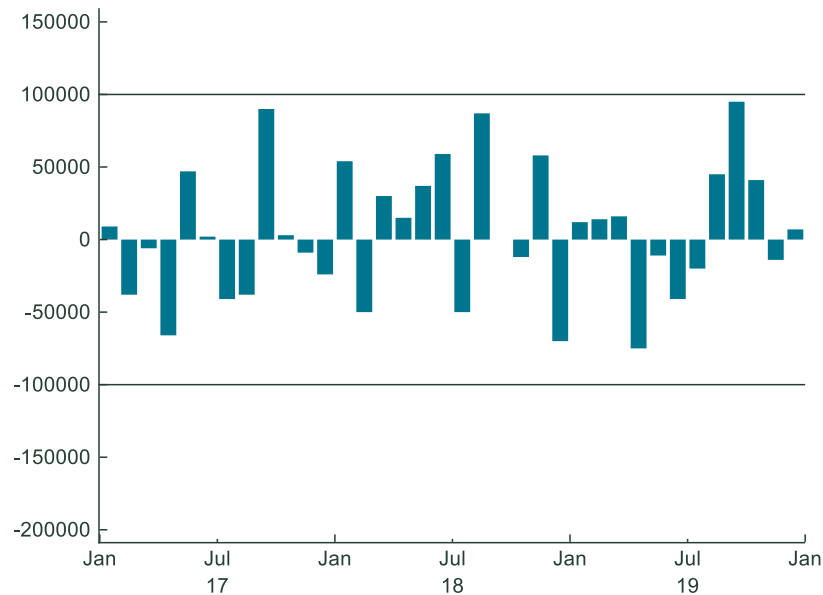
Core CPI



Sources: Macrobond, SSGA Economics, ONS, BLS, Eurostat, StatCan
Updated as of 4/26/2024

Data Dependence with Unreliable Data...

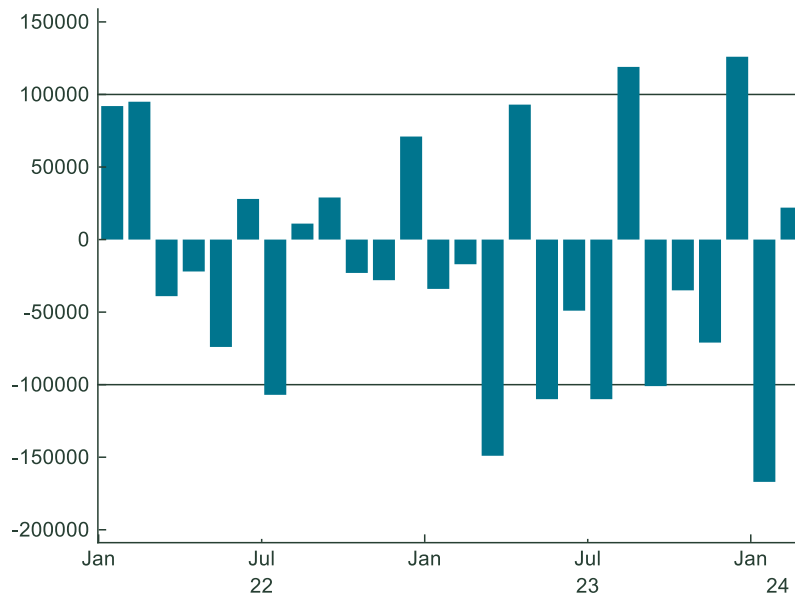
2017-2019



■ US, Net Payroll Revision, prior two months

Sources: Macrobond, SSGA Economics, BLS
Updated as of 4/26/2024

2022 Onward

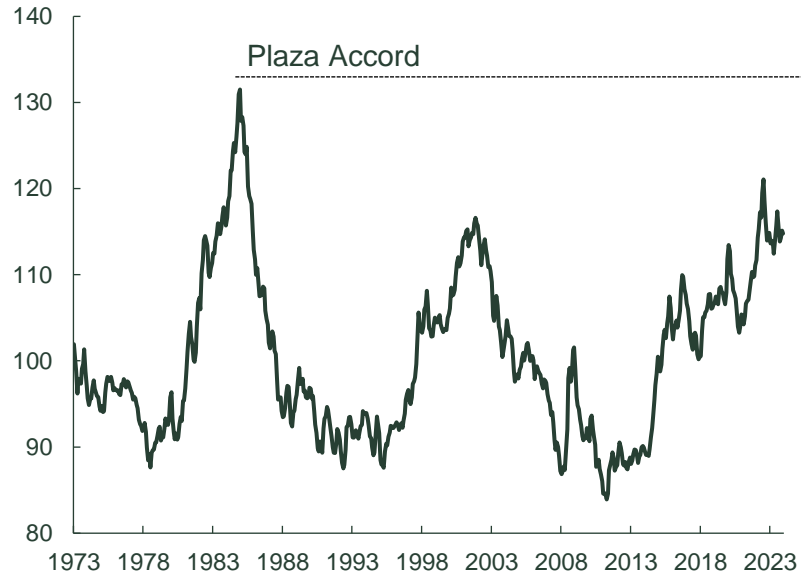


■ US, Net Payroll Revision, prior two months

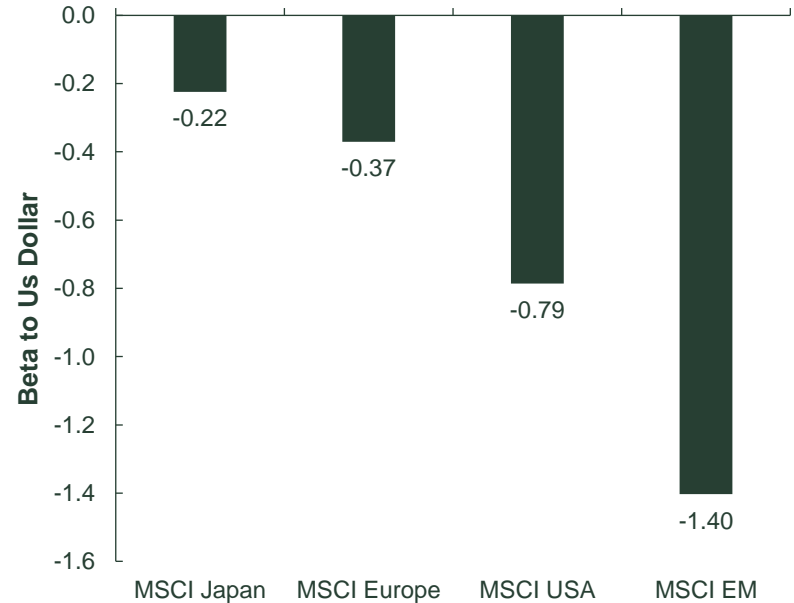
Sources: Macrobond, SSGA Economics, BLS
Updated as of 4/26/2024

A Strong US Dollar Is a Headwind for EM Assets

Broad Real Trade-Weighted US Dollar Exchange Rate

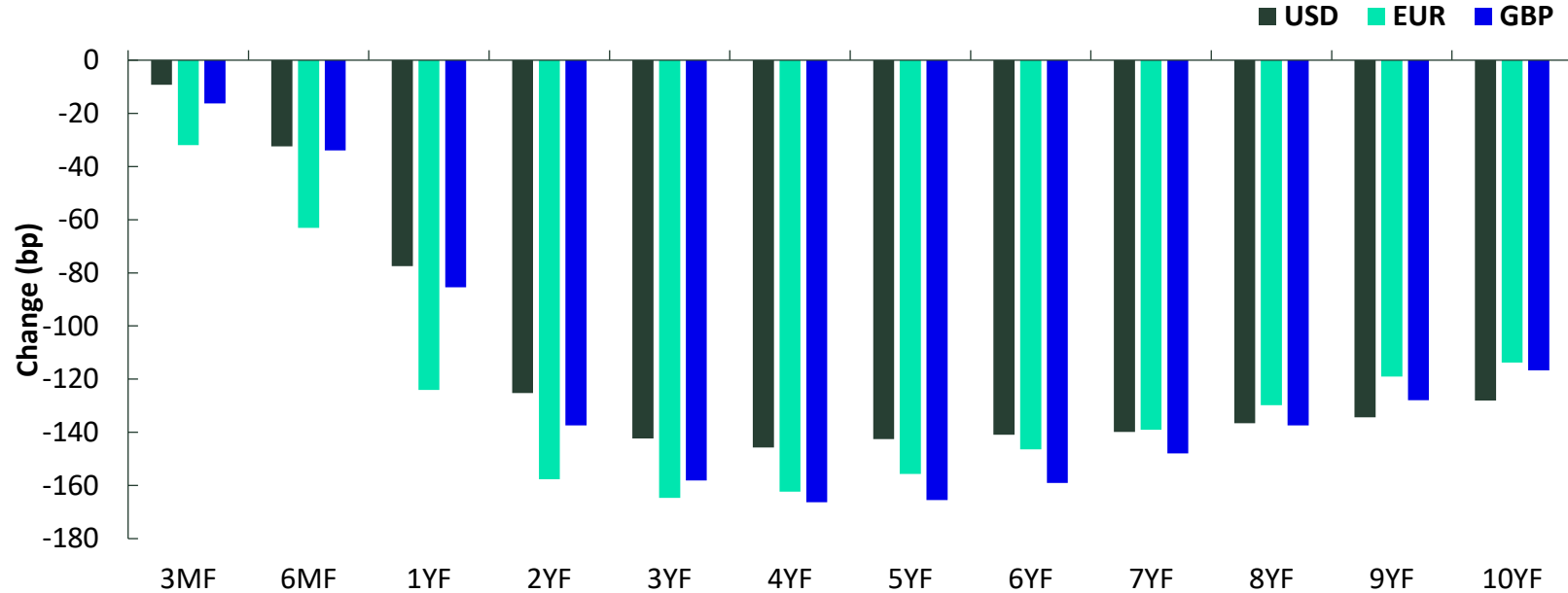


Beta Between Local Index Returns and US Dollar



Source: SSGA, Bloomberg, as of 29th March 2024.

Markets Now Pricing ECB to Cut First (Rare)

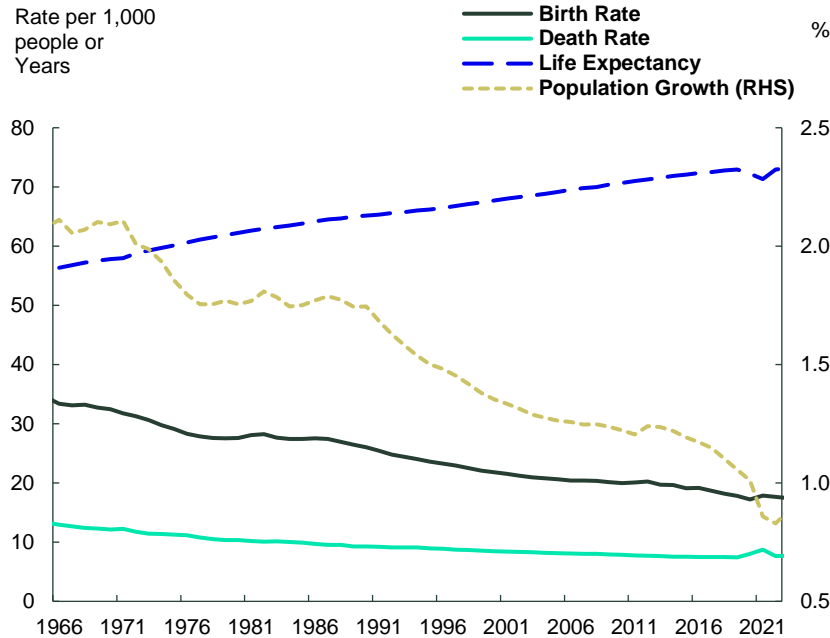


Source: SSGA

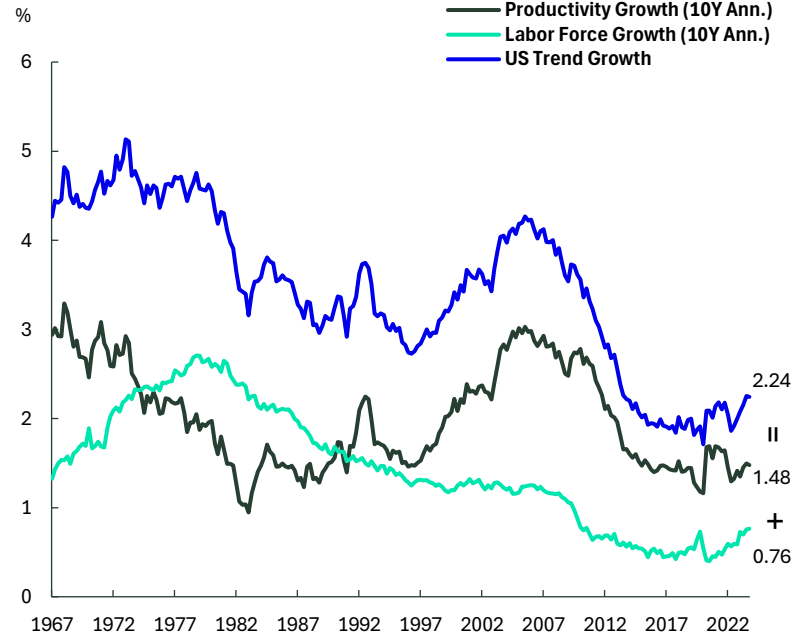
We Don't Believe in "Higher for Longer" ...

World Is Getting Older

Rate per 1,000 people or Years



US Trend Growth Limited



Sources: LHS: SSGA, World Bank (Data are annual from 1964 to 2023). RHS: SSGA, Bloomberg Finance, L.P. (Data is quarterly from March 1967 to December 2023.)

Key Takeaways

- With the US economy remaining more resilient than the UK, Eurozone, Canada, and Japan, it is likely other major CBs will cut policy rates before the Fed.
- What is different today compared to a decade ago is that key economic metrics have been undergoing larger revisions, posing a challenge to policy makers even as they are increasing their data dependency.
- In our view, policy rate differentials in and of themselves are not of great concern. Instead it is what they reflect about the underlying strength of the economy. In fact current policy rate differentials are actually not that large and are at levels similar to 2018. The overall current risk of financial instability is low and not vulnerable to short-term rate differentials.
- However, we acknowledge that if a sustained higher US policy rate caused the US dollar to remain stronger than other currencies for a long period of time, it could ultimately be a drag on global growth since much of the world's debt and transactions remains denominated in USD. These challenges would be particularly difficult for Emerging and Frontier Market economies and countries that are net importers of key commodities like oil.

Source: SSGA

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