

## Looks like a duck

The perfect storm is brewing...

Well January gave a preview of forthcoming attractions...

Equity markets moved fast to the downside, led by the market leaders, liquidity shrank to lowest levels seen in a while, and outflows from SPY and QQQ ETF's were extraordinarily large.

The VIX spiked to reasonable levels, as can be expected, and the selling looked pretty relentless.

Great earnings by a few big market cap names stopped the bear market in its tracks, and a strong "bull market" or "bear market rally" is ensuing as we speak.

The biggest tell for an ongoing bear market is a viscous countertrend rally. Recent market action currently fits the bill, so we remain on guard.

Interest rates are the Grinch, who look determined to stop the equity/bond/property party.

One cannot underestimate the positive exponential wealth effect of falling interest rates, especially near the zero bound. Its primary effect is on the equity and property markets.

By the same token, it is wise to assume the opposite is true i.e. the negative effect on equity and property markets given rising interest rates.

The Fed has signalled that it is going to reduce QE and raise short-term rates to counter what, amazingly, looks like persistent inflation.

Whilst the impact will only be felt by the end users once the rates are actually higher, the more prescient investors seems to be distributing to the "buy on... anything" crowd, causing the holders be more and more fragile in their makeup.

The fragility doesn't end there...

The meme/spac mania is eerily similar to previous bubbles.

The high concentration of large caps in the S&P 500 (narrowing of the leadership).

The inflation backdrop.

The massive rise of passive investing giving rise to highly correlated portfolios. Everyone in the same theatre when someone shouts "fire!"

The reduction in liquidity provided by central banks.

If the market does take flight, it must be labelled a grey swan – one where a normal person could have perceived its existence and growing probability of occurrence.

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