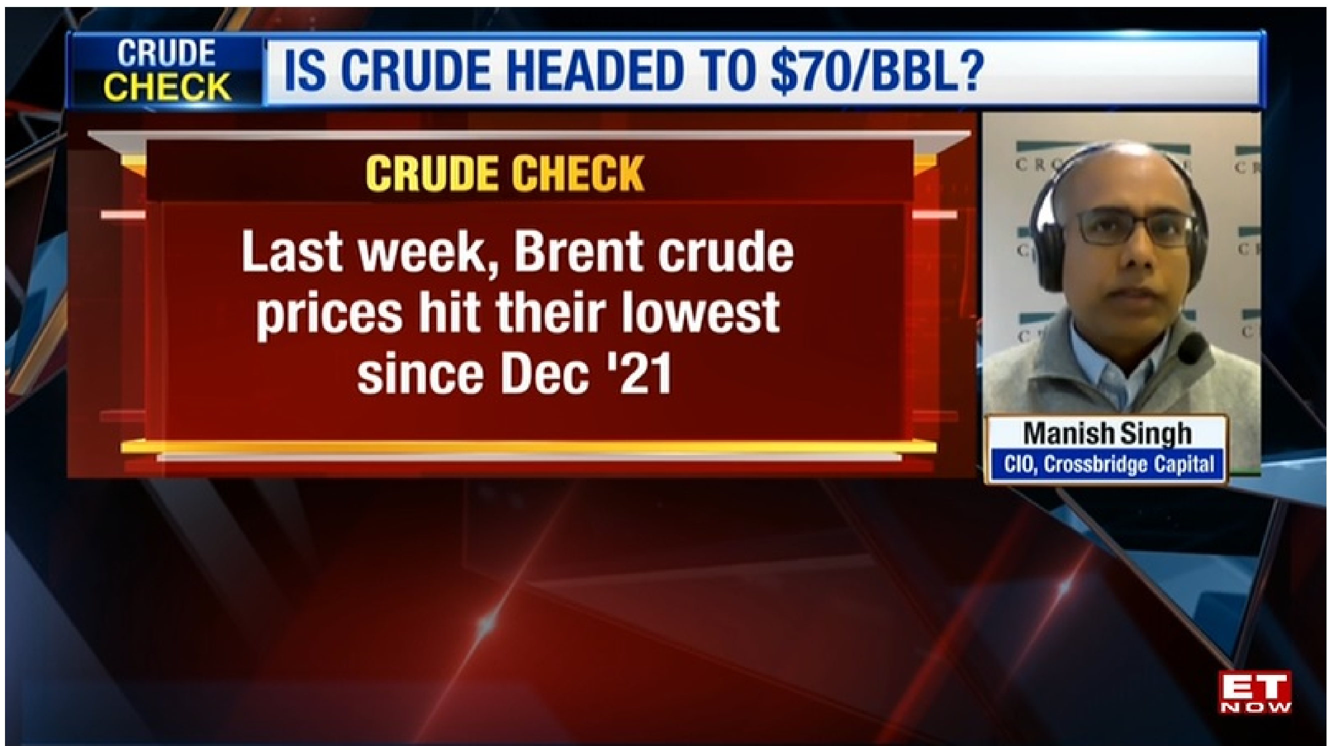


Investors will be keenly watching the U.S. Federal Reserve, where the FOMC will convene to meet on December 13-14. While the street is expecting the central banks to slow the pace at which it raises interest rates, it has in the past signaled that it is not yet close to hitting the pause button to tighten monetary policy given persistent inflationary pressures.

Watch full story from ET Now

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

The Fed Funds rate is expected to get to +5%. The US economy will likely enter a recession by mid-2023 and the Fed will be forced into cutting interest rates in Q3.

Summary

Europe is not out of its energy crisis and a long spell of severe cold weather could make it worse in Q1 of 2023 as well as the winter of 2023, when storage would run low. It will take more than warm words from the politicians in charge to avert a major recession next year on the Continent.

Over in the US, the recent bout of high inflation, precipitated by two key factors – excessive money supply growth, and self-inflicted supply-side restrictions driven by lockdowns, are now in the rear-view mirror. Inflation is falling and money-supply growth is now flatlining. However, with the US Federal Reserve (Fed) still insistent on raising rates from current levels, the fate of a US recession in 2023 is sealed. The US economy will likely enter a recession by mid-2023 and the length and depth of this recession will depend on how quickly the Fed responds.

The Fed will be forced into cutting interest rates in Q3 as it responds to the recession. The Fed Funds rate -currently at +4% and expected to get to +5% – will end 2023 in the +2.75% to +3% range i.e. a 200bps rate cut over Q3-Q4 2023 levels.

A recession doesn't have to be doom for equities and markets tend to bottom before recessions start. Market sentiment towards equities continues to be bearish. If you turn bullish when everyone else is bullish, then you are buying late in the cycle. There is an opportunity cost to it which accumulates over time. Instead, I recommend you focus on equity market internals and invest in tranches over time. In my opinion, we saw the bottom on the S&P 500 at the 3600 level in June 2022 when inflation peaked at +9.1%. My end-of-2023 target for the S&P 500 is 4,290 i.e., +10% up from current levels.

The record US Dollar rally that we have seen this year ran out of steam in October. The US Dollar will continue to weaken, as concerns about the US economy grow and inflation fears recede further in Q1 and Q2 of next year.US dollar weakness will certainly help earnings for companies that generate a large portion of their revenues outside of the US.

"Baby It's Cold Inside"

Temperatures are plummeting across Europe and it is -3 degrees today in London, as I write this note.

The arrival of a wintery storm "Troll of Trondheim" is expected to bring snowfall to the UK over the weekend. It is getting colder by the day. Meanwhile, energy prices remain extremely high.

Thankfully, it is also the time of the year when Christmas/wintery songs take over the airwaves, so there is some cheer in the air. It's safe to say, that if you are not living in a cave, you'll likely hear Baby, It's Cold Outside a few times over the rest of December.

The song won the Academy Award for best song in 1950 where it featured in the film "Neptune's Daughter" starring Ricardo Montalban and Esther Williams. In one scene, as Esther tries to stand up,

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

Ricardo pulls her back down by tugging her arm, points to the cold weather outside and serenades her with – baby it's cold outside – to persuade her to stay.

High energy costs and the drive to reduce energy bills this winter in Europe, may see this now Christmas classic – baby it's cold outside – turned on its head as Esther responds to a lovestruck Ricardo's overtures with – baby it's cold inside. And who would blame Ricardo if he didn't have proper heating on?

Gas prices in Europe are still five times as great as what is considered to be normal levels.

Europe is not out of its energy crisis and a long spell of severe wintry weather could make the energy crisis worse in Q1 of 2023 as well as for the winter of 2023, when storage would run low. It will take more than warm words from the politicians in charge to avert a major recession next year on the Continent.

In the UK, the government has approved the first new coal mine for 30 years in Cumbria. I hope other governments across Europe follow the lead and deal with the energy crisis which could devastate industry, life, and livelihoods. Those focusing on 2050 and "net zero" would agree that we need to make it through 2023 first.

If there is one thing that has concerned the markets more than anything this year, it is inflation.

As we head into 2023, the big question is – What is the outlook for US inflation (CPI) and the outlook for the US Fed fund Target Rate (FDTR)?

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

Here is what I believe happens in 2023:

- US inflation slides more rapidly than anticipated with US CPI getting to +4% by the end of Q1
- The US economy enters into a recession by mid-2023
- The US Federal Reserve (Fed) is forced into cutting rates in Q3 as it responds to the recession. The Fed Fund rate (currently at +4% and expected to get to +5%) will end 2023 in the +2.75% to +3% range i.e., a 200bps rate cut over Q3-Q4 2023 levels

Allow me to explain.

Regular readers of this newsletter will know that I believe inflation is not a problem in the medium term and that we will be back to the disinflationary period of pre-Covid years.

In the April 2021 Market Viewpoints I wrote "the last 250 years of US inflation can be summarised as – a very long period of little or no inflation, a couple of decades of high inflation in the 1970s-80 and back to more than three decades of low inflation. My gut tells me that we will see a short burst of high inflation but over the medium-term, inflation is not a significant risk."

We have seen a bout of high inflation in terms of levels the CPI reached. I would say any Year-over-Year (YoY) CPI print of +7% and over, can be classified as "high inflation."

- US CPI reached +7% in December and is still above that level. However, the good news is that the data suggests US CPI peaked in June this year at +9.1% and has been coming down steadily since
- The November US CPI report is due next week. The current estimate for November's Month-on-Month (MoM) CPI is +0.3%
- If CPI comes in at that +0.3% MoM for November, it will take the YoY CPI reading down to near +7% (last print +7.7%)
- However, a decline in the MoM CPI for November, let us say -0.1% (not impossible given the sluggishness of recent macro data) will get us to +6%

We had big MoM US CPI prints in February (+0.8%) and March (+1.2%) of this year. As they drop off the annual CPI calculation and are replaced by new prints for February 2023 and March 2023, the CPI will move down quickly. I expect the CPI number down into the +4% range by next spring.

If that happens, we definitely won't need a Fed Funds Rate at +5% for long i.e., the short burst of high inflation is over, and we are in for moderate levels going ahead.

This recent bout of high inflation was precipitated by two key factors – excessive Money supply (M2) growth, and self-inflicted supply-side restrictions driven by lockdowns. Both factors are now in the rear-view mirror. M2 is the measure for the currency in circulation that includes M1 (physical cash and

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

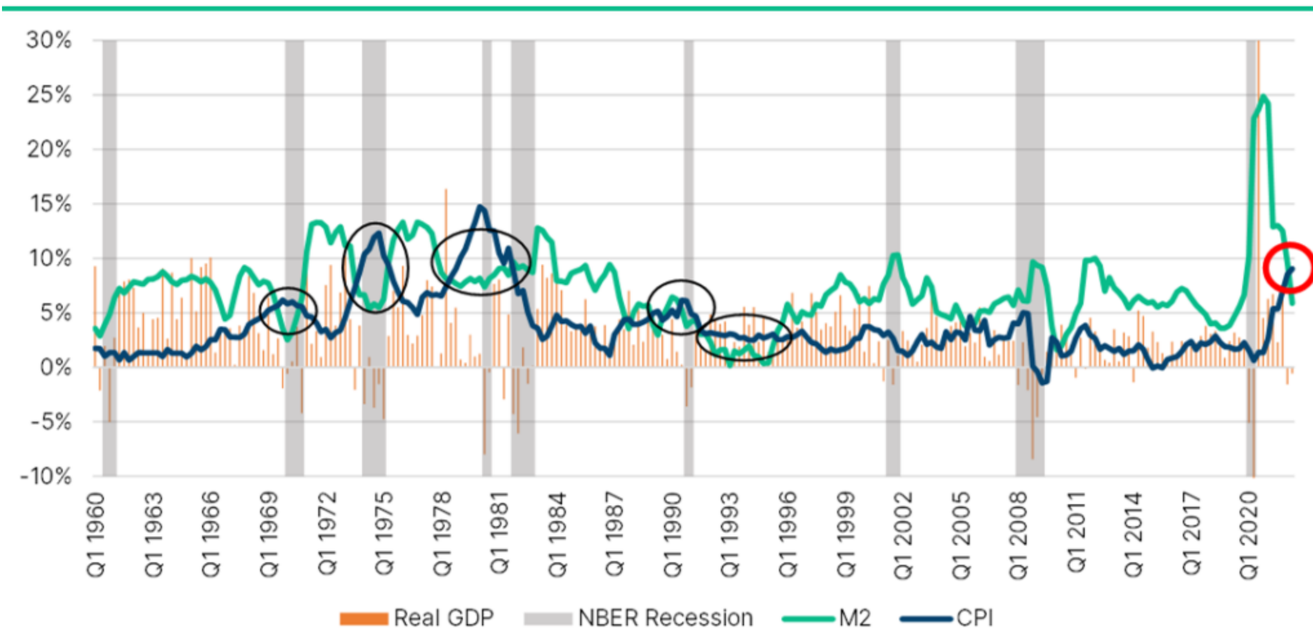
checkable deposits) as well as “less liquid money”, such as savings in bank accounts. M2 growth which got to as high as +26.8% in Feb 2021 is now flatlining (more on this further down, and in the chart below).

The Western world has been out of lockdowns since February and even China has now cast off its “zero-Covid” policy. The local authorities across China are paring back some of their strictest Covid-19 control measures, even as the number of new infections remains elevated. This is good news for the supply side (as well as bringing Chinese consumption demand back online)

The chart below plots the year-on-year (YoY) growth rate of US inflation (CPI) and the growth rate of M2 supply.

As you would guess, CPI follows the increase in M2, with a lag as prices generally respond to the increase in money supply working its way through the economy impacting demand.

Figure 3: YoY change in quarterly M2 and CPI, annualised quarterly change in GDP, with recessionary periods shaded



SOURCE: U.S. BEA (FROM FRED), NBER, BOARD OF GOVERNORS OF THE FED (FROM FRED), U.S. BLS (FROM FRED), STEVEN ANASTASIOU
*UPPER AND LOWER Y-AXIS BOUNDS SHORTENED FOR LEGIBILITY - ACTUAL ANNUALISED Q2 2020 REAL GDP WAS -31.2 PER CENT, AND Q3 2020 REAL GDP WAS 33.8 PER CENT.

The M2 supply kicked into high gear around January 2020 and continued to increase as various stimulus efforts to deal with Covid-19 were implemented. The M2 growth eventually peaked a year later in February 2021 at +26.9%. At the time, the inflation was at +1.68%. Since then, the M2 growth has been coming down and inflation has been rising.

Any challenges (foreseen or unforeseen) on the supply side just make the CPI worse. This is what we saw with Covid-19. It was not just the M2 increase but the restrictions on supply that had a bearing on the CPI too.

The red circle in the chart above highlights “the inversion” – the rate of change of M2 and the rate of change of CPI crossing each other i.e., prices rising faster than money supply. This inversion is often a predictor of a recession ahead and in my opinion, we have crossed the Rubicon. With the Fed still

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

insistent on raising rates, and as per the Fed's projection of at least a +100bps rise ahead, the fate of a US recession in 2023 is sealed. The length and depth of the recession will depend on how quickly the Fed responds.

Here is how an increase in Money supply (M2), followed by an increase in CPI and an increase in interest rates bear on the economy to cause a recession that begets rate cuts:

- When the M2 increases, but prices remain largely the same there's initially an increase in the real demand for goods and services. However, the increase in M2 is only demand stimulatory until the prices of items eventually rise and reduce demand
- Once prices rise sufficiently, the level of real demand, all else being equal, and in absence of any productivity gains, reverts to its pre-stimulatory level. As demand contracts, businesses scale back their output. Central banks and businesses realise – the money supply did not create any new wealth (How could it – it was not invested in a productive capacity as is often the case with stimulus checks)
- A recession follows and interest rates are cut

Even as the S&P 500 (SPX) has moved down and sideways, the percentage of stocks above their 200-DMAs continues to grow and show positive breadth divergence. It is a sign of market internals getting stronger despite the prevailing bearish narrative.

Source: Bespoke Invest

A focus on the medium term will spare you the anxiety of short-term volatility. In this sell-off, the SPX bottomed at 3600 in June and here we are end of the year, with the SPX at 4,000.

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

Income strategies earned (accumulated) a carry of +8% if you stayed invested or invested when everyone was bearish mid-year. We saw the same in the depths of Covid-19 driven market sell-off in Q1 2020. Central banks can change the narrative without any warning. It can lead to a shallower recession (or a recession avoided)

If you turn bullish when everyone else is bullish, then you are buying late in the cycle. There is an opportunity cost to it which accumulates over time. Instead, In recommend you focus on market internals and invest in tranches over time. My end-of-2023 target for the SPX is 4,290.

Recession does not have to be doom for equities and markets tend to bottom before a recession starts. In my opinion, we have seen the bottom on the SPX at the 3600 level in June 2022, when inflation peaked at +9.1%.

Markets and the Economy

Given the year we have had, it was a solid November and Q4 year-to-date for the equity markets (see table below).

Benchmark Global Equity Index Performance (2021, 2022 YTD and QTD)

Ticker	Name	Country	2021 Performance (Lcl Ccy)	2022 Year-To-Date (Lcl Ccy)	2022 Quarter-To-Date (Lcl Ccy)	November 2022 Performance (Lcl Ccy)
MXTR Index	MSCI TURKEY	Turkey	22.8%	128.4%	44.7%	22.4%
MXIN Index	MSCI INDIA	India	27.3%	4.9%	6.9%	**3.4%**
IBOV Index	BRAZIL IBOVESPA INDEX	Brazil	-11.9%	3.2%	-1.7%	-3.1%
UKX Index	**FTSE 100 INDEX**	**Great Britain**	14.3%	1.4%	8.6%	6.7%
NKY Index	**NIKKEI 225**	**Japan**	4.9%	-3.1%	7.6%	**1.4%**
IBEX Index	IBEX 35 INDEX	Spain	6.9%	-5.1%	12.3%	**5.1%**
CAC Index	CAC 40 INDEX	France	28.9%	-6.8%	15.7%	**7.5%**
INDU Index	DOW JONES INDUS. AVG	US	18.7%	-7.2%	17.4%	**5.7%**
SX5E Index	**Euro Stoxx 50 Pr**	**Europe**	21.0%	-8.4%	18.6%	**9.6%**
DAX Index	DAX INDEX	Germany	15.8%	-9.7%	18.4%	**8.6%**
FTSEMIB Index	FTSE MIB INDEX	Italy	23.0%	-11.5%	17.3%	**8.6%**
SHCOMP Index	**SHANGHAI SE COMPOSITE**	**China**	4.8%	-11.9%	6.0%	**8.9%**
HSI Index	HANG SENG INDEX	Hong Kong	-14.1%	-14.9%	15.5%	**26.6%**
SPX Index	**S&P 500 INDEX**	**US**	26.9%	-17.0%	10.4%	**5.4%**
MXEF Index	**MSCI EM**	**Emerging Markets**	-4.6%	-21.3%	10.7%	**14.6%**
CCMP Index	NASDAQ COMPOSITE	US	21.4%	-29.2%	4.7%	**4.4%**
IMOEX Index	MOEX Russia Index	Russia	15.1%	-42.7%	11.0%	0.4%

Source: Bloomberg

The US mid-term election year "seasonality" that I first mentioned in the [August's Market Viewpoints]() kicked in, in a very timely manner, and delivered solid double-digit returns over the months of October and November. Let us hope it lasts the next couple of weeks into year-end and we finish the year in a flourish with a "Santa rally" to close the year.

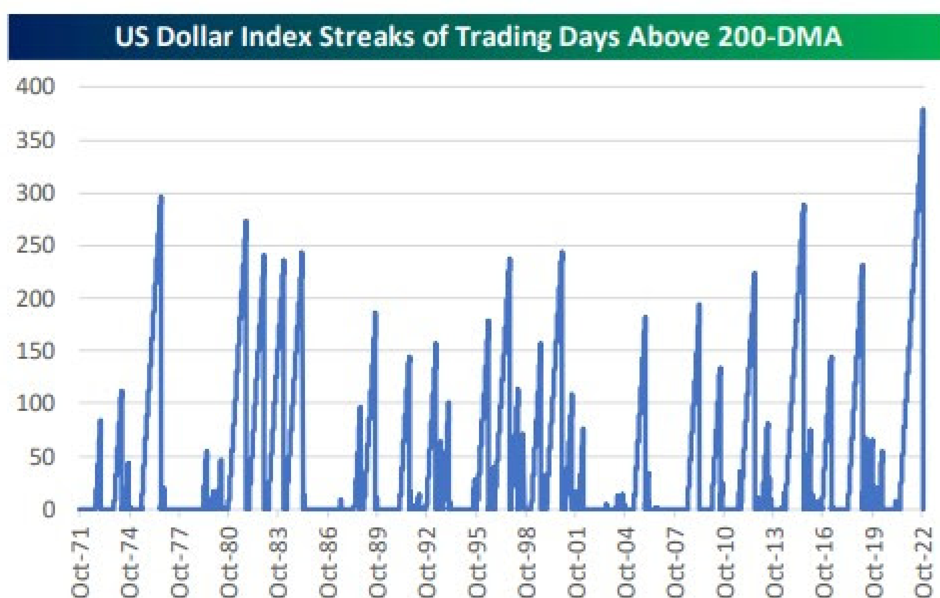
On a Year-to-Date (YTD) basis, we are still down -15% to -20% across the major indices and, more so, if you measure the returns in US Dollars.

The record US Dollar (USD) rally that we have seen this year, has now run out of steam, as US interest rate expectation have moderated. The recent decline in bond yields has been accompanied by a big drop in the USD as well. This is a complete reversal of the sticky trend of – higher rates, higher US dollar and lower stock prices – that we saw in Q3.

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

While the SPX moved back above its 200-Day Moving Average (DMA) this week after 162 trading days below it, the US Dollar Index (DXY) finally broke below its 200-DMA last week for the first time in more than 350 trading days (chart below). The streak of closes above the 200-DMA for the US dollar was easily its longest on record dating back to the 1970s. The next-longest streak ended at 231 days in March of 2019. You may recall that a “Fed pivot” followed by rate cuts started within six months of that. As I have mentioned above, I expect the Fed to start cutting rates in Q3 2023.

US inflation peaked in June and the US Dollar peaked in October when the US Dollar Index (DXY) hit a peak of 114. Since then, the DXY has been trundling down and currently sits at 105. At 105, the DXY is still 10-point higher than at the beginning of the year. I expect the USD to continue weakening, as concerns about the US economy grow and inflation fears recede further in Q1 and Q2 next year. USD weakness will certainly help earnings for companies that generate a substantial portion of their revenues outside of the US. The market has factored this in as well. Since the US dollar’s peak, stocks that generate 50%+ of their revenues outside the US have averaged a gain of +18.3%. Stocks that generate all their revenues domestically are up just +11.8% over the same period.



Source: Bespoke Invest

Market sentiment towards equities continues to be bearish. The average upside target for SPX for 2023 is +2.2% (range -5.3% to +14.4%, median +3%) as per the forecasts of the nine Global investment Banks (Goldman Sachs, JP Morgan, UBS, Citi, Morgan Stanley, Deutsche, Barclays, Bank of America, and Credit Suisse).

The American Association of Individual Investors’ (AAII)’s weekly investor sentiment survey, shows the percentage of investors who are market bullish, bearish, or neutral on stocks. The most recent survey had more bears than bulls for a record 35 weeks in a row (see chart below). It is the longest streak since 1987. It is safe to say the consensus is bearish.

“Nothing is more obstinate than a fashionable consensus” as former UK Prime Minister Margaret Thatcher once said. Consensus does not happen by magic; it must be driven and forged. Beware of a

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

consensus driven by 24×7 doom-mongering and flashing headlines on television. Focus instead on the medium term and let’s learn from history. Being bearish and seeking the “safety of consensus” can be fashionable, but it could also lead to lost opportunities.

As the analysts at Goldman Sachs’ GIR recently put it: *“in the 20th century alone, we dealt with two great wars (one of which we initially appeared to be losing); a dozen or so panics and recessions; virulent inflation that led to a 21.5% prime rate in 1980; and the Great Depression of the 1930s, when unemployment ranged between 15% and 25% for many years. America has had no shortage of challenges. without fail, however, we’ve overcome them. in the face of those obstacles — and many others — the real standard of living for Americans improved nearly seven-fold during the 1900s, while the Dow Jones Industrials rose from 66 to 11,497.”*

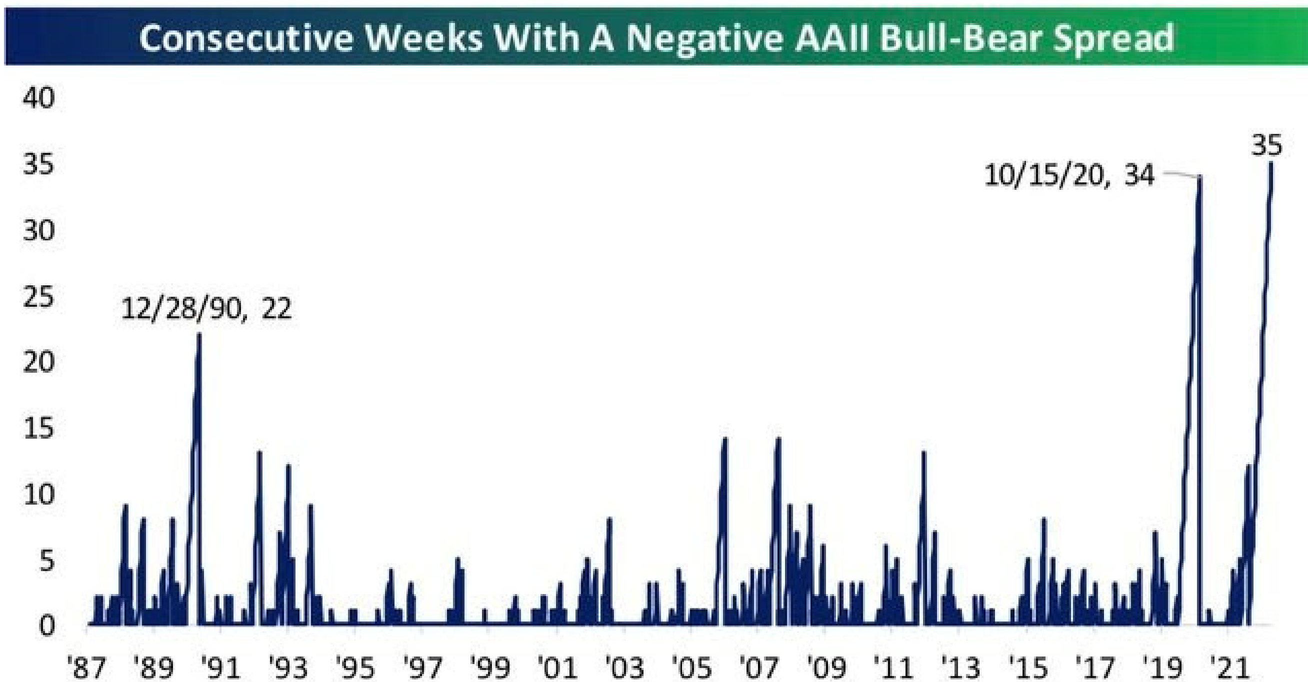
We live in a world which is constantly evolving. Emerging market growth lies ahead of us. We have left the pandemic behind and, while the economic damage from it will take time to heal, lessons have been learnt. The damaging lockdowns of 2020-21 are unlikely to be repeated.

I have no doubt fossil fuel will be back in demand more than anyone prices in.

There is more data, and that data needs more security. Tech, SaaS, cyber-security, big-data, semi-conductor stocks etc., are not a fashionable investment, but a necessity for the long term.

Barring a nuclear war, we are not reversing the trend set over the last two decades of innovation and change. A single Google search today requires more computing power than it took to send Neil Armstrong and eleven other US astronauts to the moon.

It means that now is the time to keep building up your long equity positions before more investors turn from bearish to neutral and eventually to bullish.



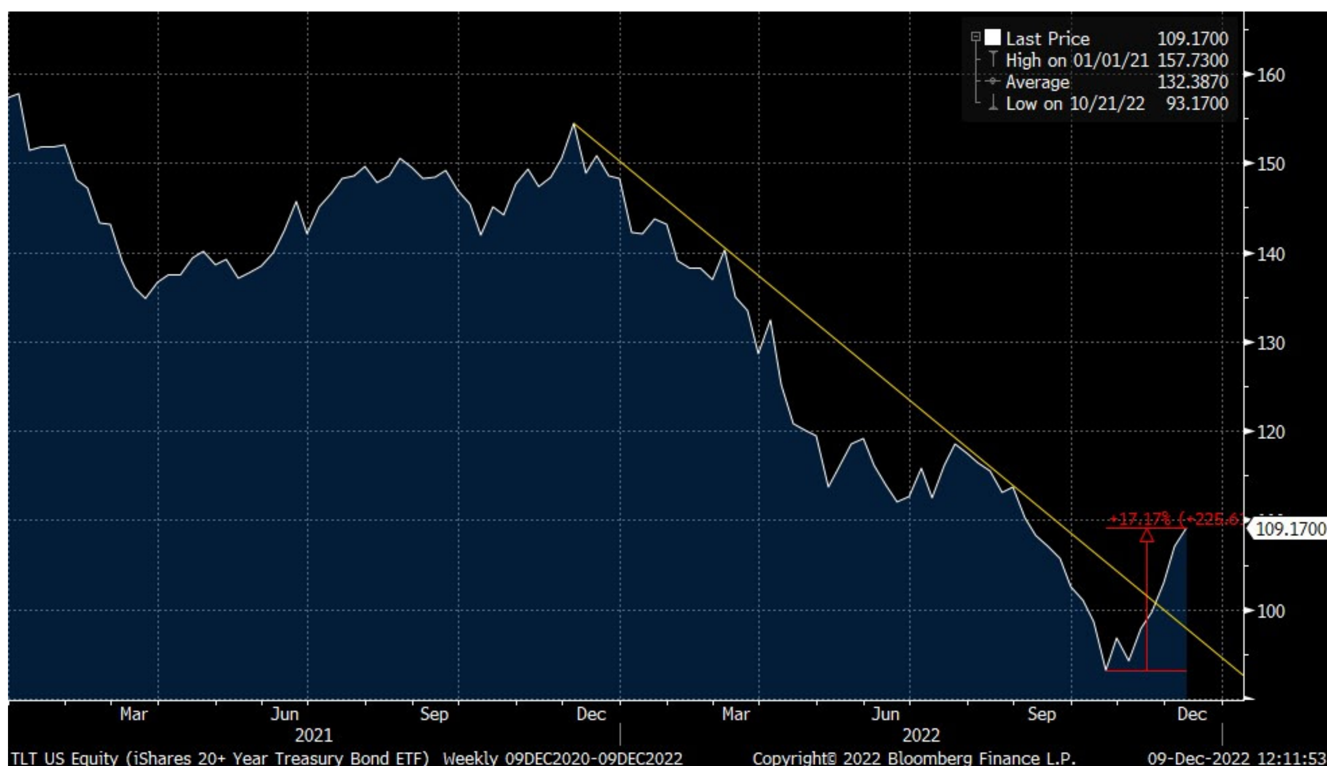
Source: Bespoke Invest

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

A few quick comments on the bond market.

In what has been accurately described as the – worst year in history for US Treasuries – we have now seen a nice bounce over the last six weeks. The 20+ Year Treasury ETF (TLT) is now up over +18% since mid-October and is in the process of breaking above the top of its 2022 downtrend. TLT has only seen a month-over-month rally of over +15% during three other periods since its inception in 2002. Prior sharp one-month moves higher for TLT have come during periods of significant weakness for stocks that ultimately marked attractive entry points.

20+ Year Treasury ETF (TLT): 12-month price chart



Source: Bloomberg

In terms of equity sector performances

- The Energy sector (XLE) remains up +53% YTD see table below), with less than a month to go in 2022
- The only other sector ETF that is close to turning green is Consumer Staples (XLP). It was green at the start of the week and then slipped
- Four sectors are underperforming the broad SPX) – Communication Services (-23%), Consumer Discretionary (-18%), Real Estate (-11%), and Technology (-9%).

Looking at sector breadth, even though Energy is up the most YTD, it currently has the lowest % of stocks above their 50-DMAs (73.9%). Five sectors have more than 90% of stocks above their 50-DMAs: Industrials, Consumer Staples, Materials, Technology, and Utilities. These sectors are showing signs of

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

momentum building up.

Industrials has probably been the most stand-out sector recently. It has rallied the most QTD and it has the most stocks above their 50-DMAs and the second most stocks above their longer-term 200-DMAs.

Benchmark US equity sector performance (2021, 2022 YTD and QTD, 2022 YTD relative to the S&P 500 index)

Ticker	Name	2021 Performance	2022 Year-to-Date (YTD) Performance	2022 Quarter-To-Date(QTD) Performance	2022 YTD Performance (relative to S&P 500)
XLE US Equity	ENERGY SELECT SECTOR SPDR	46.4%	51.8%	17.0%	82.9%
XLU US Equity	UTILITIES SELECT SECTOR SPDR	14.2%	-0.4%	8.8%	20.0%
XLV US Equity	**HEALTH CARE SELECT SECTOR**	**24.2%**	**-1.0%**	**15.2%**	**19.3%**
XLP US Equity	CONSUMER STAPLES SPDR	14.3%	-1.2%	14.2%	19.1%
XLI US Equity	INDUSTRIAL SELECT SECT SPDR	19.5%	-5.6%	20.6%	13.8%
XLB US Equity	MATERIALS SELECT SECTOR SPDR	25.2%	-9.5%	20.5%	9.0%
XLF US Equity	FINANCIAL SELECT SECTOR SPDR	32.5%	-11.4%	14.0%	6.8%
XLK US Equity	**TECHNOLOGY SELECT SECT SPDR**	**33.7%**	**-24.6%**	**10.4%**	**-9.1%**
XLRE US Equity	REAL ESTATE SELECT SECT SPDR	41.7%	-25.7%	**6.9%**	**-10.5%**
XLY US Equity	**CONSUMER DISCRETIONARY SELT**	**27.2%**	**-31.6%**	-1.9%	-17.6%
XLC US Equity	**COMM SERV SELECT SECTOR SPDR**	**15.1%**	**-36.3%**	**3.3%**	**-23.3%**

Source: Bloomberg

With sector indices still recovering, it is time to keep building your long positions.

- Tailwinds for equities: Strong seasonality, over bearish investors, less hawkish Fed, moderating inflation
- Headwinds for equities: Recession risk ahead, good short-term rally so far i.e., consolidation of levels, SPX still not above 200 DMA

As I have been saying since June at least, there are plenty of high-quality stocks in the Consumer, Technology, Industrial and Healthcare sectors that are trading at -20% to -25% on a YTD basis, and present a good buying opportunity, be it directly or via Structured Products.

Structured Products in investment portfolios offer an investor the opportunity to benefit from prevailing market volatility. If you can take a 3–5-year investment view, the stocks and/or indices underlying the products do not necessarily have to rally for one to earn 10-12% in income from the products annually.

For instance, last week, we launched a 5-Year product on a basket of (Disney, Pepsi, Nike, and Constellation Brands) where the coupon was +15.6% per annum, the protection barrier was set at 60% at maturity and the losses do not accrue from 100% but from the 60% level, if the barrier is reached at maturity. In summary, therefore, Structured Products offer: Equity exposure, solid income, and good downside protection.

For specific stock recommendations and Structured Product ideas please do not hesitate to contact me or your relationship manager.

Anyway, all that is left for me to say this year, is to thank you for your time and attention.

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

I also wish you and your families all the best for the holiday season as well as a very Happy New Year. And if you celebrate Christmas – I hope you have a great one and stay warm.

Best wishes,

Manish Singh, CFA

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

Crossbridge Capital is proud to acknowledge that its Co-Founder and Group CEO Tarek Khlat was presented with his Honorary MBE at an investiture ceremony on Friday, by the Lord-Lieutenant of Greater London, on behalf of His Majesty the King.

Tarek had been awarded this prestigious honour by Her Late Majesty Queen Elizabeth II in 2021.

The Member of the Most Excellent Order of the British Empire (MBE) honour was established in 1917 and was awarded to Tarek in recognition of his services to children in the UK. A supporter of the NSPCC – the leading UK charity fighting to end child abuse in the UK – since 2006, Tarek has chaired numerous NSPCC fundraising Boards, developed many key corporate relationships, organised major donor events

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

and spearheaded new fundraising initiatives for the charity. Currently Tarek serves as a Trustee of the NSPCC.

In a statement, Tarek said: “It has been such a privilege to work alongside such an amazing and dedicated team of individuals at the NSPCC for the last 16 years and I am delighted that the NSPCC is also being recognised with this honour for the work that it does day in and day out to improve the lives of children.”

“Rishi understands the working of financial markets and levers that generate wealth for an economy,” said Crossbridge Capital Chief Investment Officer Manish Singh, who has met Sunak.

[Read the full article from Bloomberg]

Republicans could control both the House and Senate following upcoming Midterm elections in the US. What impact would this have on fiscal policy, on inflation and ultimately on bond and equity markets.

Summary

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

It’s now universally accepted that the US Federal Reserve waited too long to begin raising interest rates. The Fed cannot make up for that mistake by overcompensating and tightening rates too far. US mortgage rates topped +7% for the first time in more than two decades, extending a string of steep increases that have stymied housing demand. US mortgage demand has fallen to nearly half what it was a year ago. A housing slowdown sets a chain reaction of a slowdown in the economy. Recent earnings reports indicate that businesses are already factoring in a recession for 2023. No wonder then that the talk of a “Fed pivot” has started surfacing.

The Fed, however, can’t take anything for granted, as headline inflation is still over +8%. The Fed’s hands are tied by the loose fiscal policy thus far of the US administration. The Fed may be in luck however, and about to get some help. Polls indicate the Republican party is set to take control of both the Senate and the House of Representatives in the midterm elections in early November. A Republican-controlled Senate and House will not approve any more stimulus bills. That’s good news for inflation, as the over $4.9 trillion in stimulus over the last two years, has been a key driver of high inflation in the US.

Equity markets have seen a nice rally this month with the S&P 500 (SPX) and Dow Jones Industrial Average (DJIA) up+7.5% and +11.6% respectively. The talk of the “Fed pivot” has helped, as has the realisation that equities are oversold, and the earnings season has not been as bad as many thought it could be. Therefore, it is not time to dump equities but to build a position in them. Granted that bond yields are attractive again as well. Investors, once again, have the luxury to build both a bond and equity portfolio.

Mid-term elections and a “Fed Pivot” on the horizon

US economist and Nobel Laureate, Milton Friedman once said – *“It always takes 6-12 months to quantify a move in rates impact on the underlying economy.”*

The US Federal Reserve (Fed) has raised interest rates by 300 basis points (100 basis points = 1%) over the last six months i.e. the Fed has tightened significantly and the impact of this will only be fully felt over the next six months.

We are already seeing signs of it in the US housing market. As high rates crimp demand, and home prices have started to rollover sharply.

The longer-dated Case-Shiller home price index data released earlier this week for August, indicated US home prices falling by -9.81% month-over-month (annualized rate). That marks the first back-to-back monthly declines since the start of 2012. The Case-Shiller index looks across 20 different key metro regions in the US.

Furthermore, US mortgage rates have topped +7% for the first time in more than two decades, extending a string of steep increases that have stymied housing demand. US mortgage demand has now fallen to nearly half what it was a year ago, according to the Mortgage Bankers Association (MBA).

Housing numbers are a very important data to gauge the health of the US economy. The American fetish of home ownership doesn’t stop at buying a house – as “keeping up with the Joneses” often then takes over. Associated spending starts adding up, which is good for the growth figures of the economy – buying furnishings, manicuring the lawn (i.e. spending at Home Depot), upgrading the car to match the house

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

(or better the neighbour's car), and joining the same country club as the neighbours!

A housing slowdown, therefore, sets a chain reaction of a slowdown in the economy. High interest rates also raise rents, as house mortgage affordability, and hence house ownership, decline.

No wonder then the talk of a "Fed pivot" has started surfacing.

Last Friday, *Wall Street Journal* (WSJ) reporter, Nick Timiraos – widely regarded as the mouthpiece of the Fed – published an article titled "Fed set to raise rates by 0.75% and debate size of future hikes."

The key lines from the article are as follows – "Some officials have begun signalling their desire both to slow down the pace of increases soon and to stop raising rates early next year to see how their moves this year are slowing the economy. They want to reduce the risk of causing an unnecessarily sharp slowdown."

It is now universally accepted that the Fed waited too long to begin raising interest rates. The Fed can't make up for that mistake by overcompensating and tightening rates too far. At the same time, the Fed can't take anything for granted, as headline inflation is still over +8%.

The twelve districts of the US Federal Reserve

Source: US Federal Reserve

The Fed's hands are tied by the fiscal policy moves of the current government, which is still largely expansionary, and the impact of the Student Loan Forgiveness Initiative has not yet been factored in.

The program promises to cancel up to $20,000 of student debt for individuals who make less than $125,000 a year, or married couples who make less than $250,000 a year. The program has been challenged in the US courts by Republican-run states. If the courts allow the administration of US

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

President Joe Biden to proceed, debt cancellation could begin almost immediately for the more than 22 million borrowers who have already signed up for the program. At a minimum, this would mean an over $400 billion boost to spending, as loan repayments are ploughed back into consumer spending.

Recent earnings reports indicate, that businesses are already factoring in a recession for 2023, which means they are adjusting forecasts, changing buying patterns and delaying big purchases. They are also not as desperate to hire as they were nine months ago, as the monthly US jobs report indicates. The US economy is a massive ship, it won't turn on a dime, but ratcheting up interest rates has already changed the course. Raising rates much more from here, would be reckless and lead to economic damage, the extent of which we don't know yet.

Besides, this is not the Paul Volcker Fed of the 1970s and nor can it afford to be. In the 1970s, the US debt to GDP was approximately 40%. Today, it's well over 100%. Debt service cost adds up very fast if rates stay too high. Unlike his academic predecessors, the current Fed Chair Jerome Powell has a background in investment banking and Private Equity. Powell worked at the investment bank Dillon Reed, specialising in financing, merchant banking, and M&A from 1984-90 and at the Carlyle Group, the Private Equity and asset management giant, from 1997-2005. Nobody knows better than the Private Equity guys what debt and debt service costs can do to a business, and a nation for that matter.

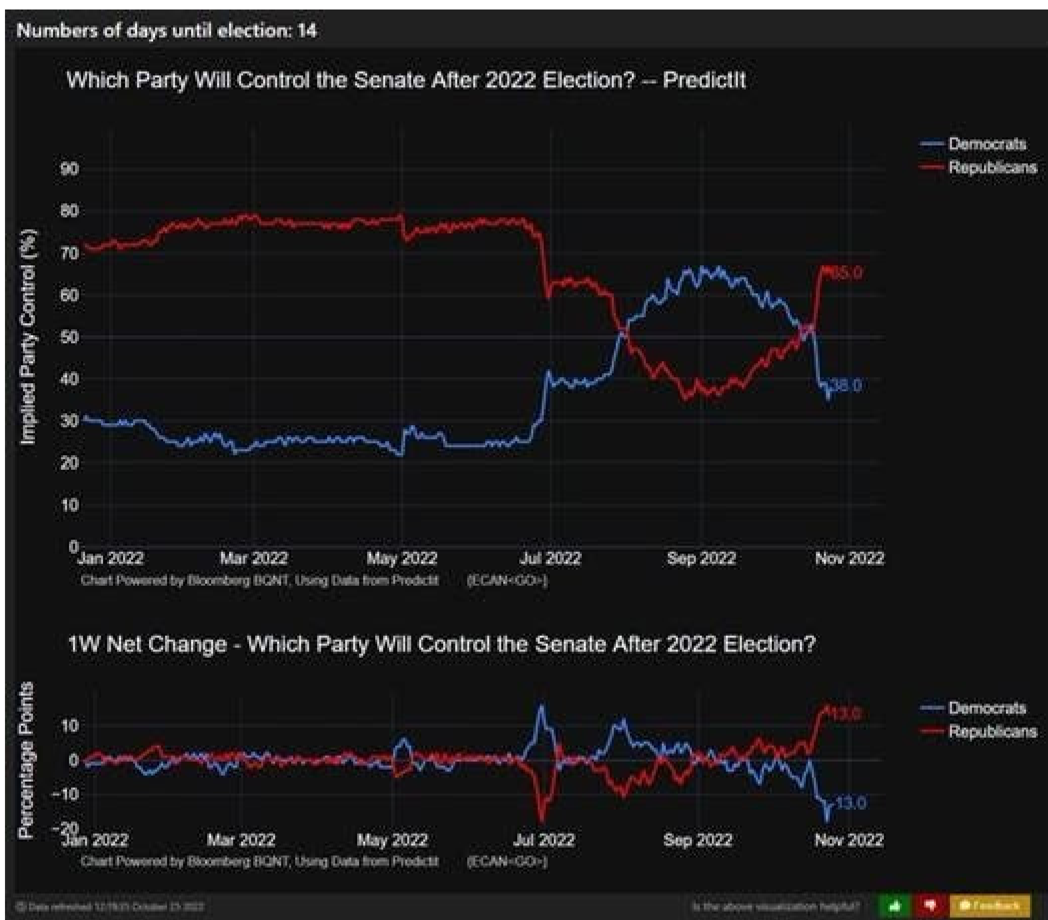
The problem of inflation has been complicated as the Fed has received little help from the fiscal side. The Fed tightens while the Biden administration spends like there's no tomorrow. The total stimulus under the Biden administration is over $5 trillion. The US Congress has raised the debt ceiling more than 45 times. There are hardly any US lawmakers willing to stop deficit spending. The current US national debt of $31 trillion can easily climb to $40 trillion by the end of the decade and all this debt needs servicing.

Until fiscal spending slows, raising rates will have very little effect on inflation. Passing the "Inflation Reduction Act" and expecting inflation to come down is akin to throwing soup at an Old Master painting and expecting the climate change issue to be solved. The Fed may be in luck however and about to get some help.

The recent Republican surge to control the US Senate may be levelling off, but the gap the Republicans have opened up on the Democrats remains substantial (see chart below).

Mid-term election betting odds: Who will control the US Senate?

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.



Source: Predictit

Tuesday night’s debate in the key Senate seat in Pennsylvania didn’t go well for Democrat nominee John Fetterman. He opened his first answer by saying, “Hi, good night, everybody,” rather than “Hi, good evening.”

In the debate, Fetterman was asked to state his view on Natural-Gas fracking, an important economic driver in parts of Pennsylvania. In the past, Fetterman has opposed fracking. On the night he said – “I do support fracking, and I don’t, I don’t—I support fracking and I stand, and I do support fracking.” Make of that what you will. It seems it’s good night and goodbye to Fetterman in Pennsylvania after that debate, which was more like an Amtrak derailment than a car crash. The debate outcome has further boosted the Republicans with mid-term elections less than 2 weeks away.

In the House of Representatives, Republicans need to pick up just five seats to take control of the House. A Real Clear Politics (RCP) poll of polls predicts that the Republicans could pick up +12 to +47 seats with an average of +29.5 seats.

With the Republicans controlling both the House and the Senate, fiscal stimulus will be checked and more oil and gas production will be back on the agenda. The adoption or the expectation of adoption of the two policies will exert downward pressure on inflation. In a nutshell, fiscal policy is about to get restrictive in the US.

Therefore, I believe that the Fed will be well-placed to change its stance before the end of the year.

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

However, we are not going to the low rates of the past decades anytime soon.

One thing that is often overlooked is how much globalization played a part in taming inflation in the 1980s-90s. China's cheap labour and Saudi Arabia's cheap oil were key to bringing down costs from the double-digit inflation rates we saw in the 1970s. China's cheap labour is gone, and the Saudis want to keep energy prices high.

Only a concentrated effort to increase oil and gas production in the US and globally can change the energy supply balance and bring inflation down to the +2% that the Fed targets.
The world needs and will always need cheaper energy supply to preserve lives and livelihoods. Energy is the lifeblood on which the world runs and hence life is sustained. Therefore, we need more and cheaper energy supplies now, and less talk of how we are going to get to "net zero" by 2050.

Markets and the Economy

Markets have seen a solid rally this month with the S&P 500 (SPX) and Dow Jones Industrial Average (DJIA) up+7.5% and +11.6% respectively (table below)

The talk of a "Fed pivot" has helped, as has the realisation that equities are oversold and the earnings season has not been as bad as many thought it could be.

With the US likely heading into a recession (more on this below), equity bears have had a change of heart and are happy to deploy more cash and start building a long position in equities, with the main indices still down more than -20% from their highs.

A bright spot is that the 3,600 level on the SPX is holding up well and we have seen three tests of that level already since June.

We got to 3,600 in June and it's October now. The SPX hitting the 3,600 level in June also coincided with the peak US Consumer Price Index (CPI) print of +9.1%.

The SPX index doesn't spend much time around the 3,600 levels and bounces back very sharply. It's back to 3800 as of now, a quick +7% rally in a week.

Benchmark Global Equity Index Performance (2021,2022 YTD and MTD)

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

Ticker	Name	Country	2021 Performance (Lcl Ccy)	2022 Year-To-Date (Lcl Ccy)	October 2022 MTD Performance (Lcl Ccy)
MXTR Index	MSCI TURKEY	Turkey	22.8%	94.6%	23.3%
IBOV Index	BRAZIL IBOVESPA INDEX	Brazil	-11.9%	9.4%	4.2%
MXIN Index	MSCI INDIA	India	27.3%	0.9%	2.9%
UKX Index	**FTSE 100 INDEX**	**Great Britain**	14.3%	-4.6%	2.2%
NKY Index	**NIKKEI 225**	**Japan**	4.9%	-5.9%	4.5%
IBEX Index	IBEX 35 INDEX	Spain	6.9%	-9.8%	6.7%
INDU Index	DOW JONES INDUS. AVG	US	18.7%	-11.8%	11.5%
CAC Index	CAC 40 INDEX	France	28.9%	-12.9%	8.2%
SX5E Index	**Euro Stoxx 50 Pr**	**Europe**	21.0%	-16.6%	8.0%
DAX Index	DAX INDEX	Germany	15.8%	-17.3%	8.4%
FTSEMIB Index	FTSE MIB INDEX	Italy	23.0%	-18.2%	8.4%
SHCOMP Index	**SHANGHAI SE COMPOSITE**	**China**	4.8%	-19.9%	-3.6%
SPX Index	**S&P 500 INDEX**	**US**	26.9%	-20.1%	6.2%
MXEF Index	**MSCI EM**	**Emerging Markets**	-4.6%	-30.2%	-1.9%
CCMP Index	NASDAQ COMPOSITE	US	21.4%	-31.0%	2.1%
HSI Index	HANG SENG INDEX	Hong Kong	-14.1%	-36.5%	-13.7%
IMOEX Index	MOEX Russia Index	Russia	15.1%	-43.2%	9.9%

Source: Bloomberg

A silver lining seems to be appearing on the horizon as far as US CPI is concerned. All the big Month-on-Month (MoM) prints in Q4 2021 will start dropping off as Q4 2022 prints start coming in. Starting with the next CPI monthly print, any headline MoM print below +0.7%, gets the YoY CPI number into the 7.5%-7.7% level. That will be cheered by the markets.

Fiscal policy is about to tighten in the US, as a Republican-controlled Senate and House will not approve any more stimulus bills. That's good news for CPI from here on as the over $4.9 trillion in stimulus over the last two years has been a key driver of high inflation in the US.

The $1.9 trillion stimulus package in March 2021 was preceded by almost $3 trillion in stimulus the previous year. The US economy received over +20% of the Gross Domestic Product (GDP) in increased public spending. That dwarfed the early 2021's output gap of around +4% of GDP.

With several different areas of the US bond yield curve becoming inverted this year, the probability of a US recession has been on the rise. One part of the yield curve, that has remained positively sloped, is the spread between the 10-year and 3-month US Treasury yields. That was the case until Wednesday. The 3-month/10-year yield spread — historically the most accurate predictor of recessions on the yield curve — has now inverted.

Yield curve inversion is not in itself bearish for equities. Per the table below (from True insights), US equities have realized a return close to the long-term average between Yield curve inversion and the start of the recession.

One more key point to note: the SPX performance in the year leading up to the yield curve inversion.

Historically, the SPX's median change in the year leading up to an inverted yield curve has been a gain of +7.9%. In the current period, the SPX has declined over -18% in the year leading up to today's inversion, which would be the weakest performance leading up to an inversion of any period in at least the last 60 years.

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

So, it's not time to dump equities but to build a position in them. Granted that bond yields are attractive again too. Therefore, investors once again, have the luxury to build both a bond and equity portfolio.

US Yield Curve inversions, US Recessions, and S&P 500 Index Performance

Based on the 10-year - 2-year US Yield Curve — true insights

Start date recession	First inversion 10Y - 3M	lag (months)	S&P 500
Feb-80	Aug-78	17	6.5%
Aug-81	Sep-80	11	4.7%
Aug-90	Dec-88	20	17.1%
Apr-01	May-98	34	2.1%
Jan-08	Dec-05	24	8.1%
Mar-20	Aug-19	6	5.2%
Average		**19**	**7.3%**
Median		**19**	**5.8%**

Source: True Insights, NBER, Investing.com, Bloomberg,

If you want to see what high energy costs are doing to the world, then look no further than Europe.

The energy crisis has sowed seeds of political disharmony in the European Union (EU), caused energy-intensive businesses to downsize "permanently" and relocate operations and is set to cause a recession in Germany and Italy in 2023 as predicted by the International Monetary Fund (IMF).

From French tiremaker Michelin to German chemical giant BASF, European industry is starting to crack under the weight of record energy and raw material prices. Chemical/Industrial companies need natural gas and petrochemicals at a reasonable price and not preaching on "net zero" and "climate change." If Europe doesn't secure energy at reasonable prices, companies are going to relocate to regions with more secure access to energy.

This week, BASF announced plans to "permanently" downsize in Europe due to high energy costs in the region. The statement from BASF comes after it opened the first part of its new €10bn plastics engineering facility in China. Spot gas prices are five to six times higher in Europe than in the United States. BASF bemoaned a triple burden of – sluggish growth, high energy costs and over-regulation. BASF bosses have thrown their weight behind a planned expansion in China.

This week, German Chancellor Olaf Scholz put his foot down to approve a contentious deal by China's state-run shipping giant Cosco to acquire a 35% stake in a container terminal in Hamburg, where he used to be mayor. In doing so, Scholz is brushing aside opposition from six of his ministries and 81% of Germans (as per a poll in *Der Spiegel*) who are opposed to the Chinese investment.

Scholz is also about to embark on a trip to China with a delegation of German business leaders, much to the annoyance of President Emmanuel Macron of France. Macron bemoaned the lack of a unified EU approach in dealing with China, saying the EU was acting as an 'open supermarket' to China. Scholz will become the first Western leader to visit China since the start of the Covid pandemic.

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

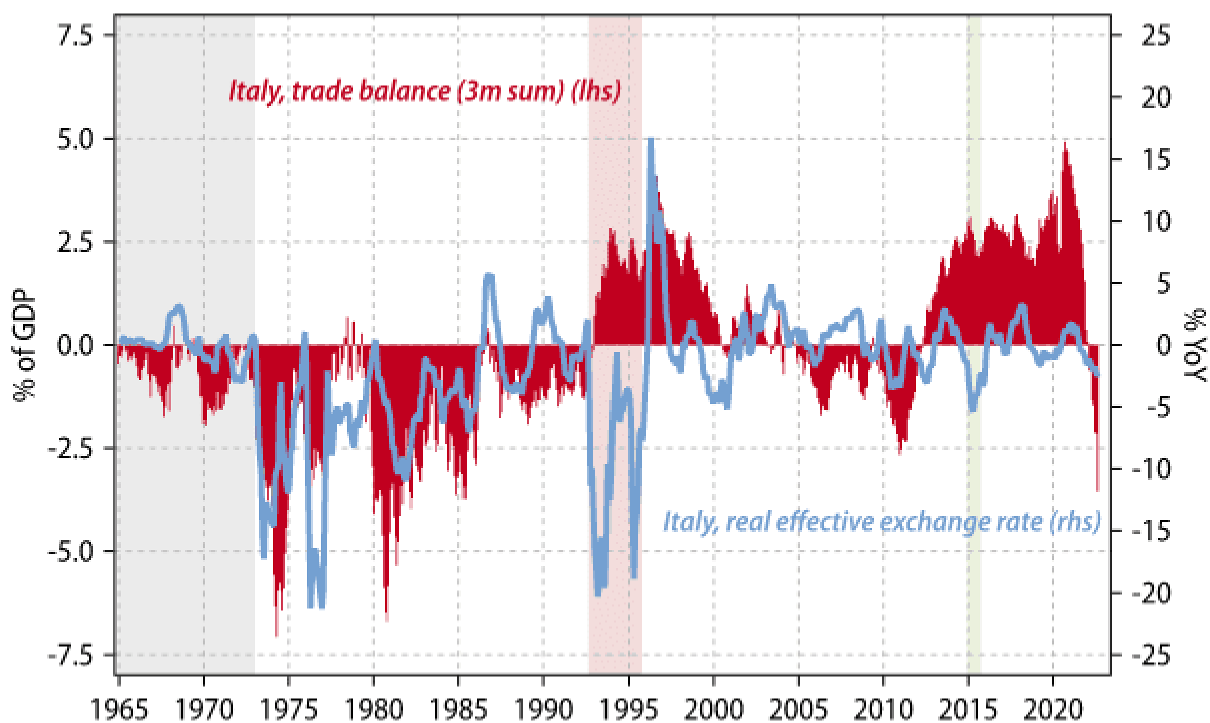
So, it seems, Germany has learnt nothing from overly relying on Russia for cheap energy. It is now putting more of its eggs in the "China basket."

Another way to look at it is – what choice does Germany have?

China is Germany's key market. Germany's trade surplus has disappeared, energy costs are getting prohibitive and debt will mount up. The last thing Germany can afford to do, is make an enemy of China.

And what about Italy?

A new Prime Minister is in place, but the country faces the same old problems of debt and stagnation. Add to that mix – an energy crisis. The energy crisis is more severe for Italy, where in recent years imported natural gas has made up almost +40% of the primary energy mix. Without gas imports from Russia, it is likely that Italian energy users will have to make deep voluntary consumption cuts this winter or face forced energy rationing. Either way, it means economic activity in Italy is set to suffer.



Increased energy import costs have helped to push Italy's monthly current account balance from a surplus equivalent to +5% of GDP in April 2021 to a deficit of -4% in August this year (see chart above). The swing has been compounded by depressed demand for Italy's exports. With around half of exports going to other European economies, which are facing similar headwinds, Italy's non-energy trade surplus has contracted by around -2.5% of GDP over the last two years. This combination will continue to weigh on growth over the winter and possibly beyond.

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

A deep recession in Italy now seems a certainty.

Benchmark US equity sector performance (2021, 2022 YTD and MTD)

Ticker	Name	2021 Performance	2022 Year-to-Date (YTD) Performance	October 2022 (MTD) Performance
XLE US Equity	ENERGY SELECT SECTOR SPDR	46.4%	60.3%	23.5%
XLP US Equity	CONSUMER STAPLES SPDR	14.3%	-7.1%	7.3%
XLV US Equity	**HEALTH CARE SELECT SECTOR**	**24.2%**	**-7.2%**	**7.9%**
XLU US Equity	UTILITIES SELECT SECTOR SPDR	14.2%	-8.3%	0.2%
XLI US Equity	INDUSTRIAL SELECT SECT SPDR	19.5%	-12.6%	11.6%
XLF US Equity	FINANCIAL SELECT SECTOR SPDR	32.5%	-14.6%	9.9%
XLB US Equity	MATERIALS SELECT SECTOR SPDR	25.2%	-18.3%	8.8%
XLK US Equity	**TECHNOLOGY SELECT SECT SPDR**	**33.7%**	**-28.6%**	**4.5%**
XLY US Equity	**CONSUMER DISCRETIONARY SELT**	**27.2%**	**-29.2%**	1.7%
XLRE US Equity	REAL ESTATE SELECT SECT SPDR	41.7%	-30.6%	**-0.1%**
XLC US Equity	**COMM SERV SELECT SECTOR SPDR**	**15.1%**	**-38.4%**	**-0.1%**

Source: Bloomberg

The October seasonality I mentioned in my August Market Viewpoints seems to have kicked in already (see the MTD performance in the table above).

Historically it has led to a solid rally starting in October, that lasts until the end of the year. It might dovetail nicely with signs of dovishness from the Fed. So, please bear this in mind.

As I've been saying since June at least, there are plenty of high-quality stocks in the Consumer, Technology, Industrial and Healthcare sectors that are trading at -20% to -25% on a YTD basis, and present a good opportunity to invest in, be it directly or via Structured Products.

The reason I keep recommending the use of Structured Products in investment portfolios is that they offer an investor the opportunity to benefit from prevailing market volatility. The stocks and/or indices underlying the products do not necessarily have to rally for one to earn 10-12% in income from the products annually.

For instance, this week, we launched a 5-Year product on a basket of (Apple, Amazon, Google and Microsoft) where the coupon was +15.3% per annum, the protection barrier was set at 60% at maturity and the losses don't accrue from 100% but from the 60% levels, if the barrier is reached at maturity. In summary therefore: Equity exposure, solid income and good downside protection.

For specific stock recommendations and Structured Product ideas please do not hesitate to get in touch with me or your relationship manager.

Best wishes,

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.

Manish Singh, CFA

© 2026 Crossbridge Capital. All rights reserved.
This material is provided for informational purposes only and does not constitute investment advice.