



US equities & inflation - a regime shift?

- In our [“Inflation – Friend or Foe?”](#) observation we simply added up the number of S&P500 single stocks with a positive relationship with US inflation expectations (‘inflation tailwind’), versus the number with a negative relationship (‘inflation headwind’). Updating that chart today reveals an interesting shift.



- **There has been a sharp rise in the number of US single stocks who suffer in an environment where inflation expectations are rising.** And a corresponding fall in the number who benefit from reflation. The latter still outweigh the former by around 2:1 but the change is notable.
- It should be noted that **macro explanatory power is declining for US equities.** The S&P500 is now out of regime; & this exercise only includes models where confidence is at least 65%. That total is now 240, so around half the index.
- Even with those caveats though it is worth considering the possible implications of this shift. One potential explanation is that **US equities are reverting to a ‘bad news is good news’ mentality.** A negative relationship means lower inflation expectations are consistent with higher US equities; i.e. disinflationary fears ensure the Fed keeps monetary policy easy.
- Maybe this is how we square the circle. Bond markets seem to be pricing in a growth scare while equities hit fresh highs. The two only work in tandem when equities feel the Fed’s policy stance provides underlying support.

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