Research @ Citi Markets Edition: Macro Tapas — Fed, Japan, Equities

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Transcript:

Opening Teaser: (00:00)

Research @ Citi Markets Edition.

Adam Pickett (00:03)

Welcome to Research @ Citi Markets Edition, where we break down global macro in 10 minutes or less.

I'm your host Adam Pickett, Citi's Head of Global Macro Strategy in London. And with me today is Giammarco Miani, my Global Macro Strategy colleague, also based in London. Hi, Giammarco.

Giammarco Miani (00:21)

Hi, Adam.

Adam Pickett (00:23)

We are recording this podcast at 9 a.m. on Monday, Aug. 10, 2026.

We had quite a lot of different topics flying around in macro at the moment, called our last weekly “Macro Tapas as the Playbook,” and we want to discuss the global risk backdrop: Japan, the Fed, yield curves, and carry.

So maybe if I kick us off on the global risk backdrop?

From a top-down perspective, a lot of our risk metrics are pretty bullish. Cross-asset volatility is low, Citi's Polls Indicator has not hit 18. The Generals, or at least the breadth of the top seven names in the S&P 500, most of them are still above their 200-day moving average. Global data momentum is positive and rising. Global earnings revision indices are positive and rising.

We see little in the way for the time being to spoil the party. The July payrolls print and a recently dovish Fed, we think, ultimately mean that we're probably going to get a further dovish trajectory from here outside of a surprise in inflation later this week. But with limited wage gains, we've actually received the October 2026 FOMC meeting and all of a sudden upgraded some of our bullishness in equities.

Giammarco Miani (01:39)

So, on that, what about rates and semis spoiling the party for the S&P?

Adam Pickett (01:45)

So historically, we find no strong relationship between the level of rates and the S&P. If anything, historically, higher rates have been good for equity returns. Clearly, the argument is more rate-of-change-based.

But when we look at zed-scores of three-month changes in rates, we need a substantially bigger sell-off than what we've been getting recently to upset the risk backdrop for equities. And obviously, with recently softer data and a more dovish Fed, we think that can keep a cap on the yield move.

On semis, we also did a whole host of analysis that really suggests you need a consistent bear market in semis, to the tune of closer to 30%-plus, to consistently get a negative reaction in the S&P 500. So on both of those counts, we feel reasonably confident.

That being said, we have a preference for equal-weight S&P for the time being over the market weight, in part because of some of those sector uncertainties.

Giammarco Miani (02:37)

So you were talking about the Fed initially, and we obviously had the July FOMC, where we continue to have no forward guidance. Very much a wait-and-see Fed and a less-communicative Fed. So, wondering: How does that impact markets cross-assets-wise? But also, How does that impact the U.S. yield curve in particular?

Adam Pickett (02:56)

Sure. So, we got a steepening lately with the front end rallying, the back end selling off. Ultimately, we find that empirically to be bad for the dollar, good for high-yield FX, good for EMFX, carry longs for copper, for equities, and even not bad for gold. So overall this unusual but powerful twist deepening should in theory be good for the positive risk backdrop we talked about before. Our colleagues in rates have a preference for 530s steepeners, but overall we think it's generally additive.

While we're on the rates topic, Giammarco, a lot going on in Japan: domestically, but also investors' interpretation of the global implications of the BoJ, the intervention, etc. What are some of your high-level takes there?

Giammarco Miani (03:43)

So we've been calling for higher front-end yields for Japan, but I have to say, post-July meeting, the fact that we only got one dissent was a little bit of a dovish signal. But then after that, obviously, we had this joint intervention, and the markets interpret that as a signal that the BoJ is effectively ready to do more to support the currency as well.

So our economists actually are now calling for a bit of what you call a regime shift for the BoJ following the latest events. Their view is that the quid pro quo for the U.S. intervention was faster hikes for the BoJ. So they're now calling for a September hike, followed by another one in January, then June and then December 2027 to then reach a terminal of 2%.

So is that enough to stabilize the currency? We do think a faster pace is probably needed to both compress rates differential, but also compress the term premium in Japan, which we think has been a clear driver for yen depreciation. So yes, obviously a faster pace would be welcome, but likely to stabilize the currency, we probably need something closer to a quarterly pace of hikes. Which, at this point, we're still not sure we're going to get.

Adam Pickett (04:44)

Really interesting stuff there, Giammarco.

So to wrap it up, how do you think we get a more durable surprise if September is already priced in? And, in general, where do you see Japanese markets?

Giammarco Miani (04:55)

We think front-end yield can move higher. A hawkish surprise is needed to stabilize the currency. If a September hike is enough, probably a quarterly pace as mentioned for the currency is vital. So we think yields can grind higher. The effects highly depend on the pace, and we're also constructive on the equity market.

Adam Pickett (05:14)

Great. And outside of Japan, we've also seen some pretty amazing outperformance in FX carry — we've had a basket on that we've been trying to play around with. How do you look at the carry story for now, and what are we advising investors to do?

Giammarco Miani (05:31)

Yeah, so with respect to specifically yen intervention, we have shown in the past that MFX carry does underperform following intervention. But when you look under the hood at what's happening, MFX long does OK — it's your short that causes carry to underperform. So a lot depends on the funders, given the risk of further intervention. We think carry funded by, maybe a mix of G10 currencies, can do better than your classic Asia-funded basket.

Adam Pickett (05:58)

Are there any currencies outside of carry that we like at the moment?

Giammarco Miani (06:10)

Yeah, good question. In Q2, I would say specifically that funding mix did better actually than our carry basket fund in eurodollar, and then in Q3 also, given a lower funding cost. In respect to other currencies that we like, Stocky actually against euro. We recently added to our portfolio, which given our recall models screened bullish Stocky on rates, differential equities and c-dot.

Adam Pickett (06:37)

Fantastic. So there's a high-level overview: In risk we're still bullish, but with a preference for equal-weighted S&P. We are fading the idea that the Fed can hike in October and have a preference for U.S. curve steepeners. In Japan, we still think rates pricing can grind higher in yields, but without upsetting the local equity markets there.

In FX, we still have a preference for carry basket's funding outside of Asia. We recently switched funding in euro and dollars to Swiss and CAD. We also quite like Stocky as well.

That just about wraps things up. Giammarco, thanks so much for joining us this week.

Giammarco Miani (07:12)

Thanks Adam, great to be here.

Adam Pickett (07:14)

And thanks to you, the listener, for joining us as well.

This episode was recorded on Aug. 10, 2026. I was your host, Adam Pickett. And for more details for the analysis, Citi clients can check out our reports on the Velocity portal.

Next week's Research @ Citi Markets Edition will be hosted by Beata Manthey, Citi's Head of Global Equity Strategy. And please be sure to watch out for our other podcast series, Research @ Citi, which you can view on the same channel. The macro strategy team will be back in two weeks. Stay sharp!

Disclaimer (07:49)