

Macro Outlook Summary

November 2026

Volatility picked up noticeably in government bond prices during September and has followed through into October. As government bonds are historically synonymous with safety and stability this is cause for concern, especially for older investors who may have been invested into a high percentage of government bonds by their financial advisers despite having expressly mandated their investments to be low risk and defensive.

The fast burn issue for government bond yields is inflation which is proving persistent. Regional Fed Governors like Chicago's Goolsbee openly admit the Fed has failed to bring inflation back down to target for too long leaving the economy running hot. But it is not demand-pull inflation arising from overly strong consumption which can usually be managed by raising interest rates but rather input cost-push inflation arising from higher oil and energy prices, higher tariffs, higher food prices and higher raw materials prices.

Unlike the Maradona goal, higher tariffs and high oil prices are not the hand of God but an unwelcome gift from Donald Trump's ill thought-out policies leaving the rest of the world even more harmed than the US. Inflation data is forcing the hand of new Fed Governor Kevin Warsh and the Fed towards higher rates which has spurred the dollar into another strong rally in September. A strong dollar, higher rates and higher input costs drain global liquidity which is bad for equities and equally unwelcome.

Back in the land of bonds the rapidly growing mountain of debt for AI datacentre infrastructure buildout is beginning to show some cracks. Chipmaker share prices are now super volatile, but the chill is in bond yields and credit default swap spreads (CDS) which have also widened out sharply. CoreWeave bonds hitting 15% yields is a direct consequence of bond investors wanting higher returns to invest in the space.

So, with these dark clouds gathering one might expect the investment management community to be lifting their foot off the pedal, at least a bit. There is a highly regarded monthly survey of fund managers conducted by Bank of America which tells us the answer and unlike the growing number of government surveys which are failing to garner responses and therefore relevance this survey polls well.

Fund managers report their average cash levels are near historical lows at 3.9% so they are all in with no dry powder. They are most overweight tech since the summer of 2020. And the BofA Bull-Bear indicator is over 5 indicating extreme bullishness. Pedal to the metal. BofA's highly experienced survey analysts have learnt how to interpret these indicators into forward looking market signals and suggest these three indicators are reliable warnings to hop off the bus or at least reduce exposure. This seems like very sensible advice to us.