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Coach's Corner

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'Narratives Can Box You In'

By: David Richman | October 3, 2022

Simple question: Who is feeling complacent right now? Answer: NOBODY! What can you do? Provide sound counsel and context to help alleviate investors' fears despite the headlines surrounding inflation. Here's how.

1. Formulate an ism—an evergreen belief that frames your philosophy about investing and planning. For inspiration, we turned to Jim Caron, chief fixed income strategist at Morgan Stanley Investment Management, to discuss his ism—**"narratives can box you in"**—as it relates to today's markets.

> "With inflation and recession risks running hot, there is no shortage of complexities in today's markets. During times like these, the temptation is to reduce such complexity into a narrative to make it easier to understand and communicate. **Narratives can box you in** and prevent you from seeing the full picture—ultimately leading to missed investment opportunities and risks along the way."
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> "Today, the 'Fed pivot' is a narrative that oversimplifies both upside and downside risks. The rate-hiking cycle and inflation narrative is an oversimplification and may be preventing investors from what may be a good opportunity to consider fixed income during Q4."
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> "The 'Fed pivot' refers to the pricing of the Fed rate-hiking cycle reaching about 4.75% and then quickly pivoting policy, with rate cuts sometime in the middle of 2023 to generate a soft landing. Unfortunately, it's not so simple, as the pivot actually implies that the market is discounting a harder landing that either stops the Fed from reaching its forecasted 4.75% terminal rate or a sharp weakening of economic activity that forces it to cut rates after reaching 4.75%."
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> "The good news is the pivot in rates is rather shallow and indicates a mild recession, not a deep protracted one. From an investment perspective, this is a bullish setup for investing in bonds. Markets are already priced for a terminal rate of 4.75%, and a mild recession implies that default risks will likely remain low. Couple this with high levels of bond yields in investment-grade credit and high yield, for example, and this could be signaling a good opportunity to increase one's allocation to fixed income despite the current narrative surrounding inflation risks that is seemingly keeping people underallocated in their duration weightings to bonds."

2. Call your clients. Articulate your view as it relates to their personal balance sheets.

3. Dust off your mushy pipeline. Ask how they are doing with these volatile financial markets, and share your view.

Bottom line: Context counts. Complacency is nowhere to be found. Everyone's clients are in play, perhaps even yours. Existing and prospective clients are looking for perspective right now, pick up the phone and capitalize on the opportunity of this moment.

At the Advisor Institute, our goal is not to shape your opinion or provide investment advice, rather to share this viewpoint as an example of what we believe to be a superb display of ism and thesis articulation.

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— Jim Caron