

The Market Economist -

Weekly guidebook for the global investor

■ Bidding *au revoir* to the credit cycle

There is no way to sugar-coat the situation. It was only a matter of time before the liquidity-driven market would run out of steam. It would be unprecedented of an asset and credit bubble if it managed to unwind in an orderly fashion. At some point, the markets were bound to choke on their own debt excesses. Investors should remain focused on a strategy of stepping up in quality across every asset class, reducing domestic cyclical sector exposure outside of special situations, and maintaining a core holding in Treasuries with a yield-curve-steepening overlay.

Contagion has begun, even in the prime space

Merrill Lynch AAA-rated Corporate Yield Spread (bps)



Source: Merrill Lynch