# Markets, Macro and Current Affairs

Interview preparation summary · HF track

IN THIS SUMMARY


- Rates, inflation, growth and the yield curve
- Currencies and commodities
- Macro views and market commentary


INT.MM.1.a · Rates, inflation, growth and the yield curve

**Explain how interest rates, inflation and growth interact and move equity and bond prices.**

Rates, inflation and growth are linked through the discount rate and the cash flows. An asset is worth roughly its expected cash flows discounted at a rate built from the real rate, expected inflation and a risk premium. Higher expected inflation lifts nominal yields and cuts the present value of distant cash flows, so long duration assets such as growth equities and long bonds fall most. Stronger growth raises cash flows but tends to push rates up, so its net effect depends on which force dominates. Weak growth with falling inflation usually helps bonds and hurts cyclical equities, while stagflation, weak growth with rising inflation, is hard for both stocks and bonds because the central bank cannot ease easily. The real rate is roughly the nominal rate minus expected inflation, and breakeven inflation is the nominal yield minus the real yield on a linked bond. Prices move on surprises against what was priced, not on news alone. Interview point: name the driver first, then trace both the cash flow effect and the discount rate effect.

WORKED EXAMPLE: A SURPRISE RISE IN EXPECTED INFLATION

An interviewer says: in an invented economy the ten-year nominal yield is 4.0% and expected inflation is 2.5%. New data lift expected inflation to 3.0% while the real yield stays put. A government bond has modified duration 9. A steady company pays out 50% of earnings and grows 4% a year for ever, and its required return is the nominal yield plus a 4% premium. Hold growth and the premium fixed. What happens to the bond price and to the company's price to earnings ratio?

**Answer:** The bond falls about 4.5% and the company's price to earnings ratio falls from 12.5 to about 11.1, a fall of about 11.1%, because a half point rise in the discount rate hurts distant cash flows more.

> **Interview tip:** Say that the driver is a rise in expected inflation, which lifts the discount rate, and that long duration assets fall most, so the equity falls further than the bond here. The interviewer listens for you naming the driver first and separating the discount rate effect from the cash flow effect.

INT.MM.1.b · Rates, inflation, growth and the yield curve

**Read the yield curve and estimate bond price changes from yield moves using duration and convexity.**

The yield curve plots yields against maturity. A normal curve slopes upward, an inverted curve has short yields above long yields and often signals expected rate cuts or slowing growth, and a flat curve sits between. Curve moves have names: steepening means the gap between long and short yields widens, flattening means it narrows, and bull or bear says whether yields are falling or rising overall. Bond prices move opposite to yields. Modified duration gives the approximate percentage price change for a one percentage point yield change, so duration 5 means about 5% lost for a rise of 100 basis points. Convexity adds a second order correction that helps the holder in both directions, so duration alone overstates losses and understates gains. A zero coupon bond is priced as face value divided by one plus the yield, raised to the number of years. DV01 is the money change for one basis point and is used to size curve trades. Interview point: quote the duration estimate quickly, then mention convexity as the refinement.

WORKED EXAMPLE: READING A CURVE MOVE AND SIZING A PRICE CHANGE

An interviewer says: in an invented market the two-year yield is 4.5% and the ten-year yield is 3.5%. Over one day the two-year yield falls to 4.0% and the ten-year yield to 3.4%. A ten-year bond priced at 100 has modified duration 8 and convexity 80. Describe the curve and the move, then estimate the bond's price change if its yield falls 100 basis points and if it rises 100 basis points.

**Answer:** The curve moved from minus 100 to minus 60 basis points, a bull steepener, and the bond gains about 8.4% if its yield falls 100 basis points and loses about 7.6% if it rises 100.

**Interview tip:** Quote the duration estimate within seconds, then add that convexity makes the true gain a little larger and the true loss a little smaller. The interviewer listens for the curve vocabulary used correctly: say bull or bear for the level and steepener or flattener for the gap.

INT.MM.2.a · Currencies and commodities

**Explain what drives currencies and do simple parity arithmetic with spot, forward and inflation differentials.**

Currencies are driven by interest rate differentials and their expected path, trade and current account balances, capital flows, risk appetite and relative inflation. Quote conventions matter: a rate of 1.10 USD per EUR rising to 1.21 means the euro appreciated 10%, but the dollar fell only about 9.1% because the reciprocal moves differently. Covered interest parity ties the forward rate to spot and the two interest rates: forward equals spot times one plus the quote currency rate, divided by one plus the base currency rate, where the quote currency is the one the rate is stated in. The higher rate currency trades at a forward discount. Purchasing power parity says the rate should offset price level differences over the long run, but it is a slow anchor, not a trading signal. The carry trade borrows a low rate currency to hold a high rate one and loses if the high rate currency depreciates by more than the rate gap. Interview point: state the quote convention before you calculate anything.

WORKED EXAMPLE: FORWARD RATE AND THE CARRY TRADE BREAKEVEN

An interviewer says: in an invented market spot is 1.2000 US dollars per pound. One-year interest rates are 5% in $ and 3% in sterling, with annual compounding. What is the one-year forward rate, and which currency trades at a forward premium? A fund borrows pounds at 3% and invests in $ at 5%, unhedged, for one year. How far can the pound rise before the trade loses money?

**Answer:** The one-year forward is $1.2233 per pound, a 1.94% pound premium, and the unhedged carry trade loses money only if the pound rises above 1.2233, which is more than 1.94%.

**Interview tip:** State the quote convention first, then give the forward as spot times one plus the quote rate over one plus the base rate. The interviewer listens for you noticing that the forward premium equals the carry trade's breakeven.

INT.MM.2.b · Currencies and commodities

**Trace commodity supply and demand shocks through prices, the futures curve and other asset classes.**

In the short run commodity supply and demand are both inelastic, so a modest shock to supply moves the price a lot: with demand elasticity of minus 0.25, a 2% supply loss needs roughly an 8% price rise to clear the market. Distinguish supply shocks from demand shocks. A supply driven rise in energy prices acts like a tax on consumers, squeezing margins and growth while lifting inflation. A demand driven rise signals strong growth and is better for equities. The futures curve shows scarcity: backwardation, with near prices above far prices, signals tight supply and a positive convenience yield, while contango reflects storage and financing costs. A long futures investor in contango loses roll yield as each contract converges down to spot. Producers with inelastic demand can see revenue fall when supply is abundant. Shocks pass on to inflation, central bank policy, currencies of exporters and importers and credit quality in the sector. Interview point: always say whether the shock is from supply or demand before saying what it does to equities.

WORKED EXAMPLE: AN OIL SUPPLY OUTAGE AND THE FUTURES CURVE

An interviewer says: an invented pipeline outage removes 3% of the world supply of a crude oil grade. Short-run demand elasticity is minus 0.25 (a 1% price rise cuts demand 0.25%), supply cannot be raised, and spot was 80. After the shock the six-month future trades at 86. What price rise clears the market, what does the curve say, and how does this shock differ for equities from one caused by strong demand?

**Answer:** The price must rise about 12%, from 80 to 89.6, the curve is backwardated by 3.6 or 4.0% of spot, and as a supply shock it squeezes consumers instead of signalling strong growth.

**Interview tip:** Say first whether the shock comes from supply or demand, then give the price arithmetic and the curve shape. The interviewer listens for the sentence that a supply shock is a tax on consumers while a demand shock is a sign of growth.

INT.MM.3.a · Macro views and market commentary

**Form and defend a macro view with a repeatable framework: driver, transmission, market pricing, trade and risk.**

A macro view is useful only if it differs from what is priced and can be traded. A repeatable framework has five steps. First the driver: what is changing, such as inflation momentum, a policy shift or a growth shock. Second the transmission: how it flows through rates, currencies, commodities and earnings. Third the market pricing: what the curve, forwards and valuations already assume, because a correct view that is fully priced earns nothing. Fourth the trade: the cleanest instrument that

expresses the view, sized by risk. Fifth the risk: what would prove you wrong, the invalidation point, and the loss if you are. Weigh trades by expected value, probability weighted gain and loss, rather than hit rate alone, since a trade that wins half the time can beat one that wins most of the time. When challenged, concede what is fair, restate the mechanism, and say what data would change your mind. Interview point: end every view with what you would watch and what would make you wrong.

**WORKED EXAMPLE: FROM AN INFLATION VIEW TO A SIZED TRADE**

An interviewer says: in an invented economy inflation is running at an annualised 4% against a 2% target, yet the two-year yield is priced flat at 3.0%. Use your framework to give a view and a trade. You would short a two-year bond with modified duration 1.9: you think there is a 60% chance the yield rises to 4.0% and a 40% chance it falls to 2.5%. Is the trade worth doing?

**Answer:** The trade has an expected gain of 0.76% on the position, risking 0.95% to make 1.9%, and the view is wrong only if inflation momentum fades or growth data break.

> **Interview tip:** Take the five steps in order and end on what would make you wrong and what you would watch. The interviewer listens for the pricing step, because a correct view that is already priced is not a trade.

**INT.MM.3.b · Macro views and market commentary**

### Answer a question about what is happening in markets with a structured framework instead of dated facts.

When asked what is happening in markets, interviewers want to see how you think, not whether you can recite levels. Open with the one or two themes that matter, name the driver behind each, then say how markets seem to price it and what you would watch next. Keep the reasoning internally consistent: a coherent story links the moves in yields, equities, currencies and commodities, so rising yields with rising equities and a stronger currency suggest a growth led repricing, while rising yields with falling equities suggest an inflation or policy shock. Quantify with duration or percentage moves when you can. If you do not know a recent number, say so, give the framework and say what you would check, because bluffing is worse than admitting a gap. Prepare by following a few themes daily and forming a view on each, not by memorising levels that change. Practice varies by firm, so ask what the interviewer cares about. Interview point: structure first, evidence second, honesty about gaps always.

**WORKED EXAMPLE: ANSWERING WHAT IS HAPPENING IN MARKETS**

An interviewer asks: what is happening in markets right now? You have followed a few themes, so build your answer in stages using this invented scenario: over a month the ten-year yield rose from 3.00% to 3.40%, breakeven inflation rose 10 basis points, equities fell and the currency strengthened. The ten-year bond has modified duration 7.

**Answer:** The main theme is a real rate led rise in yields, 30 of the 40 basis points, which fits tighter policy expectations: the bond is down about 2.8%, the currency firmer and equities lower because their cash flows are long dated, and I would watch the next inflation report and whether the central bank confirms the path.

> **Interview tip:** Give the theme, the driver and one number in your first two sentences, and say plainly what you would check if you do not know a level. The interviewer listens for one coherent story across yields, equities and the currency rather than a list of moves.

---

Summary of the Charta interview-preparation topic. Companies and figures in the examples are invented. Draft content, not yet expert reviewed.