



PROVIDING THE BIG PICTURE ON MACRO AND CREDIT SINCE 2009

Martin Tixier – Strategist

PLAN

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A NEW HOPE?

1

EXECUTIVE SUMMARY – 9TH OF NOVEMBER

MACRO THOUGHTS

“I'm not interested in preserving the status quo; I want to overthrow it.” - Niccolo Machiavelli

- While the winner of the US election has been very disputed, the markets seems to clearly enjoy the ongoing status quo relating to the Senate outcome. With the Pfizer Vaccine announcement great rotation is starting with Russell 2000 favored over over valued TECH. Real yields are shooting up in the process and therefore gold is battered.
- We are not changing our stance. We continue to like US over European countries and we continue to be overweight US versus Europe. Tactically energy sector from a medium to long term perspective looks appealing. With crude bouncing strongly, from a contrarian side, there is more upside for the battered energy sector and the likes of Exxon and Total (what not to like in a 10% dividend yield?).
- Precious metals and miners are facing strong short term headwinds though we continue to like the sector from a medium term perspective given the need for more QE/stimulus to recover from the damages of COVID-19.
- Credit wise high beta continues to rally in US High Yield and in particular in the CCC segment which is reaching tighter levels (below 10% yield). After all it's risk on so don't fight a freight train. Play the game.

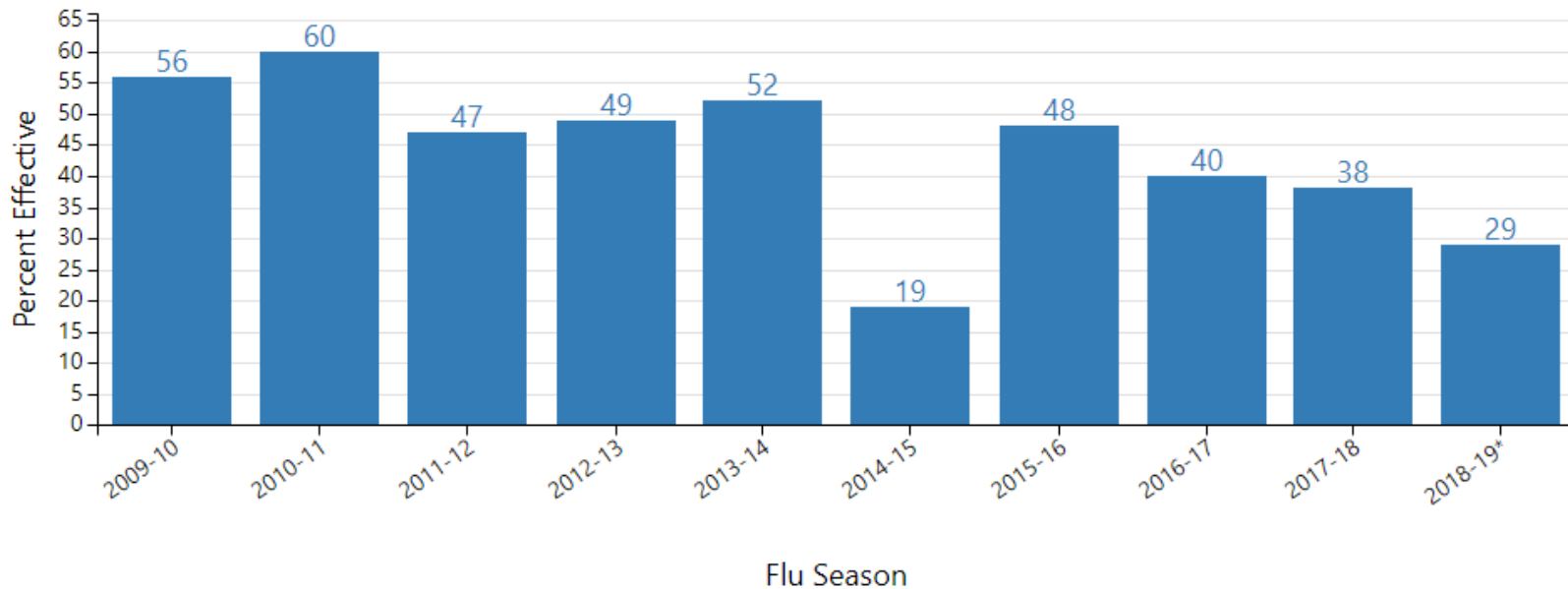
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A NEW HOPE?

A NEW HOPE?

- Pfizer's COVID vaccine is 90% effective, perhaps. Let's put that in perspective. Not only would it achieve "herd immunity" as defined by the pessimists, but it is far better than our annual flu vaccine. I'd take it in a second
- <https://www.cdc.gov/flu/vaccines-work/effectiveness-studies.htm>

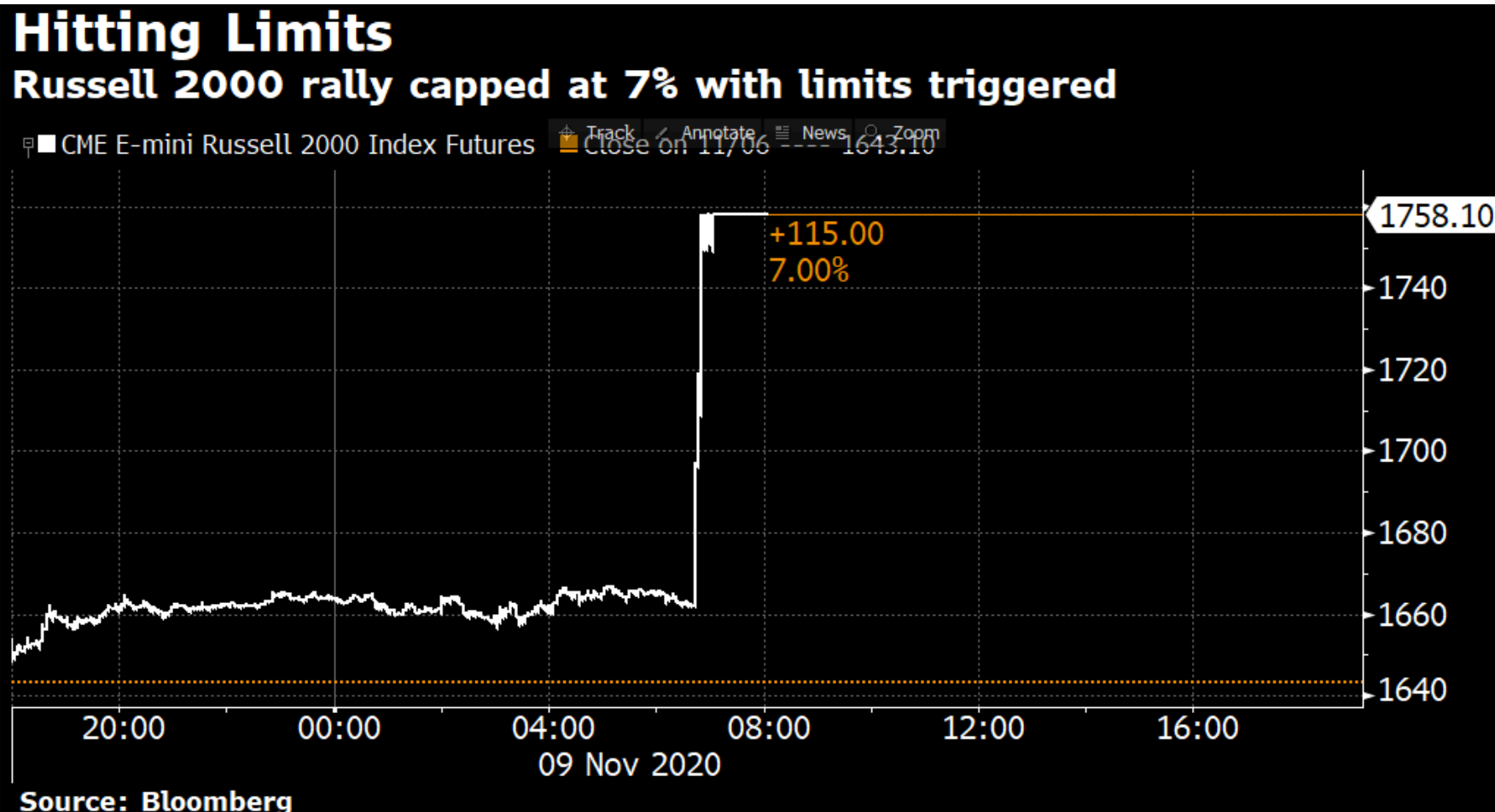
Seasonal Flu Vaccine Effectiveness



Graph source - Michael Bury MD - Twitter

A NEW HOPE?

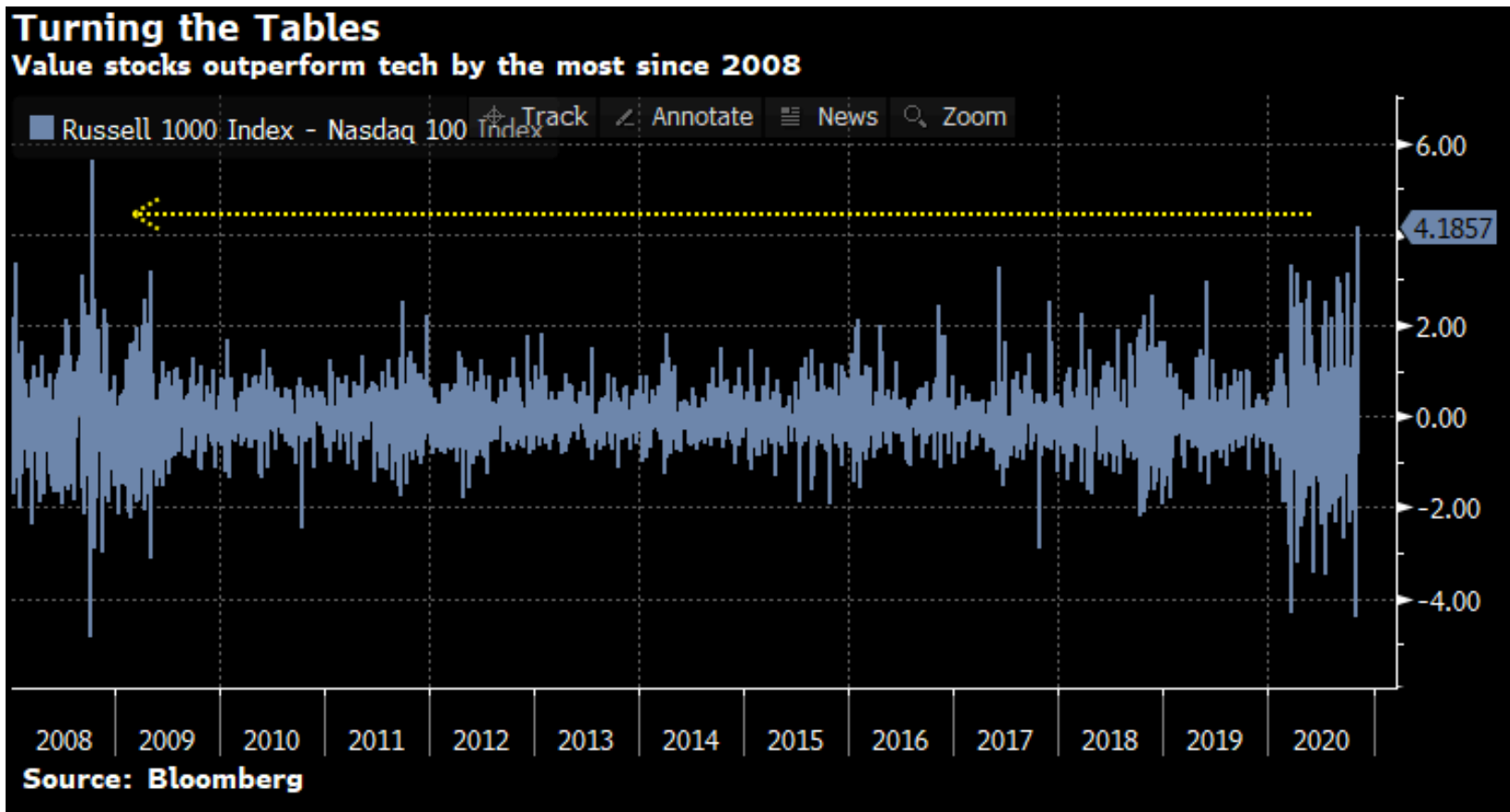
- Russell 2000 futures 7% rally triggered limits



Graph source - Jbloomberg - Twitter

A NEW HOPE?

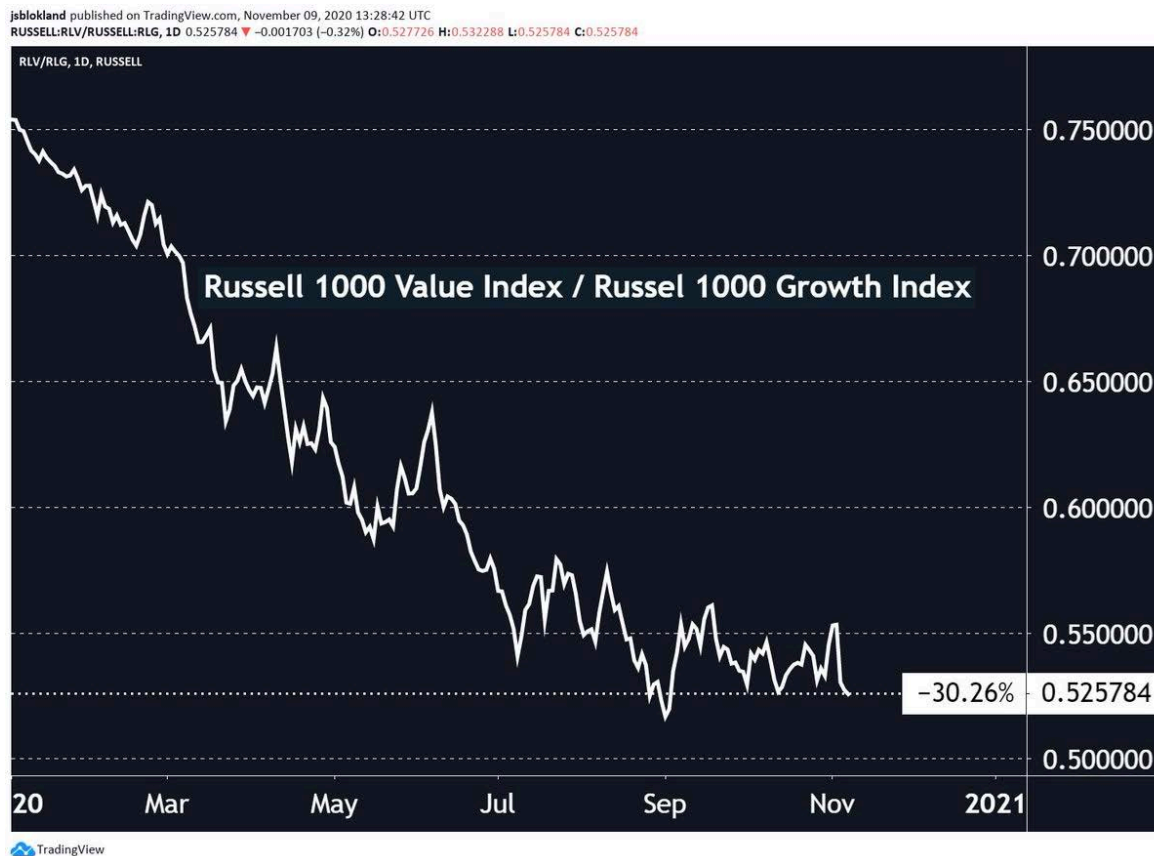
- The Russell 1000 Value index is outperforming the Nasdaq 100 by the most since 2008



Graph source - Bloomberg - Twitter

A NEW HOPE?

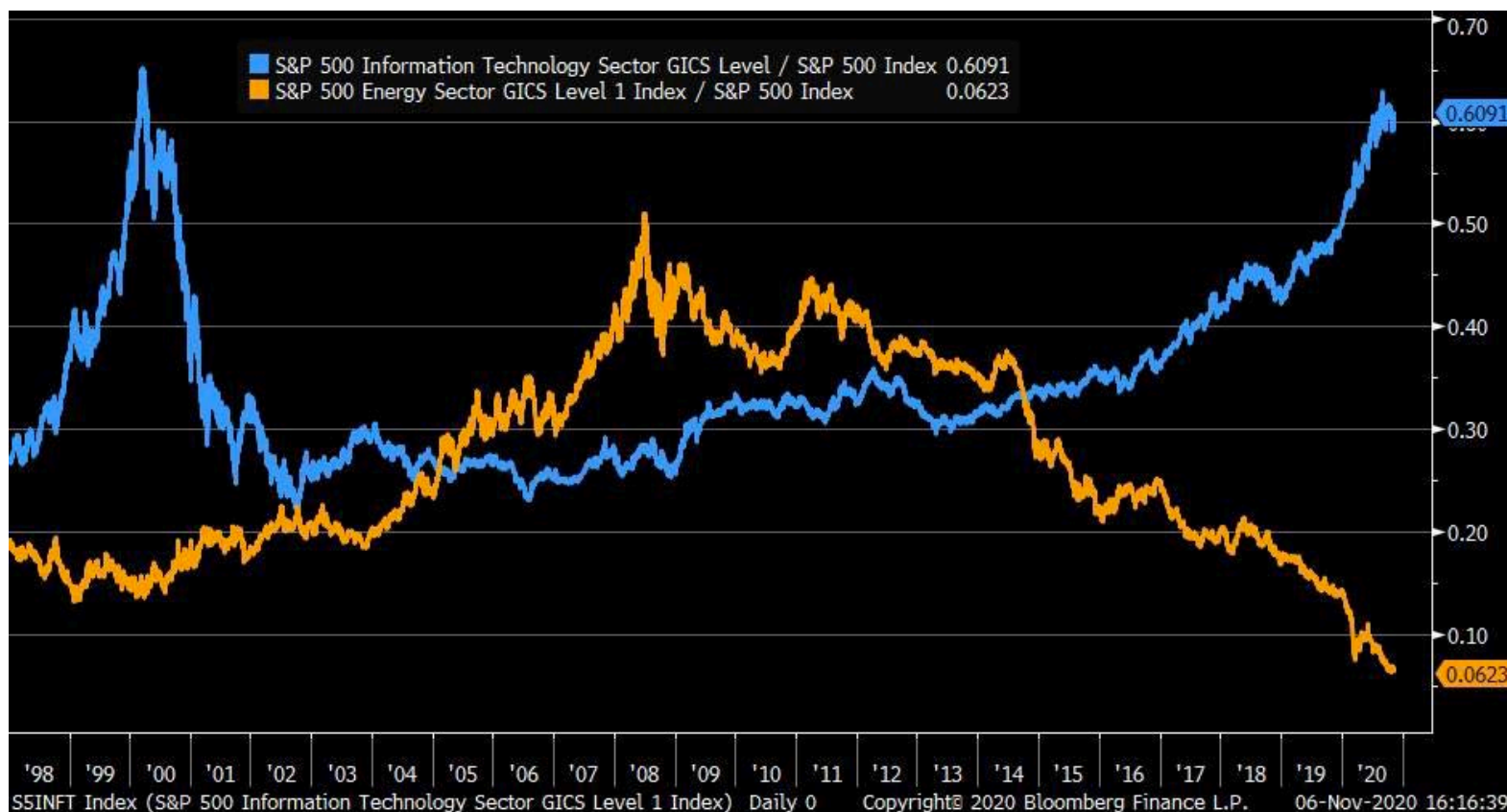
- As a reminder. Until today, US Value stocks lagged Growth stocks by a stunning 30%.
- NASDAQ is overpriced and looks exhausted (at least today).
- Small Cap Value is where you have a far better risk to reward ratio.



Graph source - Jeroen Blokland- Twitter

A NEW HOPE?

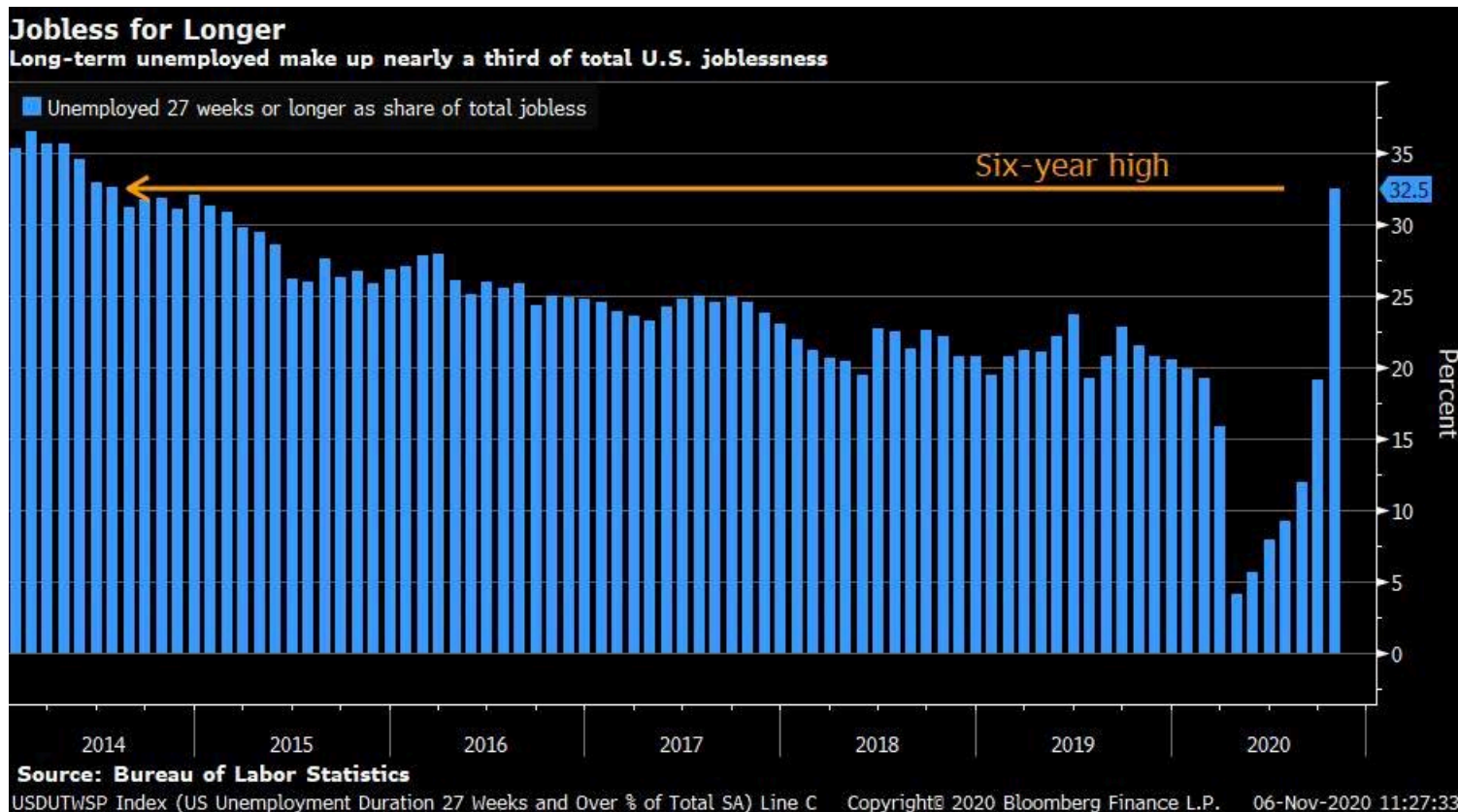
- Another K-shaped chart: Tech sector has largely held up relative to broader market (ratio still near 2000 territory); while Energy (worst performer this year) continued to move lower.
- With oil bouncing back strongly, from a contrarian stance we like the energy sector



Graph source -- Bloomberg - Twitter

A NEW HOPE?

- But the US real economy is not out of the woods yet. It needs additional fiscal support.
- There was a worrying sign from October jobs report: long-term unemployed (out of work for at least 27 weeks) increased by 1.15 million to 3.56 million (highest since 2014) and now make up nearly 1/3 of jobless.



Graph source -- Bloomberg - Twitter

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REFLATION AND INFLATION?

REFLATION AND INFLATION?

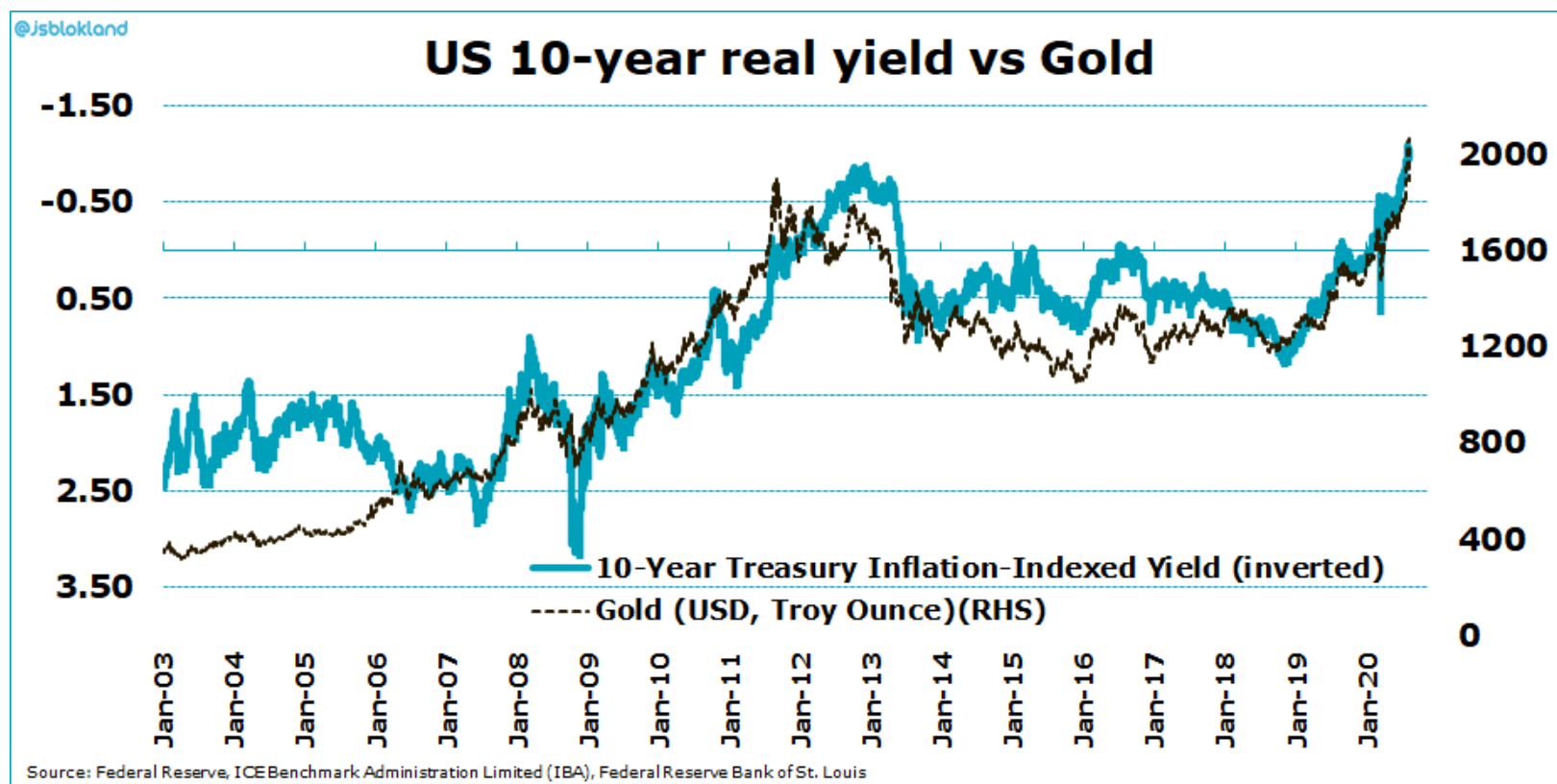
- Global supply of bonds with negative yield reaches a record of \$17 trillion.
- This is still a positive set up for gold over the long term.



Graph source – Bloomberg - Twitter

REFLATION AND INFLATION?

- “In a reflation scenario inflation expectations rise significantly from low levels. With the rise in nominal yields capped by central bank QE, real yields fall. The relationship between real yields and gold is virtually perfect in recent years.” – Jeroen Blokland



Graph source – Jeroen Blokland- Twitter

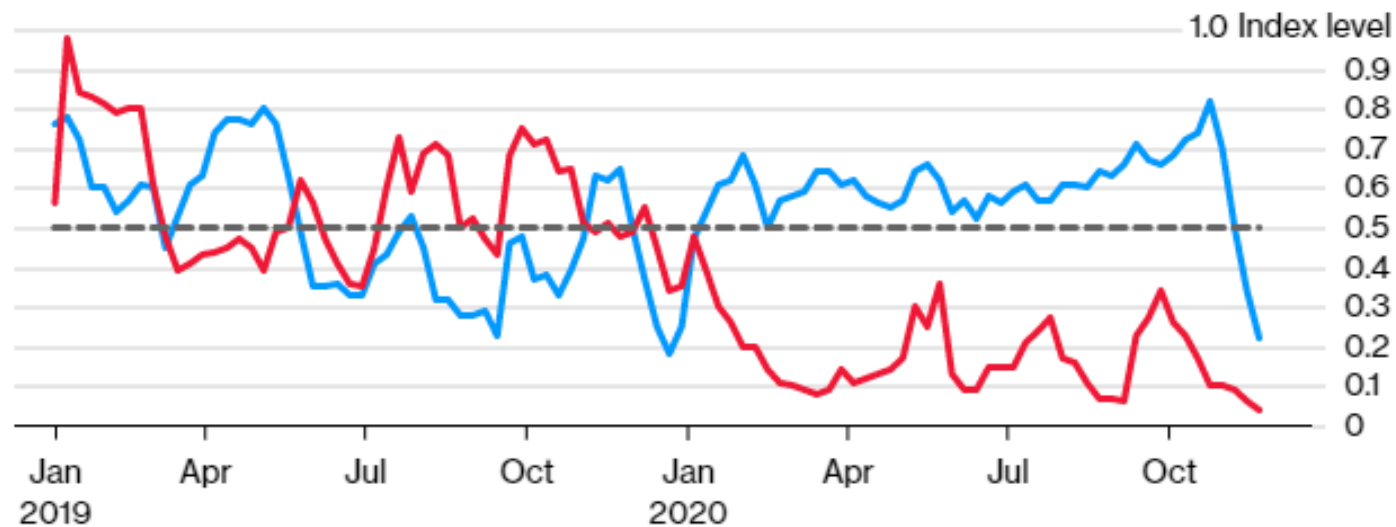
REFLATION AND INFLATION?

- Vital world trade route roiled by ‘black swan’ container crunch .
- This will mean “higher” shipping prices we think going forward.

Boxed Out

Shipping container availability between the U.S. and China hits fresh lows

■ Shanghai ■ Los Angeles



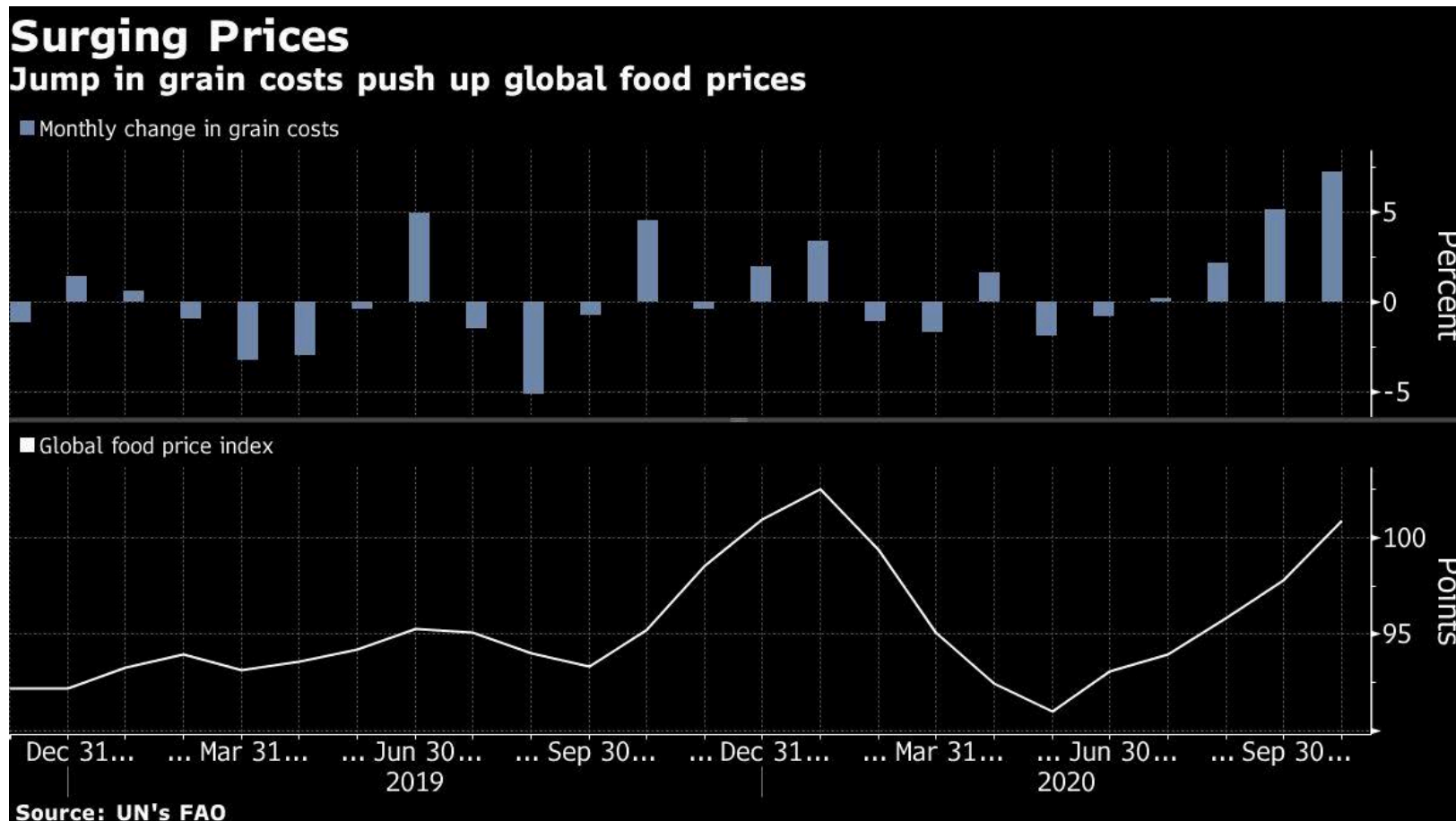
Source: Container xChange

Note: Above 0.5 indicates a surplus and below 0.5 indicates a deficit of containers. Blue and red lines refer to 40-foot high-cube containers

Graph source – Bloomberg - Twitter

REFLATION AND INFLATION?

- Global food prices remain on a tear as tightening crop markets boost grain costs by the most in eight years



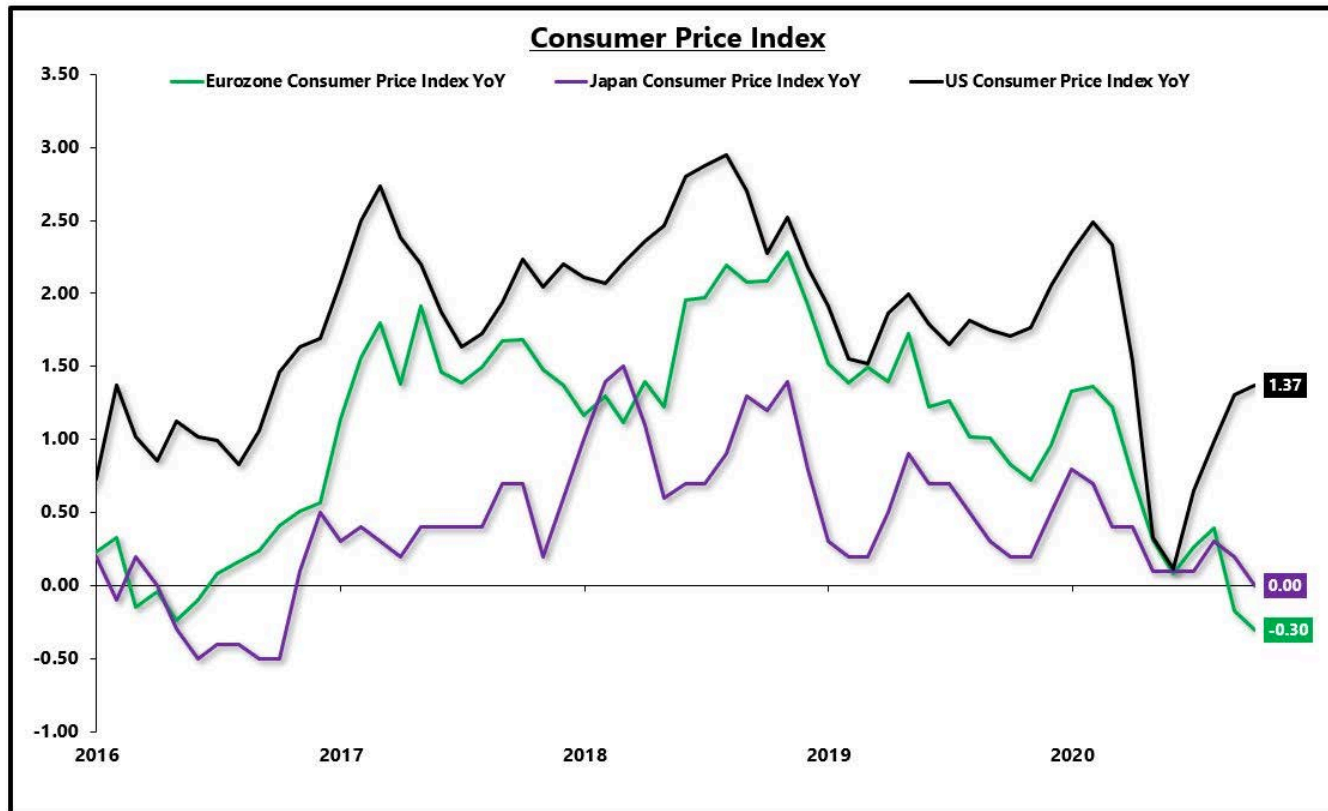
Graph source – Bloomberg - Twitter

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STILL NOT OUT OF THE WOODS YET

STILL NOT OUT OF THE WOODS YET

- Consumer Price Index YoY %: US: 1.37%, Eurozone: -0.30%, Japan: 0.00%
- Deflation is out there in Europe. Still the same theme. Reflation in the US vs Deflation in Europe.



Graph source - Eric Basmajian - Twitter

STILL NOT OUT OF THE WOODS YET

- The US has 21.5 million people on unemployment aid.
- That's down slightly from the week before but still a crisis level number.
- Companies are still laying off workers. 1.1 million Americans filed *new* applications for unemployment aid last week

PERSONS CLAIMING UI BENEFITS IN ALL PROGRAMS (UNAI)

WEEK ENDING	October 17
Regular State	7,436,246
Federal Employees	12,137
Newly Discharged Veterans	12,417
Pandemic Unemployment Assistance ³	9,332,610
Pandemic Emergency UC ⁴	3,961,060
Extended Benefits ⁵	572,942
State Additional Benefits ⁶	2,806
STC / Workshare ⁷	178,444
TOTAL⁸	21,508,662

Graph source - Twitter

CONCLUSION

- While the ongoing COVID-19 vaccine has been breathtaking, we are clearly not out of the woods yet.
- Thanks to a new hope of vaccine, there have plenty of “bargain hunting” going on. We are seeing a rotation and Russell 2000 is outperforming the NASDAQ.
- Credit wise the violent rise in the US 10 year yield with duration as extended as it was has probably caused some damage to players who were not duration neutral. In this volatile environment, keep your duration low or hedge it entirely.
- The European banking sector is experiencing a relief rally but, nonetheless, there is more job cuts ahead and more pain in a deflationary plagued European environment.
- Some good bargains finally showing up in our listed commercial real estate radar. As well, with oil rallying, the energy sector is very cheap on a relative basis.
- As we told you in July the darlings of the market namely the TECH sector is facing serious antitrust headwinds. Now, with the “Great Rotation” starting, Russell 2000 value should outperform.

BIOGRAPHY

- **MARTIN TIXIER** is the author and founder of the blog “Macronomics” (<http://macronomy.blogspot.com>) launched in December 2009 and focusing on Macro trends in general and credit in particular. His blog is in the top 20 economic blogs in the United Kingdom (<http://uk.labs.teads.tv/top-blogs/economy>) and receives around 20,000 views per month.
- Mr. Tixier has served as Senior Fixed Income Investment Specialist in the asset management industry for CANDRIAM, a leading pan-European multi-specialist asset manager managing €80B AUM at end of December 2014
- Mr. Tixier was awarded the highest accolade for a Six Sigma project in 2006 for Bank of America where he worked 7 years in various positions. He won the coveted Best of Six Sigma Award (top 15 projects out of 1500 submitted globally).
- Mr. Tixier graduated from the top ranked ESSEC BBA as well as ISC in Paris where he obtained a Master degree in Business Engineering and International Trade. Martin is a certified CISI Level 3 FCA (Financial Conduct Authority) in Regulation, Securities and Derivatives and also has the ACI Dealing Certificate with distinction and is as well as a certified Six Sigma Green Belt.
- Mr. Tixier has also been lecturing at IAE Lille and Toulouse Business School for post graduate students dealing on the subject of banking regulations and accounting practices and the role of credit in the economy as well as interest rates and credit trading strategies.