Macronomics

PROVIDING THE BIG PICTURE ON MACRO AND CREDIT SINCE 2009

Martin Tixier – Strategist

PLAN

1 EXECUTIVE SUMMARY

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3 CAN YOU SPELL STAGFLATION?

4 PUNCH-DRUNK ECONOMIES

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SUGAR RUSH

1 EXECUTIVE SUMMARY – 6TH OF JANUARY

MACRO THOUGHTS

As a reminder: "Investors are cheering the direct impact of QE on their equity valuations, but ignoring its failure to produce sufficient nominal-GDP growth to reduce debt" – Russel Napier – CLSA

- **First of all best wishes for 2021, following a more than challenging 2020 with an even bigger disconnect between Wall Street and Main Street.**

2020 S&P Sector Returns
Tech: +44%
Consumer Discretionary: +30%
Communications: +27%
Materials: +21%
Health Care: +13%
Industrials: +11%
Consumer Staples: +10%
Utilities: +1%
Real Estate: -2%
Financials: -2%
Energy: -33%

Best Performing Stocks in the Russell 1000 last year...

1) Tesla $TSLA: +743%
2) Enphase Energy $ENPH: +572%
3) Peloton $PTON: +434%
4) Moderna $MRNA: +434%
5) Zoom $ZM: +396%

2020 Commodity Returns...
Lumber: +68%
Silver: +47%
Soybeans: +37%
Palladium: +29%
Copper: +26%
Corn: +25%
Gold: +24%
Natural Gas: +16%
Sugar: +15%
Wheat: +15%
Cotton: +13%
Platinum: +10%
Cocoa: +2%
Coffee: -1%
Gasoline: -17%
WTI Crude: -21%
Brent Crude -22%
Heating Oil: -27%

2020 IPOs - 1st Day Gain
CureVac $CVAC: +249%
BigCommerce $BIGC: +201%
Berkley $BLI: +198%
Seer $SEER: +197%
Agora $API: +152%
Lemonade $LMND: +139%
Ncino $NCNO: +133%
C3ai $AI: +120%
Vroom $VRM: +118%
Airbnb $ABNB: +112%
Snowflake $SNOW: +112%
KE $BEKE: +87%
DoorDash $DASH: +86%

Data source - Charlie Bilello– Ycharts - Twitter

MACRO THOUGHTS

- Sugar Rush thanks to Central Banks big generosity…

Central bank balance sheets (in USD)

2020 Returns
Tesla $TSLA: +743%
Peloton $PTON: +434%
Moderna $MRNA: +434%
Zoom $ZM: +396%
Bitcoin: +304%
$AAPL: +82%
$AMZN: +76%
Nasdaq 100 $QQQ: +49%
$MSFT: +43%
$GOOGL: +31%
Gold: +24%
Small Caps $IWM: +20%
S&P $SPY: +18%
LT Treasuries $TLT: +18%
Bonds $AGG: +7%
Oil: -21%

Data source - Charlie Bilello– Ycharts - Twitter

Graph source - Bloomberg – Michael Mc Donough - Twitter

MACRO THOUGHTS

- Speculation on a grand scale following massive central banks intervention. The rally has been breathtaking in 2020 while economic destruction particularly small businesses has been massive even with considerable fiscal support.

@CharlieBilello		Asset Class Total Returns over Last 10 Years (as of 12/31/20)										Data Source: YCharts	
ETF	Asset Class	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-20 Cumulative	2011-20 Annualized
N/A	Bitcoin ($BTC)	1473%	186%	5507%	-58%	35%	125%	1331%	-73%	95%	301%	9591687%	214.9%
QQQ	US Nasdaq 100	3.4%	18.1%	36.6%	19.2%	9.5%	7.1%	32.7%	-0.1%	39.0%	48.6%	537.8%	20.4%
SPY	US Large Caps	1.9%	16.0%	32.2%	13.5%	1.2%	12.0%	21.7%	-4.5%	31.2%	18.4%	262.8%	13.8%
IWM	US Small Caps	-4.4%	16.7%	38.7%	5.0%	-4.5%	21.6%	14.6%	-11.1%	25.4%	20.0%	189.3%	11.2%
VNQ	US REITs	8.6%	17.6%	2.3%	30.4%	2.4%	8.6%	4.9%	-6.0%	28.9%	-4.7%	129.6%	8.7%
TLT	Long Duration Treasuries	34.0%	2.6%	-13.4%	27.3%	-1.8%	1.2%	9.2%	-1.6%	14.1%	18.2%	118.2%	8.1%
LQD	Investment Grade Bonds	9.7%	10.6%	-2.0%	8.2%	-1.3%	6.2%	7.1%	-3.8%	17.4%	11.0%	81.0%	6.1%
PFF	Preferred Stocks	-2.0%	17.8%	-1.0%	14.1%	4.3%	1.3%	8.1%	-4.7%	15.9%	7.9%	77.5%	5.9%
EMB	EM Bonds (USD)	7.7%	16.9%	-7.8%	6.1%	1.0%	9.3%	10.3%	-5.5%	15.5%	5.4%	72.4%	5.6%
HYG	High Yield Bonds	6.8%	11.7%	5.8%	1.9%	-5.0%	13.4%	6.1%	-2.0%	14.1%	4.5%	71.4%	5.5%
EFA	EAFE Stocks	-12.2%	18.8%	21.4%	-6.2%	-1.0%	1.4%	25.1%	-13.8%	22.0%	7.6%	68.6%	5.4%
BND	US Total Bond Market	7.7%	3.9%	-2.1%	5.8%	0.6%	2.5%	3.6%	-0.1%	8.8%	7.7%	44.9%	3.8%
TIP	TIPS	13.3%	6.4%	-8.5%	3.6%	-1.8%	4.7%	2.9%	-1.4%	8.3%	10.8%	43.2%	3.7%
EEM	EM Stocks	-18.8%	19.1%	-3.7%	-3.9%	-16.2%	10.9%	37.3%	-15.3%	18.2%	17.0%	33.8%	3.0%
GLD	Gold	9.6%	6.6%	-28.3%	-2.2%	-10.7%	8.0%	12.8%	-1.9%	17.9%	24.8%	28.6%	2.5%
BIL	US Cash	0.0%	0.0%	-0.1%	-0.1%	-0.1%	0.1%	0.7%	1.7%	2.2%	0.4%	4.8%	0.5%
DBC	Commodities	-2.6%	3.5%	-7.6%	-28.1%	-27.6%	18.6%	4.9%	-11.6%	11.8%	-7.8%	-45.1%	-5.8%
Highest Return		BTC	BTC	BTC	VNQ	BTC	BTC	BTC	BIL	BTC	BTC	BTC	BTC
Lowest Return		EEM	BIL	GLD	BTC	DBC	BIL	BIL	BTC	BIL	DBC	DBC	DBC
% of Asset Classes Positive		65%	94%	41%	65%	41%	100%	100%	6%	100%	88%	94%	94%

Table source - Charlie Bilello– Ycharts - Twitter

MACRO THOUGHTS

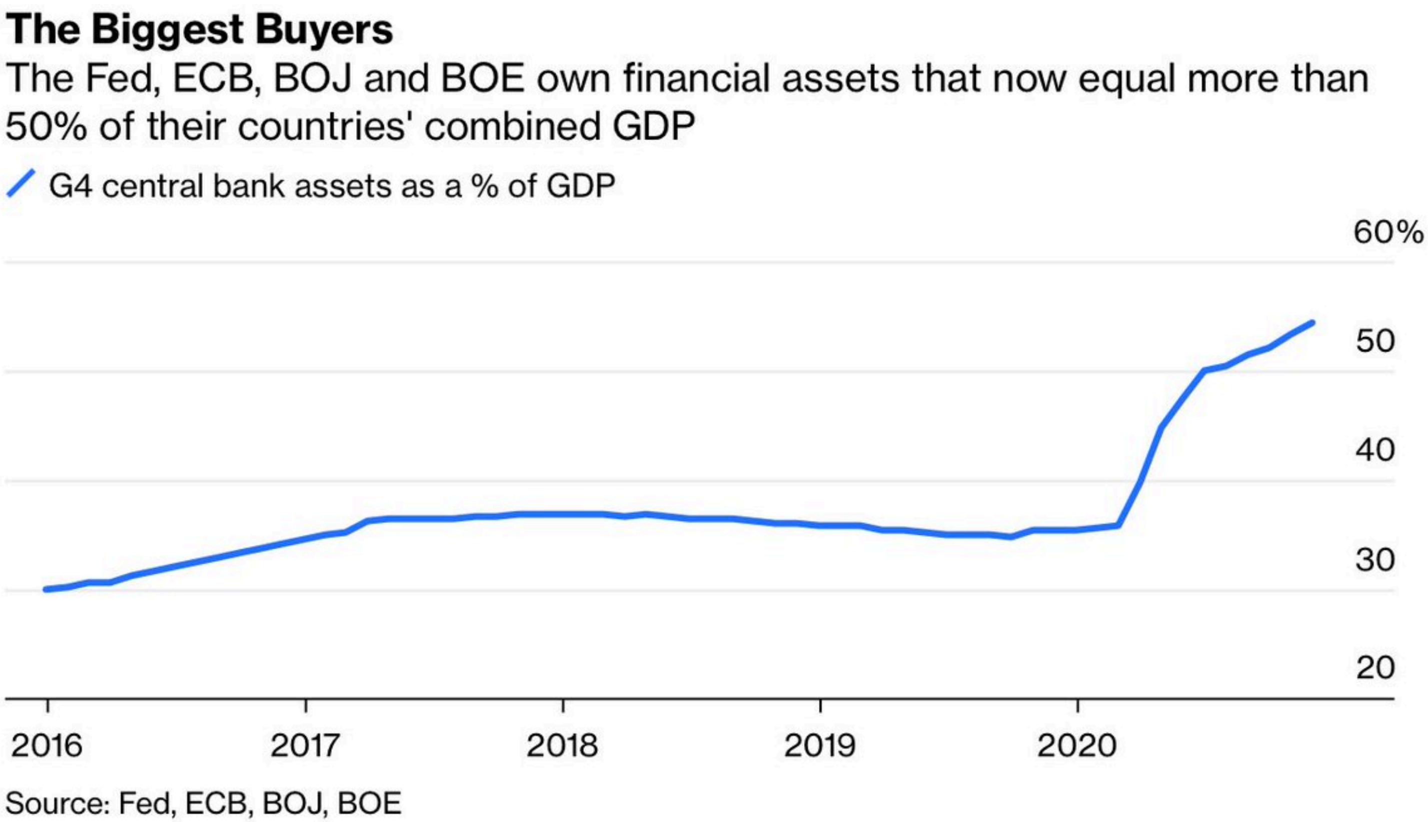
- The S&P 500 ended the year up by 18.5%, besting all wall street forecasts in spite of a global pandemic, the largest quarterly economic contraction ever (Q2), and the highest intra-year Unemployment Rate (14.7%) since the Great Depression.
- At 33.9%, the maximum Intra-Year Drawdown in the S&P 500 during 2020 was the highest ever for a year that ended with a positive return.
- The S&P 500's P/E ratio moved from 20.6 at the start of 2020 to 31.1 today, the highest year-end multiple on record (using TTM earnings).
- Our trading indicator did send us a buy signal on the 30th of November on Precious metals and miners given gold was way oversold with RSI lower than 30 at the time. With continued dollar weakness and a rising stock of negative yielding above the $17.5 trillion level with more stimulus coming, we continue to be bullish for the precious metals. January as well is historically a good month for the "barbaric relic".
- Credit wise high beta rally in US High Yield and in particular in the CCC segment which is reaching tighter levels (below 10% yield) has been very strong again in December for high beta with CCCs racing ahead. Now CCCs ended positive in 2020. CCCs depend on a sustained rally in oil prices to maintain the momentum and so far so good in early January.

2

SUGAR RUSH

SUGAR RUSH

- 'When it came to financial markets in 2020, anything smacking of carrying any semblance of risk, from junk bonds to Bitcoin, had epic rallies. The reason: $14 trillion. That's the amount by which the aggregate money supply has increased this year.'- Bloomberg



Graph source – Bloomberg - Twitter

SUGAR RUSH

- The total market value of all 43,000 listed shares worldwide has reached a new record in 2020. The total market capitalization is now $ 104 trillion. Fiscal policy, monetary policy, and the vaccine are all fueling economic activity and boosting world stocks.

Graph source – Bloomberg - Twitter

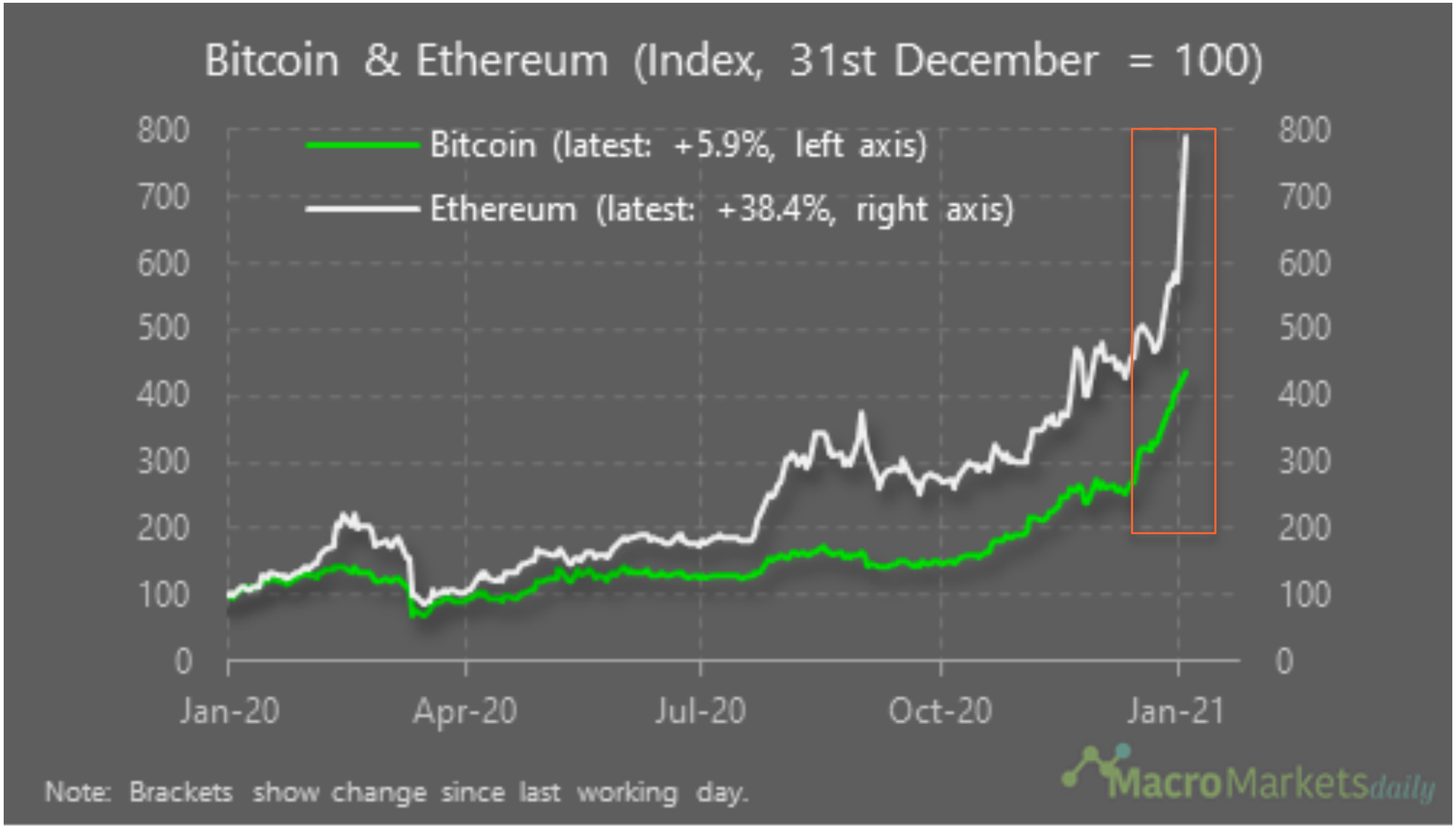
SUGAR RUSH

- Financial conditions now easiest on record and now in Northern Europe in [Denmark they are offering 20 year mortgages with 0% interest](#) !

Graph source - Liz Ann Sonders – Bloomberg - Twitter

SUGAR RUSH

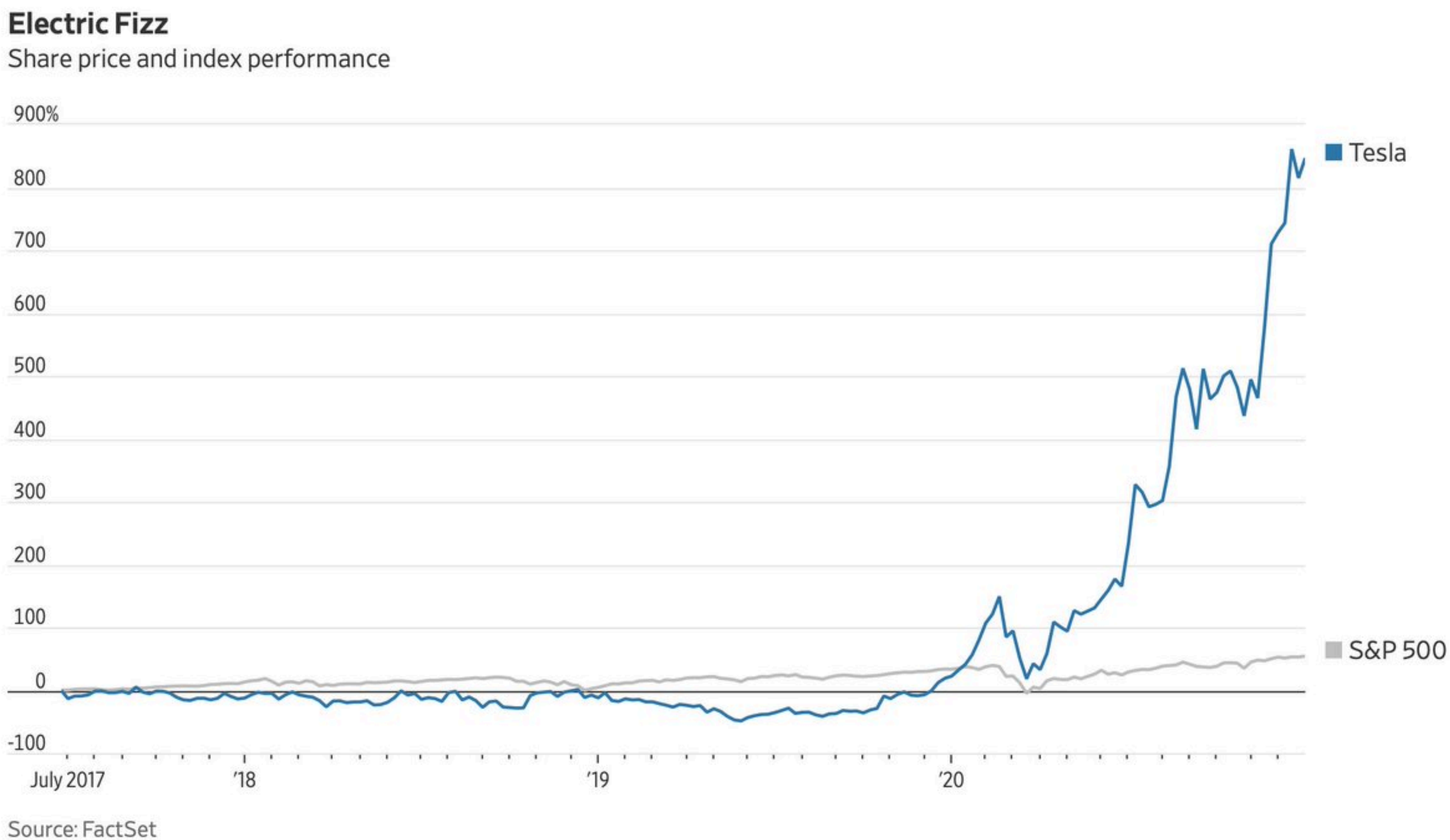
- While bitcoin is up by 330% since the start of 2020, a 38% surge in Ethereum over the weekend means it is now up by 790%



Graph source - MacroMarkets Daily- Twitter

SUGAR RUSH

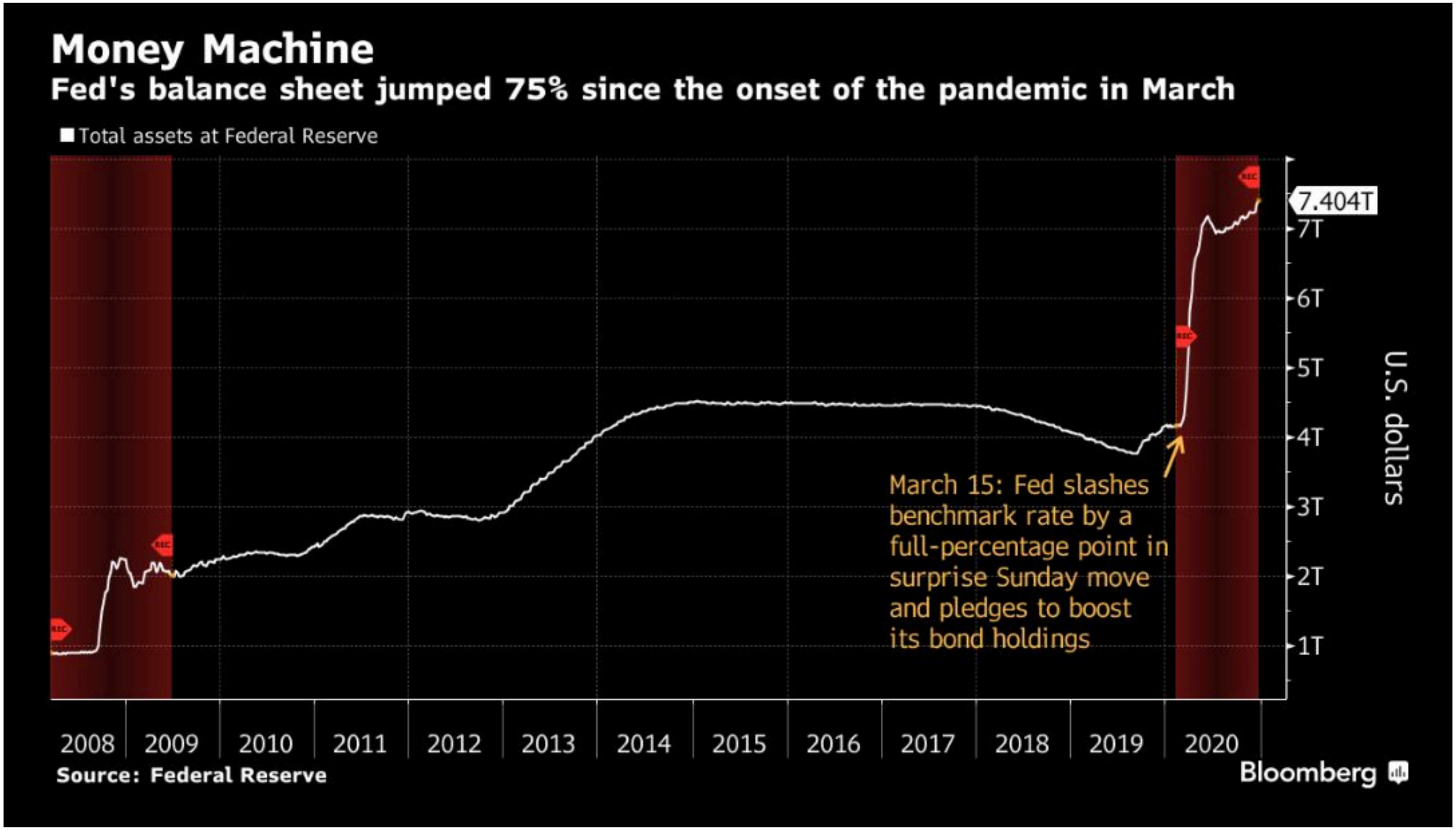
- 'Cheap money often fuels speculative fervor, and this time has been helped by bored work-from-homers finding that day trading is a way to gamble their stimulus checks.' - WSJ



Graph source - WSJ - FactSet- Twitter

SUGAR RUSH

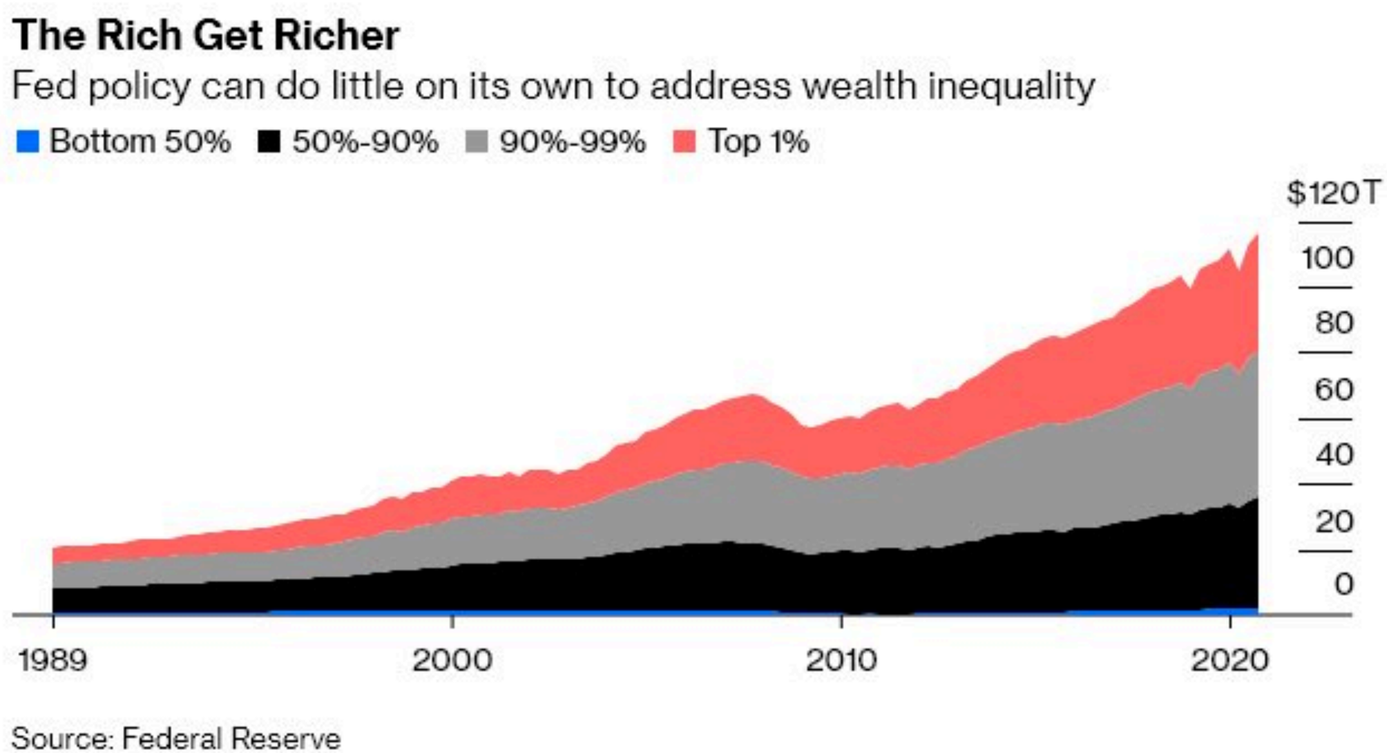
- Jerome Powell's FED boosted the central bank's balance sheet to a record $7.4 trillion as of December 23 from $4.24 trillion in early March 2020 - Bloomberg



Graph source – Bloomberg - Twitter

SUGAR RUSH

- Welcome to the roaring twenties, with record new retail accounts being opened in 2020 in conjunction with fast rising inequality gap between the rich and the poor.
- The housing boom continues with US Home Prices hitting all-time highs again, up 8% over the past year.



Graph source – Bloomberg - Twitter

SUGAR RUSH

- “The correlation coefficient between AUD/USD and the S&P is as close to 1 as you can get, especially since March. If you want a ccy pair that acts as a proxy for risk sentiment in the market, just trade the Australian dollar” − Michael Goodwell

Graph source − Michael Goodwell- Twitter

SUGAR RUSH

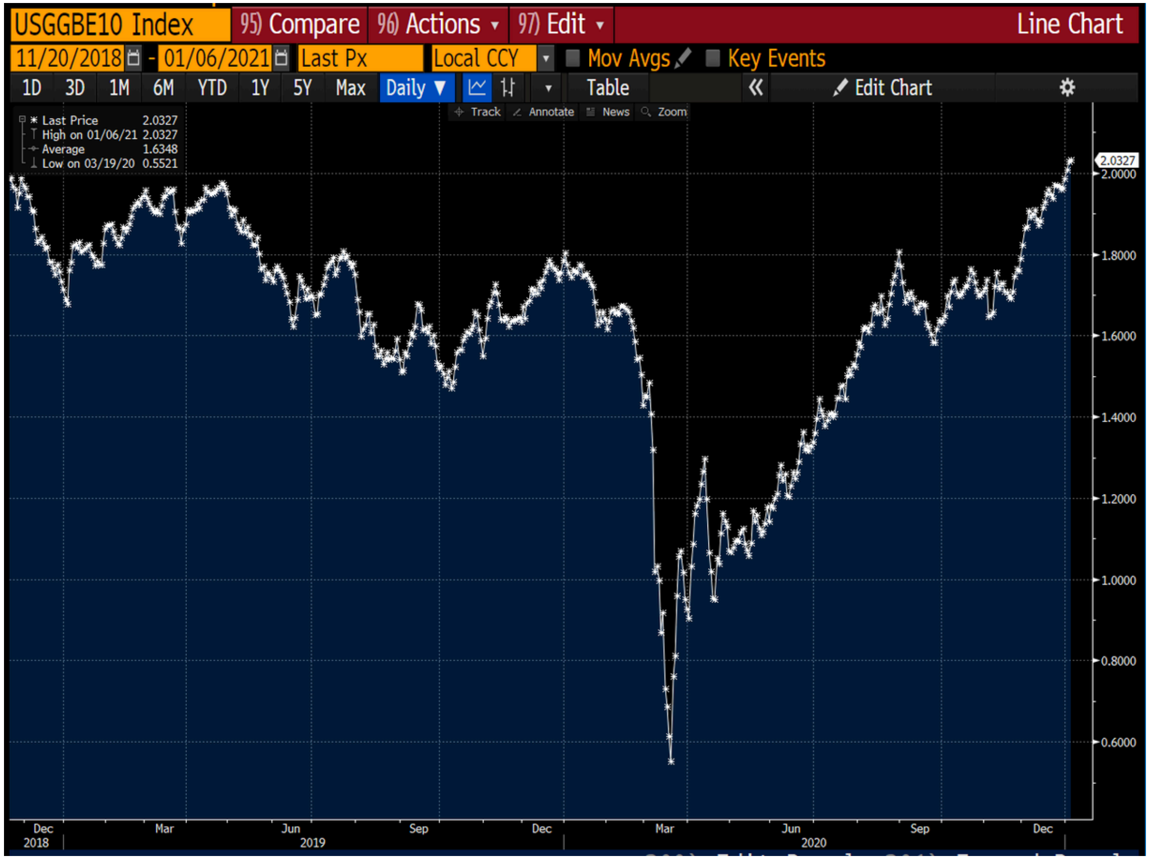
- More than 40% of the S&P 500 is now TECH. Is it the end of the outperformance of US?
- Both Democrats and Republicans agree on the need for reining in BIG TECH. Regulatory and antitrust pressures are building on the sector.
- A Georgia win will enables democrats to add $600 billion of stimulus spending to the $900 billion already agreed. This will continue to add more pressure on the US dollar.

3

CAN YOU SPELL STAGFLATION?

CAN YOU SPELL STAGFLATION?

- U.S. inflation expectations over the next decade climbed to a new post-2018 high on growing anticipation of Democrat leadership in the Senate.
- US Inflation Expectations (10-year breakevens) continue their vertical ascent, now above 2% for the first time since November 2018.



Graph source - Bloomberg - Twitter

CAN YOU SPELL STAGFLATION?

- The return of inflation? Inflation expectations jump on both sides of the Atlantic. US inflation expectations measured by 5y5y swaps at highest since 2018, Eurozone inflation expectations at 1y high.
- US inflation expectation is more sensitive to oil prices in the inflationary narrative. (more on this next slide)

Graph source - Bloomberg - Twitter

CAN YOU SPELL STAGFLATION?

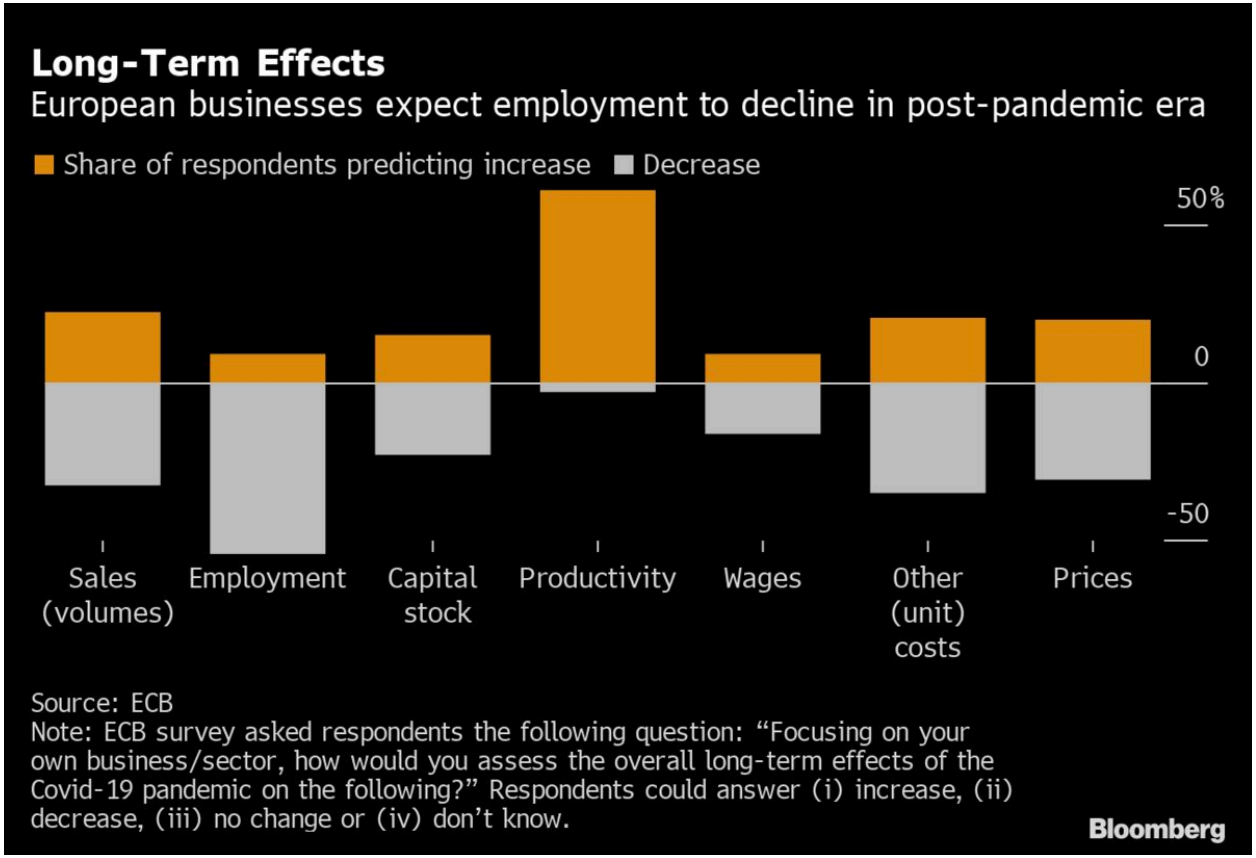
- A very interesting 2015 paper by the Bank of Israel (Sussman, N and O Zohar 2015, "Oil prices, inflation expectations, and monetary policy", Bank of Israel DP092015.) indicates that since the Great Financial Crisis (GFC) of 2008, a 10% change in oil prices moves 5Y5Y expected inflation by nearly 0.1% in the US and 0.05% in the Euro area.
- An expected Democratic double win in Georgia driving bond yields as well as inflation expectations higher. The US dollar is getting weaker while US TECH stocks trades lower in response to potential regulation and higher interest rates.
- Is a great rotation at play? From Growth to Value?
- We wonder.

Graph source - Bloomberg - Twitter

4 PUNCH-DRUNK ECONOMIES

PUNCH-DRUNK ECONOMIES

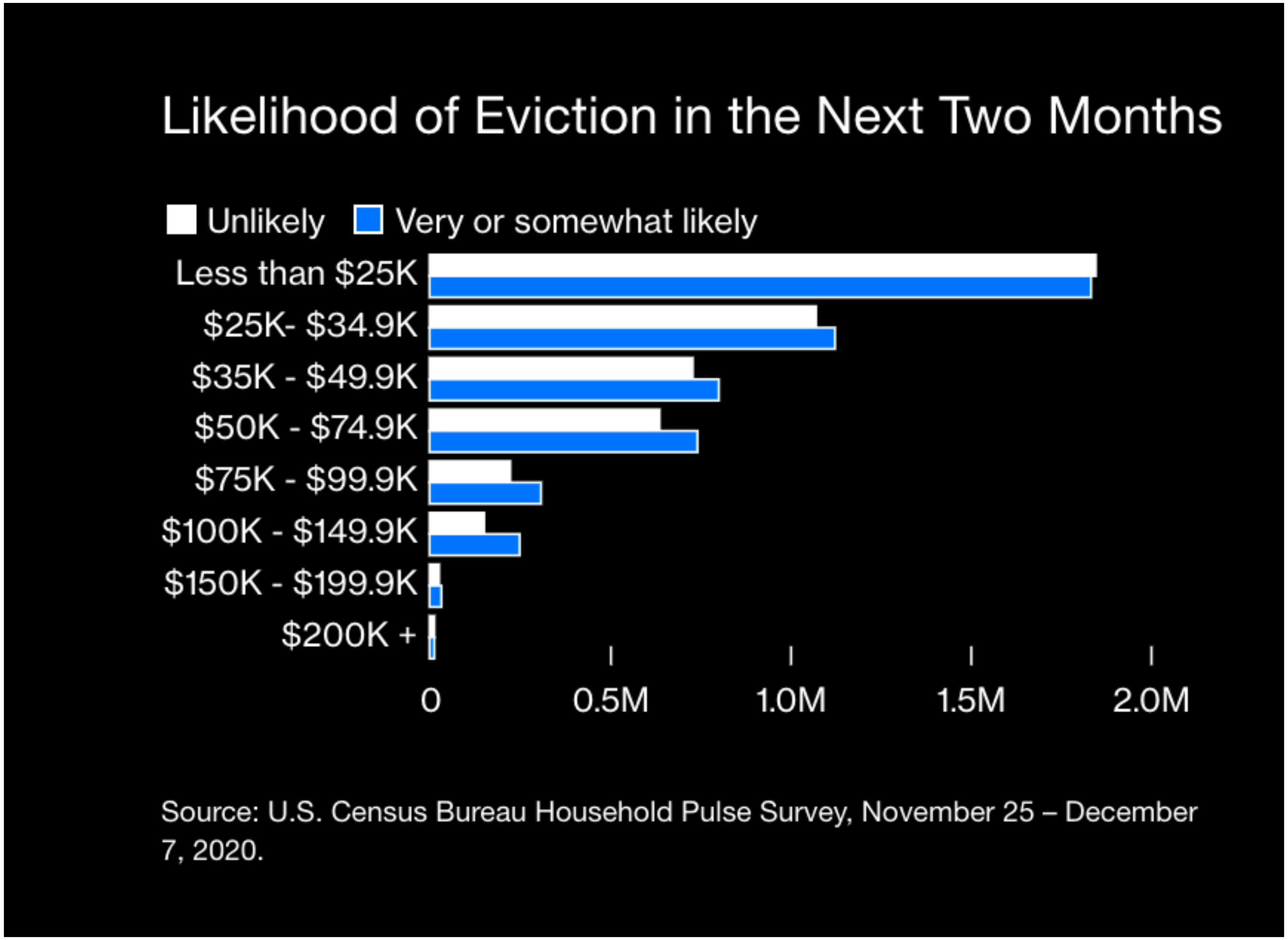
- There was an ECB bulletin released recently suggesting owners of capital have found ways to rely less on labor to maintain production as a result of the pandemic. 55% of "leading companies" expect to employ fewer workers over the long-term.
- Michelin announced it would be cutting 2300 jobs in France. More job cuts to come.



Graph source - Bloomberg - Twitter

PUNCH-DRUNK ECONOMIES

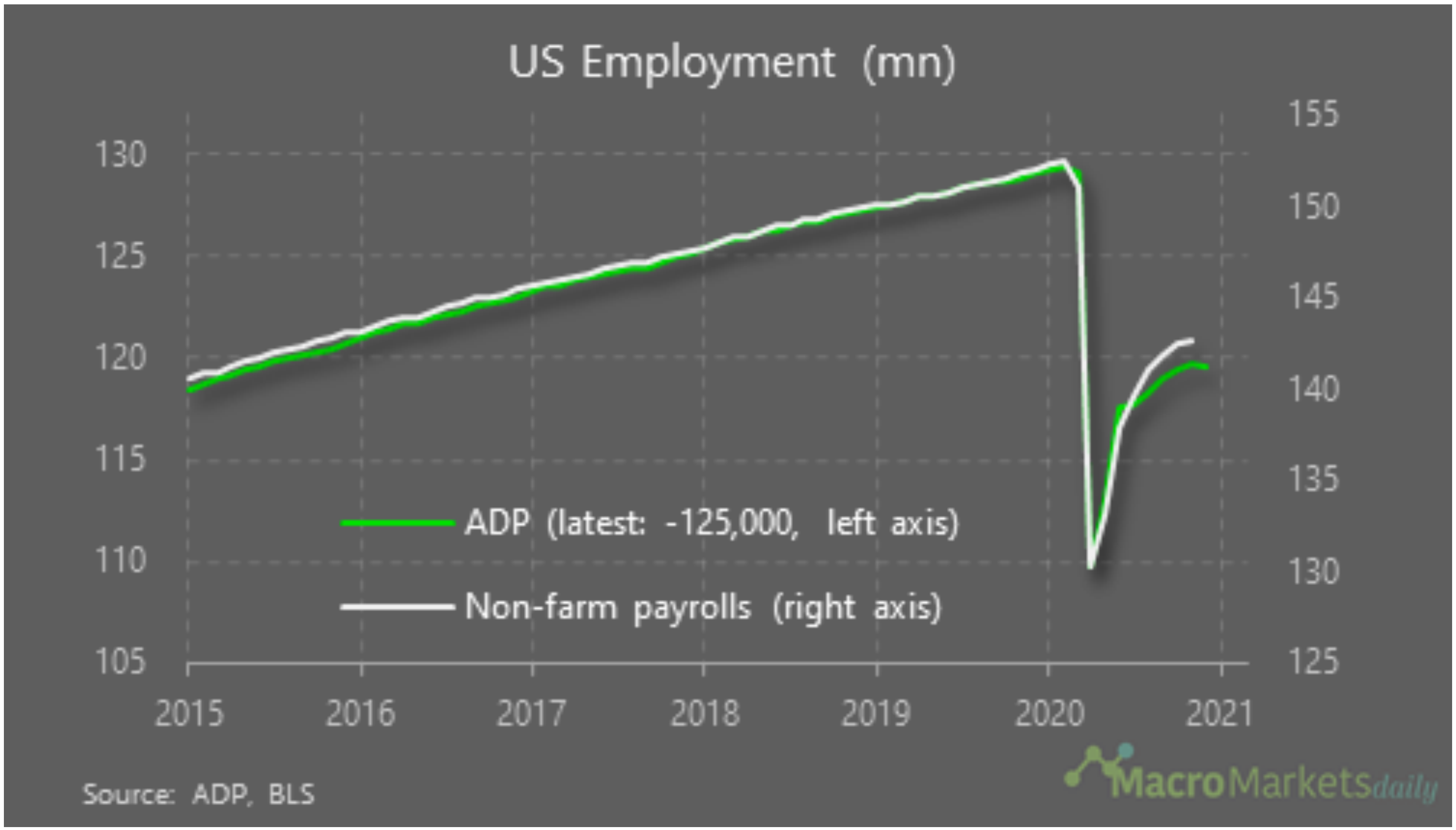
- The pending crisis of evictions in the US has to be a top priority of the Biden administration in the coming months.



Graph source - Bloomberg - Twitter

PUNCH-DRUNK ECONOMIES

- The US ADP payroll survey showed an unexpected 123,000 fall in employment in December amid the latest wave of the coronavirus, implying Friday's non-farm payrolls survey will also come in below expectations.



Graph source - MacroMarkets Daily - Twitter

PUNCH-DRUNK ECONOMIES

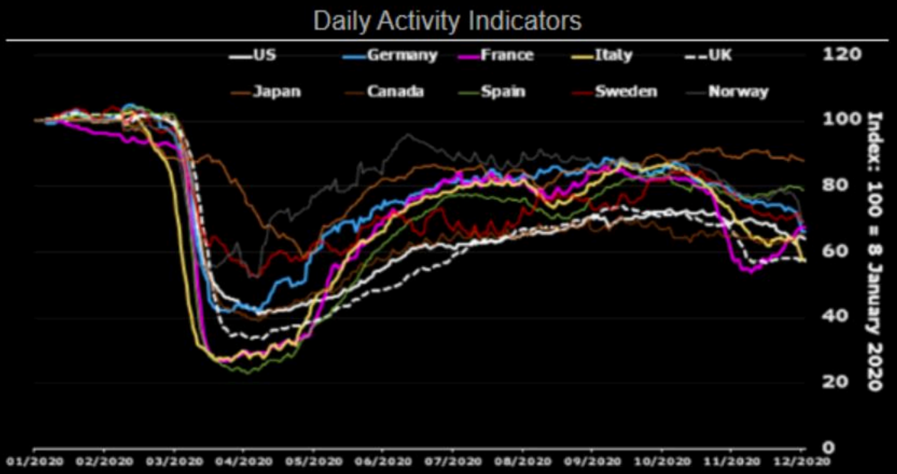
- Welcome to the risk of stagflation.

- All commodities rise just as growth estimates start to be downgraded..

2. Europe, U.S. Activity Slows Further – Alt Data

Contributing Analysts Bjorn Van Roye (Economics)

Bloomberg Economics is using a set of high-frequency, alternative data to build daily activity indicators. The latest reading shows that economic activity in several of the world's largest advanced economies slid at the beginning of December. This reflected a surge in the rate of Covid-19 infections and stricter containment measures.



Source: Bloomberg Economics, Google, Moovitapp.com, German Statistical Office, BNEF.com, Indeed.com, Shoppertrak.com, Opportunity Insights

Text

After a temporary period of stability in European economies in November, activity slowed further in Germany, Italy and Spain. France saw some pickup recently, likely reflecting gains from starkly retrenching infections. Activity in the U.S. decelerated in the first week of December. Japan is the only bright spot among advanced economies. Activity held steady at more than 90% of its pre-virus level. Click on the Text tab for the full report. (12/07/20)

Graph source - Bloomberg - Twitter

5 CONCLUSION

CONCLUSION

- As per our previous report, US Main Street is ”punch drunk” while Wall Street has been on “full-on greed mode”. Europe is still mired in deflation and underperforming while Asia is doing better. We are seeing more “inflationary” signs with fast rising commodities YTD validating our stagflationary stance, hence our favor towards Emerging Markets commodities player such as Brazil and Russia.
- Credit wise it is still “risk-on”. December rally has been very strong particularly for the weaker CCC rating segment in US High Yield thanks to a bounce in oil prices. It seems in credit land it is still TINA (There Is No Alternative) and people are extending credit risk but the threat of rising real yields could affect more already extremely low Investment Grade bonds, particularly if you are not duration hedged.
- Following oversold conditions for gold, our buy trading signal triggered on the 30th of November continues to pay off. As well from an historical point of view, January is traditionally strong for gold prices from a seasonality perspective so all in all, gold has been oversold in November.
- Santa Claus rally didn’t disappoint though the US Senate outcome turning “blue” appears to be more a headwind for growth stocks. Are we about to see the great rotation from growth to value? Europe with additional lock downs is looking more feeble than the US. Asian currencies, meanwhile seems to benefit from the weaker US dollar.

CONCLUSION

- Remember our last presentation from the 8th of December? - "The Brazilian Real started 2020 at $/BRL 4.00, which is easy to forget. So our undervaluation signal for the Real, which says the Real is 20% undervalued and puts fair value around $/BRL 4.50, really isn't all that ambitious, especially when factoring in how healthy the Balance of Payment is…" – Robin Brooks – Twitter
- BRL is up by 2.2% versus the US dollar YTD. Watch this space…

Graph source - Robin Brooks - Bloomberg - Twitter

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.