



PROVIDING THE BIG PICTURE ON MACRO AND CREDIT SINCE 2009

**Martin Tixier – Strategist**

# PLAN

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**2 BOILING FROGS**

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# BOILING FROGS 2.0

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EXECUTIVE SUMMARY – 17<sup>TH</sup> OF JANUARY

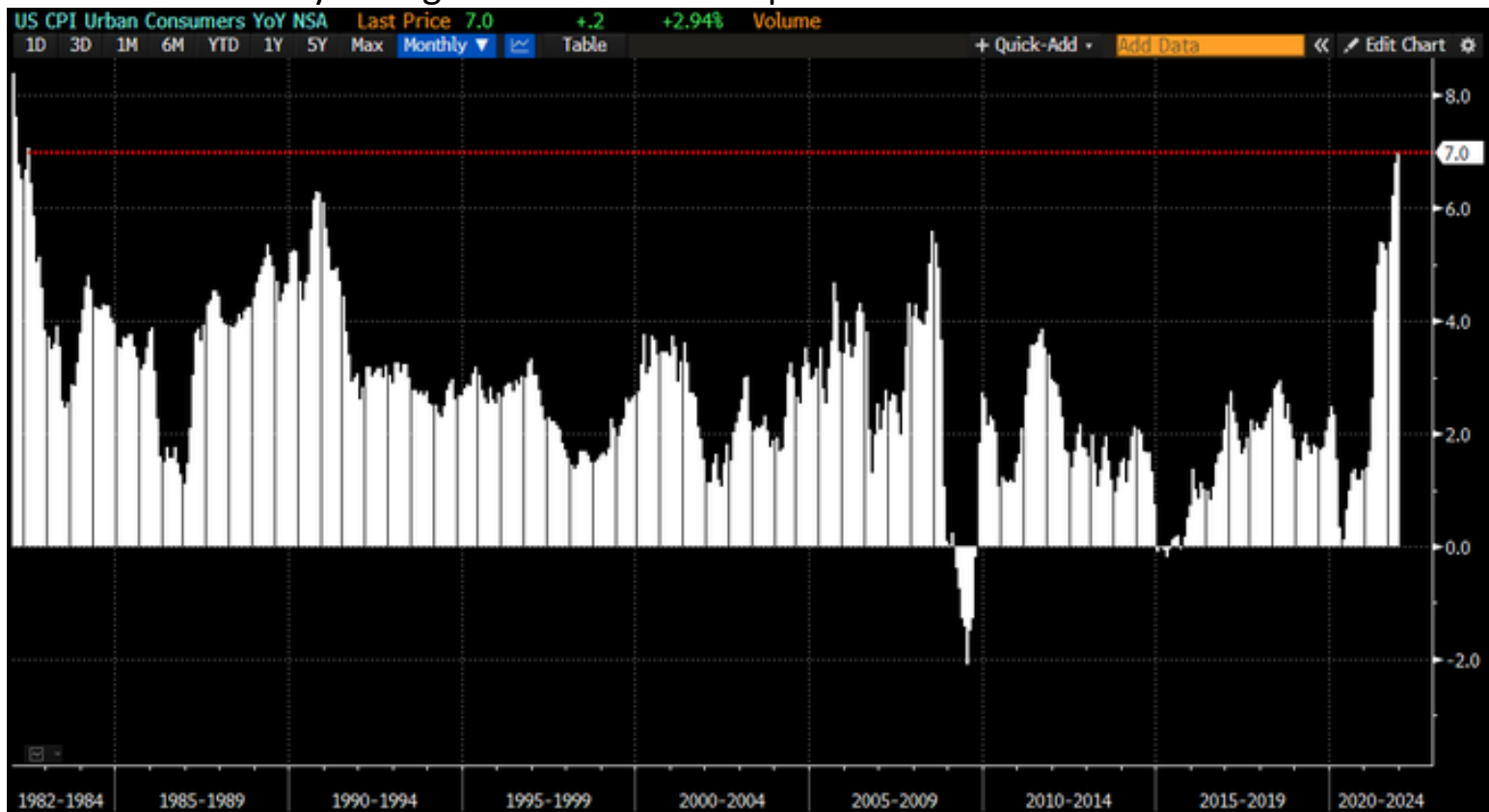
## MACRO THOUGHTS

- *“If you put a frog in boiling water, it'll jump straight out. If you put it in cold water and gradually bring it to the boil, it'll sit right there until it dies.” - John Niven*
- US Inflation is at 40 year high hitting 7%. We were never part of “team transitory” for those who have been following us closely.
- For the first time in a decade, monetary policy is too easy in most emerging markets as well as in some advanced economies.
- European energy woes: You can't reverse years of misguided ESG policies (Renewables) and lack of investments in CAPEX in a few quarters. We believe oil prices will continue to surge and energy woes will not disappear overnight.
- As reported by [oilprices.com](https://oilprices.com), Germany is to become a net power importer for the first time since 2002.
- Iron ore prices are bouncing back into life, making the recommendation we made for VALE even more enticing.
- Fixed Income versus floating expenses (energy ones in particular...). With deeply negative yields, it is hard to be attracted by Investment Grade. We prefer in that context utilities and REITS over “fixed income”.
- If real yields are rising with the risk of a normalizing FED then no wonder “high duration” sectors such as TECH in general and ETF ARKK are facing more headwinds in the process.
- The Atlanta Fed is downsizing its expectations for US GDP Q4 growth expectations on top of disappointing December retail sales. Can you finally spell “stagflation”?



## BOILING FROGS 2.0

- U.S. inflation hits 7%, highest in 40 years
- Real US December retail sales still up 9.7% y/y (using 3-month average), but only +0.5% last 3 months annualized.
- Is inflation already taking a bit of US Consumption?



Graph source - Bloomberg - Twitter

## BOILING FROGS 2.0

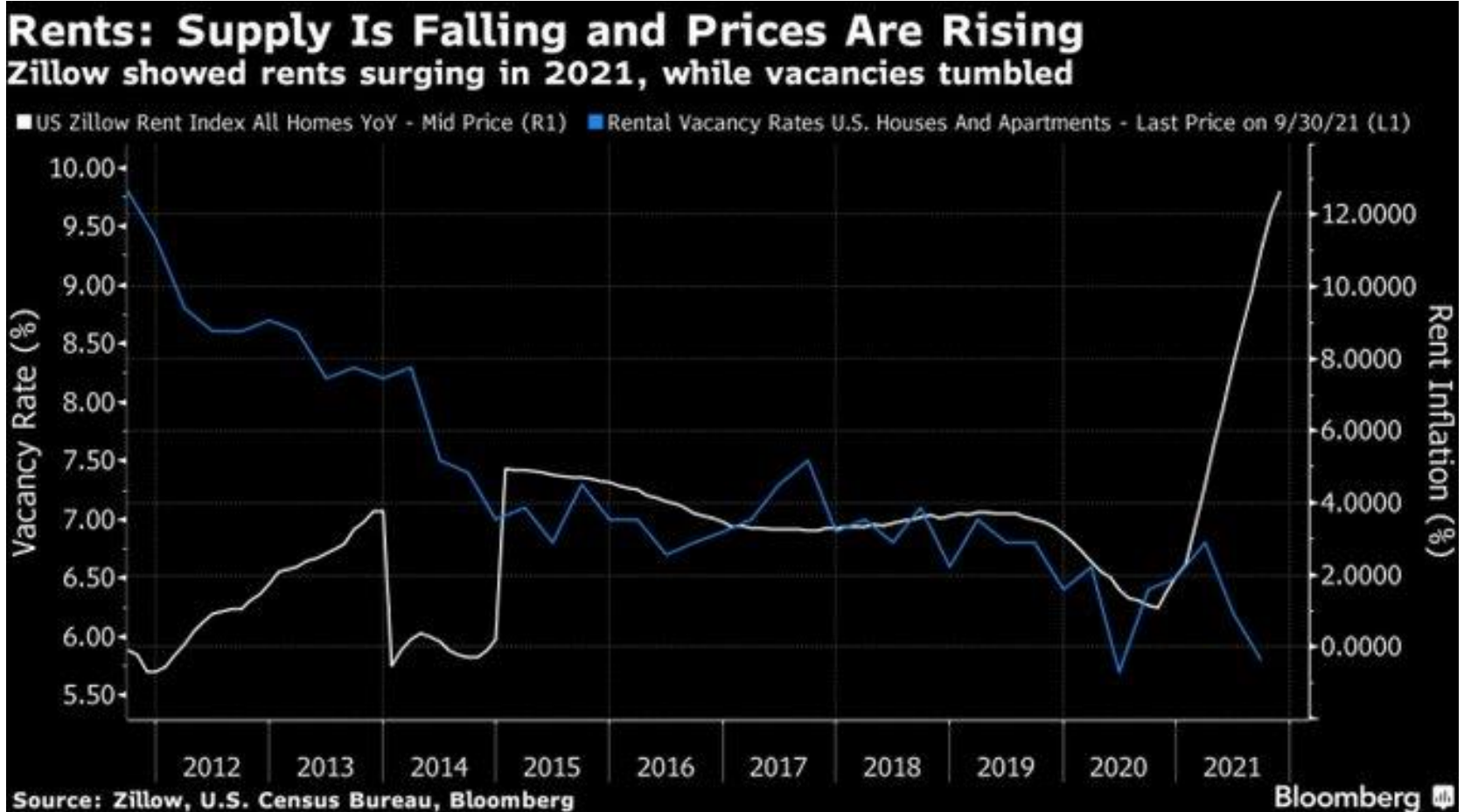
- Expect uptick in inflation-related ETF launches to continue...



Graph source - Bloomberg - Twitter

## BOILING FROGS 2.0

- 'On the face of it, higher inflation of rents in 2022 is a very safe bet. 6% or 7% is likely by year-end, which would be the highest level in three decades.' – Bloomberg



Graph source - Bloomberg - Twitter



## BOILING FROGS 2.0

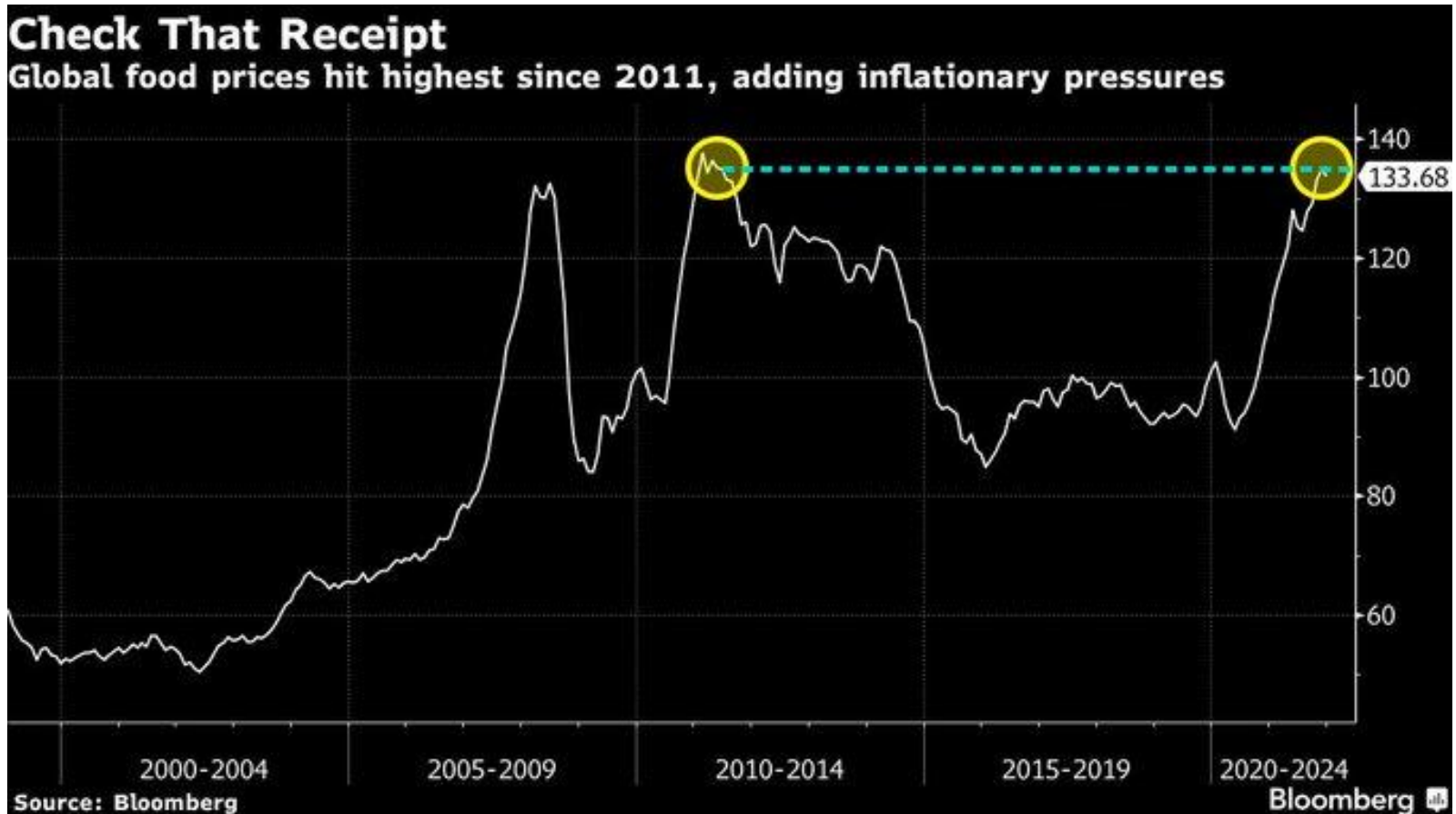
- “Euro-zone monetary policy may be among the world’s most dovish, but the currency bloc is far ahead of the U.S. in phasing out pandemic stimulus, UniCredit’s chief European economist says” – Bloomberg
- ECB is effectively trapped on top of rising energy prices.



Graph source - Bloomberg - Twitter

## BOILING FROGS 2.0

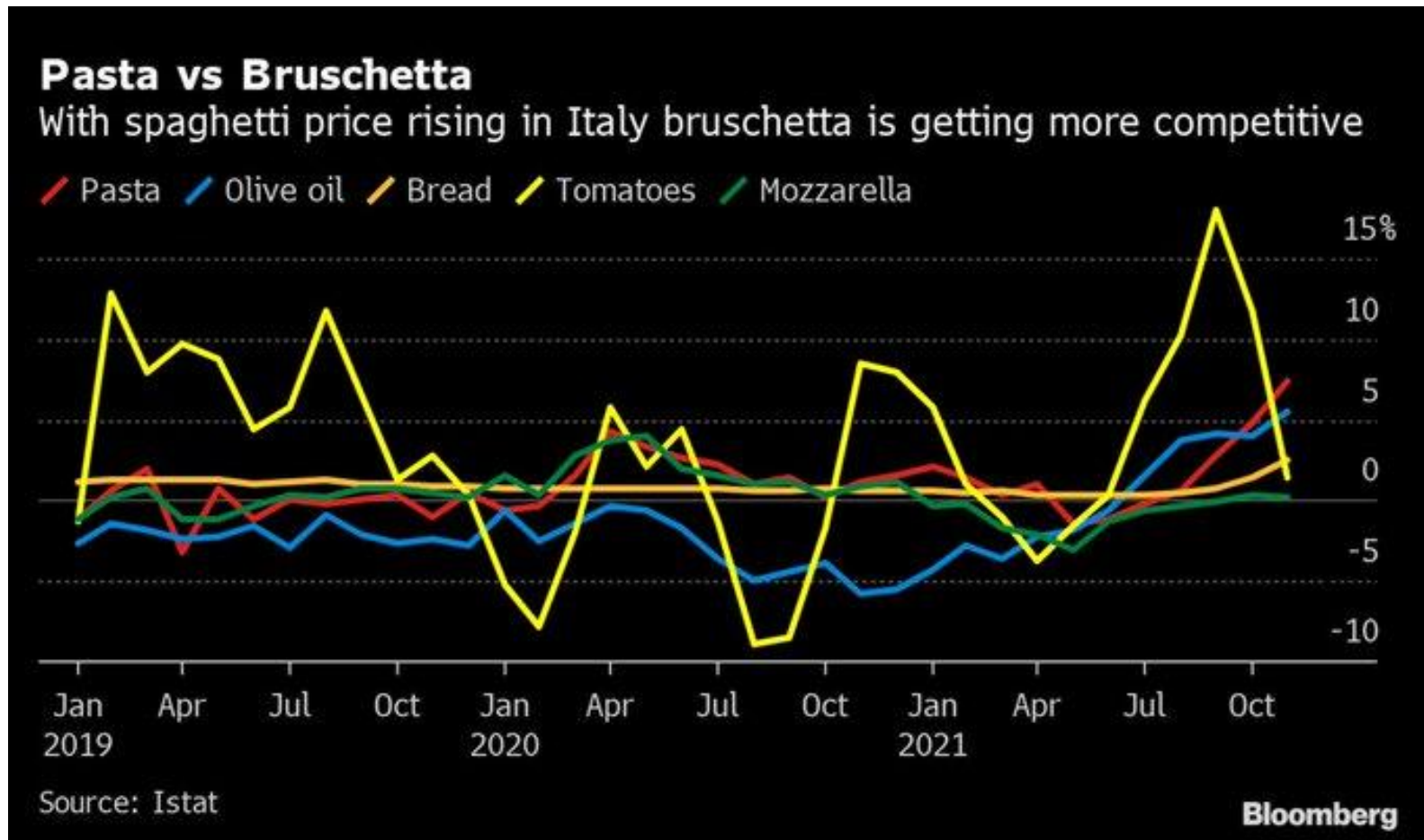
- Food prices around the world are back to where they were during the 2011 crop crisis
- We warned last year about the growing “pitchfork rising risk”.



Graph source - Bloomberg - Twitter

## BOILING FROGS 2.0

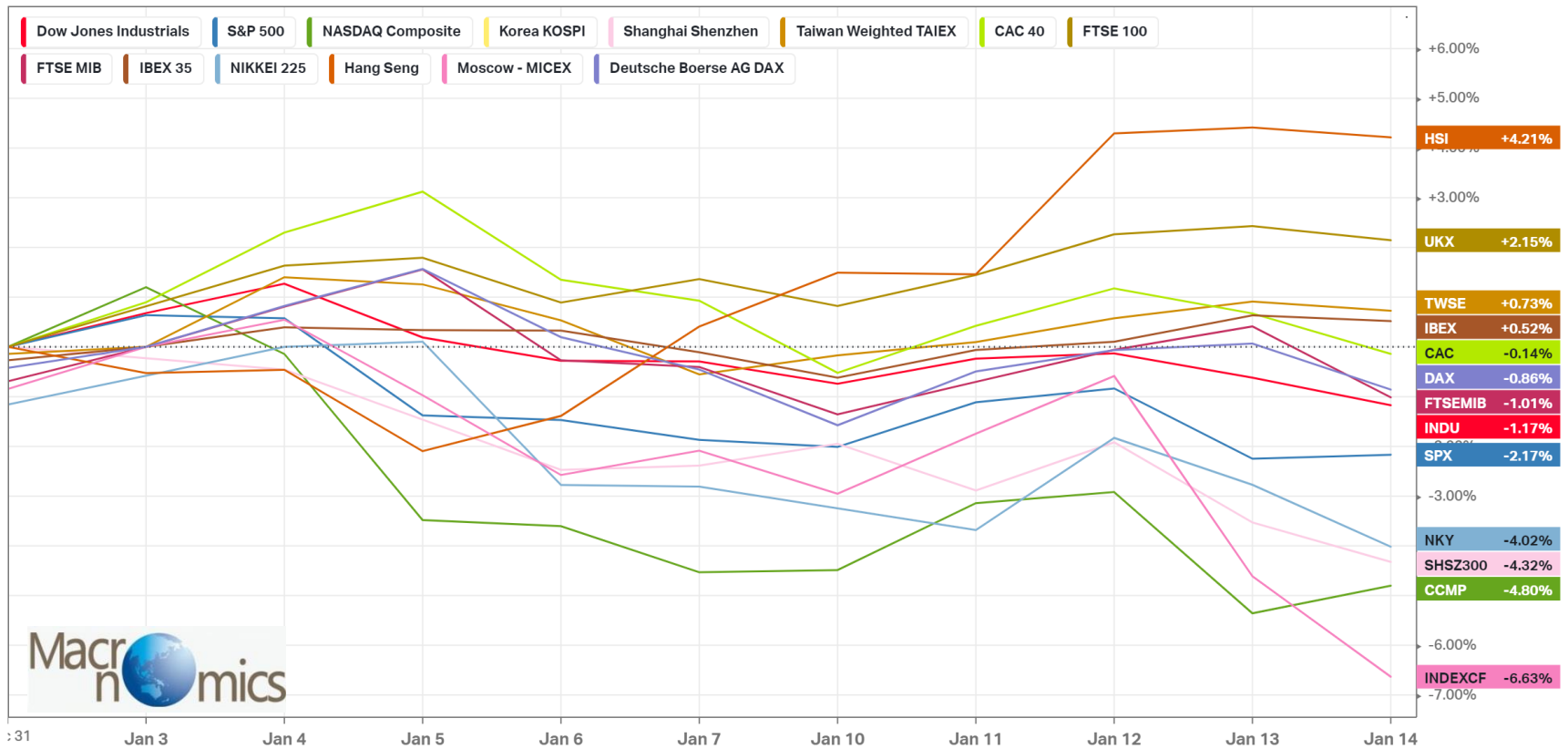
- Italians, the world's biggest consumers of pasta, face surging prices for the staple food
- Political risk in Italy is as well rising...



Graph source - Bloomberg - Twitter

# BOILING FROGS 2.0

- Hang Seng leading so far in 2022 closely followed by FTSE 100 and Taiwan. Fed hawkish tone has weighted heavily on the NASDAQ (down -4.8%). Risk of war in Ukraine has also taken its toll on the MICEX index in Moscow down 5% YTD.



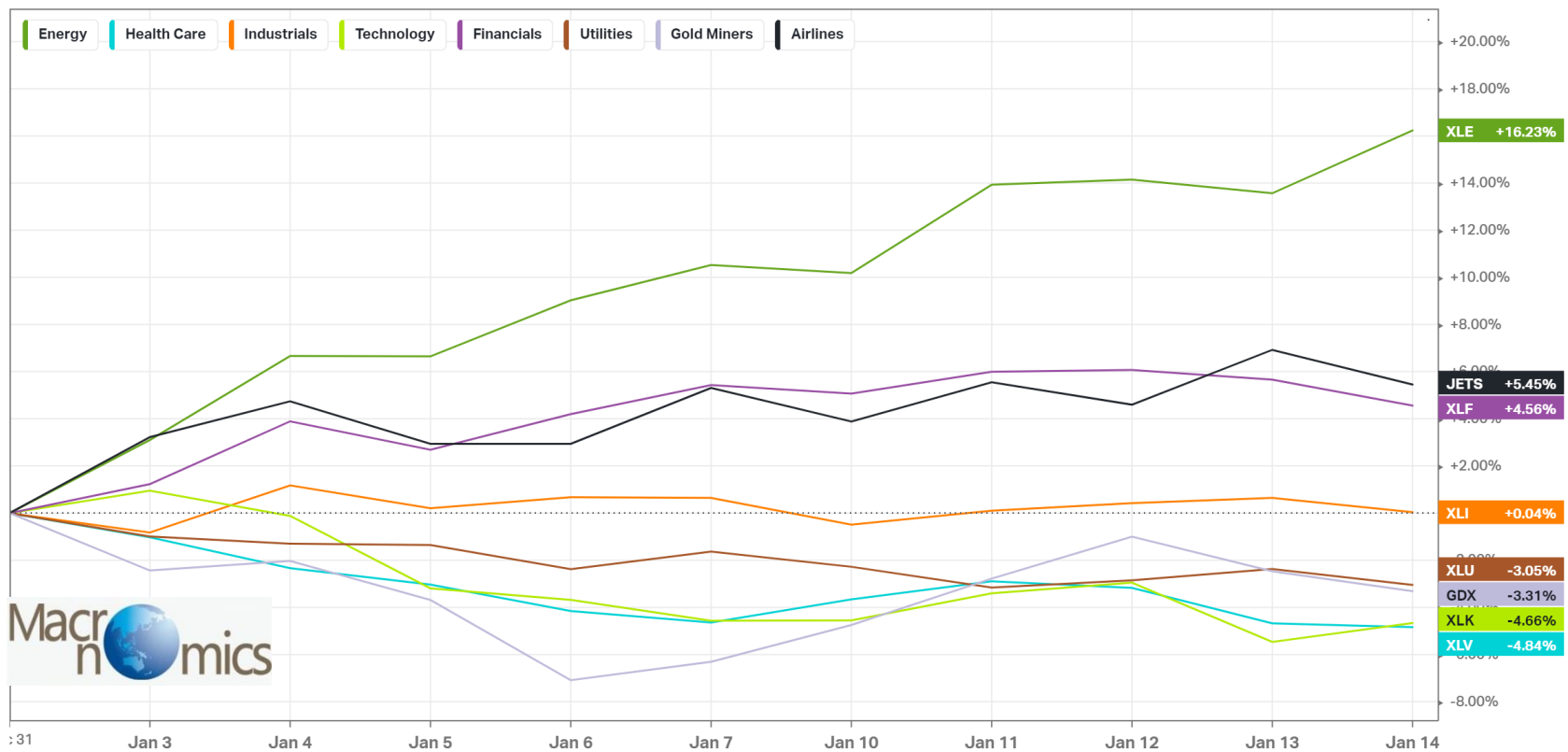
Graph source – KOYFIN - Macronomics

Private and Confidential January 2022



# BOILING FROGS 2.0

- US Sectors performance YTD:
- Energy (XLE) is heavily leading the pack (+16.23% YTD). Airlines are bouncing (+5.45%) while Healthcare is down by 4.84% YTD (XLV).
- While gold is up, gold miners continue to lag with GDX down 3.31% YTD.



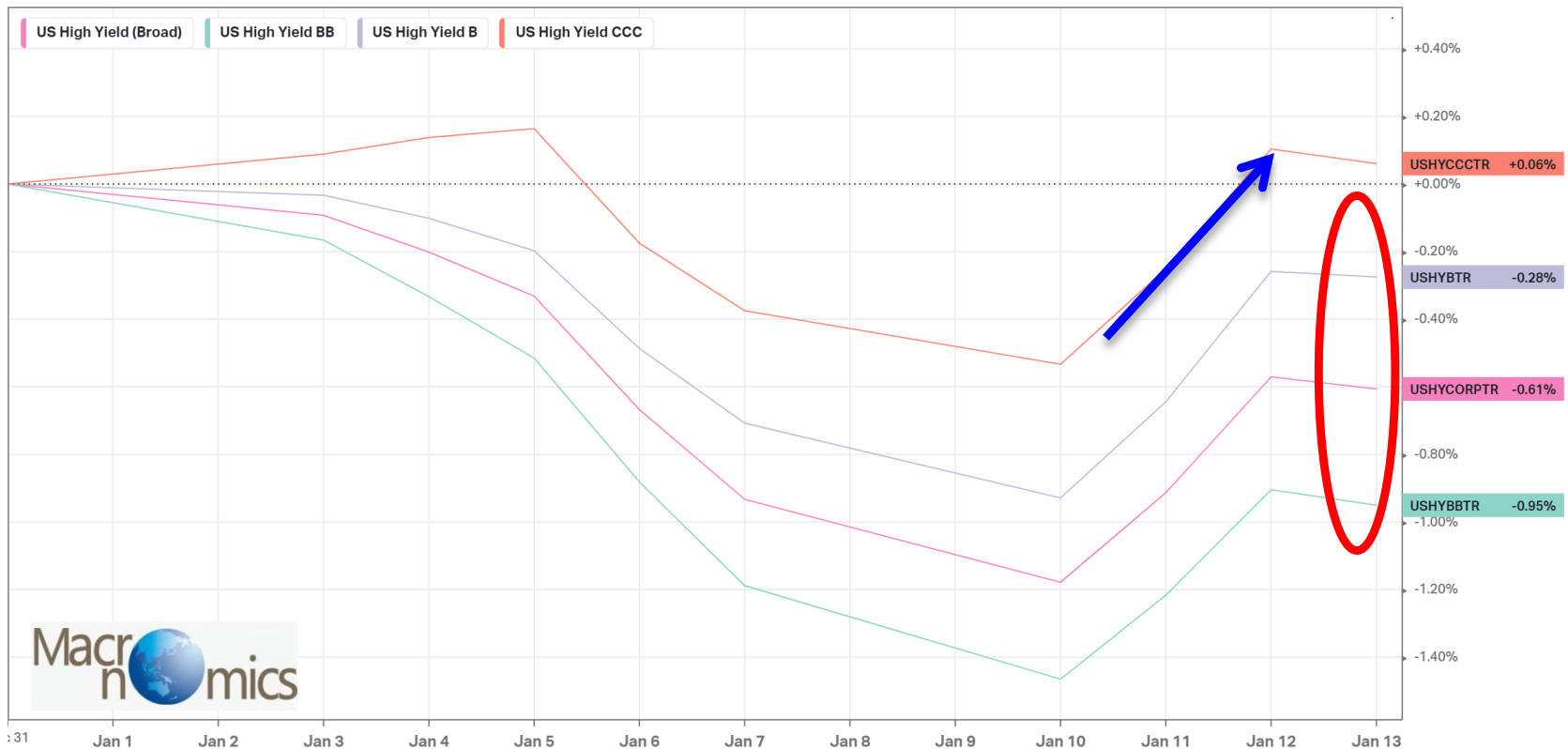
Graph source – KOYFIN - Macronomics

Private and Confidential January 2022



# BOILING FROGS 2.0

- High beta US High Yield has bounced back significantly from the recent weakness.
- Bond volatility affected high beta but finally things are settling down a bit and once again CCCs (8.04% Yield) are benefiting from the rise in the energy sector and oil prices of course.

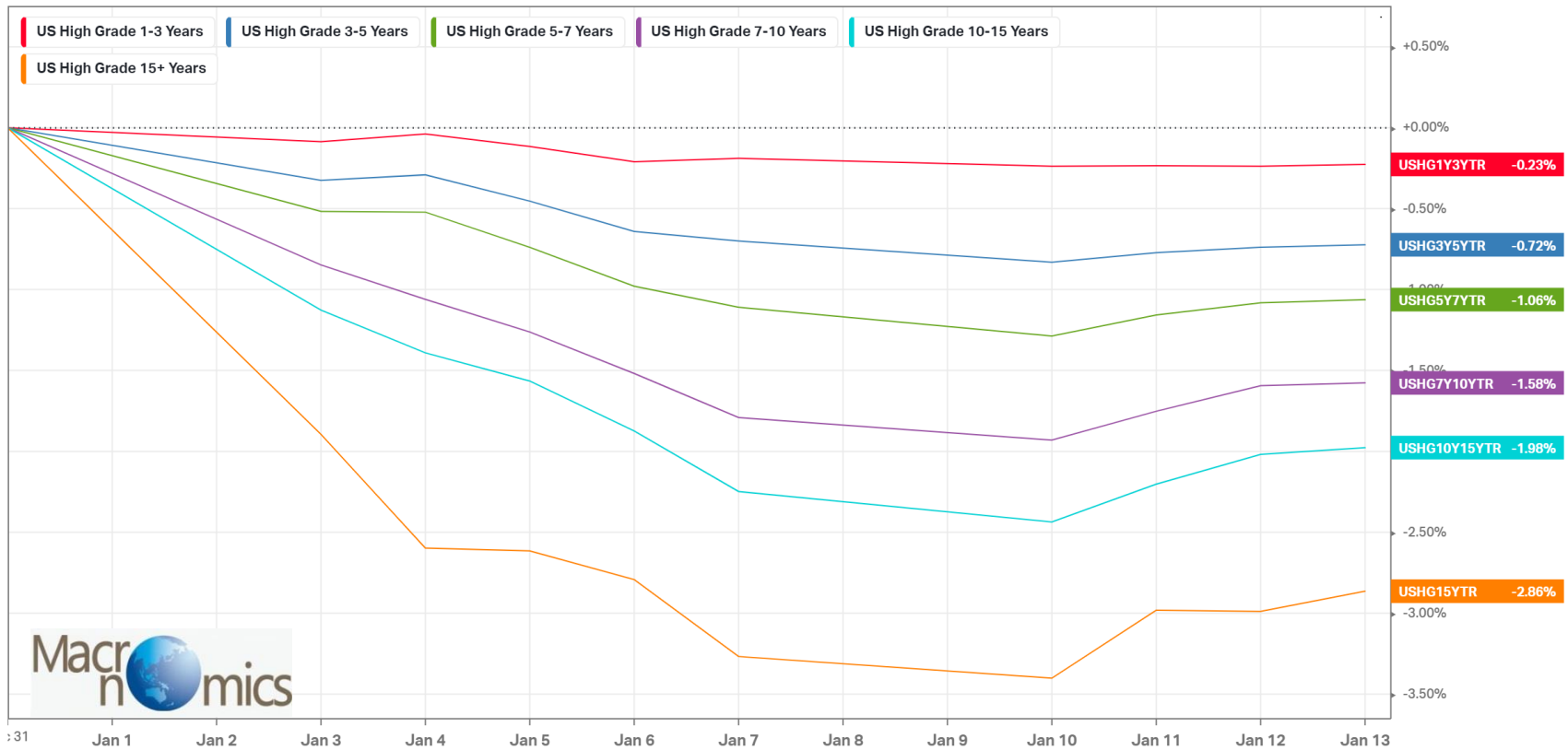


Graph source – KOYFIN - Macronomics



# BOILING FROGS 2.0

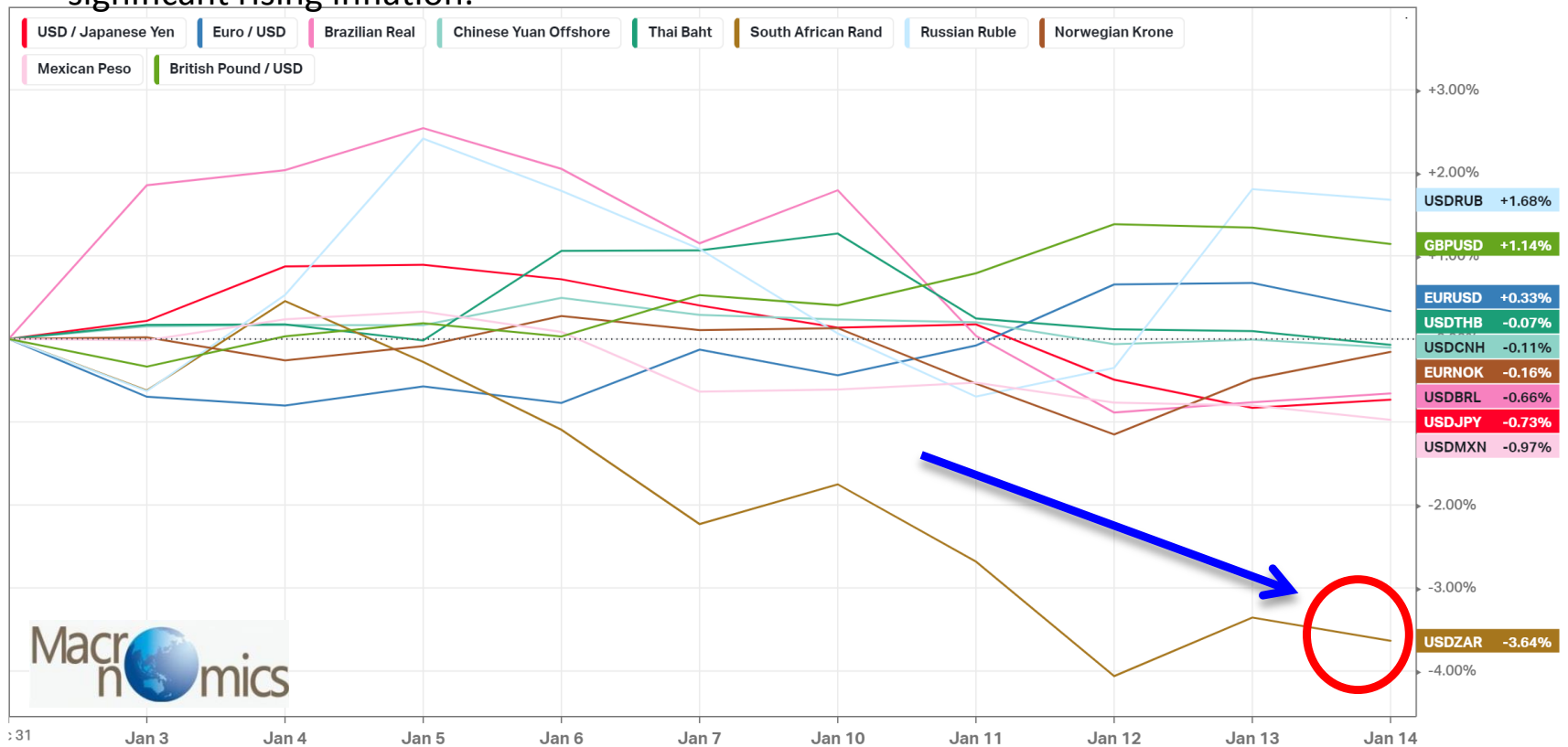
- We continue to dislike US Investment Grade because of “convexity” risk given both duration and credit risks are very extended and also given “inflation” levels.
- Equities or Investment Grade? We continue to favor “equities” in that context.



Graph source – KOYFIN - Macronomics

# BOILING FROGS 2.0

- RUB against the USD has been impacted by rising geopolitical risks. The GBP has gained over the USD. South African Rand has been weakening since the beginning of the year. We are not discussing Turkish Lira at this stage as it continues to weaken on the back of significant rising inflation.



Graph source – KOYFIN - Macronomics



# BOILING FROGS 2.0

- ARKK High Beta ETF continues to struggle while darling TESLA has overall performed in the last 6 months.



Graph source - REFINITIV EIKON - Macronomics

# BOILING FROGS 2.0

- ARKK High Beta ETF YTD is clearly on a downtrend whereas overall TESLA remains fairly flat. The high beta ARKK ETF continues to deflate.



Graph source - REFINITIV EIKON - Macronomics

# BOILING FROGS 2.0

- Will Chinese TECH bounce back during the Santa Claus Rally we asked. It was down by 12% when we discussed it last month. They have started bouncing back a little to only down 7.58% over the last 3 years. Not convincing yet it seems.



Graph source - REFINITIV EIKON - Macronomics

# BOILING FROGS 2.0

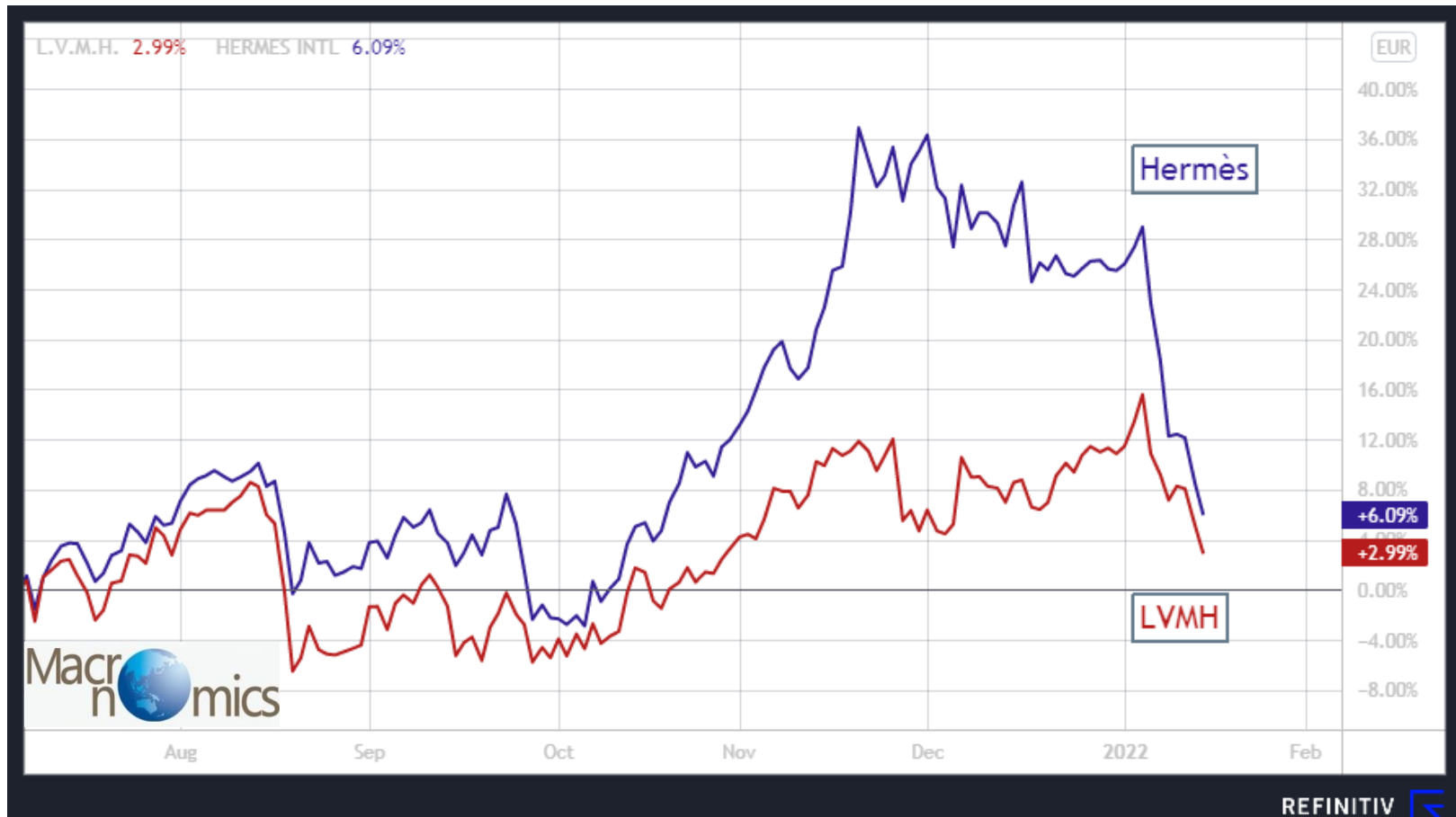
- But Chinese TECH YTD is up by 1.97% when NASDAQ is down by -4.48%. The year of the Tiger for Chinese TECH? We wonder.
- As we argued last month there is potential for further gains in 2022.



Graph source - REFINITIV EIKON - Macronomics

## BOILING FROGS 2.0

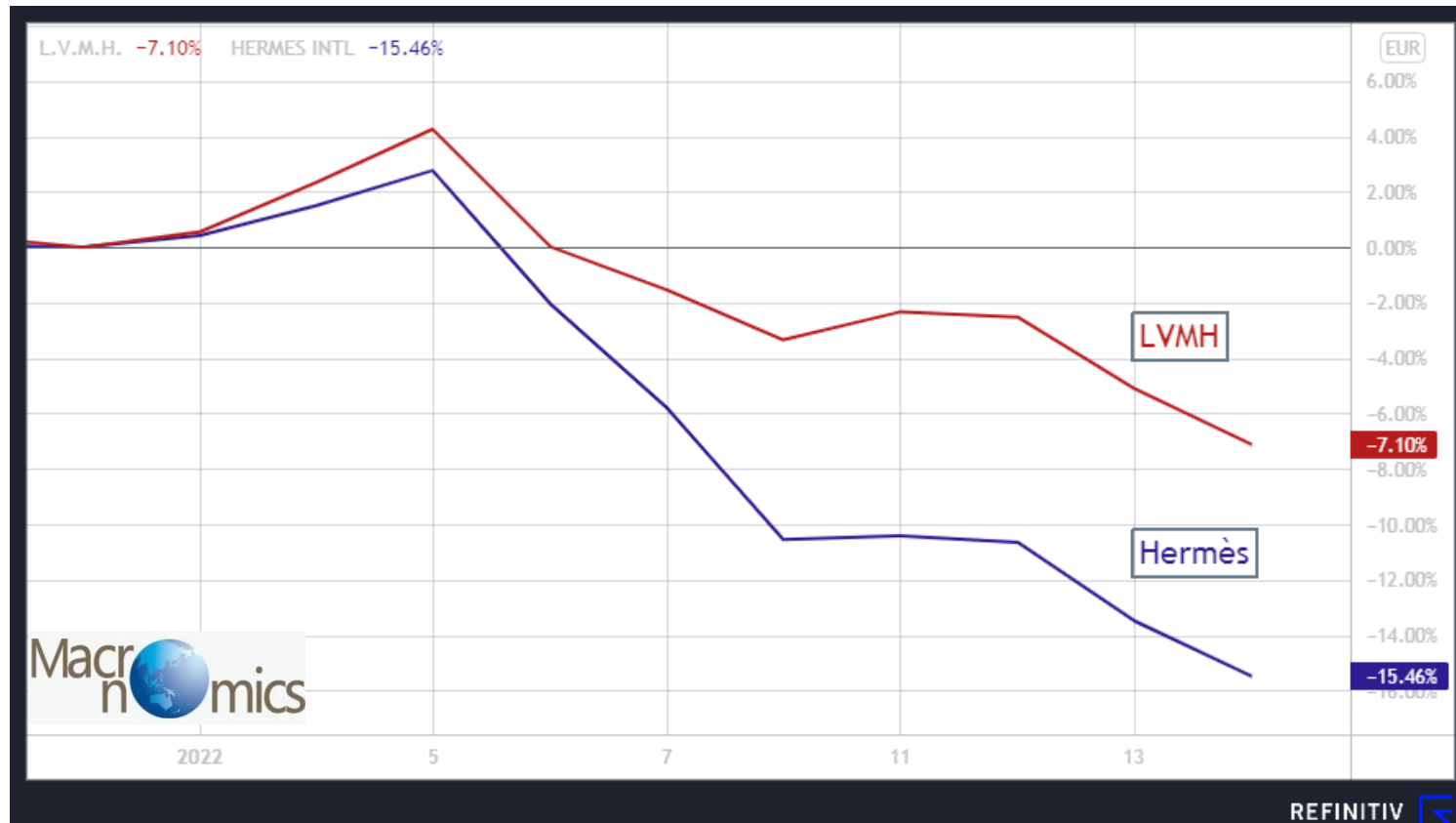
- French Luxury : Dramatic reversal in the luxury sector. While Hermès was clearly dominating the luxury game in the last 6 months over LVMH, more recently Chinese clampdown on corruption has taken its toll on top of correction in “growth stocks”.



Graph source - REFINITIV EIKON - Macronomics

## BOILING FROGS 2.0

- French Luxury : YTD Hermès is down 15% while LVMH only down by 7%.
- Chinese anti-corruption blitz is weighting. President Xi Jinping, who is expected to address the CCDI's conference, warned officials there would be "no mercy" for those who broke the rules.



Graph source - REFINITIV EIKON - Macronomics

## BOILING FROGS 2.0

- “As the most highly rated major luxury stock, trading at 59 times estimated earnings, Hermes has fallen more steeply than lower-rated peers. Its 15% drop in 2022 compares with declines of 6.3% for LVMH and 5.1% for Kering SA, both of which trade on multiples about half that of their smaller peer.” – Bloomberg



Graph source - Bloomberg - Twitter

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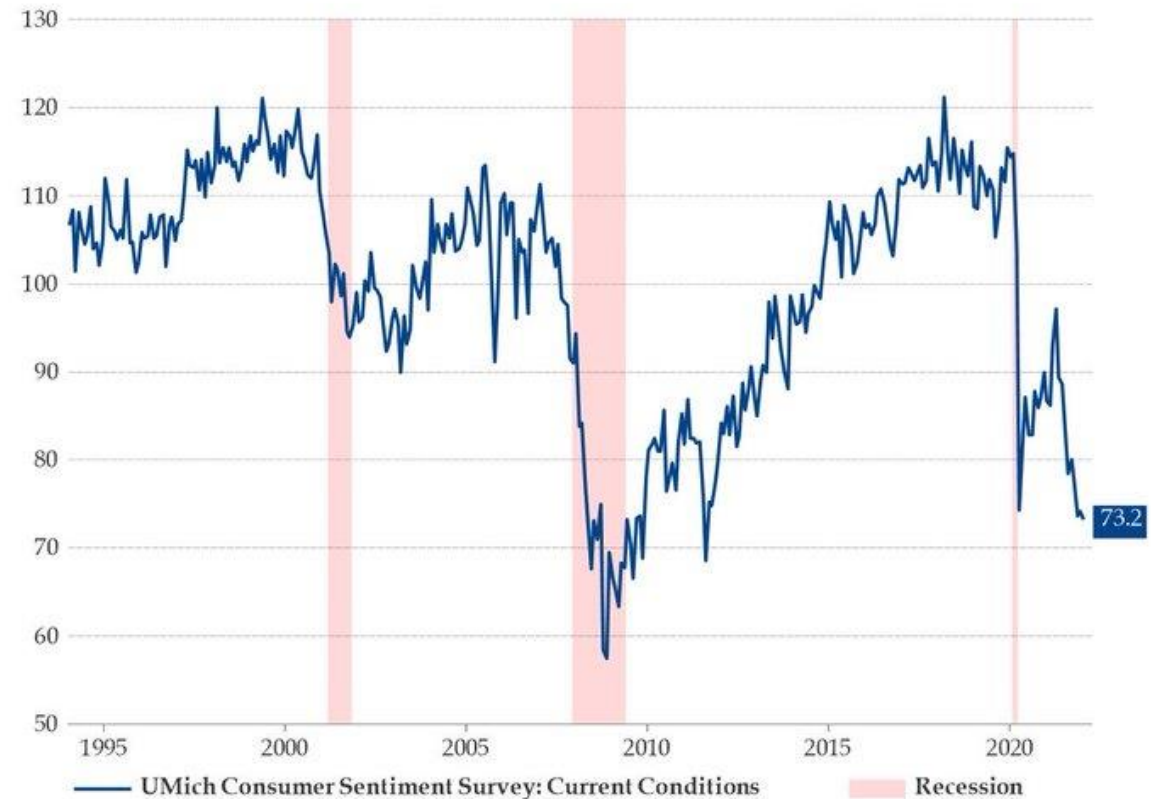
INFLATION IS LEADING TO STAGFLATION?



# INFLATION IS LEADING TO STAGFLATION?

- Consumer sentiment is now lower than April 2020, the height of the lockdowns. And the stock market is 100% higher.
- We do not think it is a good recipe.
- University of Michigan Current Conditions sub-index fell to new cycle lows this January.
- -73.2 vs. EXP 73.8 (Prior 74.2)
- Lowest print in over a decade...

UMich Consumer Sentiment Survey: Current Conditions

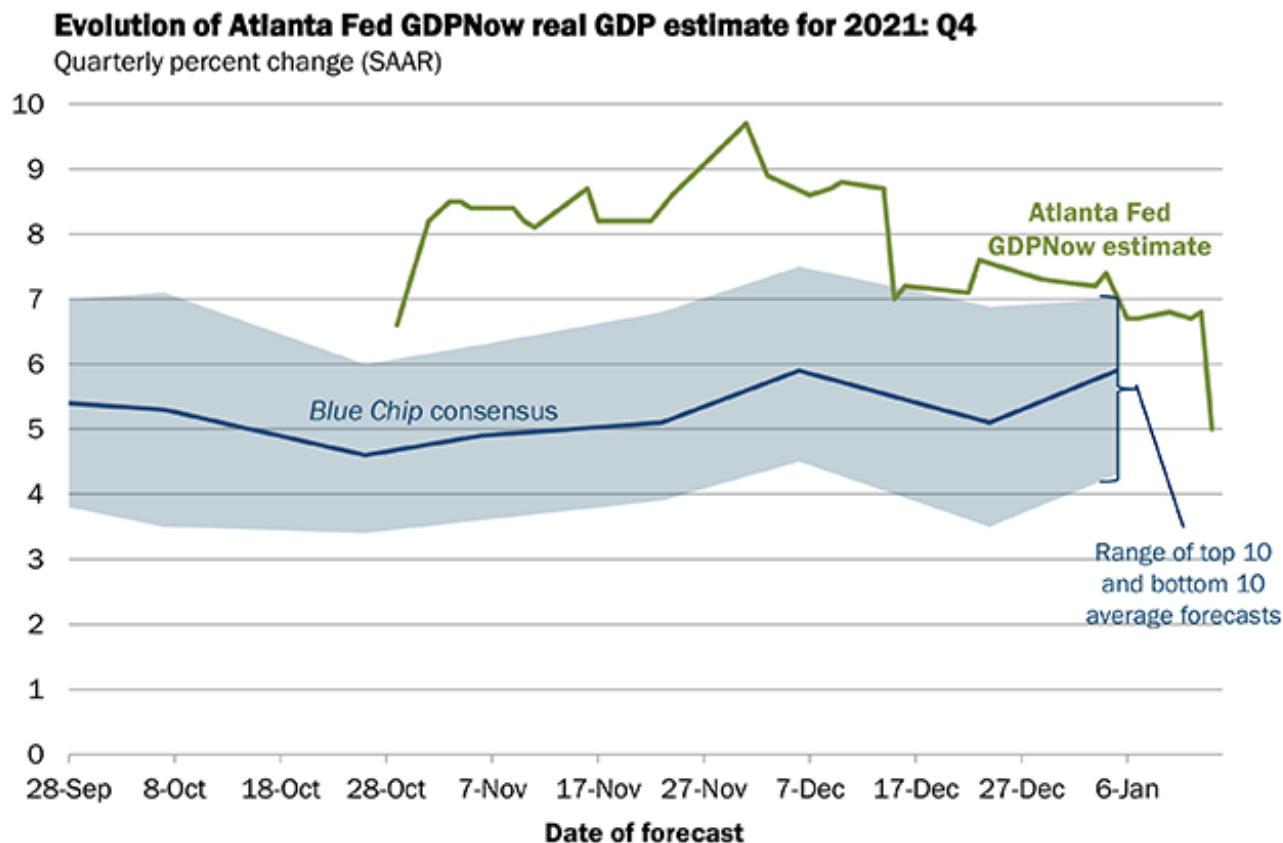


Source: Refinitiv Datastream, University of Michigan, Stouff Capital

Graph source – Refinitiv Datastream - Twitter

# INFLATION IS LEADING TO STAGFLATION?

- Downsizing US GDP Q4 growth expectations, Atlanta Fed GDPNow edition:



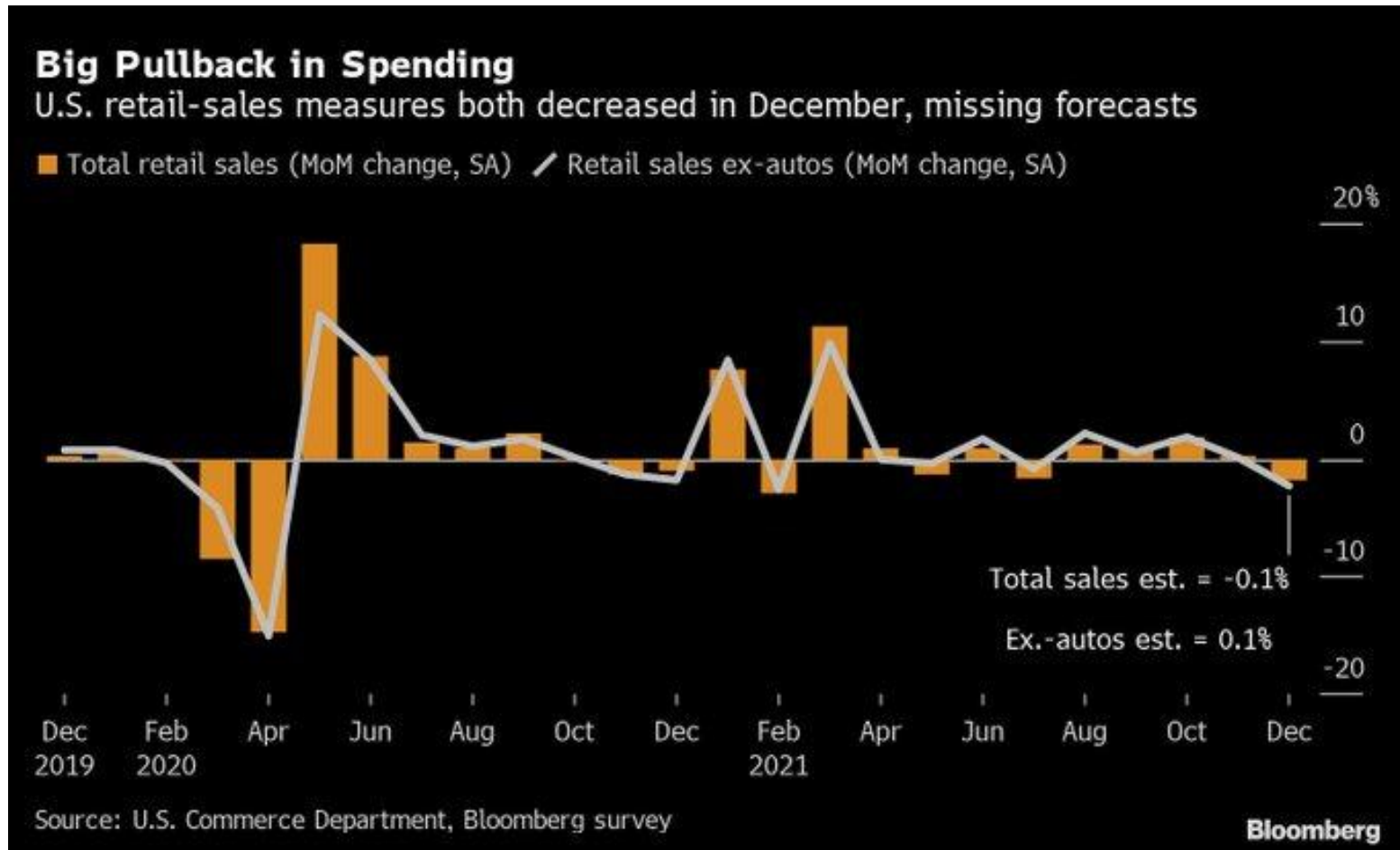
Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Graph source – Atlanta Fed - Twitter

# INFLATION IS LEADING TO STAGFLATION?

- U.S. retail sales slumped in December by the most in 10 months. Inflation and omicron may be hurting the economy a bit more than expected:



Graph source - Bloomberg - Twitter

# INFLATION IS LEADING TO STAGFLATION?

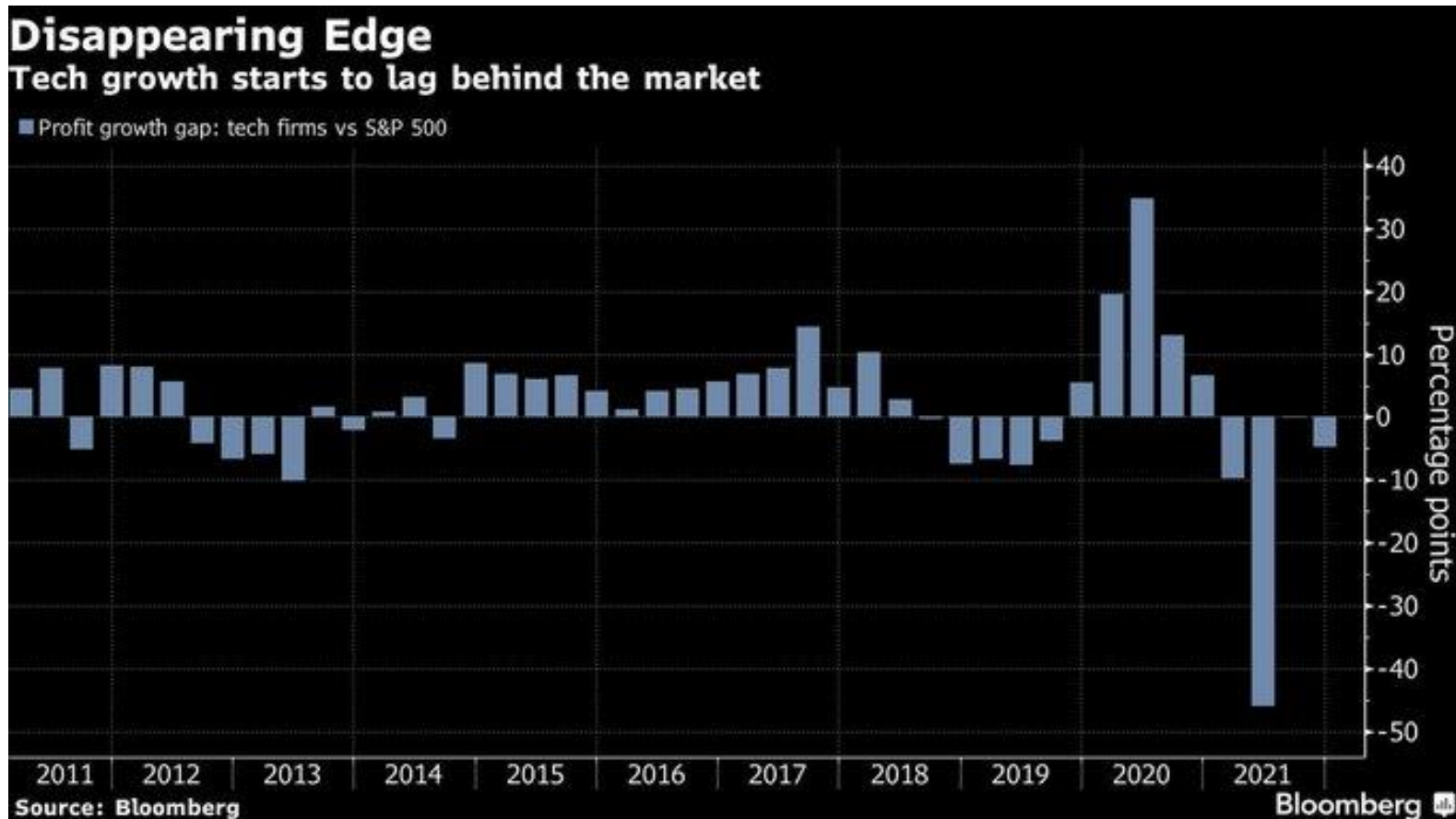
- “U.S. workers 16-24 years old have strongest wage growth on record, +10.5% y/y” – Liz Ann Sonders;
- Watch rising wages in 2022 for cues on FED rate hikes.
- US inflation is becoming broader and broader across products. 60% of the CPI items are rising at more than 4%



Graph source – Liz Ann Sonders - Bloomberg - Twitter

# INFLATION IS LEADING TO STAGFLATION?

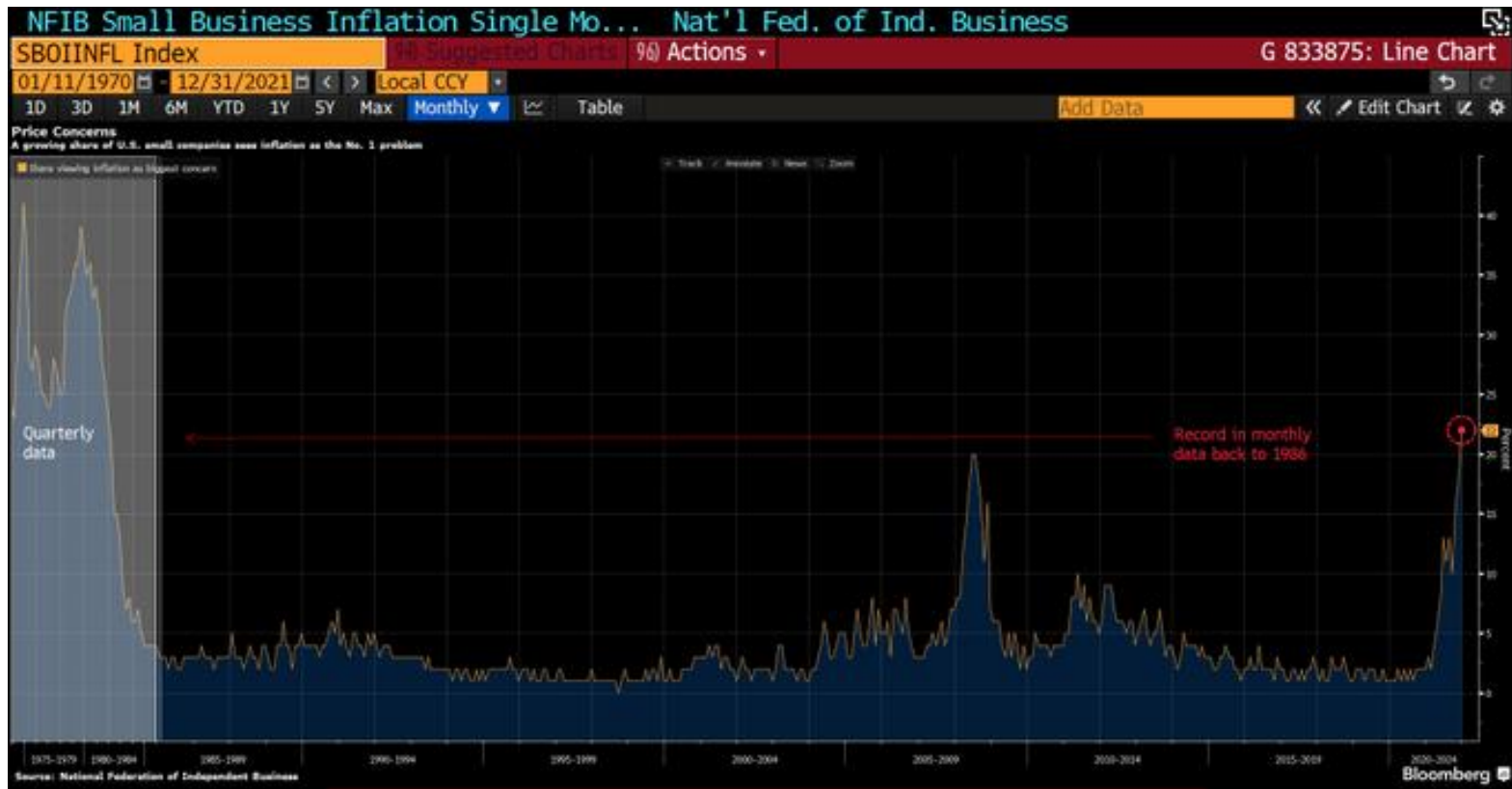
- “Everyone knows rising interest rates have been walloping tech shares. A less-appreciated problem for the sector is the market’s evolving profit picture.” – Bloomberg
- Time to start playing “defense”



Graph source - Bloomberg - Twitter

# INFLATION IS LEADING TO STAGFLATION?

- “Some 22% of small firms said inflation is their biggest problem in the latest NFIB survey, the biggest proportion since 1986. A year ago, inflation was mentioned by just 1% of companies” – Lisa Abramowicz



Graph source - Lisa Abramowicz - Bloomberg - Twitter

# INFLATION IS LEADING TO STAGFLATION?

- What to do in this environment?
- This is the best environment for high fixed cost / low variable cost companies. Basically asset owner. Value of asset goes up but cost don't go up because it is fixed in nature:
  - Hotels
  - Shipping
  - Telecom
  - Oil & Gas
  - Airlines
  - Hospitals
- Usually large scale manufacturing companies equipped with heavy machinery has usually the fixed costs.
- Higher fixed costs lead to higher degrees of operating leverage.
- Sectors engaged in the manufacturing of food, beverages and household products, as well as utilities and pharmaceuticals, performed best in this environment.
- Defensive sectors and companies with pricing power tend to perform best, such as food and tobacco, pharma and utilities.

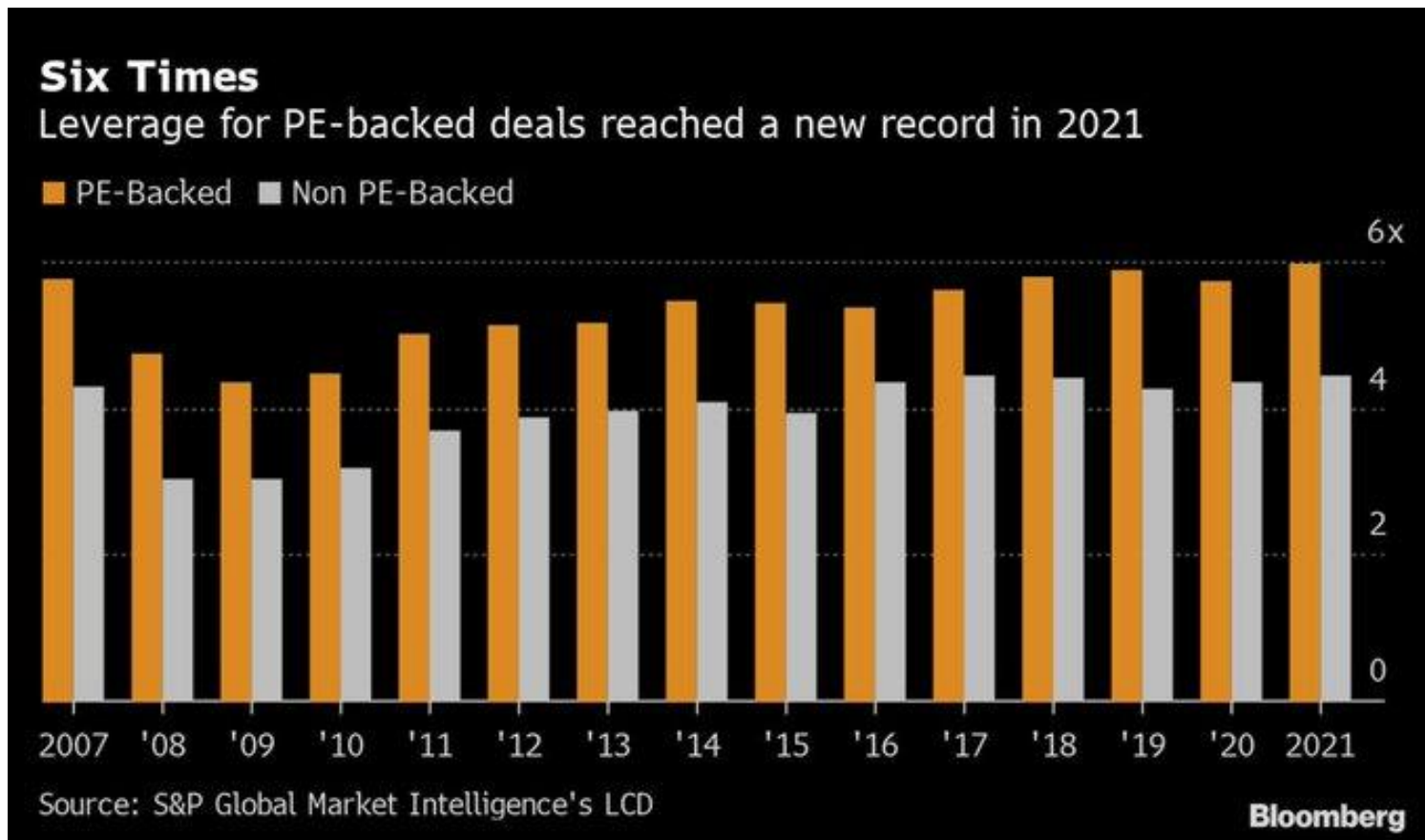
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## FOOD FOR THOUGHTS



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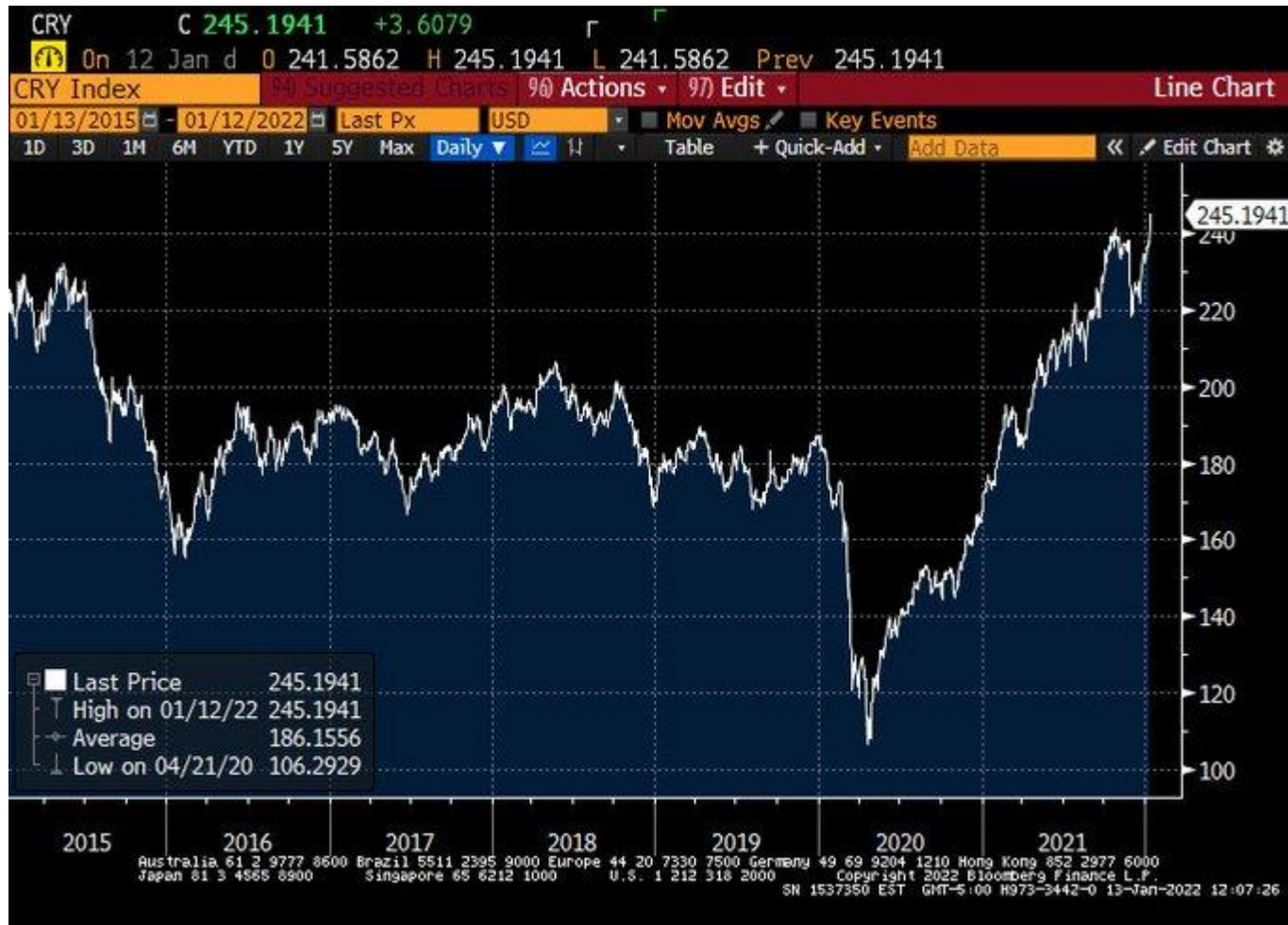
- Private equity firms have loaded more debt onto their acquisition targets than ever before
- Not a good sign in our “credit book”. We are approaching the end of the game.



Graph source - Bloomberg - Twitter

# FOOD FOR THOUGHTS

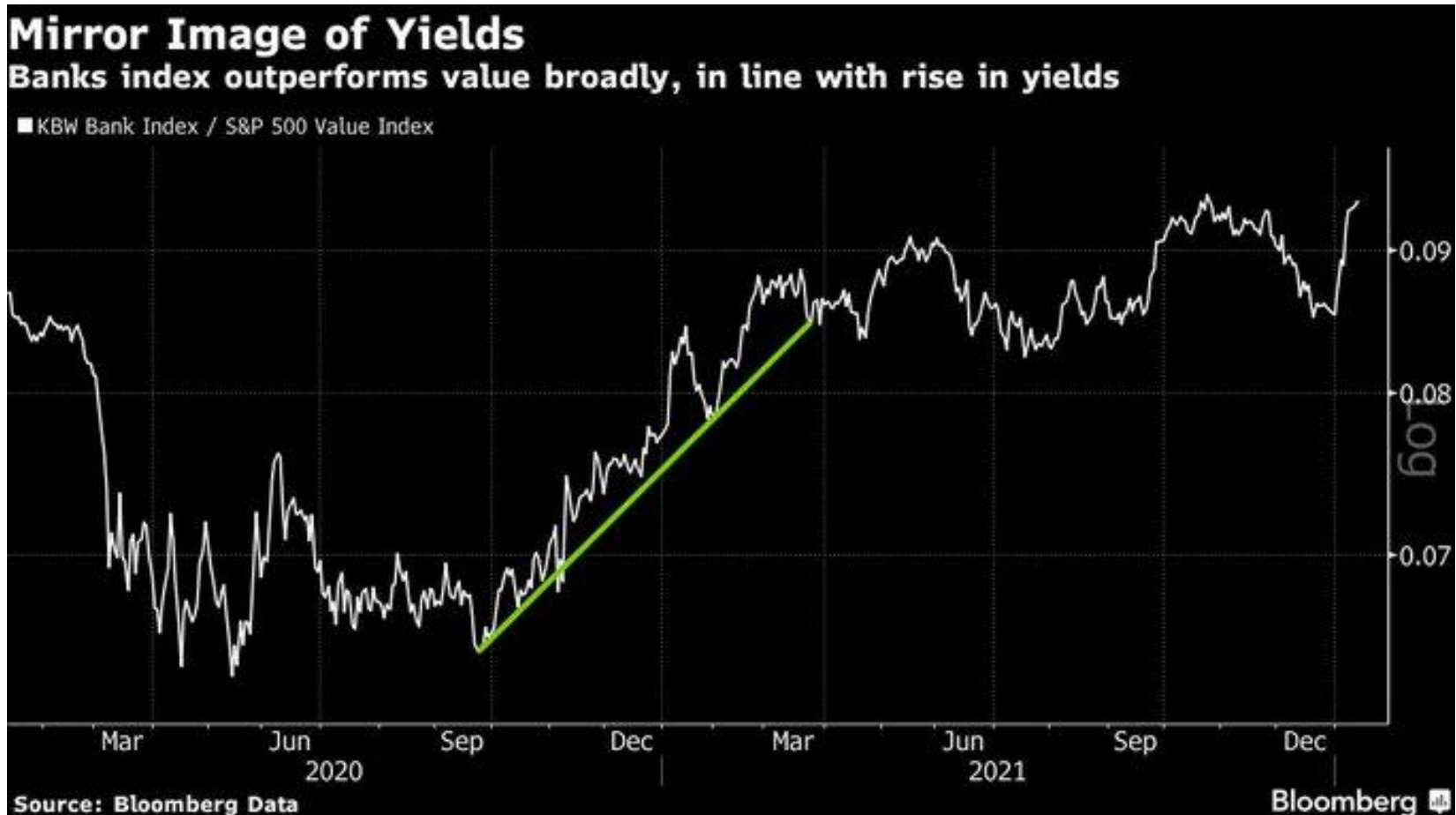
- Fixed Income and floating expenses :CRB Commodity index at fresh 7 year highs



Graph source - Bloomberg - LinkedIn

## FOOD FOR THOUGHTS

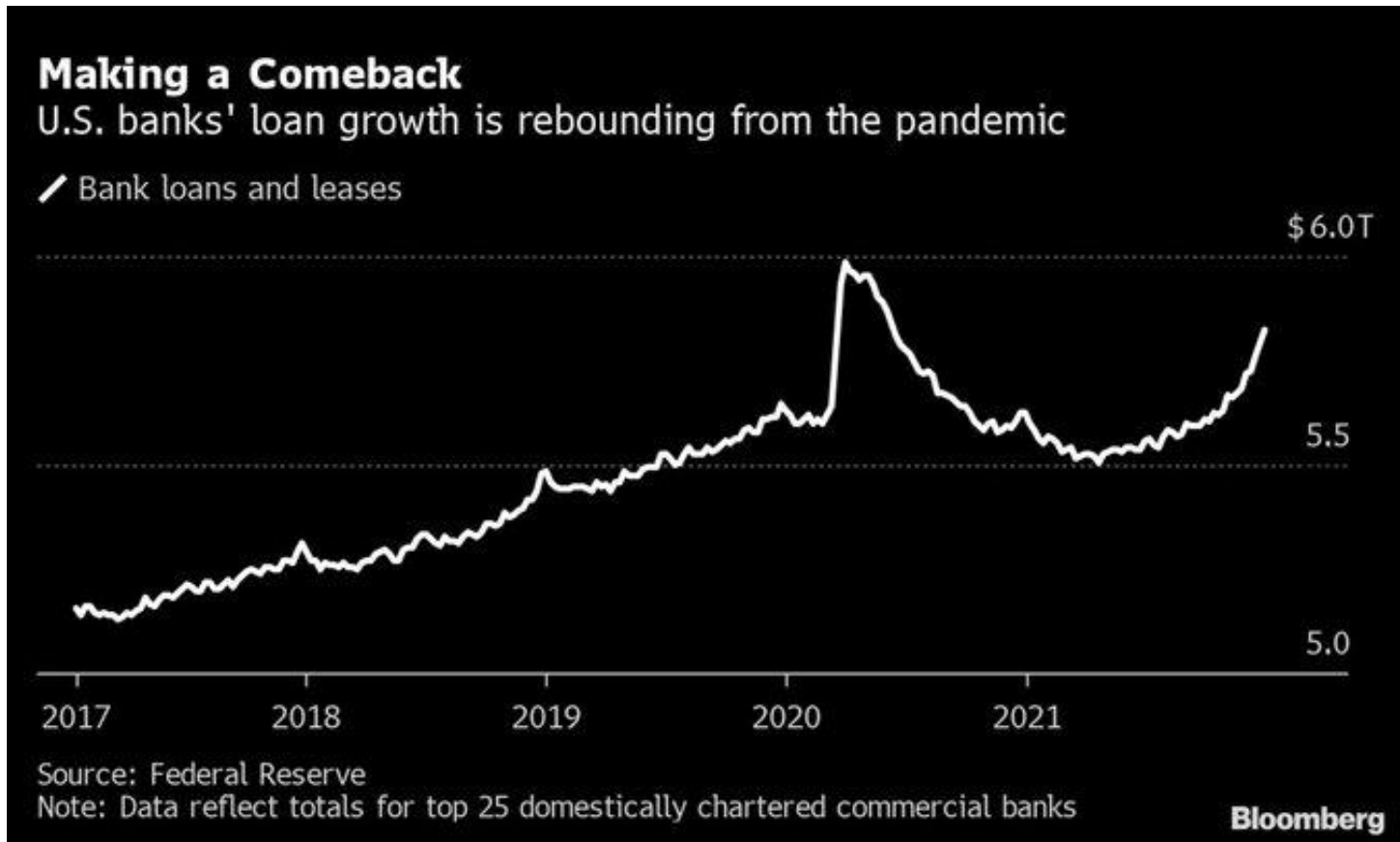
- “Bank stocks are booming ahead of earnings season” – Bloomberg
- Banks like rising rates. We’d rather buy US banks over European banks on a relative basis.



Graph source – Bloomberg - Twitter

## FOOD FOR THOUGHTS

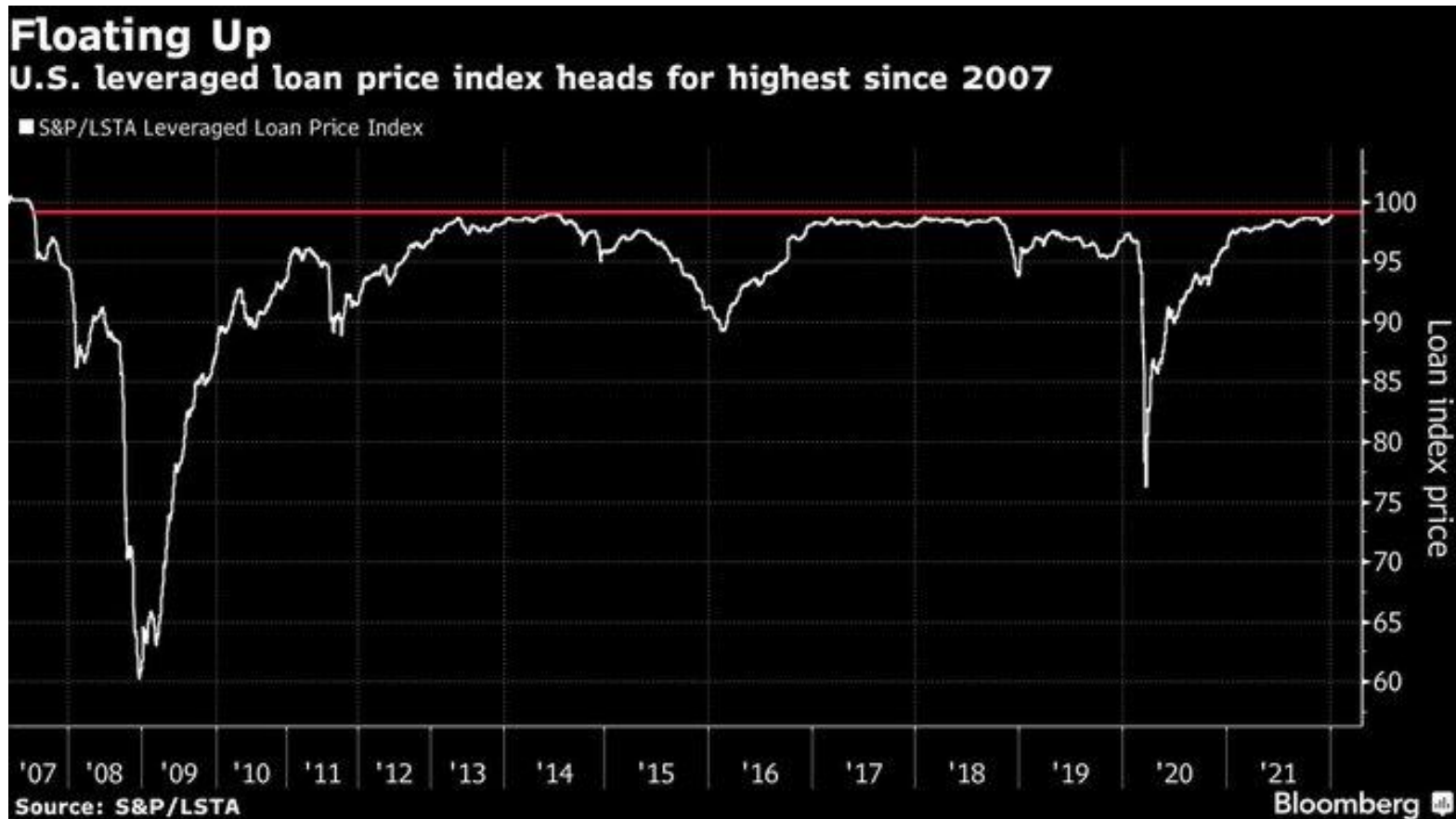
- “The loan growth that eluded large U.S. banks for most of last year is expected to finally make an appearance as lenders begin to report results Friday” – Bloomberg
- We continue to favor the US over Europe



Graph source – Bloomberg - Twitter

## FOOD FOR THOUGHTS

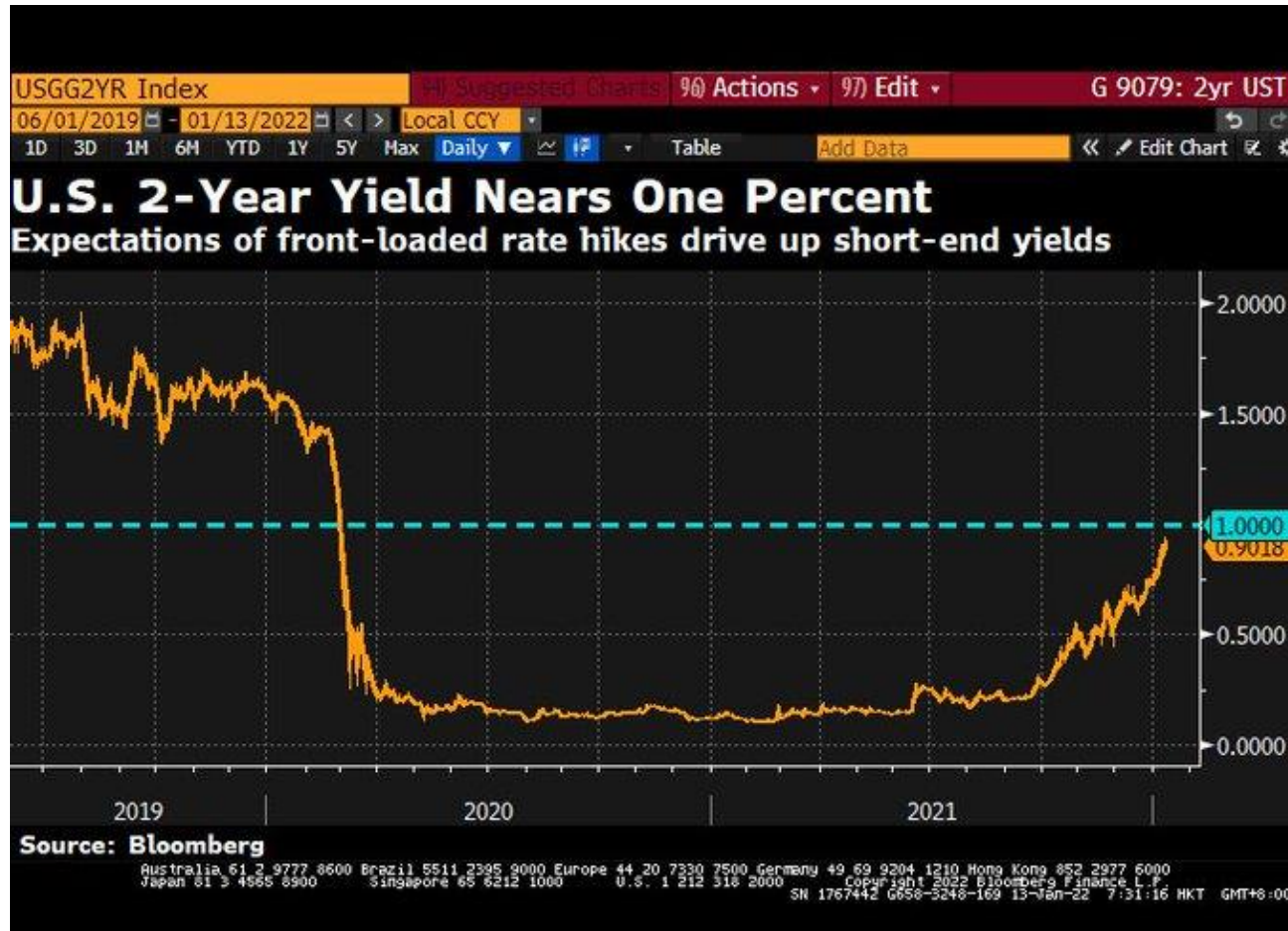
- US leveraged loans are a good “proxy” for economic growth. As such we believe that while we have seen some slowdown leading to “stagflationary” fears, the United States is in a much stronger position growth wise than Europe.



Graph source – Bloomberg - Twitter

# FOOD FOR THOUGHTS

- U.S. 2-year treasury yield is nearing one percent.
- It's happening. Real yields are surging leading to “repricing” such as “growth” stocks



Graph source – Bloomberg - Twitter

# FOOD FOR THOUGHTS

- With Inversion being a mere 25 bp's away, 2022 is already shaping up as a year for traders.

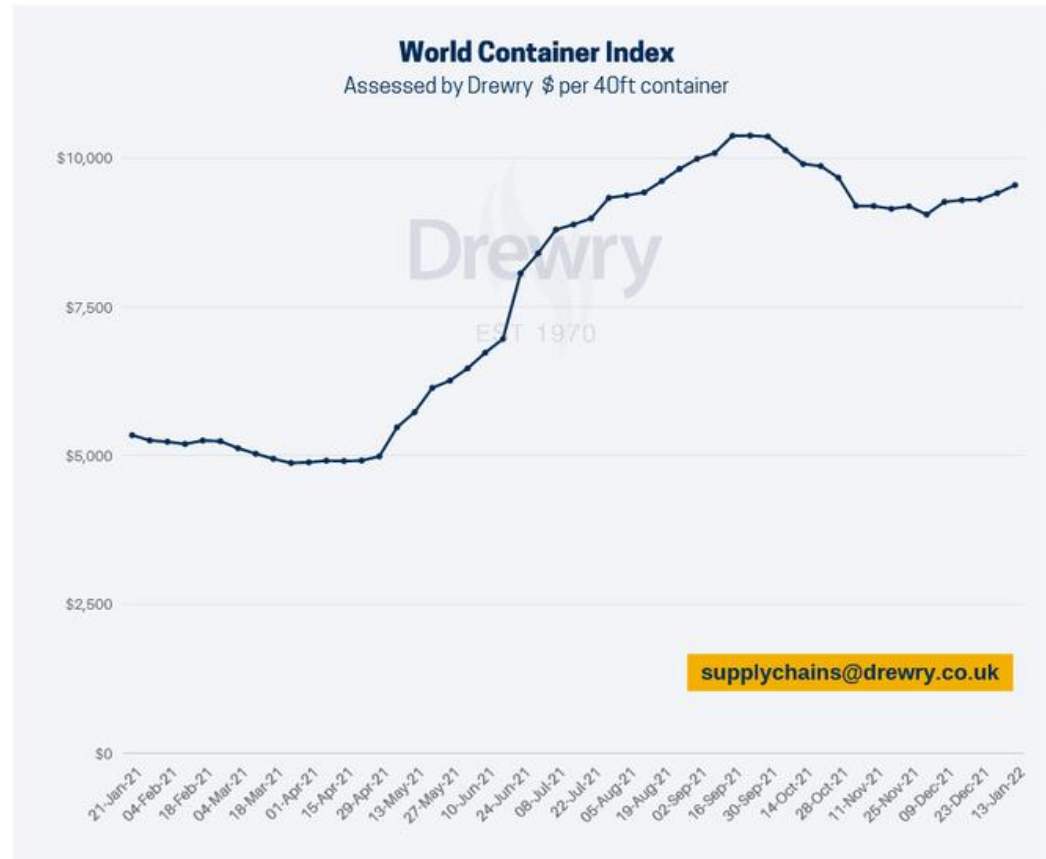


Graph source – Bloomberg - Twitter

# FOOD FOR THOUGHTS

- DREWRY composite World Container Index increased 1.4% to \$9,544.66 per 40ft container this week and remains 82% higher than a year ago
- Transitory this...

**World Container Index** - 13 January 2022



Graph source – DREWRY - Twitter



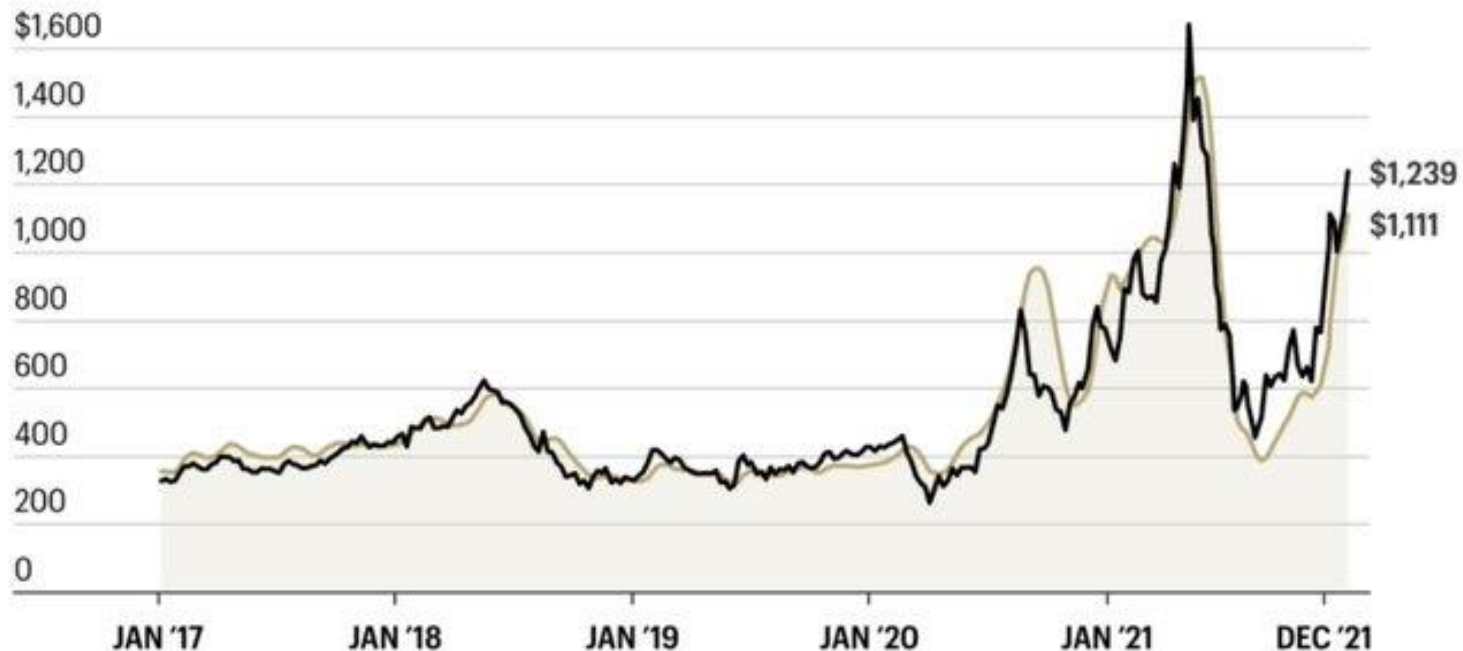
# FOOD FOR THOUGHTS

- Lumber prices start the year with another bang. Just like last year: these buyers dont want to get caught off-guard like last time so they buy ahead "just in case" Demand is phenomenal.

## Wholesale lumber prices

Price per thousand board feet of lumber

— CASH PRICE — FUTURES PRICE



Graph source – Bloomberg - Twitter



# CONCLUSION

- Harpex index is starting to climb again but at a slow pace, this will continue to put pressure on prices and corporate margins. We continue to watch the Harpex index very closely for cues on global trade.
- Oil producers in the ETF space continue to shine, followed closely by Gold Miners and China Tech. We like the Energy sector, China Tech and Regional Banks .

Theme ↕		Day ↕	Week ↕	Month ↕	Year ↕
Oil producers	•	▲ 2.39%	▲ 5.20%	▲ 16.01%	▲ 47.76%
Gold miners	•	▼ -0.84%	▲ 3.22%	▲ 2.80%	▼ -12.36%
China tech	•	▲ 2.02%	▲ 2.90%	▼ -3.39%	▼ -31.38%
Semiconductors	•	▲ 2.40%	▲ 2.81%	▼ -1.38%	▲ 29.30%
Lithium & Battery tech	•	▲ 0.40%	▲ 2.76%	▼ -5.95%	▲ 21.62%
Regional banks	•	▲ 0.87%	▲ 1.95%	▲ 11.16%	▲ 34.83%
Social media	•	▲ 0.12%	▲ 1.15%	▼ -5.68%	▼ -19.91%
Blockchain	•	▲ 0.20%	▲ 0.65%	▼ -6.01%	▼ -0.66%
Gaming & esports	•	▲ 0.20%	▲ 0.53%	▼ -10.21%	-
Work from home	•	▲ 0.58%	▲ 0.08%	▼ -5.72%	▲ 1.53%

Table source – CMC Markets - Optp Thematic ETF Screener

## CONCLUSION

- We continue to view negatively Investment Grade.
- We like China Tech over US Tech.
- Inflation has not been “transitory”. We do not buy the receding narrative for 2022 as pressure in energy prices has yet to meaningfully recede at least in Europe.
- Rising food prices and prices of ammonia, continue to be on our radar and a cause for concern. This could lead to more social unrests in 2022.
- Uranium got spanked with the events in Kazakhstan yet we continue to like the sector.
- Luxury sector: Growth stocks have been repriced by rising real yields but, we think the current corruption clamp down has also to do with the weaker tone overall. Hermès got “repriced” accordingly. It still offers better net margin than LVMH but LVMH could outperform with a global re-opening of the world travel wise.
- We like VALE, GALP Energia (over Royal Dutch Shell), BHP.
- That’s all for now. Don’t hesitate to reach out / comment. Happy trading to all !

# 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 was in the top 20 economic blogs in the United Kingdom (<http://uk.labs.teads.tv/top-blogs/economy>) and received around 20,000 views per month. Mr Tixier also published many articles on Seeking Alpha, the leading financial site.
- Mr. Tixier previously 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, following a career in the sell-side in London
- 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, Toulouse Business School and ESAM Paris 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.