PROVIDING THE BIG PICTURE ON MACRO AND CREDIT SINCE 2009

Martin Tixier – Strategist

PLAN

GLOBAL WARNING

1

EXECUTIVE SUMMARY – 20TH OF JUNE

MACRO THOUGHTS

- *"History is a vast early warning system." - Norman Cousins*
- We continue to see Europe as being in the center of big trouble brewing. ECB is in a bad spot with falling EUR currency, rising inflation and energy woes. We continue to believe the EUR is going towards parity with the US dollar and even weaker. We expect poor growth and growing social unrests. Rising inflation and rising government bond yields is a very bad recipe. The ECB knows it.
- French elections results represent a huge headache given Macron has no clear majority. This is something to monitor closely as it represents additional risk for Europe.
- We still expect a "Carthaginian peace" deal between Russian and Ukraine. It refers to any brutal peace treaty demanding total subjugation of the defeated side. This is what Russia we think, will ask from Ukraine yet there are some risk with serious escalation with a potential blockade of Kaliningrad.
- Throughout 2021 we called for the risk of a stagflationary outcome in our OHM Research presentations. In that context "fixed income" must be avoided. More pain to come and corporate credit. Our credit canary aka US CCCs is starting to sing. Watch credit spreads as they will continue to widen significantly. Things are not looking good in credit land.
- Energy continues to thrive. We recommended you going overweight Energy. Don't forget gold and gold miners but add cautiously given Mack The Knife is still on its murderous rampage.
- ***Our usual reminder:*** For a bear market to ensue as we have repeated on numerous occasions, you need inflation to "accelerate". Past history has shown, what matters is the "velocity" of the increase in the oil prices, given that a price appreciation greater than 100% to the "Real Price of Oil" has been a leading indicator for every US recession over the past 40 years

MACRO THOUGHTS

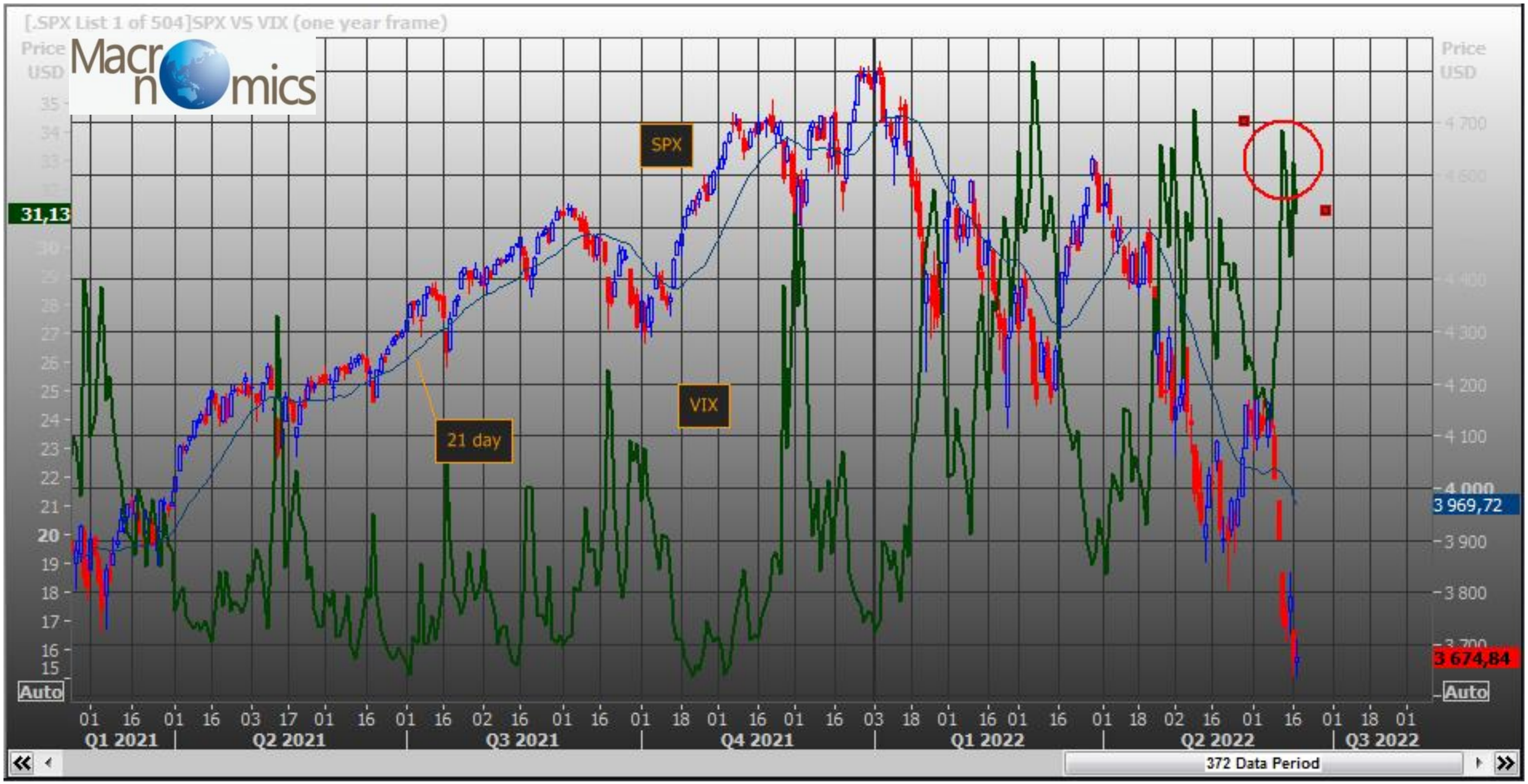
- **Why our title Global Warning?**
- The Germans have turned their back on nuclear energy and given Russia has reduced its deliveries to Germany and other European countries, Germany has decided to compensate the loss through firing up coal plants.
- Therefore our title is around "global warming" as a tongue in cheek given that Nuclear has been excluded from the European Green agenda while coal is making a come back.
- European coal prices have tripled in a year. The entire energy sector is on fire. We are yet to see meaningful demand destruction. Coal as such will continue to surge.
- Rising US Dollar and US Yields (our infamous Mack The Knife is continuing to put on a murderous rampage. As such many weak Emerging Markets are in trouble. No change there.

2

GLOBAL WARNING

GLOBAL WARNING

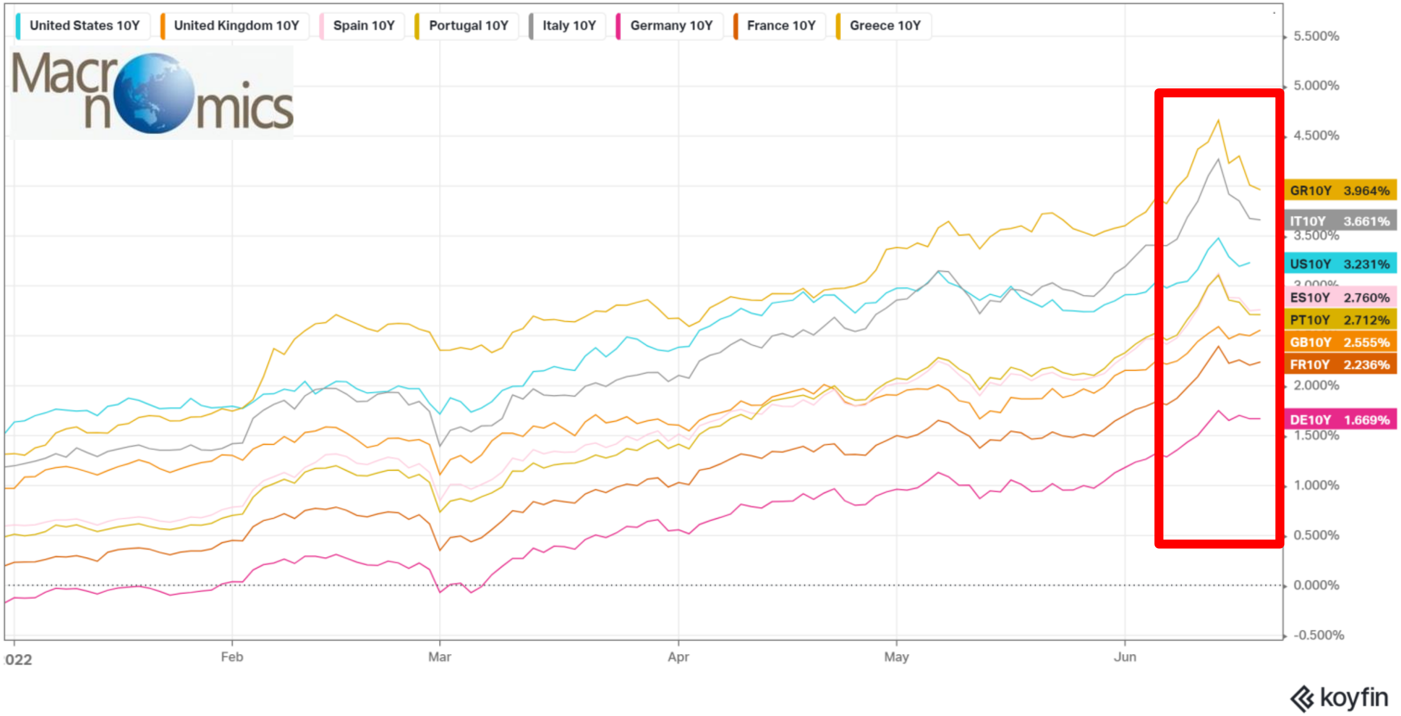
- Volatility remains elevated while stocks continue to fall as markets continue with their weaker tone. The tide is turning so speculative assets such as Crypto are feeling the heat.



Graph source – EIKON REFINITIV - Macronomics

GLOBAL WARNING

- Since the beginning of the year Government Bonds Yields have been rising significantly on top of inflationary pressures. As of late we have seem some respite given the ECB has been talking about a new tool. The cost of financing for most European countries is getting more expensive. The ECB is clearly in a bind. We are already seeing a growing divergence in the spread between Germany and Italy 10 years. This is as well something to track very closely.



Graph source – KOYFIN - Macronomics

GLOBAL WARNING

- Strategists sure have revised their expectations but, we think, they are still too optimistic in the current environment.

Graph source - Bloomberg - Twitter

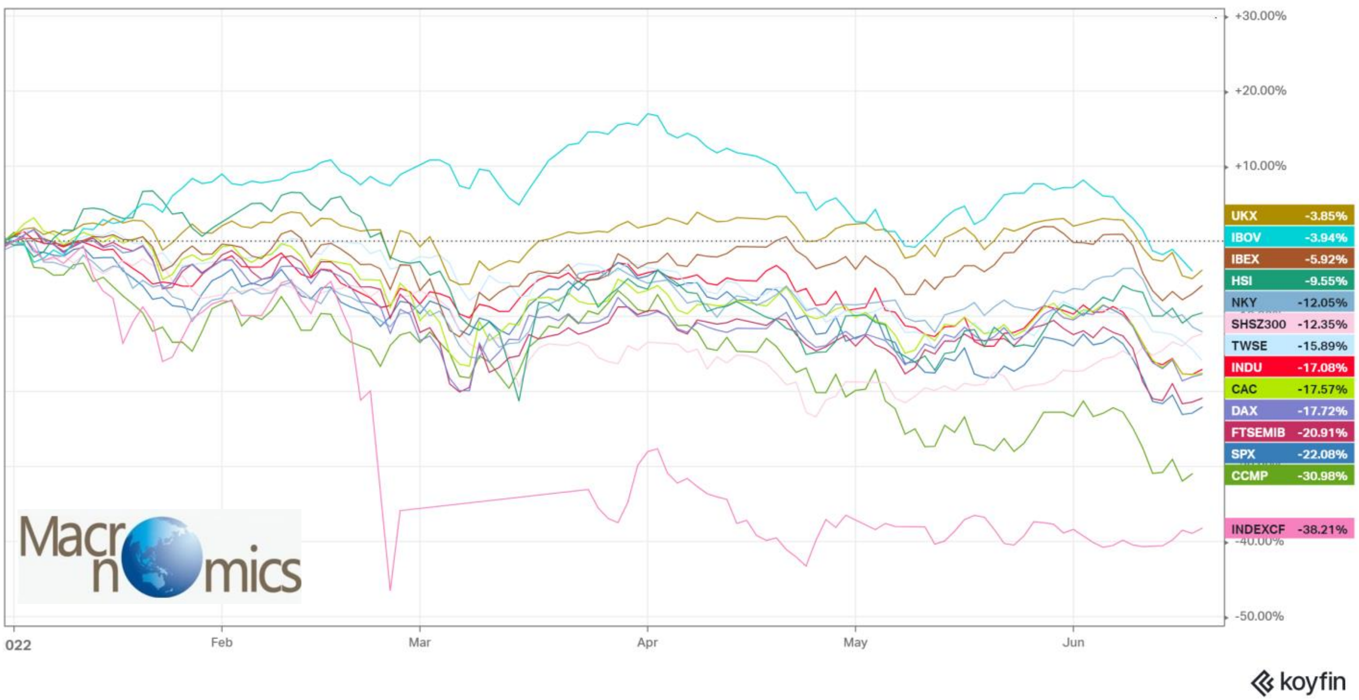
GLOBAL WARNING

- “Stocks took another hit this week with global market capitalization plunged $5tn <$100tn as investors reacted to inflation-inspired hikes from Fed & other Centrak Banks, & what looks like growing consensus that managing soft landing becoming increasingly difficult. Global market capitalization now 114% of global GDP.” – Holger Zschaeptiz

Graph source – Holger Zschaepitz - Bloomberg - Twitter

GLOBAL WARNING

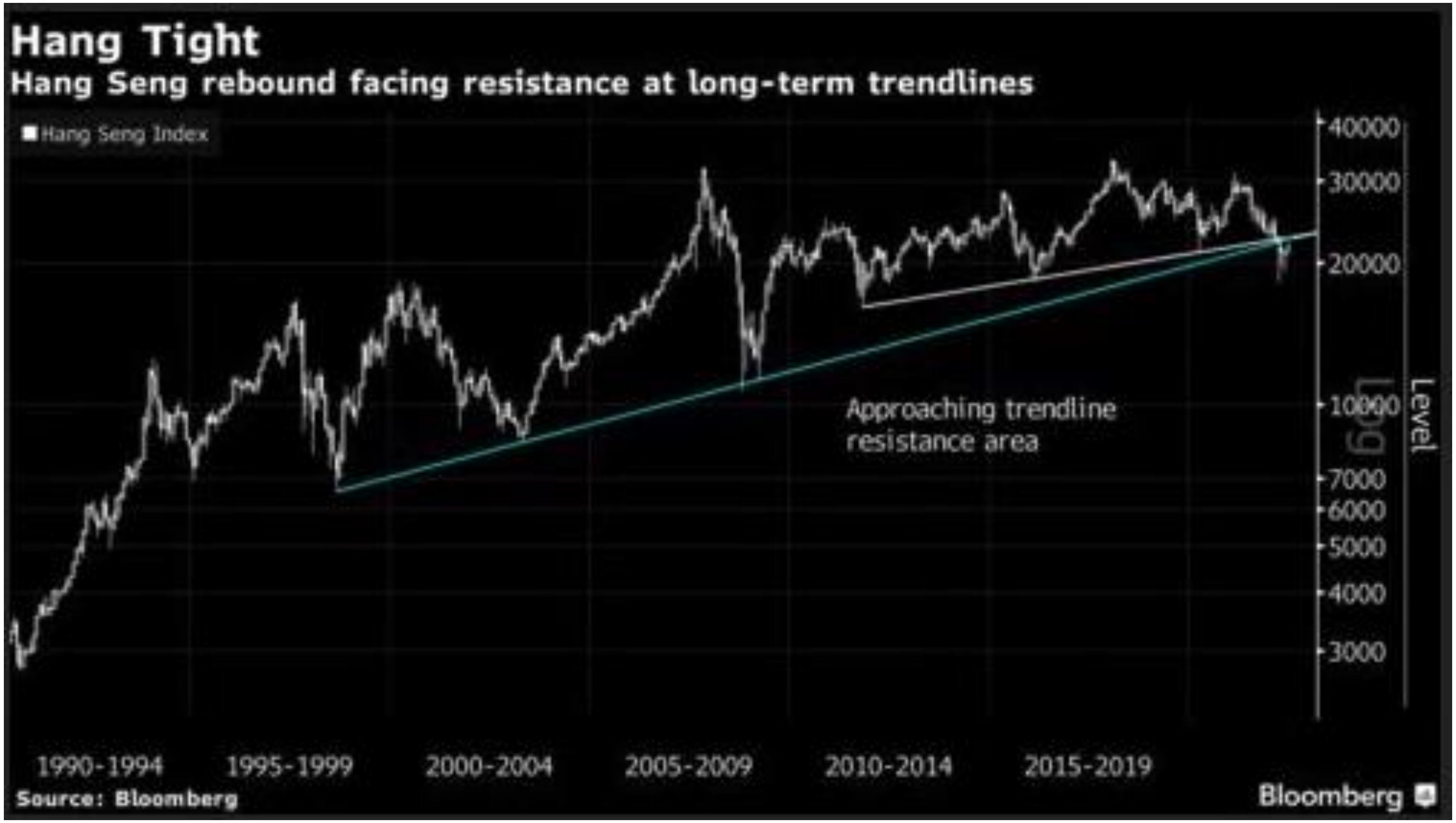
- Since our previous presentation Brazil's is now in negative territory down 4.8% YTD. War in Ukraine has also taken its toll on the MICEX index in Moscow down 37% YTD. Hang Seng is down 9.5% YTD. Shanghai is down by 12.3% YTD. Overall a very weak tone for the NASDAQ down 31% in a bear market. Credit spreads have been as well weakening since the beginning of the year and weakening even more. Again a weak environment.



Graph source – KOYFIN - Macronomics

GLOBAL WARNING

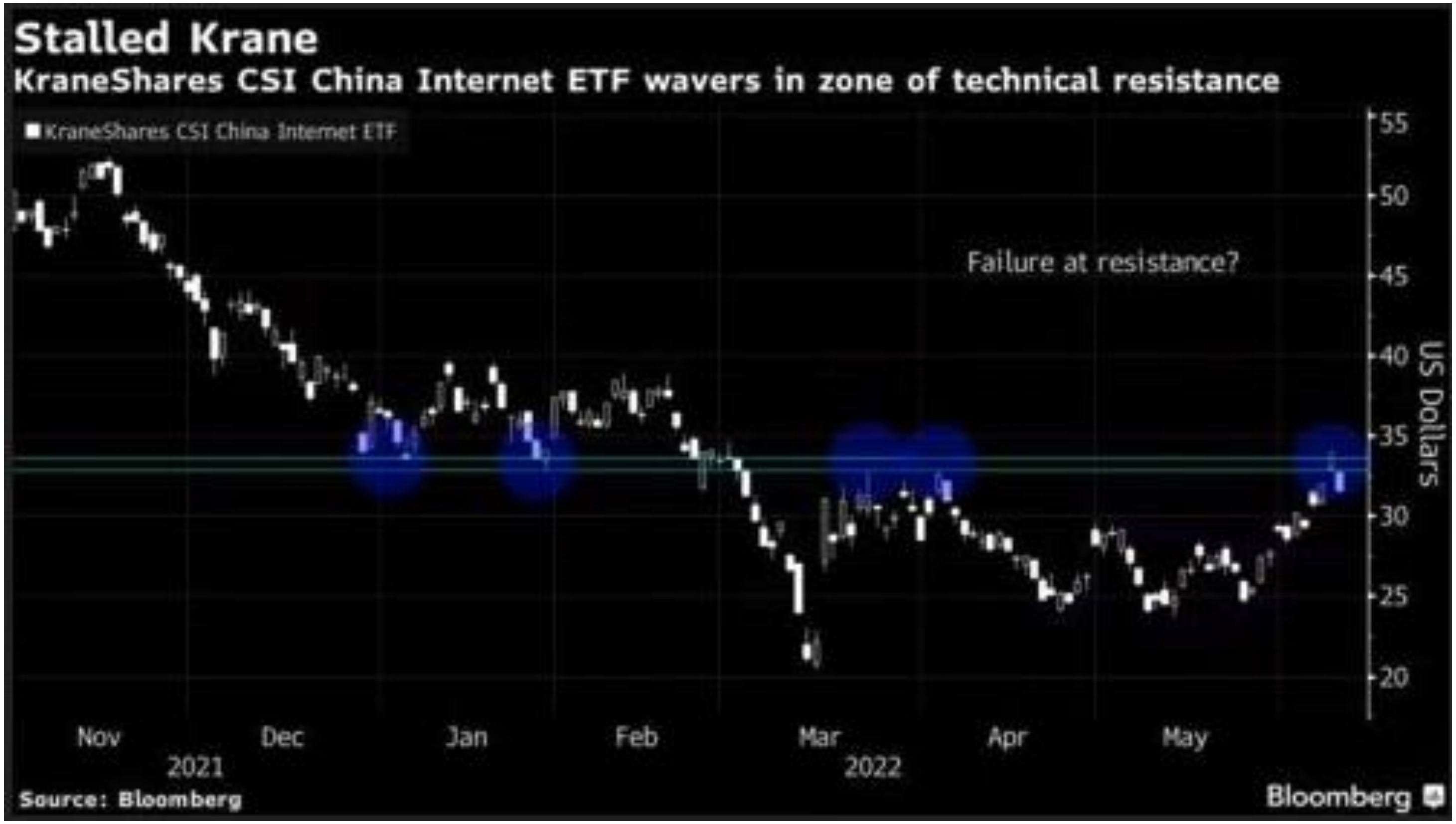
- "The broader $HSI has been lifted by the tech revival but also faces a test. Earlier this year it slid below a trendline originating from 1998 Asian financial crisis lows. The trendline, which earlier had acted as reliable support, is now a key resistance to surpass.." – Giorgios Letter



Graph source - Bloomberg - Twitter

GLOBAL WARNING

- "The $7.6 billion $KWEB ETF has jumped about 49% since mid-March. The rally is now meeting resistance at the $33 to $34 price zone. This zone is a region that includes the measured objective from a so-called reverse head and shoulders and a key Fibonacci level." – Giorgios Letter



Graph source - Bloomberg - Twitter

GLOBAL WARNING

- "The $HSI, which includes firms such as $BABA and $TCEHY has broken above a bearish zone in Ichimoku Cloud analysis. Both the gauge and the so-called lagging span -- which shows closing levels plotted 26 days into the past -- have broken above the zone.." – Giorgios Letter

Graph source - Bloomberg - Twitter

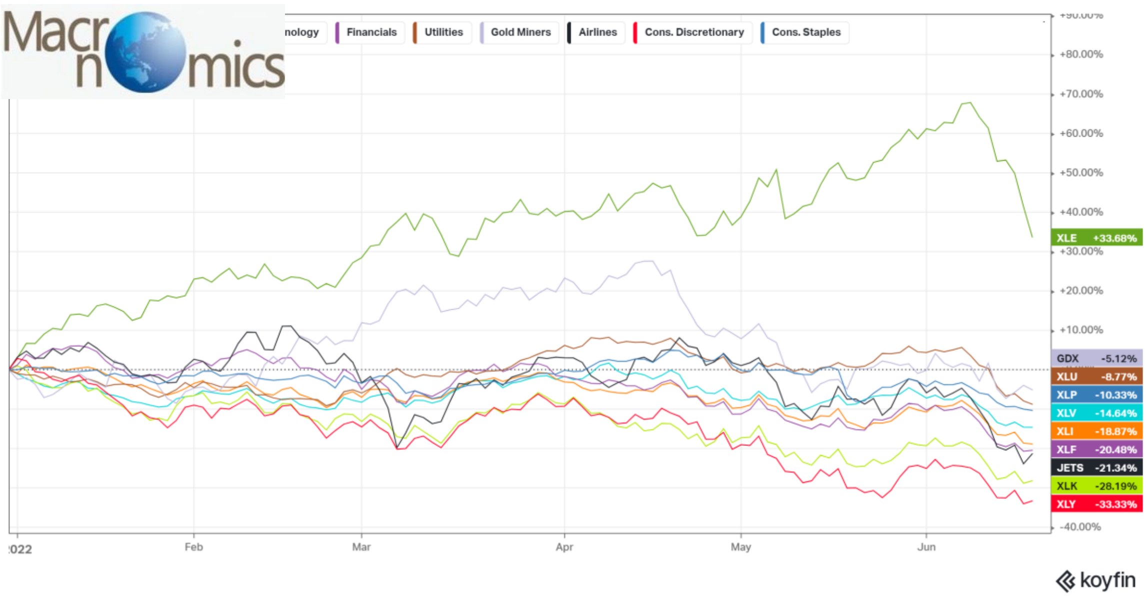
GLOBAL WARNING

- TECH in US and much more in Asia have been seriously beaten down. US Tech's path is depending on the Fed's normalization path. Asia TECH while enticing from a valuation perspective we were neutral as indicated in our previous presentation and we were slightly wrong given the bounce since our previous presentation in ETF KWEB.

Graph source –Trading Views - Macronomics

GLOBAL WARNING

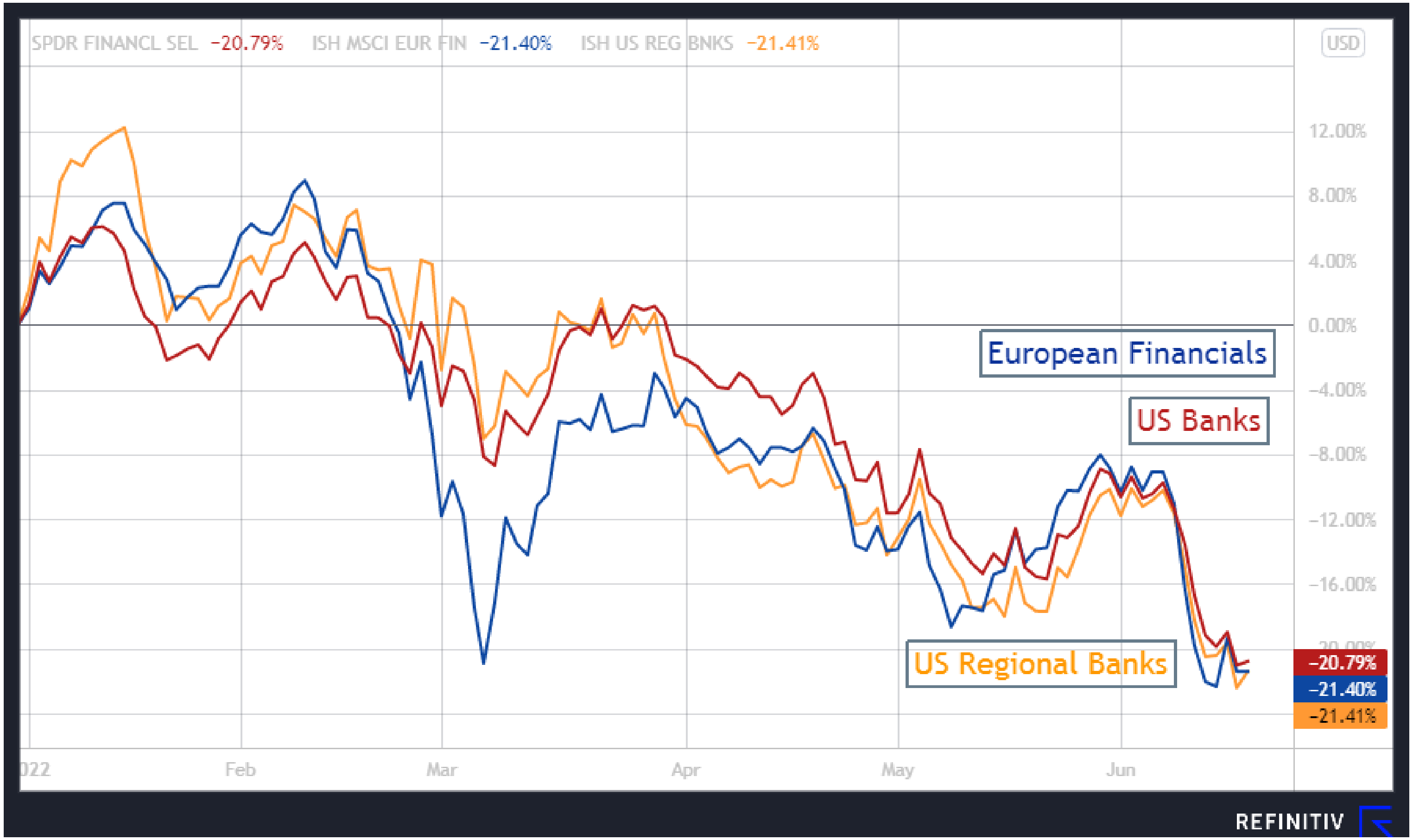
- **<u>US Sectors performance YTD:</u>**
- Energy (XLE) is still leading the pack +33.68% (it was up +61.37% YTD in our last presentation) and has gone through a significant correction since our last presentation.
- Gold retraced due to Mack The Knife. Gold miners as well. We continue to like the sector (flat YTD) but until Mack The Knife finally calms down no reason to "buy the dip".
- TECH is down by 28% YTD. Rising US yields is impacting "duration" trades.
- Consumer Discretionary is down by 33.33% YTD (last presentation down 29.23% YTD). Consumer Discretionary is in the cross-hair. As we said last time and we were right, more pain to come



Graph source – KOYFIN - Macronomics

GLOBAL WARNING

- In a normal environment, rising US rates should be positive for banks given it should lead onto an increase in Net Interest Margins. The financial sector YTD is suffering and particularly European Financials.



Graph source – EIKON REFINITIV - Macronomics

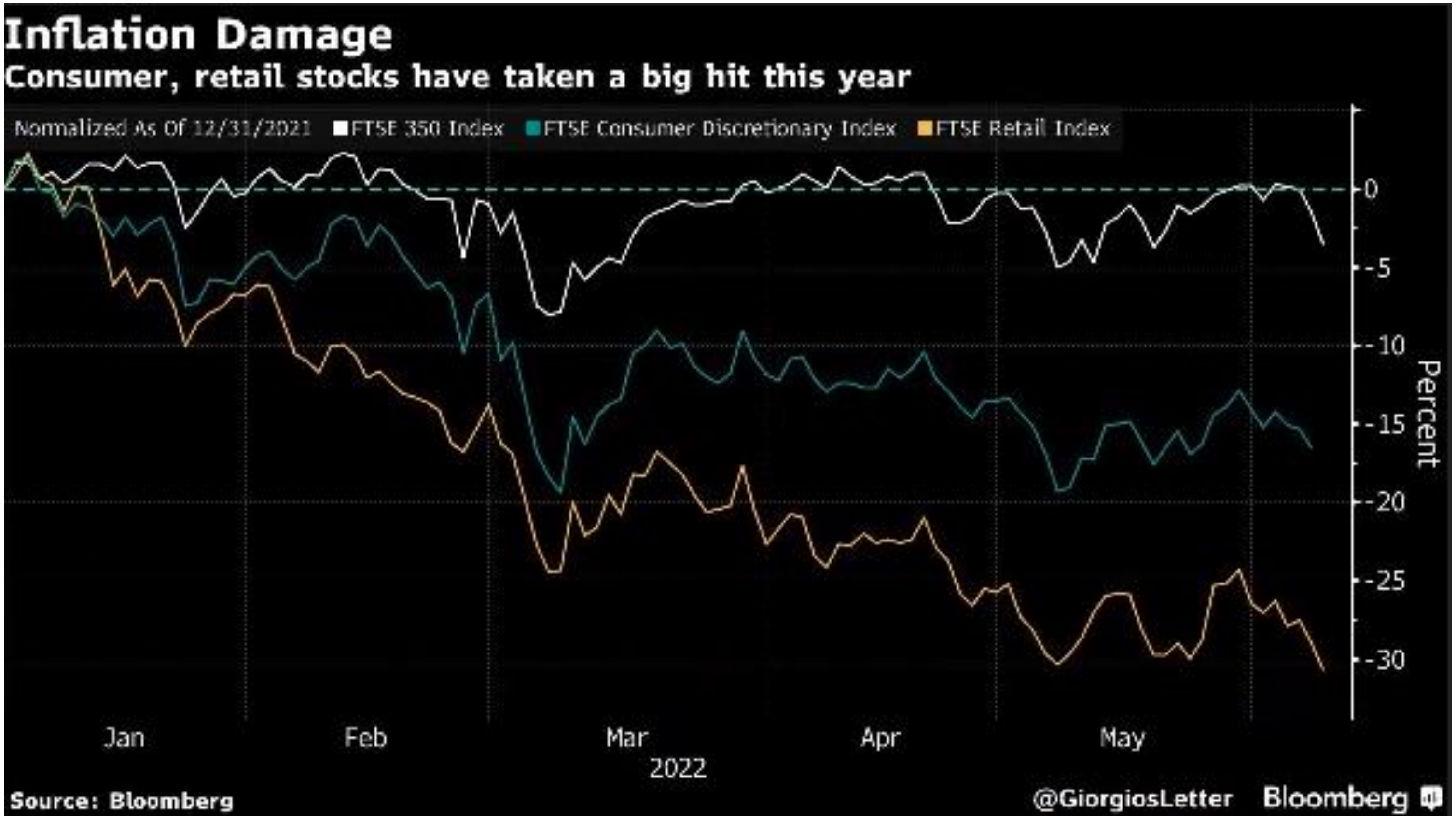
GLOBAL WARNING

- Since late 2011, US Financials have easily outperformed their European peers given the different path taken between the ECB and the FED since the Great Financial Crisis. Regardless of the amount of European QE and LTROs, European banks have gone nowhere.

Graph source – EIKON REFINITIV - Macronomics

GLOBAL WARNING

- "Food and gasoline prices are surging, retail sales fell 1.1% in May from a year earlier, and households are cutting back on everything from essentials to dining out. " – Giorgios Letter



Graph source - Bloomberg - Twitter

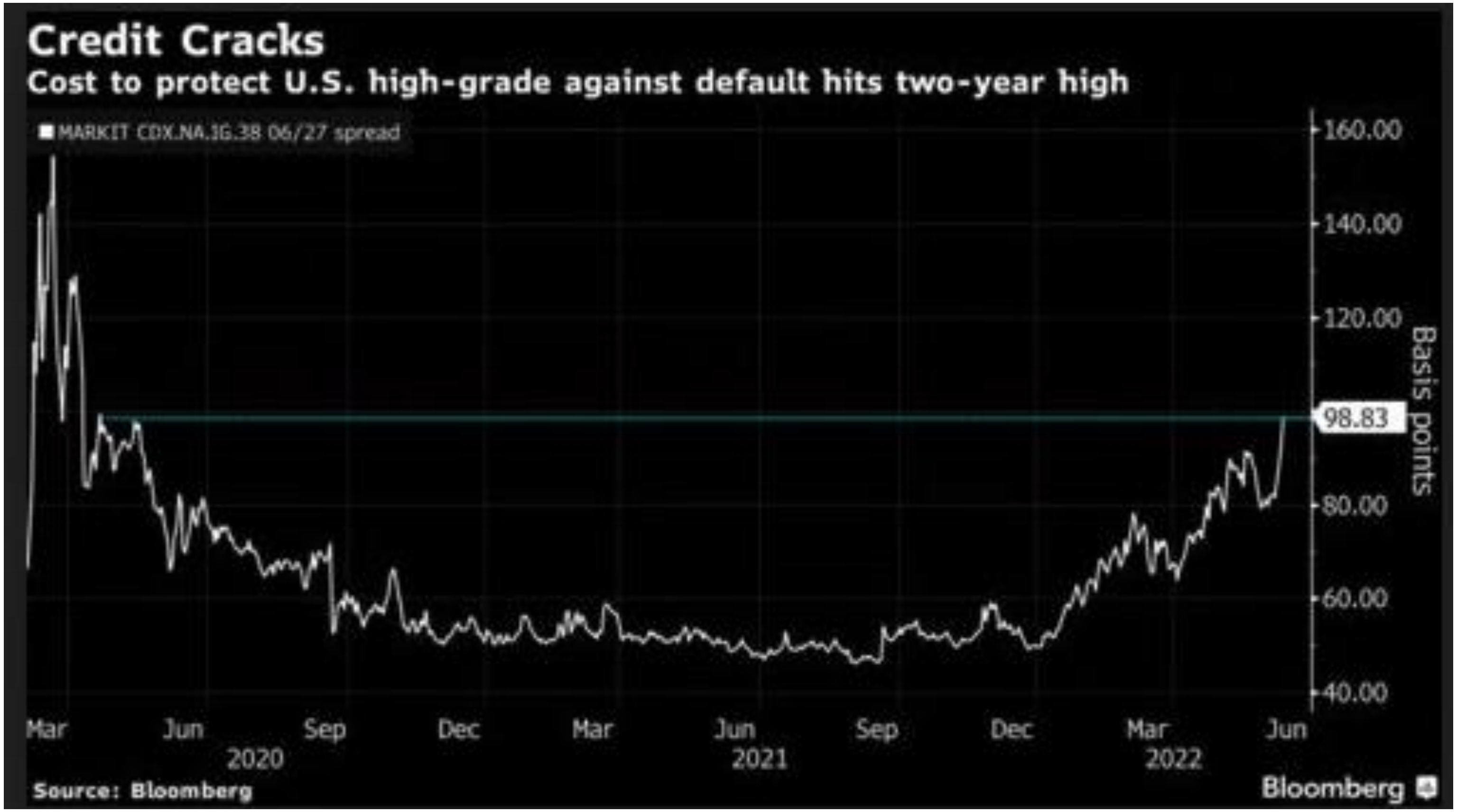
GLOBAL WARNING

- Consumer Discretionary is down by 35.29% YTD (last presentation down 31.31% YTD). Consumer Discretionary is in the cross-hair. As we said last time more pain to come. Europe has further down to fall, US as well. Inflation is the big issue.

Graph source – TradingViews - Macronomics

GLOBAL WARNING

- "Credit markets continued their historic repricing of rate trajectories. Treasury 10y yields climbed to the highest since 2011, while two-year rates jumped to levels last seen before the 2008 financial crisis. The cost to protect investment-grade debt from default soared" – Giorgios Letter



Graph source - Bloomberg - Twitter

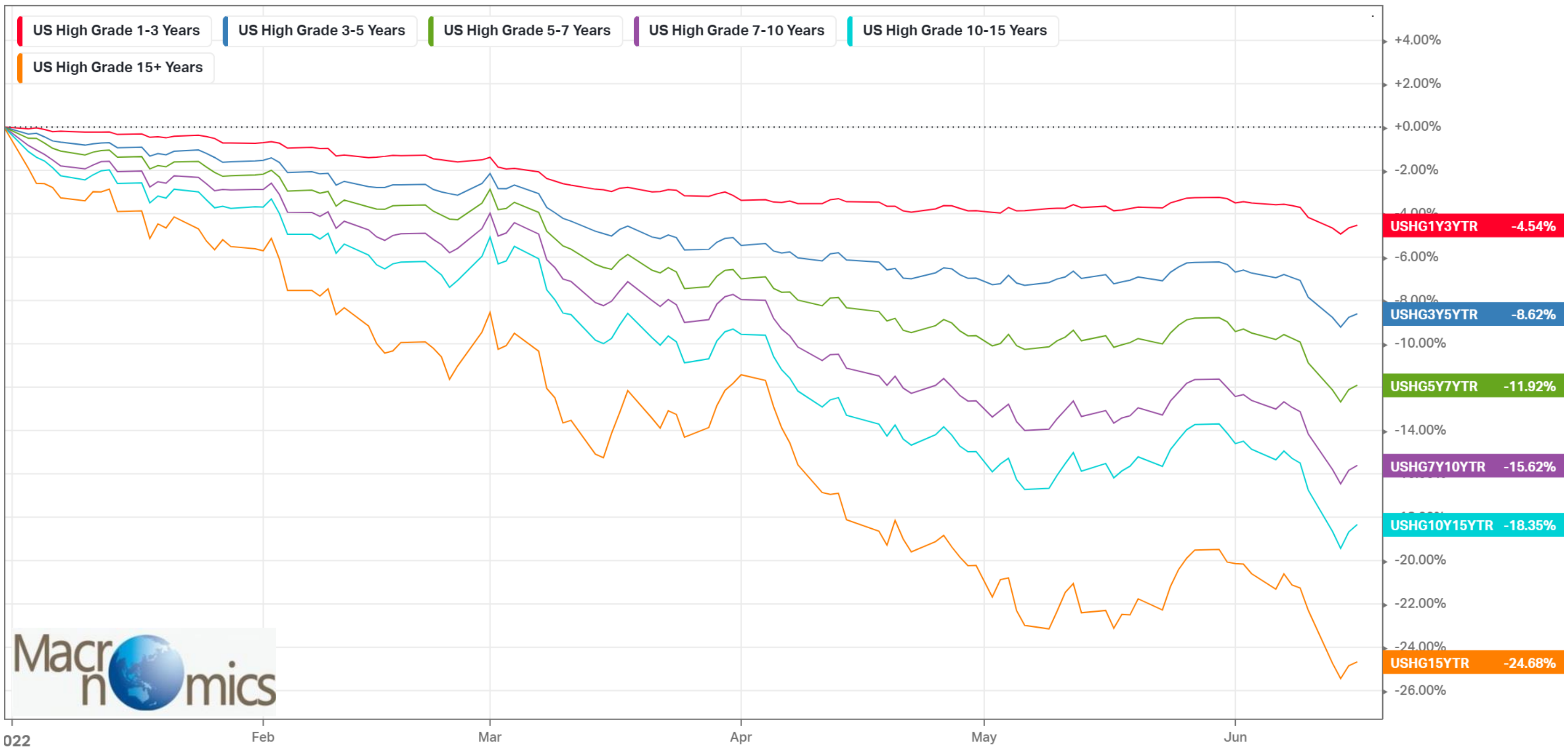
GLOBAL WARNING

- High beta US High Yield is in negative territory.
- Bond volatility affected high beta due to the FED and rising “real yields”
- CCCs are now down more than BBs. We are starting to see weakness in credit, which is never a good sign. Watch this space. US CCCs down 15% YTD. More pain coming.

Graph source – KOYFIN - Macronomics

GLOBAL WARNING

- You know by now that we continue to dislike fixed income in an inflationary environment. Overall rising real yields in conjunction with global sovereign yields weight heavily on Investment Grade. Convexity is starting to bite and fast. Long end is down 24% YTD!

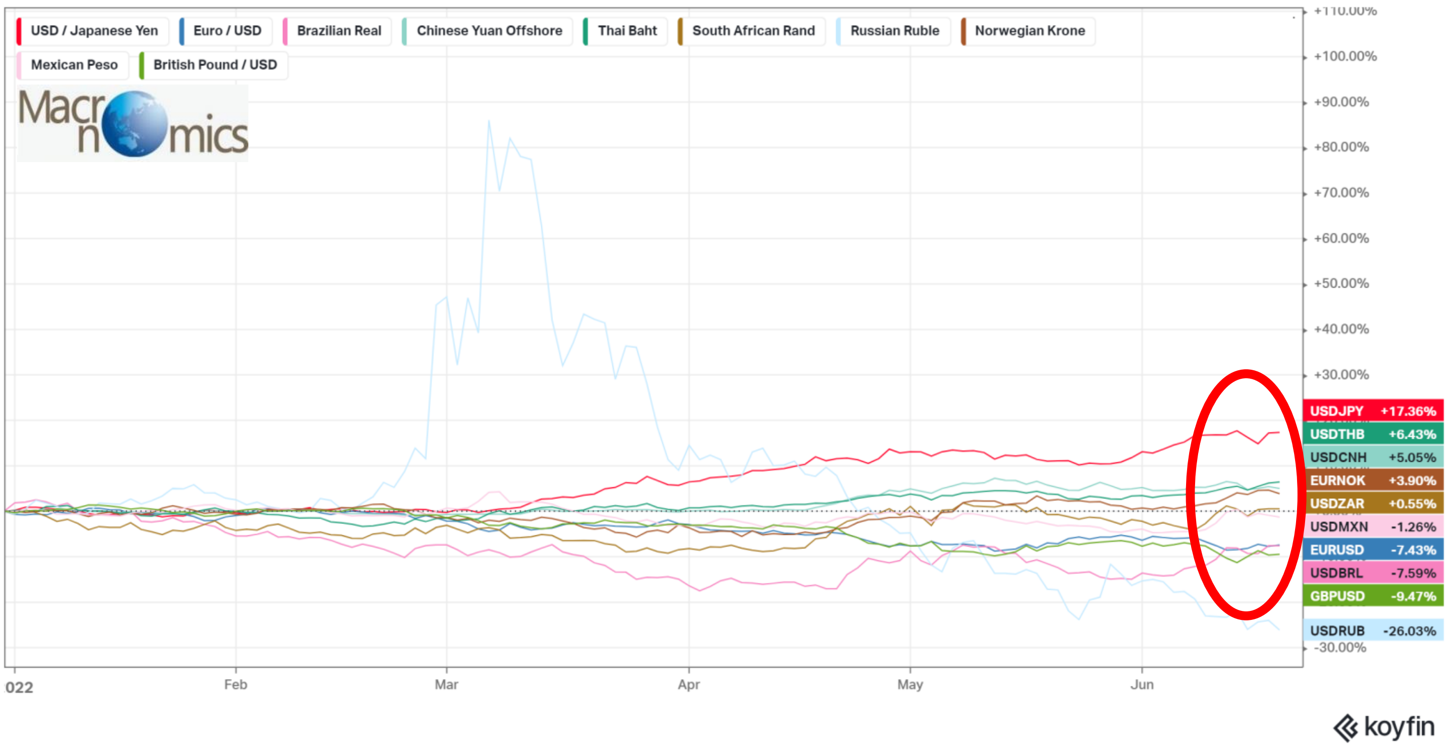


koyfin

Graph source – KOYFIN - Macronomics

GLOBAL WARNING

- RUB against the USD has not only recovered from its low but is now up significantly vs USD.
- BRL is up by more than 7.59% YTD against the US dollar. FX is standing out.
- The US Dollar index has breached the 100 (104 currently) level while the JPY is experiencing more pain. We still like shorting the JPY via ETF YCS. It’s down 17.35% YTD vs the USD



Graph source – KOYFIN - Macronomics

GLOBAL WARNING

- Given our stagflationary stance, you now understand our chosen title. Inflation is indeed running hot and cracks in the narrative are starting to show up through credit markets.

- For cues watch the US Treasury Notes 10 year yield. Volatility is the name of the game. The direction of US real yields is critical.

- You should:
    - Short JPY vs USD via ETF YCS (up 35.59% YTD from 33.06% YTD in our last presentation)
    - Continue to short European Consumer Discretionary
    - Reduce your exposure to European Credit: Investment Grade in General and European High Yield in particular.
- This is what we said in our last presentation: “US CPI will continue to run hot for the coming months with a big risk coming from rising rents which are a big component in the composition of the US CPI.”
- Are we going to see “demand destruction” and recession hence the pullback in the energy sector?

GLOBAL WARNING

- Japan is facing headwinds hence the rapid depreciation of the Japanese yen over the US dollar. The ETF YCS enables you to play the depreciation game. As such we were neutral in our last presentation and still neutral now

Graph source –Trading Views - Macronomics

GLOBAL WARNING

- Our Kodiak bear likes high beta very much as such no wonder Crypto and Cathie Wood's ETF have been on the wrong side of the mauling.

Graph source – EIKON REFINITIV - Macronomics

GLOBAL WARNING

- One could opine that SARK is indeed a proper “Kodiak bear” ETF efficient enough against Cathie Wood the great priestess of High Beta hidden as “Alpha”.

Graph source – EIKON REFINITIV - Macronomics

GLOBAL WARNING

- In the current high energy prices context and with the burst of the ESG bubble making "Coal" look enticing again. We continue to like the sector. BTU is highly volatile but can continue to deliver outsized gains in the current context. We continue to like both names.
- BTU YTD is up 93.47 YTD (+107% YTD in our last presentation). Again BTU is highly volatile. You might prefer ARLP to sleep at night… (YTD +30%) for more steady gains. We continue to like both names, but we think volatility is now weighting on Energy.

Graph source –Trading Views - Macronomics

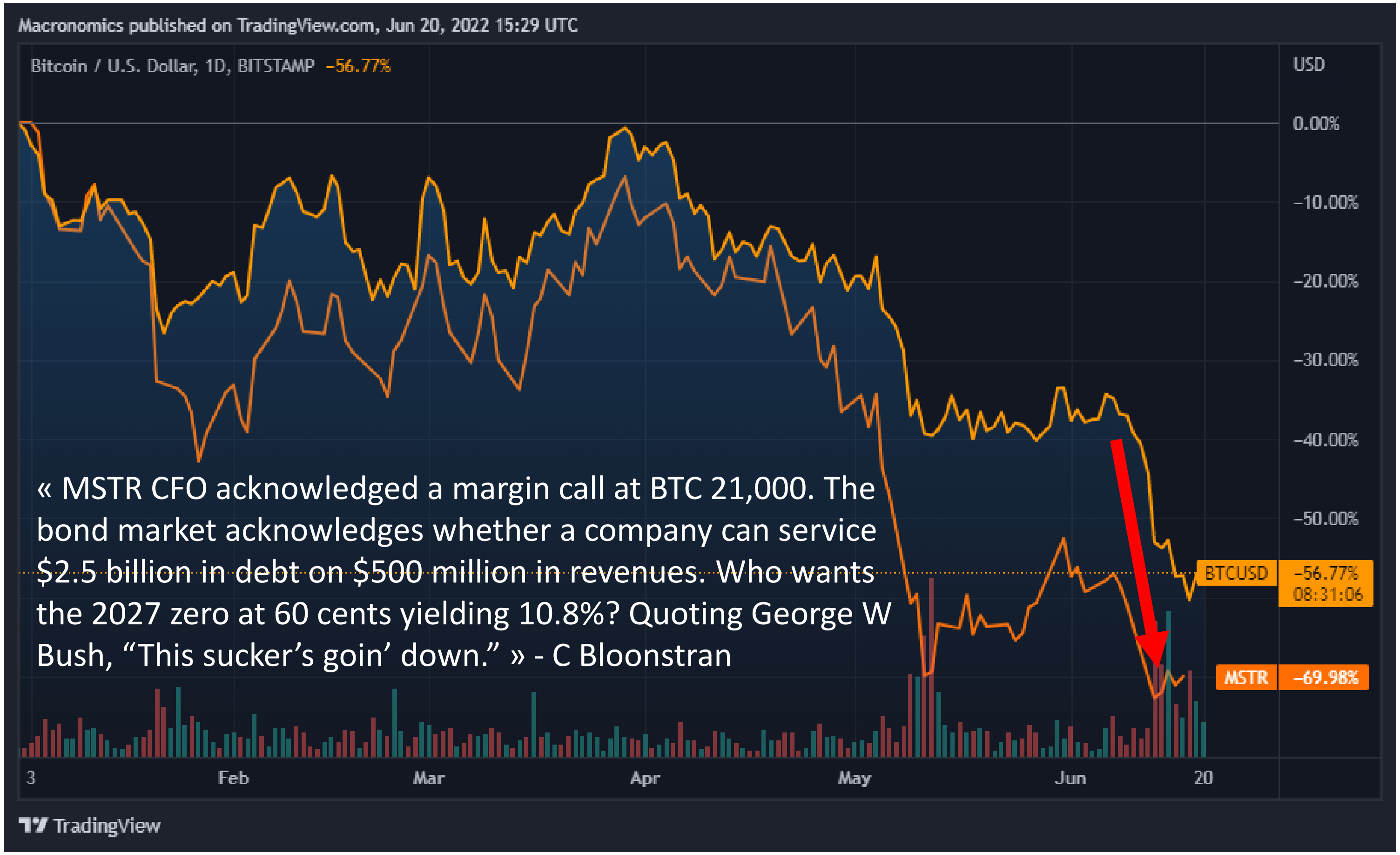
GLOBAL WARNING

- Nasdaq, ETH and BTC are moving in synch. It all depends now on the trajectory of the Fed. Duration assets are suffering as real yields matter in the end. Rising US 10 year yields present a threat to the crypto darlings. More downside in our opinion going forward. Still our scenario with Fed normalization. No change from our last presentation.

Graph source –Trading Views - Macronomics

GLOBAL WARNING

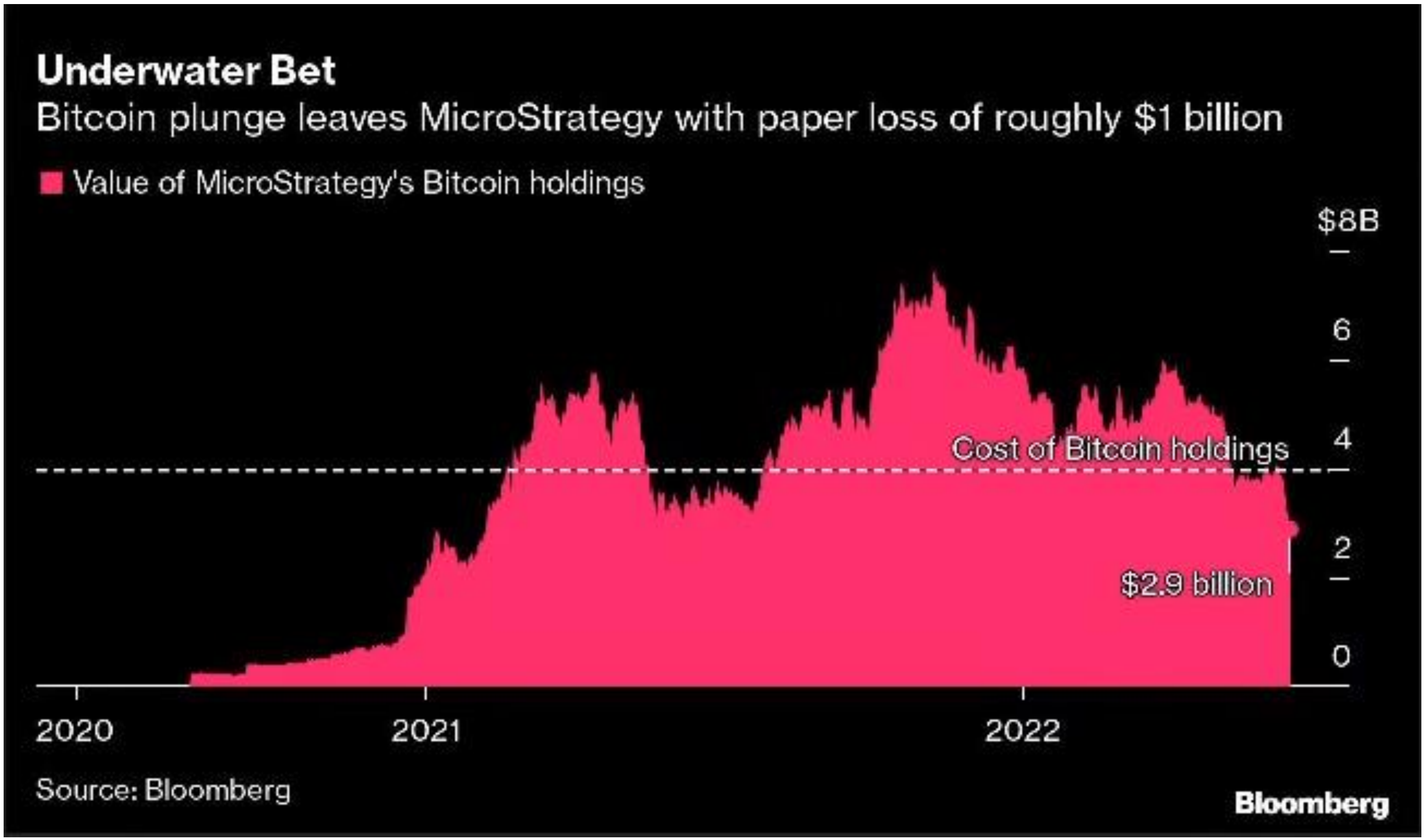
- BTC and MSTR (Microstrategy) are moving in synch. Given MSTR is a leveraged play on BTC, we view it as its second derivative. As such the prospects do not look good for the CEO and his company, him being a big crypto fan. No change in our opinion.



Graph source –Trading Views - Macronomics

GLOBAL WARNING

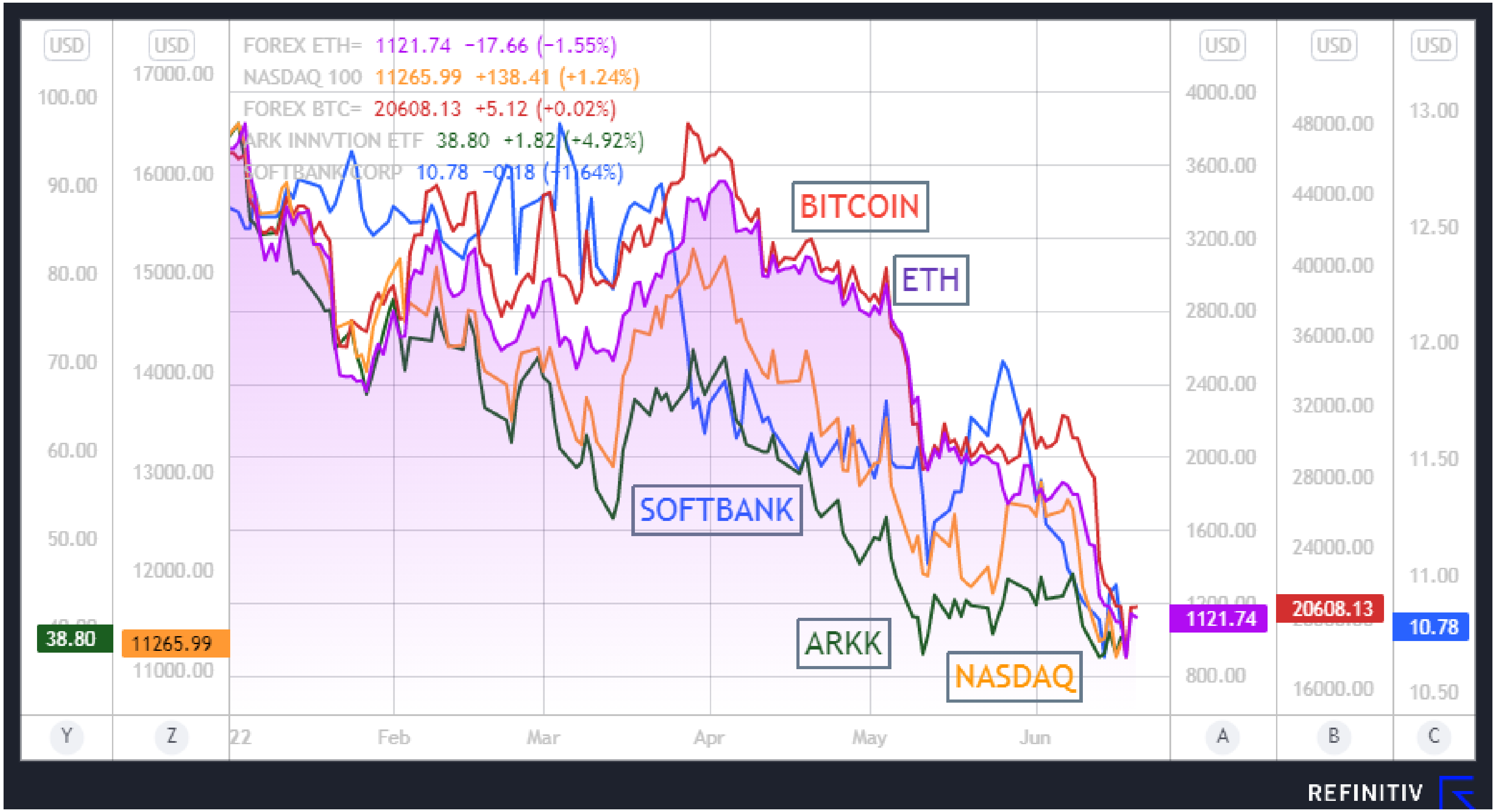
- MSTR facing some Crypto pain.



Graph source - Bloomberg - Twitter

GLOBAL WARNING

- Our Kodiak bear likes high beta very much as such no wonder Crypto and Cathie Wood's ETF have been on the wrong side of the mauling as well as SOFTBANK.
- Our Kodiak bear has been on a killing spree.



Graph source – EIKON REFINITIV - Macronomics

GLOBAL WARNING

- Gold has been spanked by Mack The Knife (+1.43% YTD), yet some miners such as RGLD and GOLD are more resilient than others. We continue to like the sector nonetheless.
- In the current state of the world we continue to view very positively gold and gold miners given inflationary pressure and high level of geopolitical uncertainties but for now real yields matters and in true Gibson Paradox, gold has reacted accordingly, to the downside that is.

Graph source –Trading Views - Macronomics

GLOBAL WARNING

- Luxury sector good smacked down big time in 2022. Asian markets remain the hot spot for French luxury brands. Continuous worries relating to Chinese lockdowns on COVID issues have weighted on the sector. As well if we are indeed facing a downturn, this will impact the luxury sector as a whole. Avoid for now and we are not that convinced by the most recent small bounce. Hermès is suffering more this year than LVMH. **AVOID**

Graph source –Trading Views - Macronomics

GLOBAL WARNING

- GALP vs SHELL. GALP has bounced significantly since our last presentation. We continue to like both names. GALP has been overall more volatile than big player SHELL.

Graph source –Trading Views - Macronomics

GLOBAL WARNING

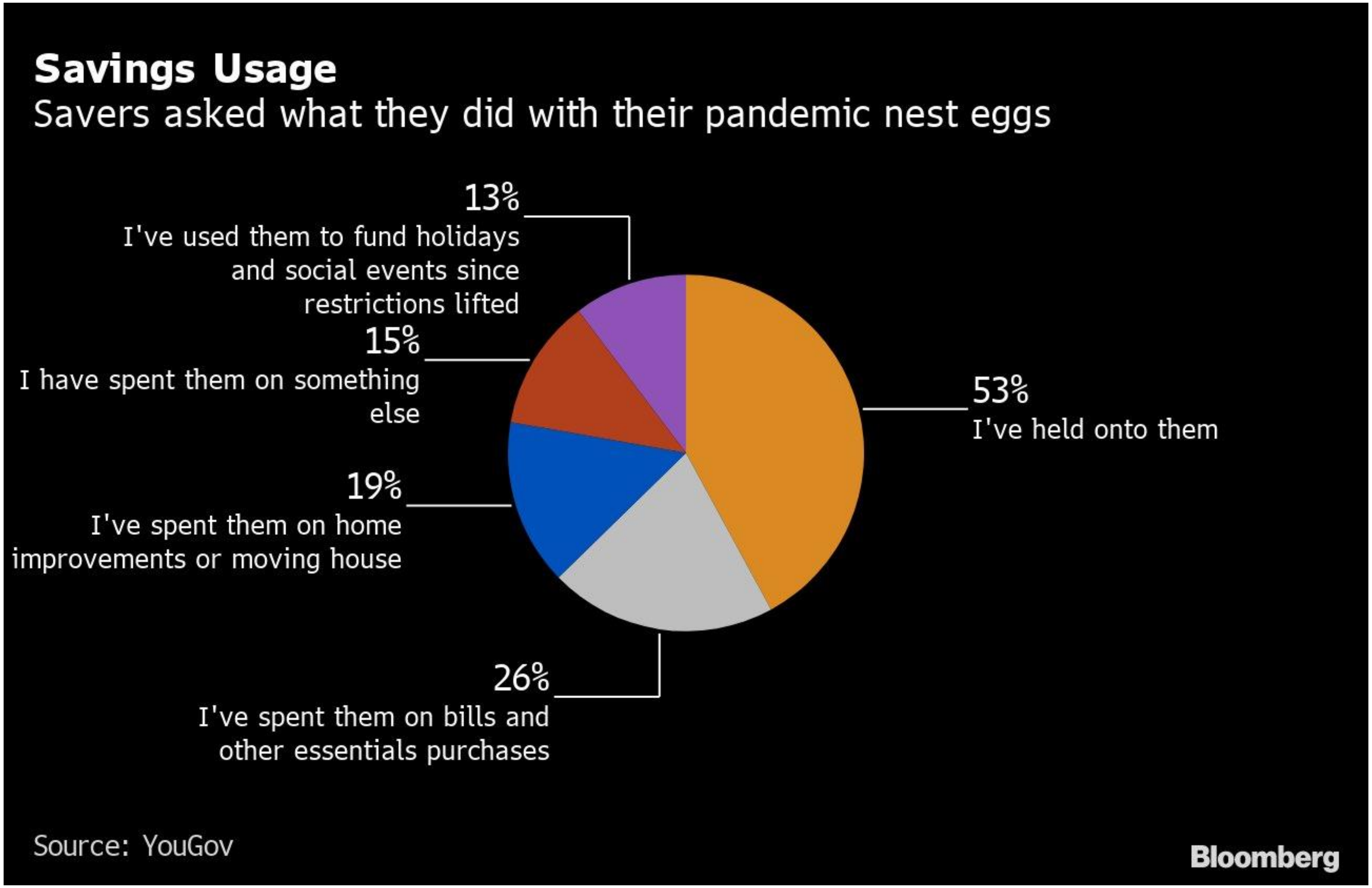
- While some shipping stocks did very well YTD such as GLNG and GLOP as well we are wondering if we are not starting to see demand destruction given the correction we have seen in the sector recently. Yet HARPEX index is still at 4.461 close to record high levels.
- See our presentation of the 28th of April for an overview of the sector.

Graph source –Trading Views - Macronomics

3 MORE HEADWINDS

MORE HEADWINDS

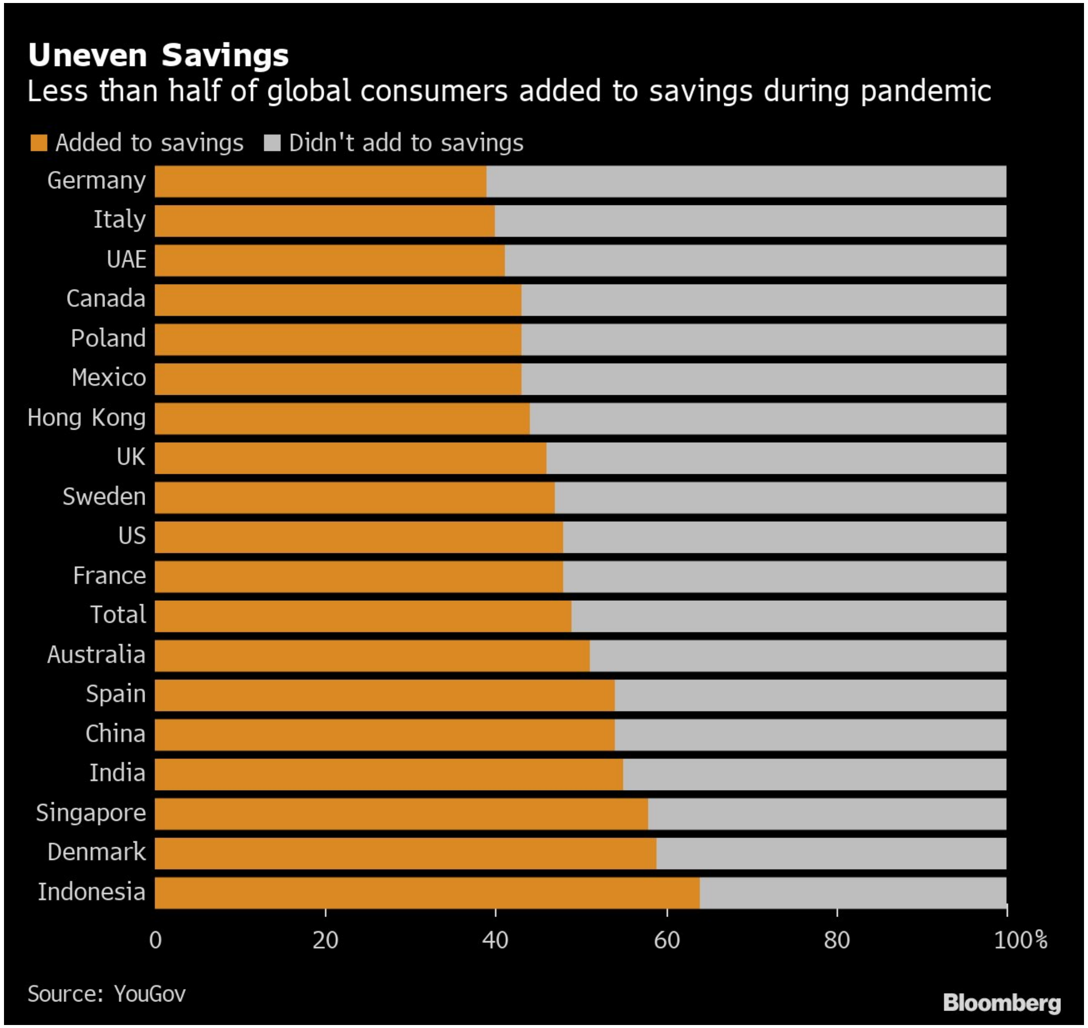
- For the "wealth effect" and savings analysis, segmentation matters…



Graph source – Bloomberg - Twitter

MORE HEADWINDS

- New data from YouGov conducted shows fewer than half of Americans set aside rainy day cushion during pandemic.
- We know what remains is concentrated among oldest and wealthy



Graph source – Bloomberg - Twitter

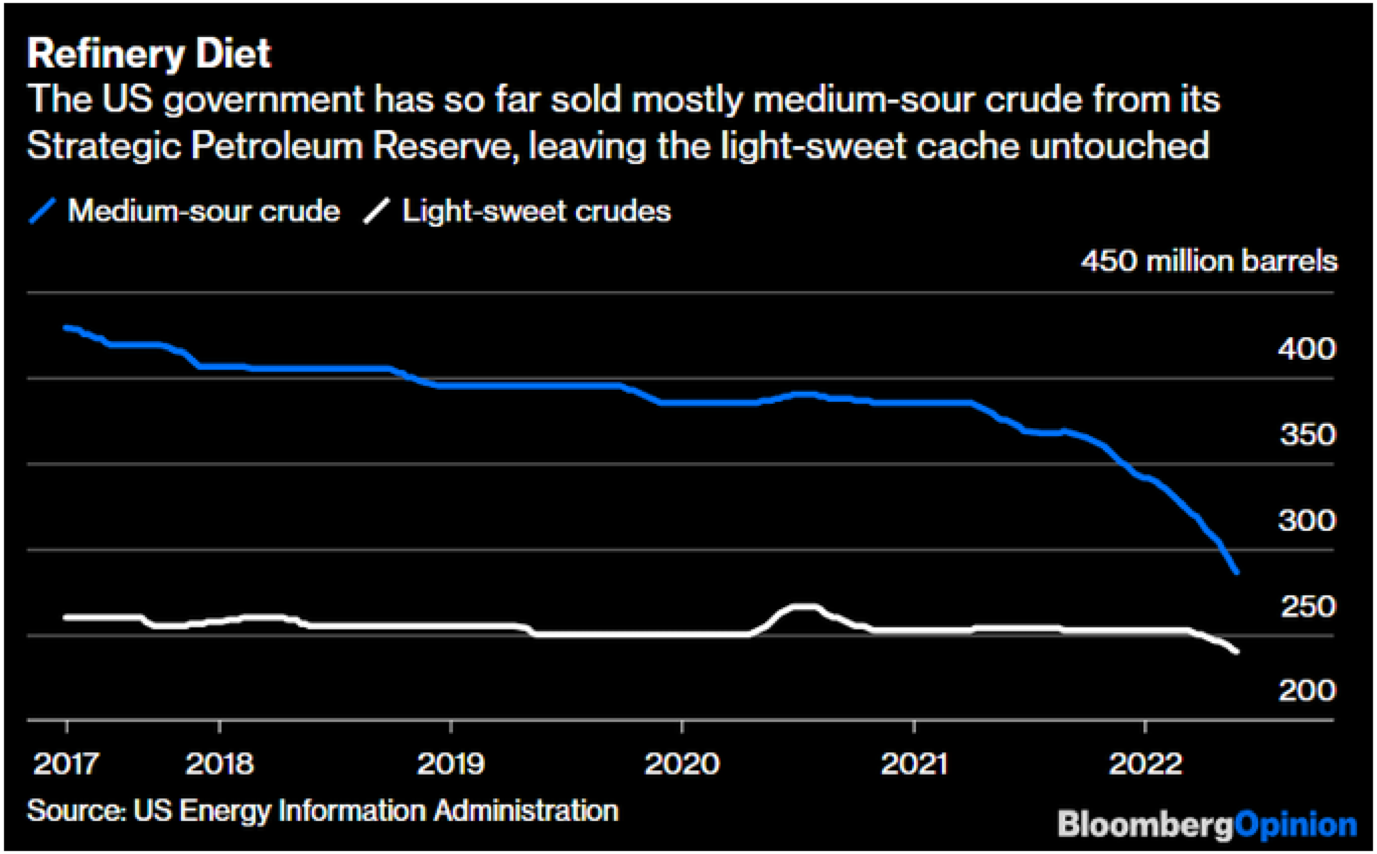
MORE HEADWINDS

- "Inflation pressure keeps rising in #Germany. German PPI jumped by 33.6% in May YoY, the highest increase ever since the start of the statistic in 1949. Electricity prices rose by 90.4% YoY. Especially high were the price increases of fertilisers & nitrogen compounds (+110.9 %)." – Holger Zschaepitz

Graph source – Holger Zschaepitz - Bloomberg - Twitter

MORE HEADWINDS

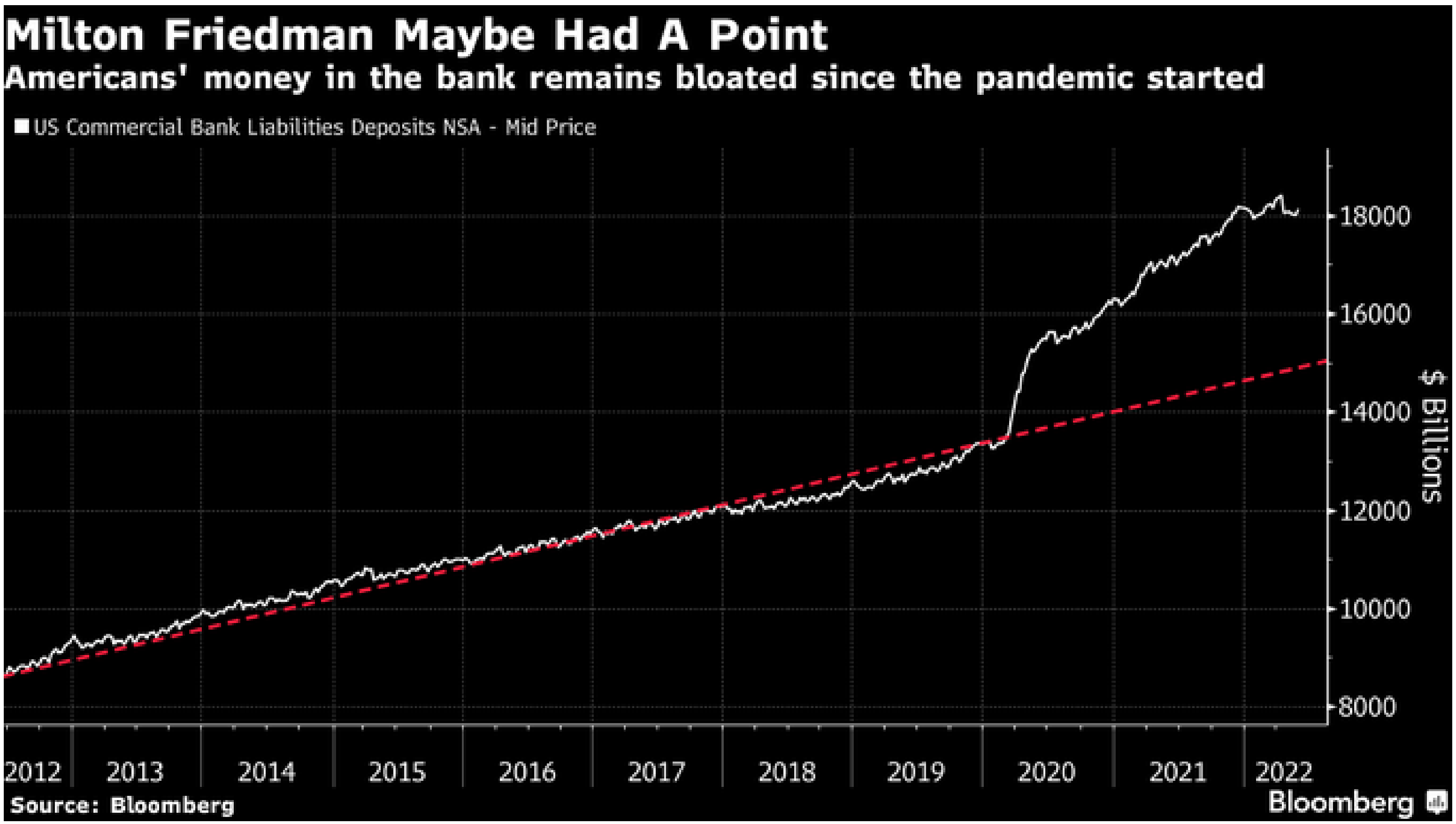
- "The US is depleting its Strategic Petroleum Reserve at an alarming rate. What matters for the future of energy prices and global inflation is the composition of the oil cache. The US is running out of the medium-sour flavor of crude favored by domestic refiners" – Giorgios Letter



Graph source – Bloomberg - Twitter

MORE HEADWINDS

- “This is the amount of money held in commercial bank deposits in the US. It rose steadily for many years, and then leapt in the spring of 2020. Inflation stayed under control for decades, and then jumped (after the lag that Friedman predicted).“ – Giorgios Letter



Graph source – Bloomberg - Twitter

4 FOOD FOR THOUGHTS

FOOD FOR THOUGHTS

- "How could you have protected yourself these last few months? In energy stocks ($XLE $XOM), of course. Massive rises in the price of oil will have that effect." – Giorgios Letter
- Another we told you so moment, we think…

Graph source –Giorgios Letter - Bloomberg - Twitter

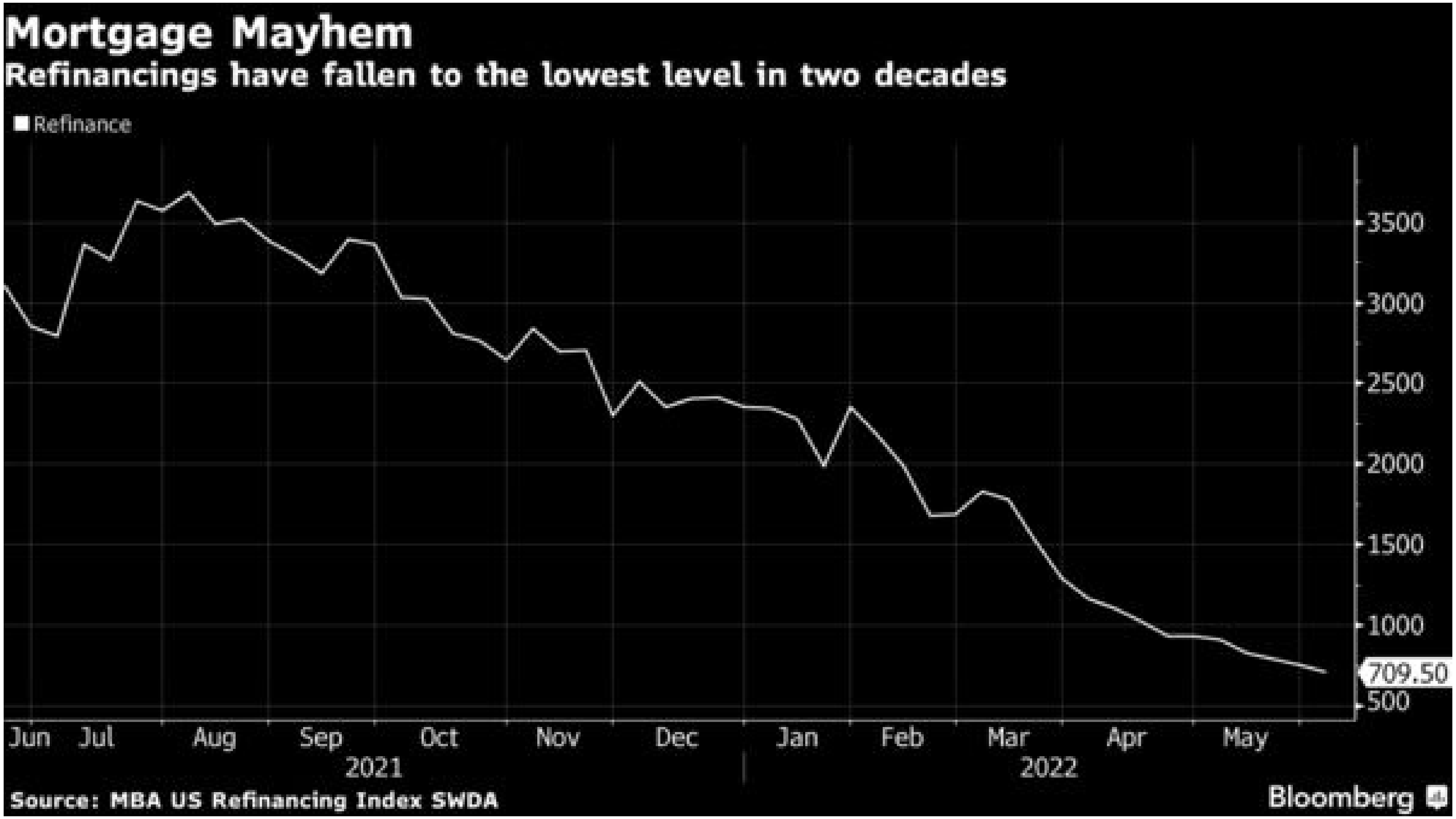
FOOD FOR THOUGHTS

- The return of the “Widowmaker trade”.
- “BlueBay Asset Management is shorting Japanese government bonds, betting the Bank of Japan will be forced to abandon its super-easy monetary policy that's increasingly isolated from global peers” – Giorgios Letter

Graph source –Bloomberg - Twitter

FOOD FOR THOUGHTS

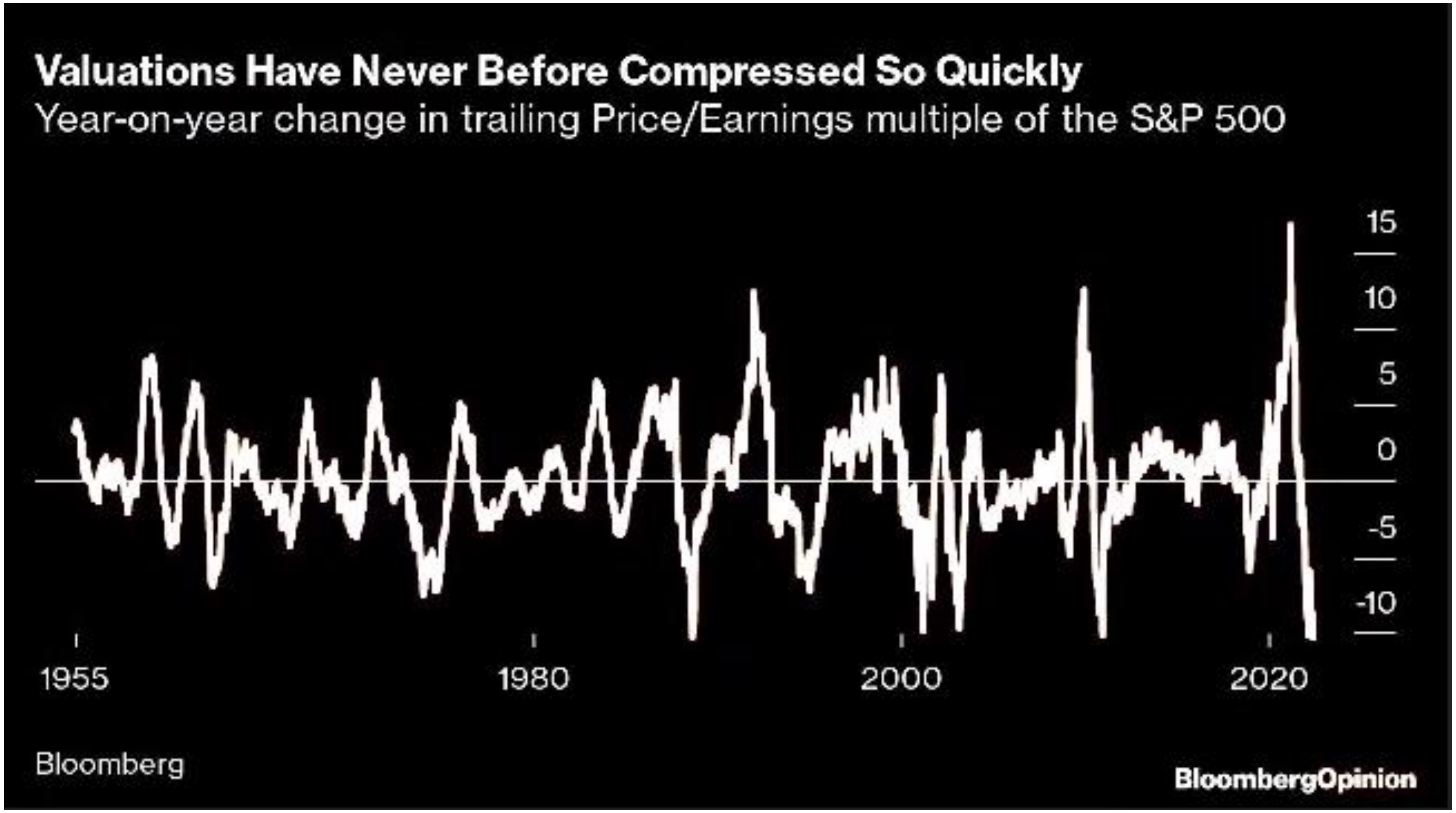
- "With mortgage rates north of 6%: Refinancings have screeched to a halt - down more than 80% from the pandemic peak and now at their lowest level in over two decades." – Giorgios Letter



Graph source - Bloomberg - Twitter

FOOD FOR THOUGHTS

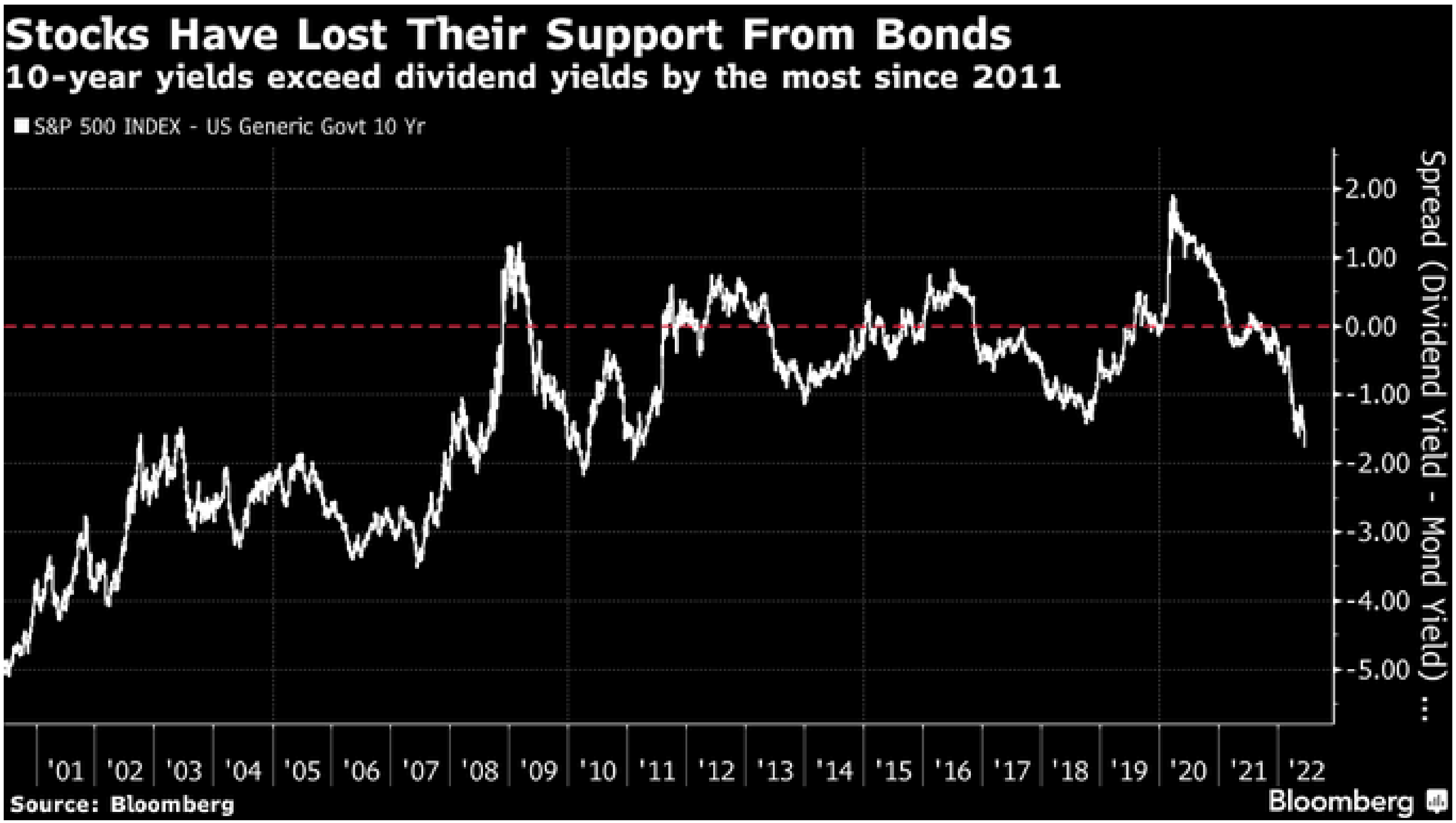
- "The rolling 12-month change in the $SPY trailing multiple. The expansion in 2020, in response to the gusher of cash to deal with the pandemic, was the fastest on record, and it has now been followed by the most drastic compression on record" – Javier Blas



Graph source – Giorgios Letter - Bloomberg - Twitter

FOOD FOR THOUGHTS

- “If you use the brutally clear-cut approach of choosing between equities and fixed-income by the effective interest rate they pay — the bond yield and the dividend yield — then the $SPY is looking its least attractive compared to Treasuries in a decade” – Giorgios Letter



Graph source - Giorgios Letter - Bloomberg - Twitter

5 CONCLUSION

CONCLUSION

- Harpex index is now rising again. The level continues to put pressure on prices and corporate margins. We continue to watch the Harpex index very closely for cues on global trade. Harpex has closed around record level of 4461. Last was 4437 level.
- We continue to like Energy and Uranium as a long term play. China TECH is bouncing so watch this space. Lithium continues to have a good run in a difficult environment.

Theme		Day	Week	Month	Year	# Assets
Genome	•	▲4.82%	▲7.66%	▼-11.37%	▼-65.96%	12
Disruptive Innovation	•	▲4.47%	▲5.94%	▼-11.56%	▼-67.06%	22
China tech	•	▲0.00%	▲4.55%	▲7.32%	▼-40.82%	15
Biotech	•	▲3.39%	▲3.37%	▼-5.53%	▼-30.70%	4
IPOs	•	▲3.94%	▲3.08%	▼-7.74%	▼-55.25%	1
Lithium & Battery tech	•	▲3.71%	▲2.60%	▲0.26%	▲5.67%	10
Healthcare innovation	•	▲2.84%	▲2.23%	▼-6.49%	▼-41.10%	3
Solar	•	▲5.89%	▲1.98%	▲4.11%	▼-14.32%	11
E-commerce	•	▲0.00%	▲1.70%	▼-9.05%	▼-65.44%	4
Cloud computing (SaaS)	•	▲2.72%	▲1.17%	▼-5.83%	▼-38.66%	17

Table source – CMC Markets - Optp Thematic ETF Screener

CONCLUSION

- We continue to view negatively Investment Grade. Convexity is biting with rising government bond yields. **Avoid**.
- We continue to like China Tech over US Tech from a valuation perspective. We are a little bit more for now.
- 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. ECB is in a bind with inflation and rising real yields. **Short EUR**
- **Short JPY via ETF YCS?. Right now we are neutral after having being more positive.**
- 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. This issue is still building up.
- We continue to like VALE even after the recent pullback. We continue to like ARLP and BTU in coal miners but BTU is more volatile (only for the brave). If you were brave enough to add BTU, then you made good money and will continue to do so. We like GALP and SHELL. Oil producers are the only bright spot YTD with Utilities. We also like some shipping companies but correction has been significant lately as recession risk is rising.
- Gold receded but we still like it. It might be worth adding more gold miners exposure but slowly.
- US High Yield is weakening. Something to take into account in the current set up. Energy is not supportive anymore of the CCCs bucket so watch what credit is doing.
- High beta is getting slaughtered by Mack The Knife and we see cracks building in the narrative.
- That's all for now. Don't be shy and don't hesitate to reach out / comment. Happy trading to all !

ON A FINAL NOTE

- **On top of the on-going crisis we are seeing very important shift in geopolitics with alliances shifting all over the world and being redrawn. To name a few:**
- More problems in Europe with Russian gas exports being reduced through NordStream 1.
- Sweden and Finland about to join NATO. Turkey opposing their entry and bargaining hard.
- More trouble looming in Emerging Markets and in Europe with high inflation and rising US dollar.
- Lithuania stirring more trouble with the blockade of Kaliningrad.
- US is trying to patch things up with Saudi Arabia
- Chinese President Xi Jinping and Russian President Vladimir Putin in a phone call reiterated the two countries' close partnership.
- We do not see any kind of willingness in de-escalating, on the contrary.
- Russian military operations are continuing in Eastern Ukraine for the second phase.
- In the fog of war, it is very difficult to distinguish the facts.

- ***"Politics is war without bloodshed while war is politics with bloodshed." - Mao Zedong***

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.