PROVIDING THE BIG PICTURE ON MACRO AND CREDIT SINCE 2009

Martin Tixier – Strategist

PLAN

AMBIVALENCE

1 EXECUTIVE SUMMARY – 25TH OF JANUARY

MACRO THOUGHTS

- *"Mixed feelings, like mixed drinks, are a confusion to the soul." - George Carman*
- European markets continue to outperform US markets since November. China is helping given higher exposure of Europe to China.
- Better news in Europe thanks to falling energy prices in conjunction to a bounce in European Composite PMI coming at 50.2 (indicative of economic expansion).
- ECB has to counter rising inflation and has no choice but to hike.
- US financial conditions are loosening, putting pressure on US Fed and facilitating a strong rebound in the beta space with a significant increase in BitCoin prices and all things high beta.
- Bank of Japan is tweaking its Yield Curve Control, as such the trade du jour is a strengthening of the Japanese yen.
- Investment Grade credit is enticing and as such, Japanese investors are starting to take notice. We prefer Investment Grade in the long end over High Yield.
- 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 an extension of the "objectives" of Russia towards South West of Ukraine (Odessa).

MACRO THOUGHTS

- Throughout 2021 we called for the risk of a stagflationary outcome in our OHM Research presentations. In that context "fixed income" had to be avoided. Our call was the right one for 2022 looking at the performance of Investment Grade credit overall relative to US High Yield. 2023 is more enticing for US Investment Grade and particularly the long end!
- **Our credit canary aka US CCCs is the one to watch** (relative to BBs and Bs). Watch what credit spreads do.
- Markets are improving thanks to better global liquidity so growth and crypto continue to performing. Overall still a "risk-on" environment.
- Emerging Markets wise we continue to like Brazil. It has been so far very stable in a very challenging environment. At the same time China and Chinese TECH are finally turning around on re-opening hopes. Luxury and basic materials are benefiting from Chinese support.
- We still are bullish on our favorite plays ARLP and BTU.
- Gold and gold miners were still being affected by Mack The Knife (US dollar and positive real yields) mostly during the course of 2022 but 2023 is more favorable. Gold tend to thrive more in a "deflationary" context (recession that is as in 2020). For now add.
- ***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 "Ambivalence?**
- **It is a reference to the conflicting US macro data and price action in financial markets. December retail sales were disappointing tumbling 1.1% but loosening financial conditions are loosening at the same time making it very supportive for risk assets overall.**

- Given the scarcity principle, we mentioned in our last presentation, we think 2023 will continue to be challenging with tight energy markets and base metal, particularly if China reopens. So this is bullish basic metals and copper in particular! We continue to be bullish.

- As well China will drive international stocks such as luxury (LVMH and Hermès) thanks to Chinese consumers. Be overweight luxury.

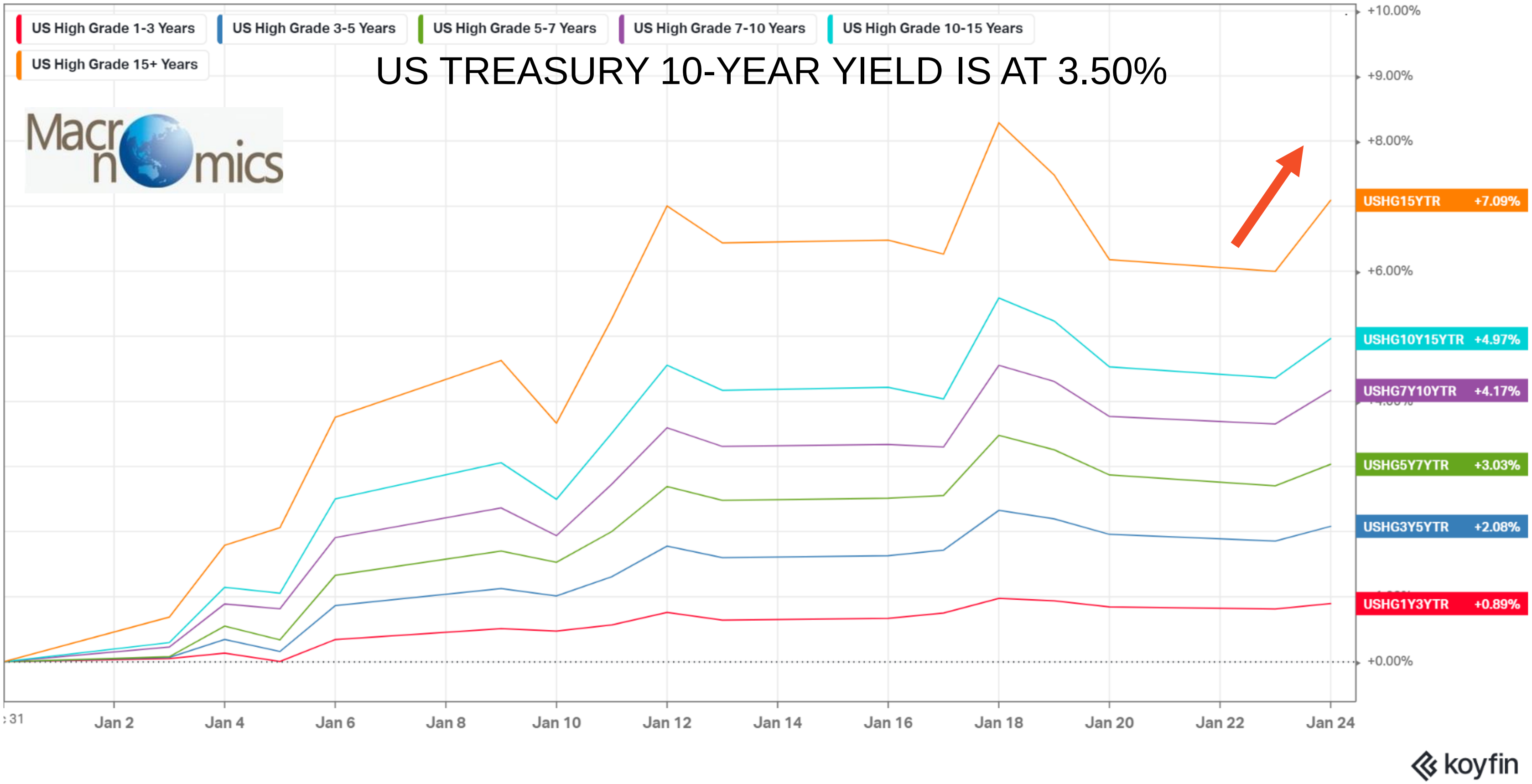
- 2023 could therefore be, at least for the first part of the year, much more beneficial in terms of market returns following a very challenging year of the Tiger in 2022.

- There is always the geopolitical risk looming, given the continuation of the war in Ukraine is the known unknown. Nothing is changing there from our last presentation.

2 AMBIVALENCE

AMBIVALENCE

- You know by now that we disliked fixed income in an inflationary environment in 2022. Convexity was painful in 2022. We continue to find the long end enticing in US Investment Grade. Recent rally is due to a fall in bond volatility (MOVE INDEX). Long end already up by 7% as per our previous recommendation!



Graph source – KOYFIN - Macronomics

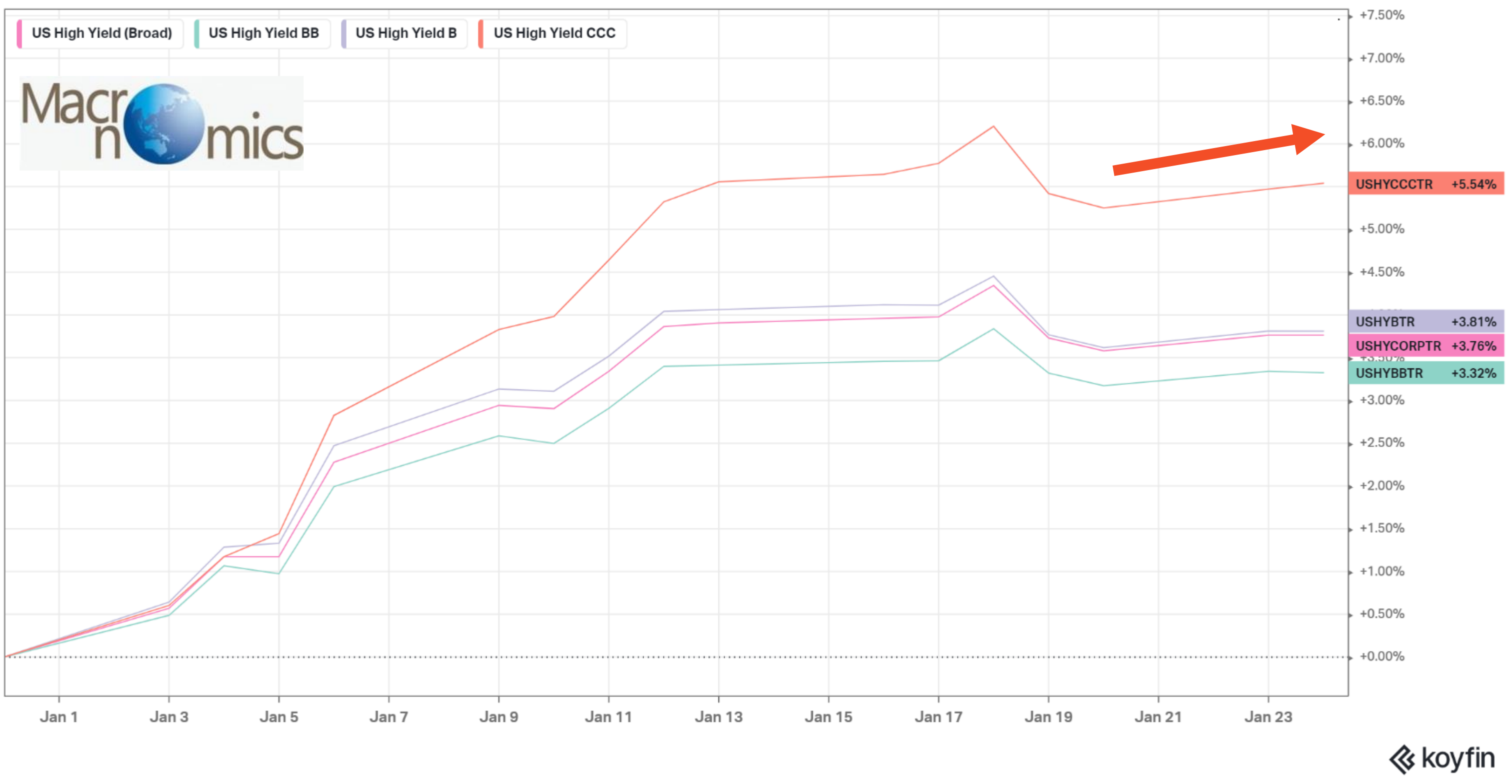
AMBIVALENCE

- MOVE INDEX: Bond volatility falling is supportive of a rally in Investment Grade credit and particularly the long end. It is as well supportive for credit markets !

Graph source –Trading Views - Macronomics

AMBIVALENCE

- High beta US High Yield is in positive territory. Recent rally is due to fall in bond volatility.
- CCCs are now up more than BBs. US CCCs up 5.54% YTD. Watch credit spreads very closely.
- Now it is the time to go towards higher rated entities like in Investment Grade as suggested in a previous slide. We prefer long dated Investment Grade over US High Yield.



Graph source – KOYFIN - Macronomics

AMBIVALENCE

- Overall global CDS 5 year YTD indices are continuing to tighten in credit land, thanks to lower bond volatility and better liquidity.
- Synthetic CDS Europe HY should be wider than US. (280 bps vs 375 bps). Wider by by around 10 bps since our last presentation for High Yield overall.

Graph source – Datagrapple.com - Macronomics

AMBIVALENCE

- ETF LQD (US Investment Grade) versus ETF HYG (US High Yield).
- Since the beginning of the year LQD is outperforming HYG. We believe this trend will continue during the course of 2023. We prefer long duration Investment Grade.

Graph source –Trading Views - Macronomics

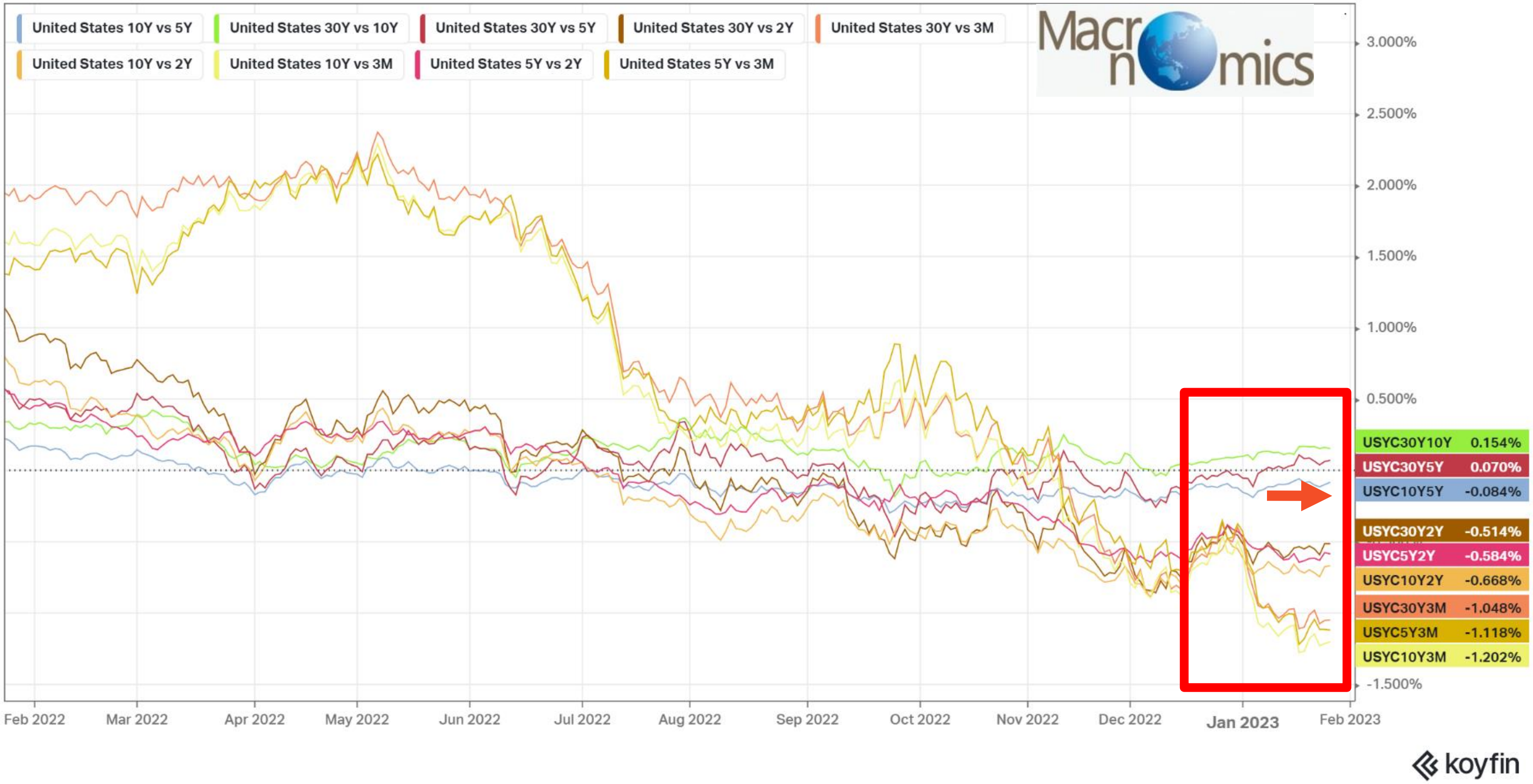
AMBIVALENCE

- ETF LQD (US Investment Grade) versus ETF HYG (US High Yield).
- Investment Grade (ETF LQD) is outperforming High Yield (ETF HYG) significantly in the last 3 months:

Graph source –Trading Views - Macronomics

AMBIVALENCE

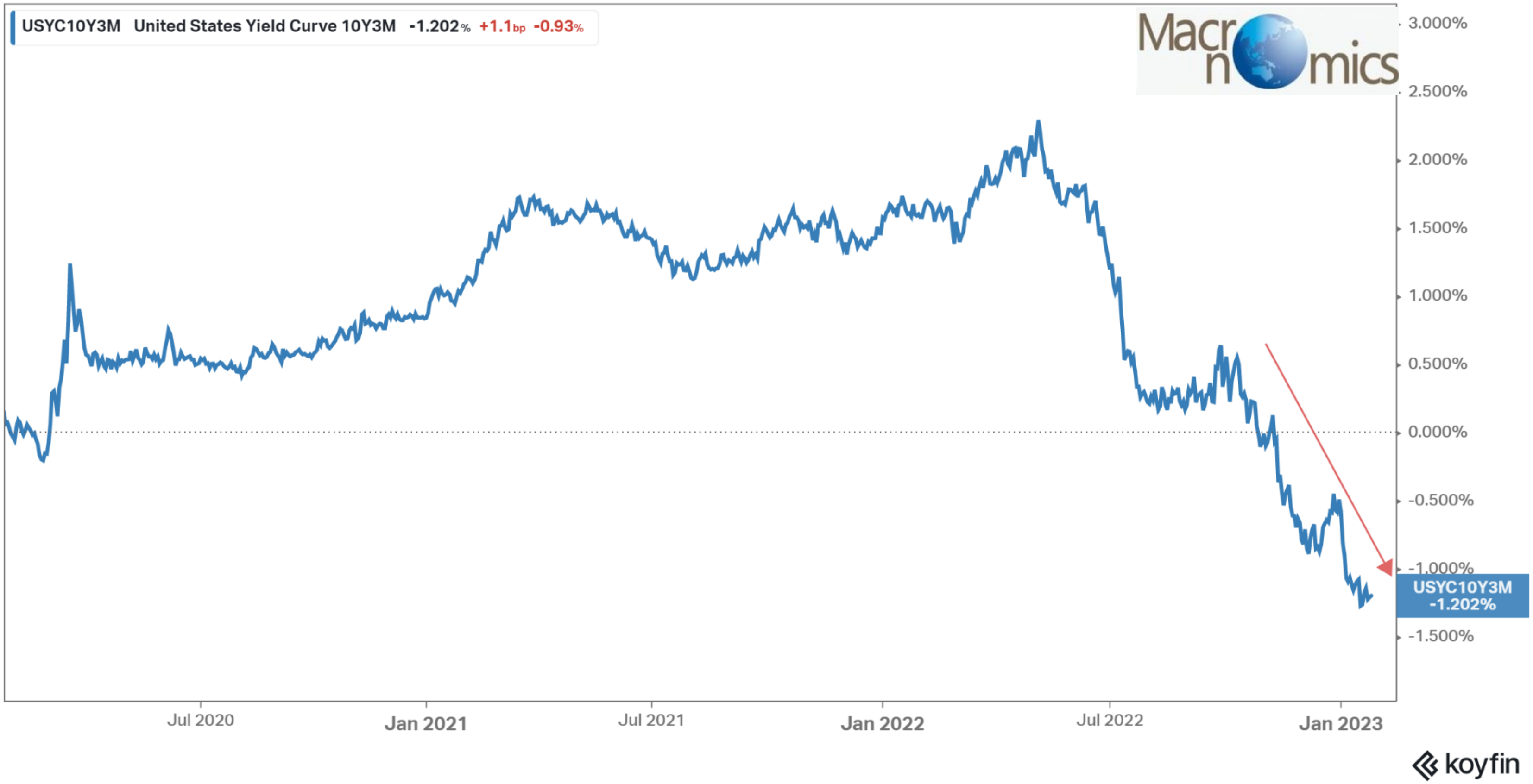
- **What the US Yield curve is telling us?**
- The 10Y-3month yield **remains deeply inverted**, which does not bode well for the US economy. Fed will hike by at least 25 bps, inverting more the 3M-10Y part of US yield curve.



Graph source – KOYFIN - Macronomics

AMBIVALENCE

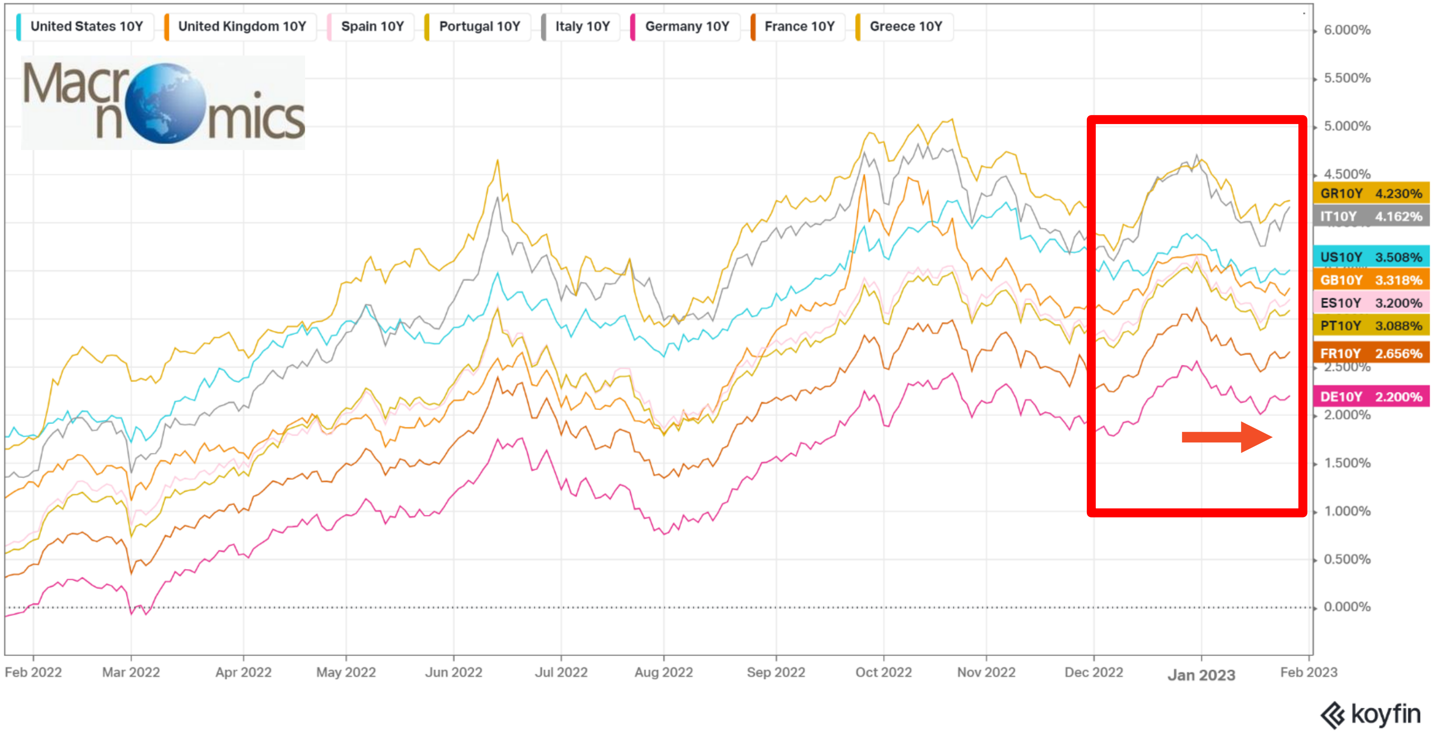
- The US 10Y-3month yield curve **remains deeply inverted**, indicative of recession pressure on the US Economy while markets are still "risk-on". A case of "Ambivalence"?



Graph source – KOYFIN - Macronomics

AMBIVALENCE

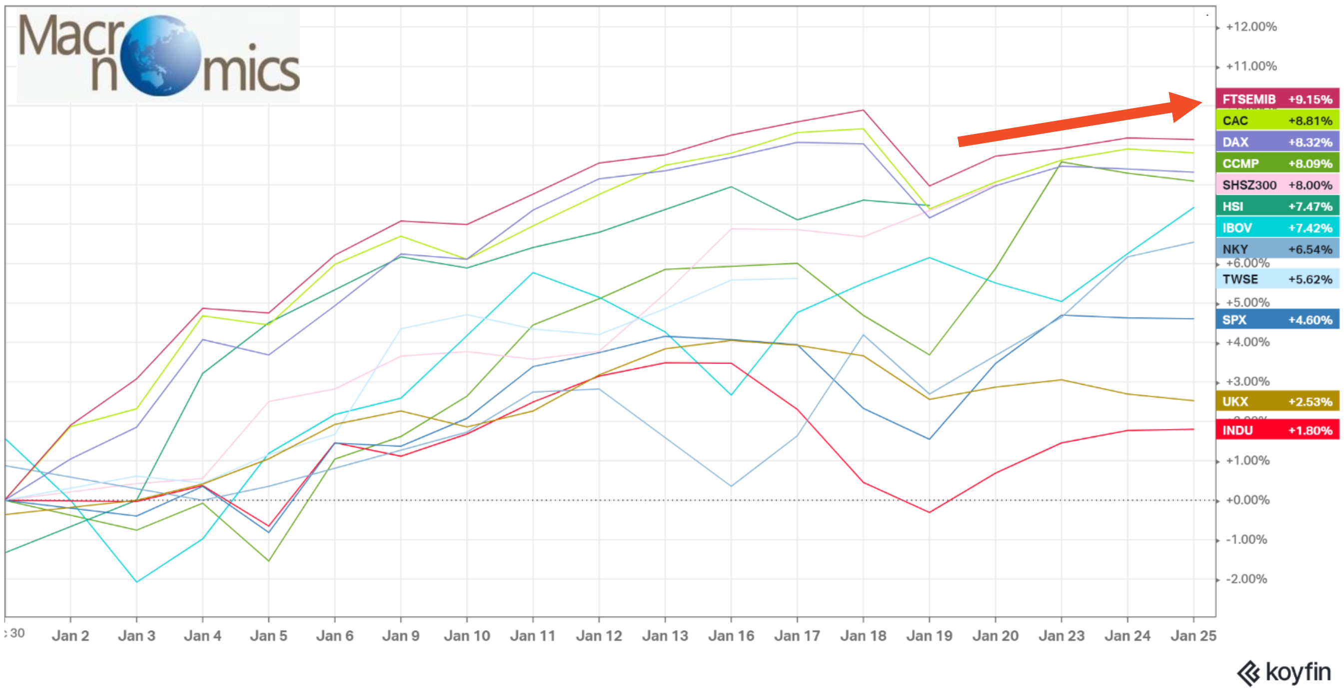
- Since the beginning of 2022 **Government Bonds Yields** have been rising significantly on top of inflationary pressures. We saw falling pressure particularly on Italian yields. The cost of financing for most European countries has recently been stable since our last presentatoin. Yet, the ECB's hikes is clearly not enough to tame inflation. Economic activity as per recent European PMI point towards a less problematic outcome than anticipated growth wise.



Graph source – KOYFIN - Macronomics

AMBIVALENCE

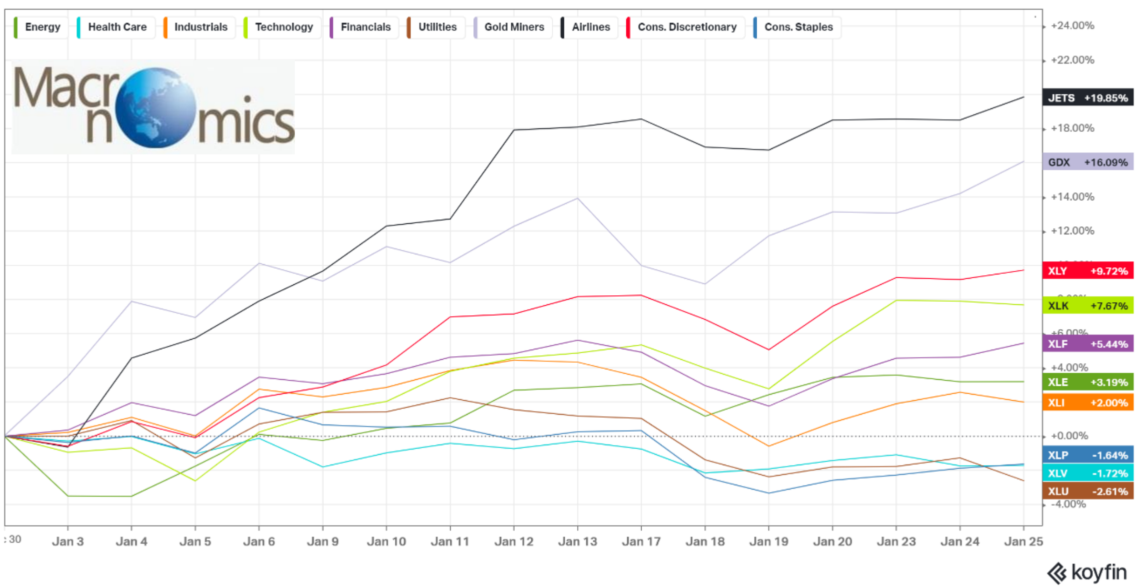
- Since our previous presentation Italy is leading the market and already up 9.1% YTD. Overall a better tone for the NASDAQ up 7.9% (6.3% in our last presentation). German DAX is helped by China (+8.3% YTD). Much better tone since our last presentation overall as anticipated. France CAC 40 is up 8.8% mostly helped by the good performance of luxury stocks (LVMH, Hermès) on Chinese re-opening support. China can help tremendously European stocks as well as commodity exposed countries should do well, Brazil included.



Graph source – KOYFIN - Macronomics

AMBIVALENCE

- **<u>US Sectors performance YTD:</u>**
- US Airlines (JETS) are leading the pack YTD +19.85%.
- Gold is slowly starting to shine again. Gold miners as well. We continue to monitor the sector. GDX is up 16.09% (up 11.48% in our last presentation).
- TECH is up YTD by 7.67% on the bounce of high beta helped by falling real yields.
- Consumer Discretionary is up by 9.72% YTD. While we continued to view negatively the sector in 2022. 2023 is clearly showing a bounce for the moment and invalidating our “negative stance”. Market is currently “risk-on”. Don’t fight the trend.
- Energy (XLE) continues to rise and is up +3.19%. We continue to be positive on the sector.



Graph source – KOYFIN - Macronomics

AMBIVALENCE

- Consumer Discretionary is up by 9.72% in the US. Europe is doing much better than US as well. Given the rally in high beta, it is quite difficult to be bearish again on the sector as a whole given its exposure to the luxury sector (37%) **which is driving the performance**. LVMH weight in STR ETF is 21.77%, Richemont 7.19%, Hermes 5.29% and Kering 4.22%. As such being overweight STR over XLY continues to make sense thanks to French luxury exposure.

Graph source – TradingViews - Macronomics

AMBIVALENCE

- 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 has rallied hard on China re-opening hope. Rally has been very significant through the month and continues! Overweight KWEB
- TECH is FED Dependent. **See below 3 months chart KWEB VS XLK**

Graph source –Trading Views - Macronomics

AMBIVALENCE

- The bounce in Chinese Tech has been significant since the lows of November. As such, the ETF KWEB has been outperforming the NASDAQ 100 ETF. The ETF KWEB is clearly more volatile as pet the below 6 months chart.

Graph source - Macronomics – Refinitiv Eikon

AMBIVALENCE

- The Japanese yen over the US dollar is strengthening. The ETF YCS enabled you to play the depreciation game in 2022. As such we are very negative now on ETF YCS.

Graph source –Trading Views - Macronomics

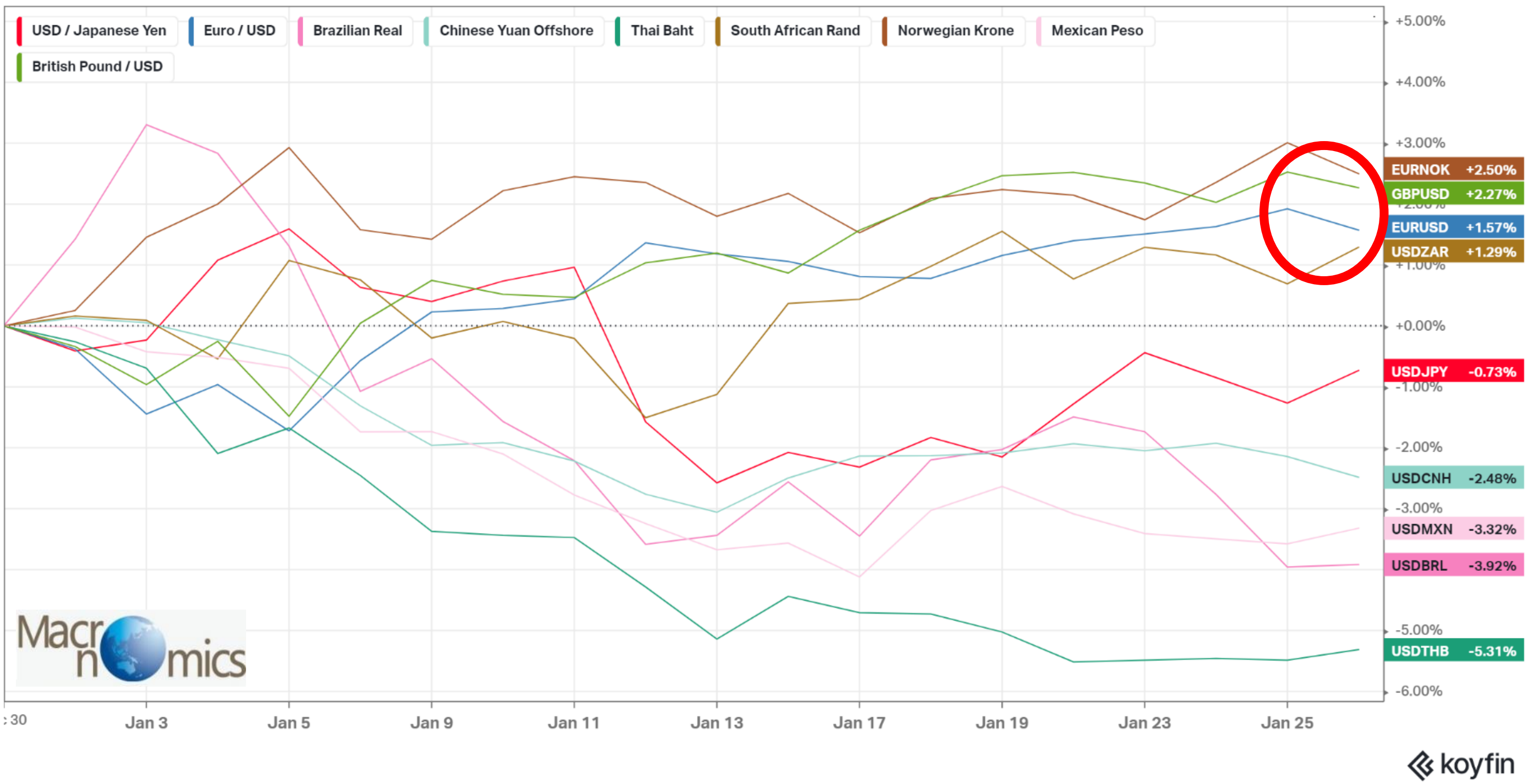
AMBIVALENCE

- The Japanese yen over the US dollar trend in 2022 mirrored the move in the US Treasury Notes 10 year Yield. With the tweak in the Yield Curve Control from the Bank of Japan, the Japanese yen is reversing course very fast and yen is going stronger.

Graph source – Macronomics – Refinitiv Eikon

AMBIVALENCE

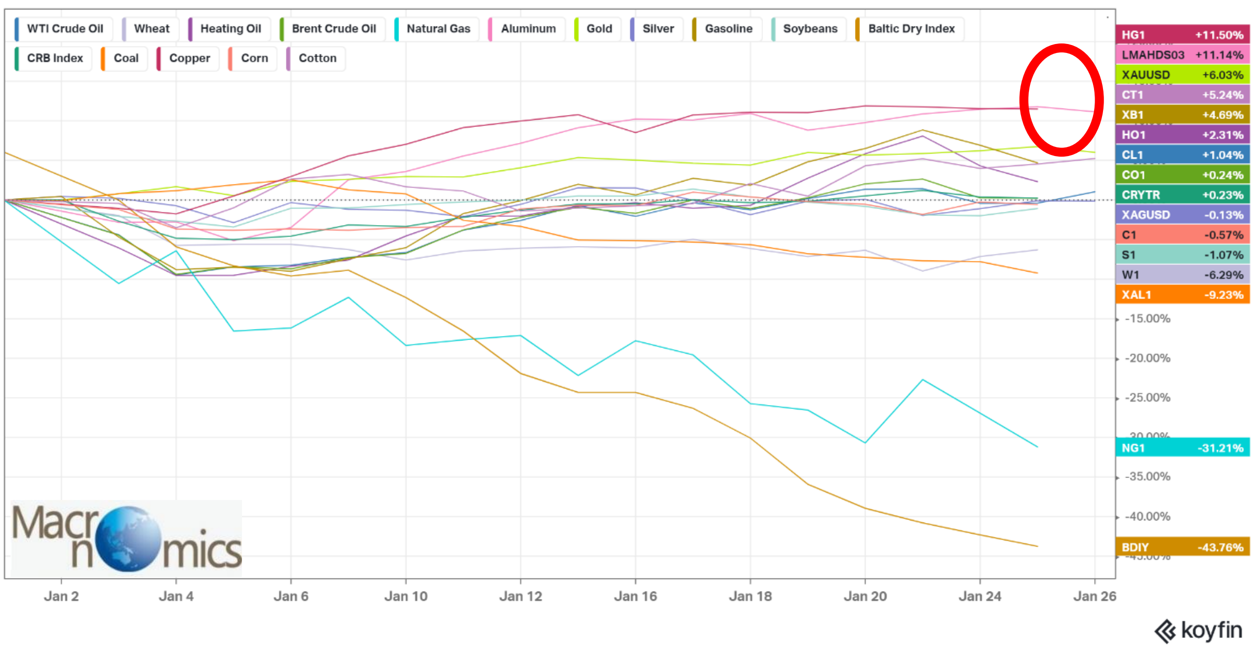
- BRL is up by 3.92% YTD against the US. Recent bounce in commodities explains the move of BRL.
- The US Dollar index is still around 102, (102 in our last presentation).
- Some Emerging Markets are bouncing against the USD such as THB.



Graph source – KOYFIN - Macronomics

AMBIVALENCE

- Coal is down **-9.1%** YTD. We continue to view positively the sector.
- Natural Gas has fallen since our last presentation and down by 36.5% YTD (down 19.7% in our last presentation).
- Copper the PhD in economics is up by 11.8% YTD (10.3% in our last presentation). It is bouncing strongly thanks to China re-opening and tight markets.
- Aluminum is up 11.7% YTD as well on Chinese re-opening prospects.
- Gold is now up 5.8% YTD. We continue to view positively gold for 2023.



Graph source – KOYFIN - Macronomics

AMBIVALENCE

- We have a stagflationary stance for Europe. Inflation is still running hot and cracks in the narrative are starting to show . Recession is likely in Europe for sure and US a possibility. No change in our 2023 outlook economic wise.
- 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:
    - buy JPY vs USD on change in YCC by Bank of Japan
    - Continue to monitor European Consumer Discretionary. 2023 is rallying for now. Let’s see what the second half of 2023 gives us.
    - Reduce your exposure to High Yield Credit: Investment Grade is a better place than High Yield particularly the long end is enticing.
    - Keep some USD in CASH / Money Markets (short duration funds).
    - Add gold exposure and commodities players such as VALE, GALP, GLENCORE.

- Energy should continue to perform. All cues are on China.
- Fed can afford to be hiking more aggressively, the ECB not so much. We are very negative on European economies, markets are a different story given international exposure.

AMBIVALENCE

- In the current high energy prices context and with the burst of the ESG bubble making "Coal" 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 remains a strong BUY**. BTU trades at 1.64x forward EBITDA, 2.33x forward P/E and 1.61x book.
- BTU YTD is up by 2.67% YTD. Again BTU is highly volatile. You might prefer ARLP to sleep at night… (YTD +5.13%) for more steady gains. We continue to like both names for 2023.

Graph source –Trading Views - Macronomics

AMBIVALENCE

- Who killed the Growth story and Crypto? Very simple the Fed by pulling off the rug from below them in 2022. Liquidity seems to be coming back and therefore high beta is coming back.

Graph source - Macronomics – Refinitiv Eikon

AMBIVALENCE

- The beta game is bouncing like for ETF ARKK TECH darling and TESLA!

Graph source - Macronomics – Refinitiv Eikon

AMBIVALENCE

- The beta game is bouncing like for ETF ARKK TECH darling and TESLA! TESLA is currently outperforming ARKK ETF.

Graph source - Macronomics – Refinitiv Eikon

macronomics

AMBIVALENCE

- Nasdaq, ETH and BTC are still moving in synch. It all depends on the trajectory of the Fed. Duration assets suffered from real yields rising in 2022. 2023 is seeing a bounce in high beta assets thanks to falling US real yields and US dollar (Mack The Knife).

Graph source –Trading Views - Macronomics

AMBIVALENCE

- BTC and MSTR (Microstrategy) are moving in synch. Given MSTR is a leveraged play on BTC, we view it as its second derivative. Right now there is a significant rally on both. How long can it last?

Graph source –Trading Views - Macronomics

AMBIVALENCE

- Gold has been spanked by Mack The Knife in 2022, yet some miners such as RGLD and GOLD as well as AEM are more resilient than others. Right now it is the time to add
- Gold and gold miners (in local currency) given inflationary pressure and high level of geopolitical uncertainties are providing a safe haven for exposed Emerging Markets. Real yields matters and in true Gibson Paradox, gold has reacted accordingly. A recession will be positive for both gold and gold miners in true 2020 fashion in 2023

Graph source –Trading Views - Macronomics

AMBIVALENCE

- Luxury sector good smacked down big time in 2022. Asian markets remain the hot spot for French luxury brands. Hermès could bounce more than LVMH in 2023 on a Chinese reopening. We turned more positive on strong earnings for both house in our last presentation and it was the right call. We overall prefer Hermès over LVMH on better margins. ADD

Graph source –Trading Views - Macronomics

AMBIVALENCE

- Hermès continues to lead LVMH as per the below 3 years chart.

Graph source - Macronomics – Refinitiv Eikon

AMBIVALENCE

- GALP vs SHELL. GALP has risen a lot since our last presentation. We continue to like both names. GALP has been overall more volatile than big player SHELL.. Hold SHELL, hold GALP.

Graph source –Trading Views - Macronomics

AMBIVALENCE

- While some shipping stocks did very well in 2022 such as GLNG and GLOP (LNG related. If you want to keep exposure to GLNG and GLOP.
- Dry Bulk shipping stocks have bounced a bit on the back of Baltic Dry Index.
- See our presentation of the 28th of April for an overview of the sector.
- ZiIM might be worth a punt in 2023 we think

Graph source –Trading Views - Macronomics

AMBIVALENCE

- Shipping Giant A.P Moller Maersk is down 7.05% YTD.
- This is indicative of a slow down in global trade.

Graph source –Trading Views - Macronomics

AMBIVALENCE

- Big surprise coming from European financials vs US financials as per below 6 months chart.
- European financials are outperforming US financials for the last couple of months.

Graph source – Macronomics – Eikon Refinitiv

3 WHAT'S NEXT

WHAT'S NEXT

- The Stagflation is clear in Europe with slow growth and PMIs pointing towards "expansion" at the moment.
- Europe decided to wage total economic warfare against Russia through sanctions.
- We expect social tensions to rise very significantly during winter. France is facing demonstrations due to discussions relative to pension reforms.
- Inflation is already a stealth tax and food prices have risen as well in conjunction with energy prices. Standards of living are going to fall significantly in Europe.
- Russia launching "partial mobilization" is leading to serious escalations which we are seeing now.
- Right now we remain bullish. Emerging Markets and Europe are outperforming US and the US dollar is weakening while real yields have been falling.
- On China re-opening we like commodities related stocks as well as Chinese exposed sector such as luxury.
- How long can the rally go? For cues follow bond volatility and credit markets. VIX is trading below 20 indicative of "Risk-on".

WHAT'S NEXT

- We continue to like Diversified Miners and we are long VALE SA. We like the sector on China re-opening (6 months chart):

Graph source - Maconomics - Refinitiv Eikon

WHAT'S NEXT

- Iron Ore large caps should as well benefit from the Chinese thematic of re-opening.
- Below is a 3 months chart showing the bounce on Chinese expectations:

Graph source - Maconomics - Refinitiv Eikon

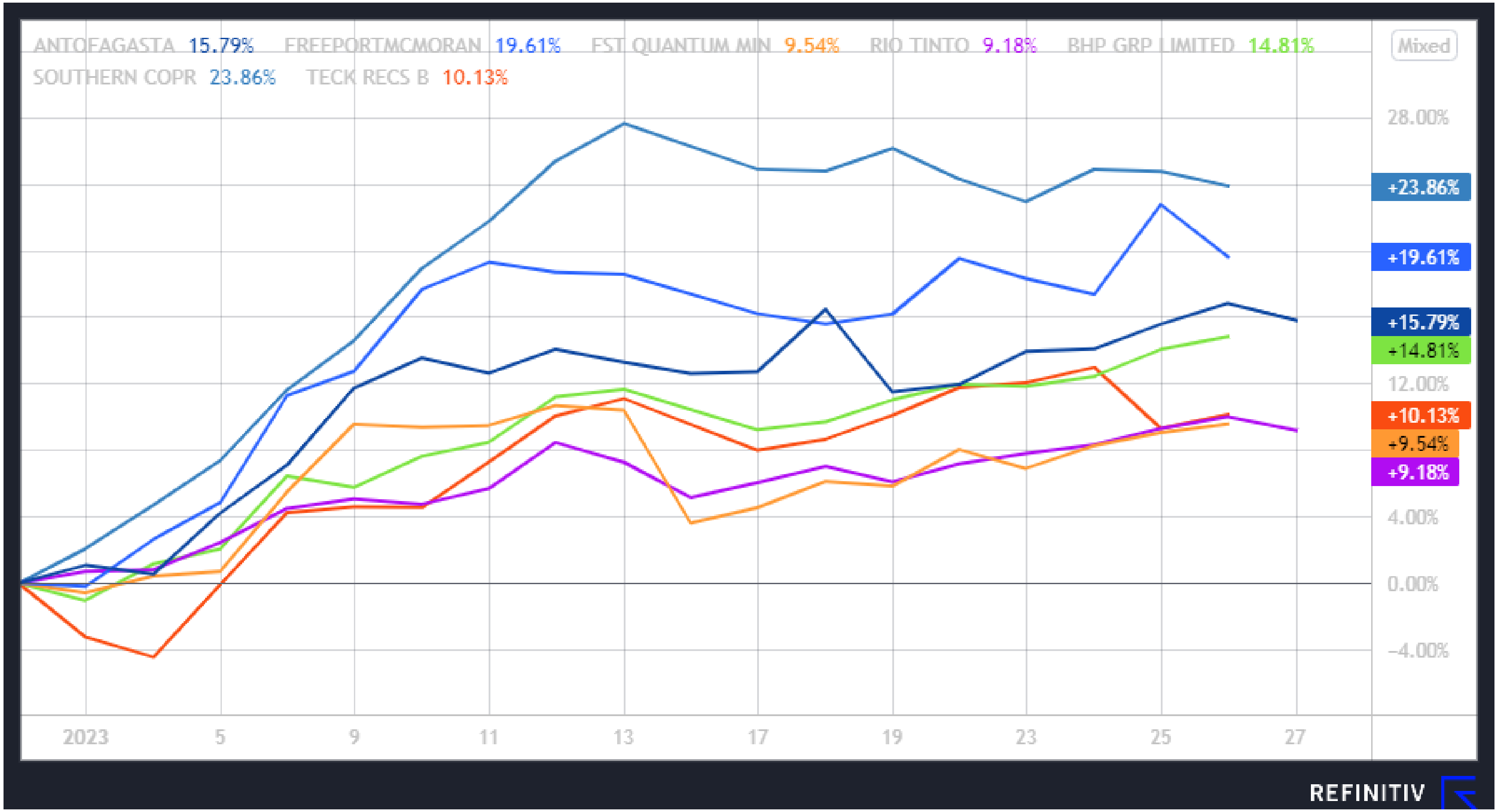
WHAT'S NEXT

- Luxury is a big part of ETF STR Consumer discretionary, no wonder it is rallying.
- Below is a 3 months chart showing the bounce on Chinese expectations:

Graph source - Maconomics - Refinitiv Eikon

WHAT'S NEXT

- Copper mines should as well benefit from the Chinese thematic of re-opening.
- Below is YTD chart showing the bounce on Chinese expectations:

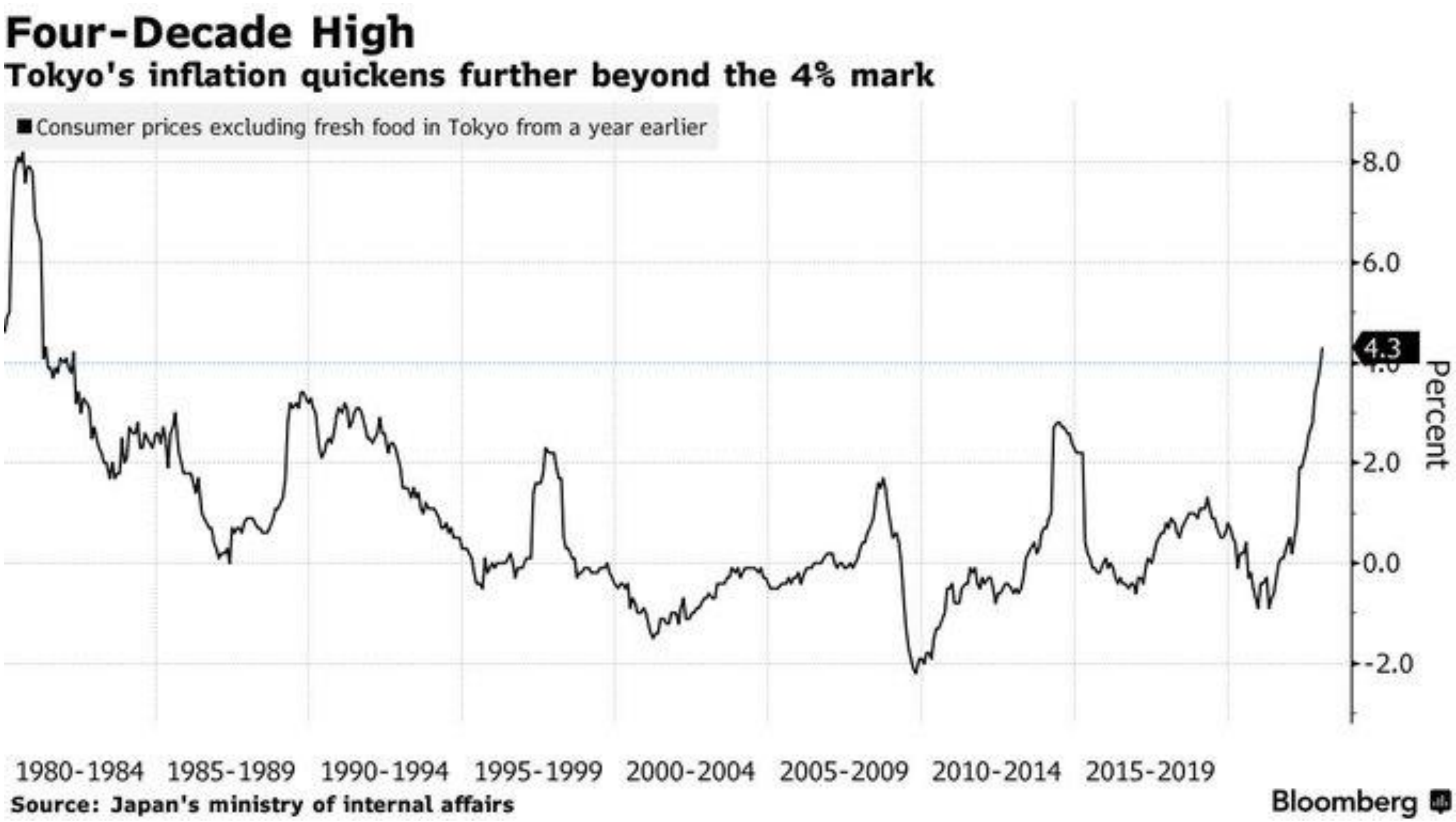


Graph source - Maconomics - Refinitiv Eikon

4 FOOD FOR THOUGHTS

FOOD FOR THOUGHTS

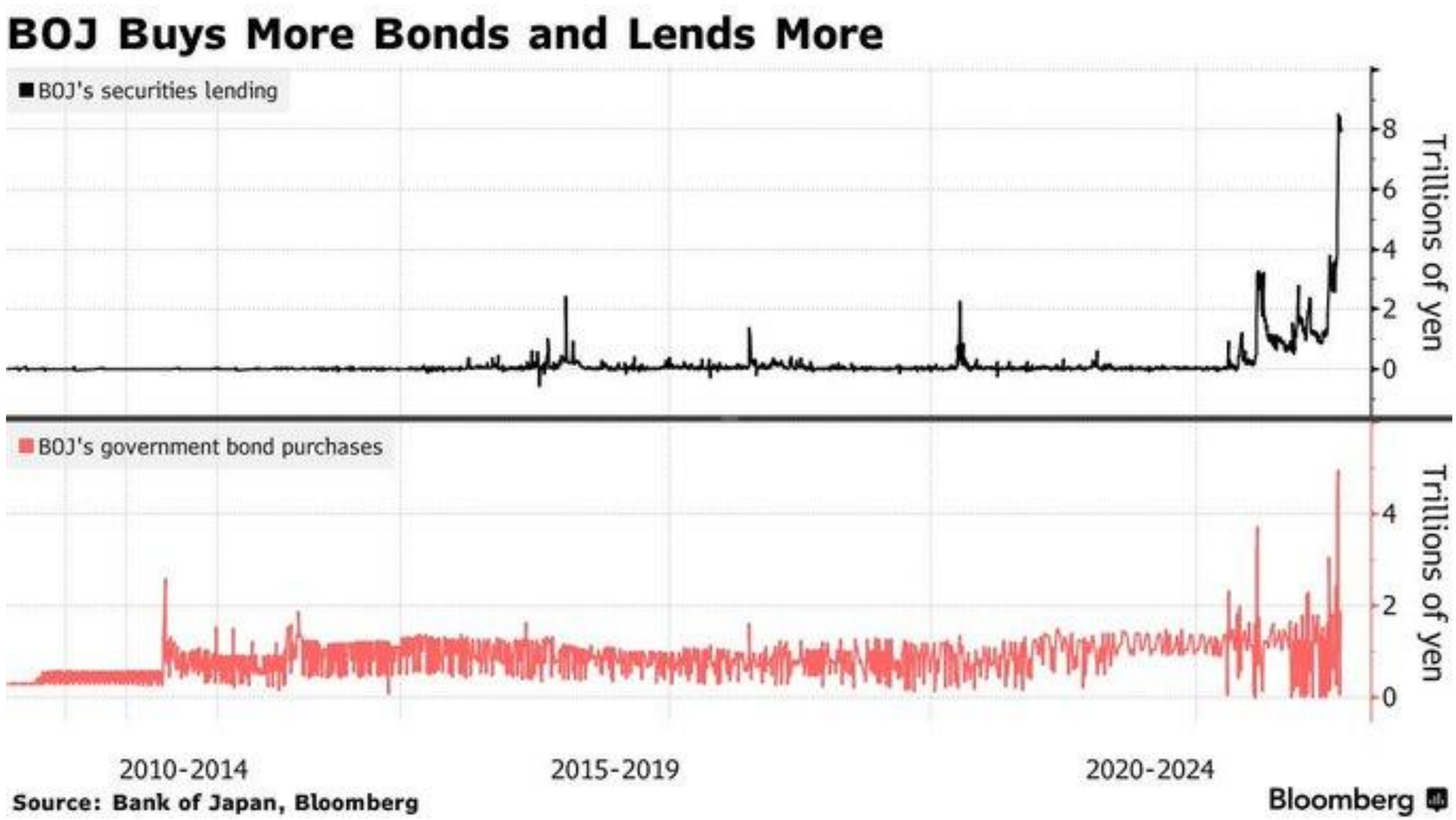
- Japan inflation rises Above 4%, Prompting Yen Gains – Bloomberg
- We continue to advocate buying Yen over USD.



Graph source - Bloomberg - Twitter

FOOD FOR THOUGHTS

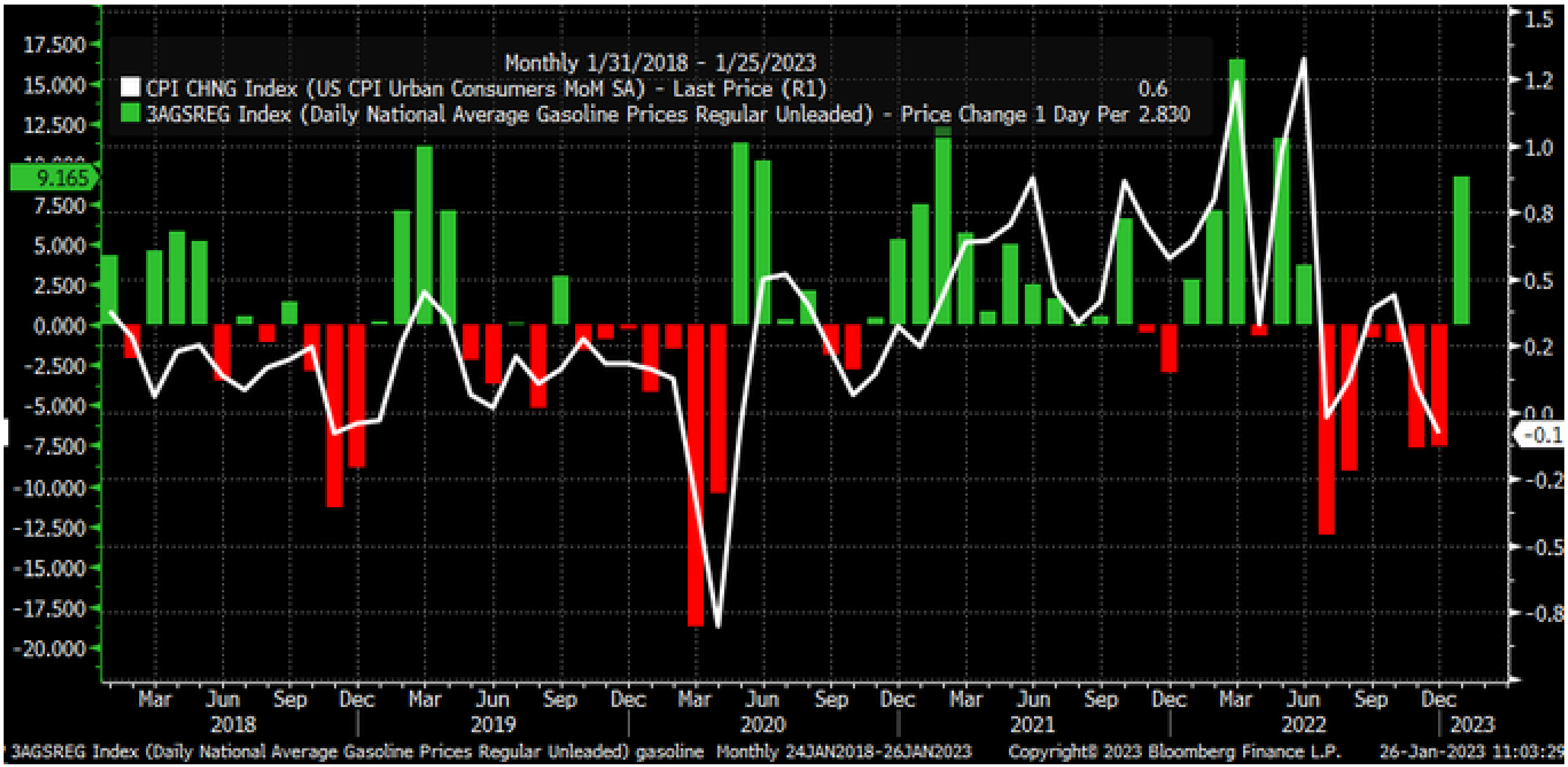
- Bank of Japan is on overdrive…



Graph source - Bloomberg - Twitter

FOOD FOR THOUGHTS

- Unleaded gasoline is now up 9.165% this month.
- Inflation is not dead, be careful what you are wishing for..
- Inflation could stage a come back in 2023. Fed is not done yet.



Graph source - Bloomberg - Twitter

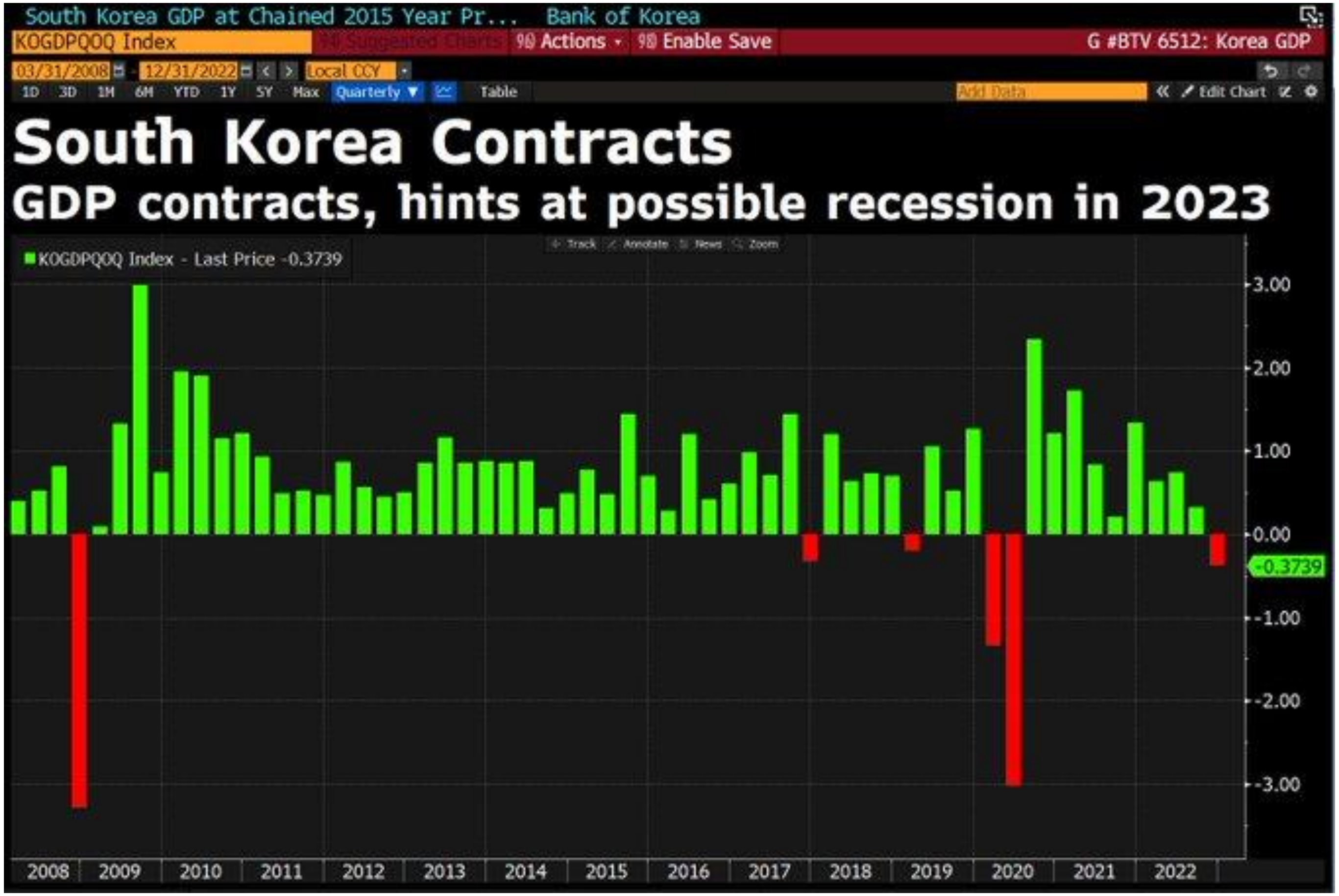
FOOD FOR THOUGHTS

- "Fed is typically aggressively cutting rates in recessions (bottom panel shows 6-month change in fed funds rate), so if market still expects switch to cuts by end of this year, one must ask why that is the case" – Liz Ann Sonders

Graph source - Liz Ann Sonders - Bloomberg - Twitter

FOOD FOR THOUGHTS

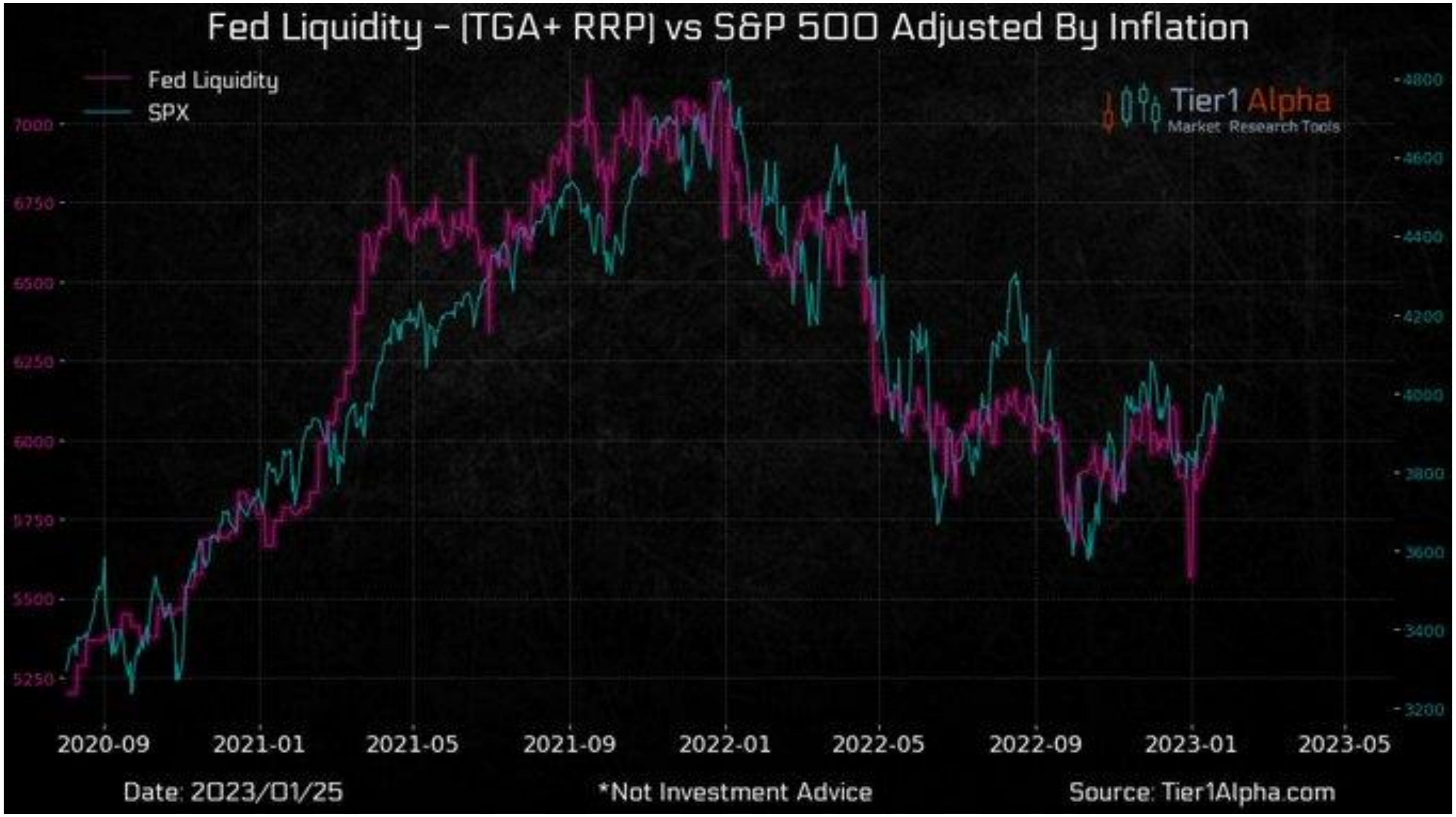
- South Korea contracted in 4Q, hints at possible recession in 2023.
- What is South Korea telling us about the state of global trade?



Graph source - Bloomberg - Twitter

FOOD FOR THOUGHTS

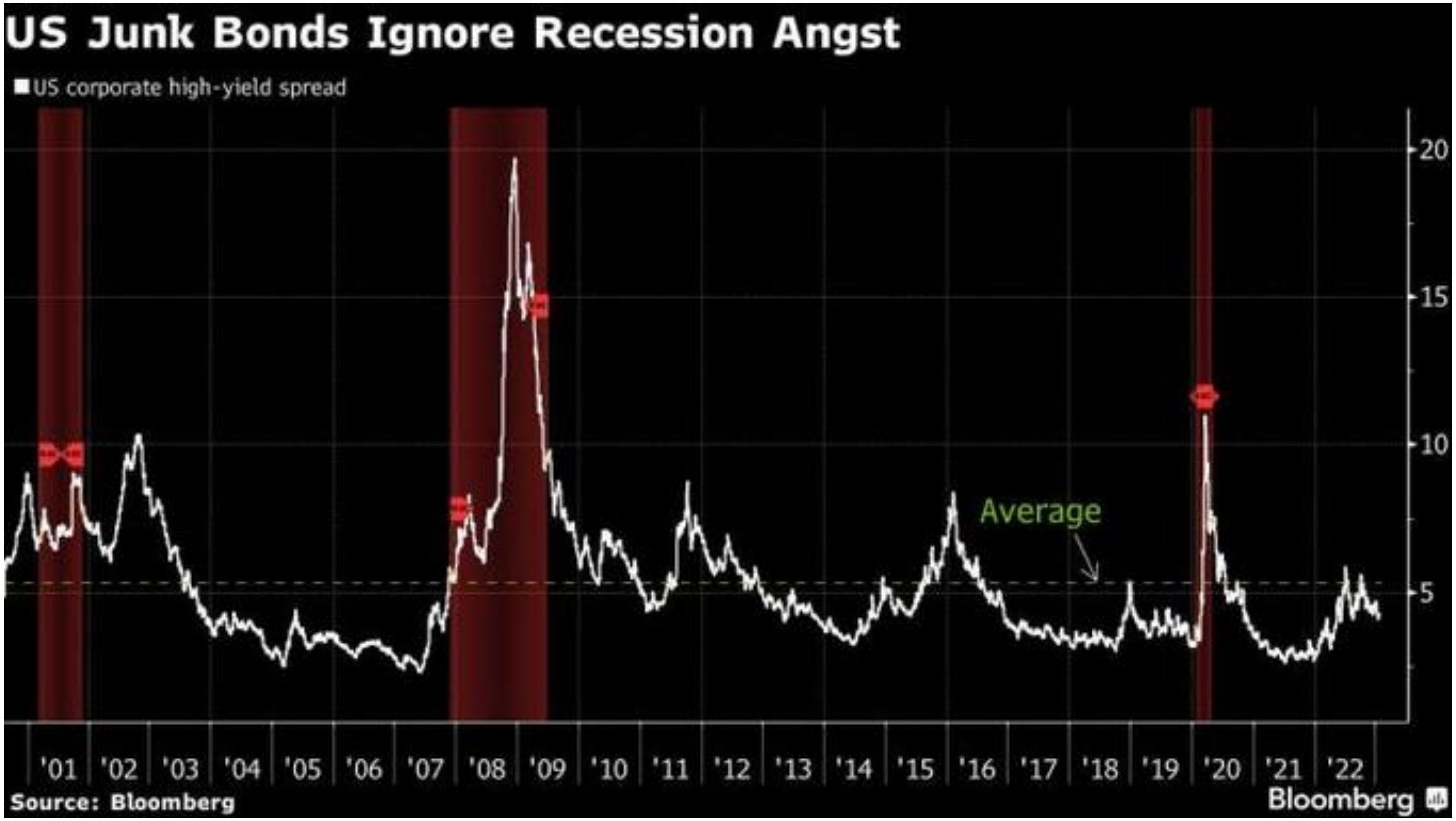
- "The Fed is the most powerful market force in the world" - Alan Greenspan, former Federal Reserve Chairman.



Graph source - Tier1 Alpha - Twitter

FOOD FOR THOUGHTS

- The S&P 500 and high-yield corporate debt don't account for "the tightening cycle and the chance of recession going up," making them vulnerable to another selloff, according to Nicholas Ferres
- "Because the coincidental data is ok, people have a false sense of security."



Graph source - Bloomberg - Twitter

5 CONCLUSION

CONCLUSION

- Harpex index is collapsing. We continue to watch the Harpex index very closely for cues on global trade. Harpex has closed around the level of 1145. Last was 1297 level.
- We continue to like Energy and Uranium as a long term play. Gold is shining again.

Theme		Day	Week	Month	Year	# Assets
Lithium & Battery tech	•	▲ 2.41%	▲ 7.54%	▲ 17.41%	▼ -9.07%	10
Semiconductors	•	▲ 1.70%	▲ 6.29%	▲ 18.39%	▼ -13.25%	5
Disruptive Innovation	•	▲ 2.05%	▲ 4.92%	▲ 25.50%	▼ -45.72%	22
Gaming & esports	•	▲ 1.45%	▲ 4.48%	▲ 15.95%	▼ -17.92%	3
Cloud computing (SaaS)	•	▲ 2.15%	▲ 4.26%	▲ 11.72%	▼ -28.45%	17
China tech	•	▲ 2.70%	▲ 4.07%	▲ 18.08%	▼ -11.33%	15
Work from home	•	▲ 1.92%	▲ 4.04%	▲ 11.96%	▼ -31.03%	2
Robotics	•	▲ 1.87%	▲ 3.98%	▲ 17.32%	▼ -16.33%	13
Big Tech	•	▲ 1.97%	▲ 3.74%	▲ 9.98%	▼ -16.04%	1
E-commerce	•	▲ 1.20%	▲ 3.73%	▲ 21.87%	▼ -33.18%	4

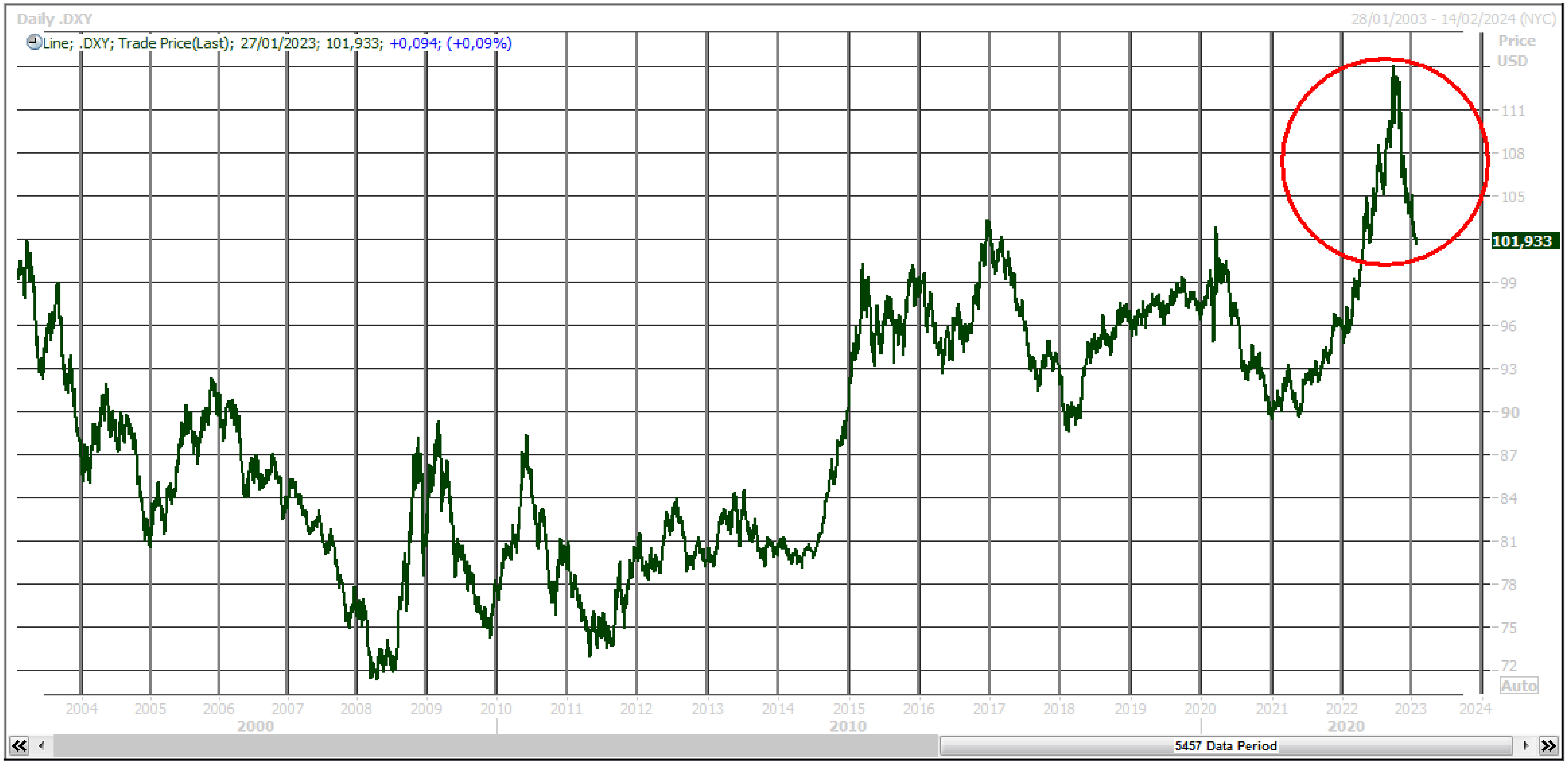
Table source – CMC Markets - Optp Thematic ETF Screener

CONCLUSION

- We continue to view positively Investment Grade. Convexity has been biting with rising government bond yields in 2022. Valuation are "enticing".
- We continue to like China Tech over US Tech from a valuation perspective, they outperformed since November. 2023 looks promising.
- We like diversified miners, Iron ore miners, copper miners.
- We do not buy yet the inflation receding narrative for 2023.
- ECB is in a bind with inflation and rising real yields.
- We continue to like VALE SA in Brazil. 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 (BUY). We like GALP and SHELL. We also like some shipping companies
- Luxury wise we like Hermes over LVMH. Asia should support the sector.
- Gold is performing again thanks to a quieter Mack the Knife (US dollar surge and US real yields). **Positive for 2023 overall.**
- US High Yield : watch what CCCs are doing.
- That's all for now. Don't be shy and don't hesitate to reach out / comment. Happy trading to all !

CONCLUSION

- US Dollar – DXY – The most important chart?



Graph source - Macronomics – Refinitiv Eikon

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 energy and inflation and growing social tensions.
- China and US tensions are not easing.
- US pushing sanctions on China with the help of Europe relating to chips.
- World’s unity is falling apart. Deglobalization is accelerating.
- Turkiye bargaining hard for F16 and the admission of Sweden and Finland to NATO
- China reopening will be another headache for the Fed and ECB and the Bank of Japan with rising oil prices and other basic materials.
- Russia is courting Africa in general and South Africa in particular.
- 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, targeting infrastructures.
- 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. You can see his new Substack Macronomics page here: https://macronomics719.substack.com/

- 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.