TOP DOWN CHARTS

Chart driven macro insights for investors

Weekly Macro Themes – 8 July 2022 - Volume 7, Edition 22

From the top down, here's the bottom lines:

1. PMI Pulse/Recession Watch: All signs continue to point to a global growth slowdown, with recession in the US likely kicking off in Q3 and intensifying into Q4. As such inflation pressures likely begin to ease.

2. Stocks vs Bonds: Reiterate bearish view on the stock/bond ratio (given macro, technicals, sentiment, positioning, relative value); anticipate the next wave features positive absolute returns for bonds.

3. EMFX: Although the valuation picture is very compelling, the array of concerning intermarket signals and clear bearish momentum means best to revert back to neutral pending better entry (and macro/sentiment/intermarket confirmation).

1. PMI Pulse/Recession Watch

TOP DOWN CHARTS

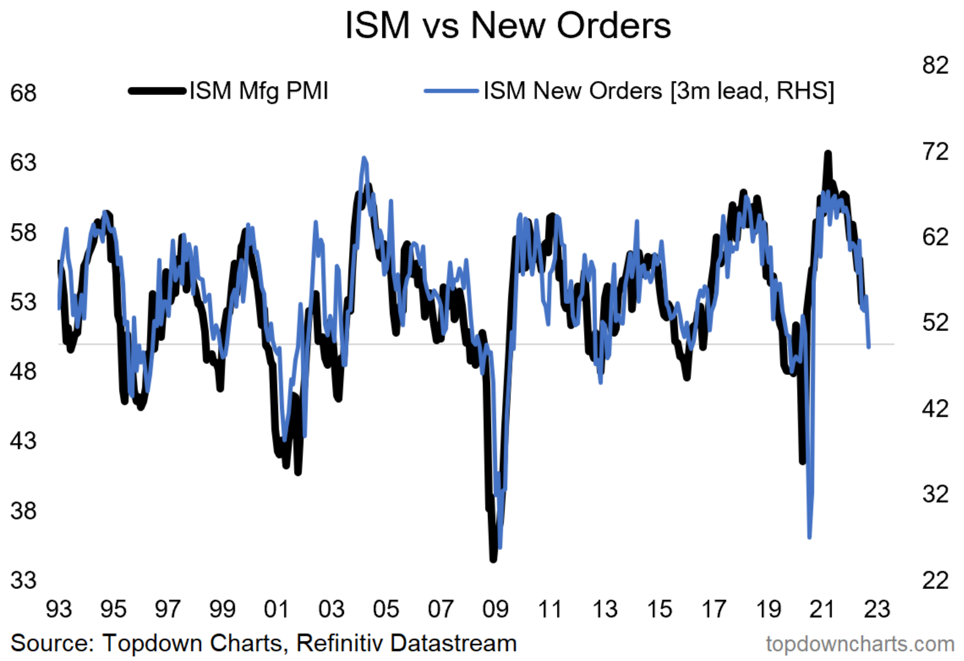
1. PMI Pulse/Recession Watch: Recession imminent, inflation relief?

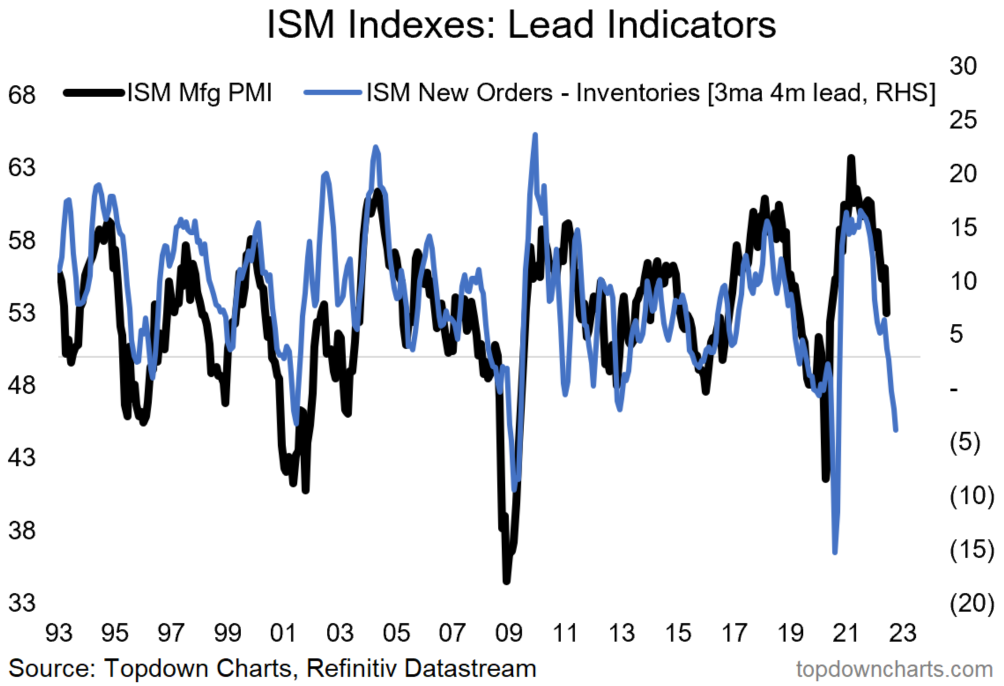
- The latest ISM data has multiple leading indicators pointing to recession kicking off in Q3 and worsening into Q4.
- Globally consumer confidence has collapsed, and business confidence looks to be not far behind (perhaps next shoe to drop). The breadth of PMI data across countries shows a clear trend of slowing growth.
- The detail of the global PMI data to June shows clear signs of a slowdown e.g. backlogs easing-off and inventories surging. The inventories vs new orders indicator points to the global manufacturing PMI dropping into the mid-40's.
- Easing of backlogs, inventory build-up, and weakening commodity prices means there may be some inflation relief…
- The cooling off of inflation pressures is likely to give rise to a short-lived relief rally in equities as people get excited about a potential pause in policy tightening that may arise from that, however any such inflation relief rally could well be followed by an earnings disappointment wave down if the leading indicators are anything to go by.

Bottom line: All signs point to a global growth slowdown, with recession in the US likely kicking off in Q3 and intensifying into Q4. Inflation pressures likely begin to ease.

1. PMI Pulse/Recession Watch

Checking in on the latest PMI data, the ISM leading indicators continue to point to downside, with most of the shorter-term leading indicators (new orders vs inventories) pointing to the ISM manufacturing PMI dropping below 50 this quarter, and likely into deeper recession by the end of the year.





1. PMI Pulse/Recession Watch

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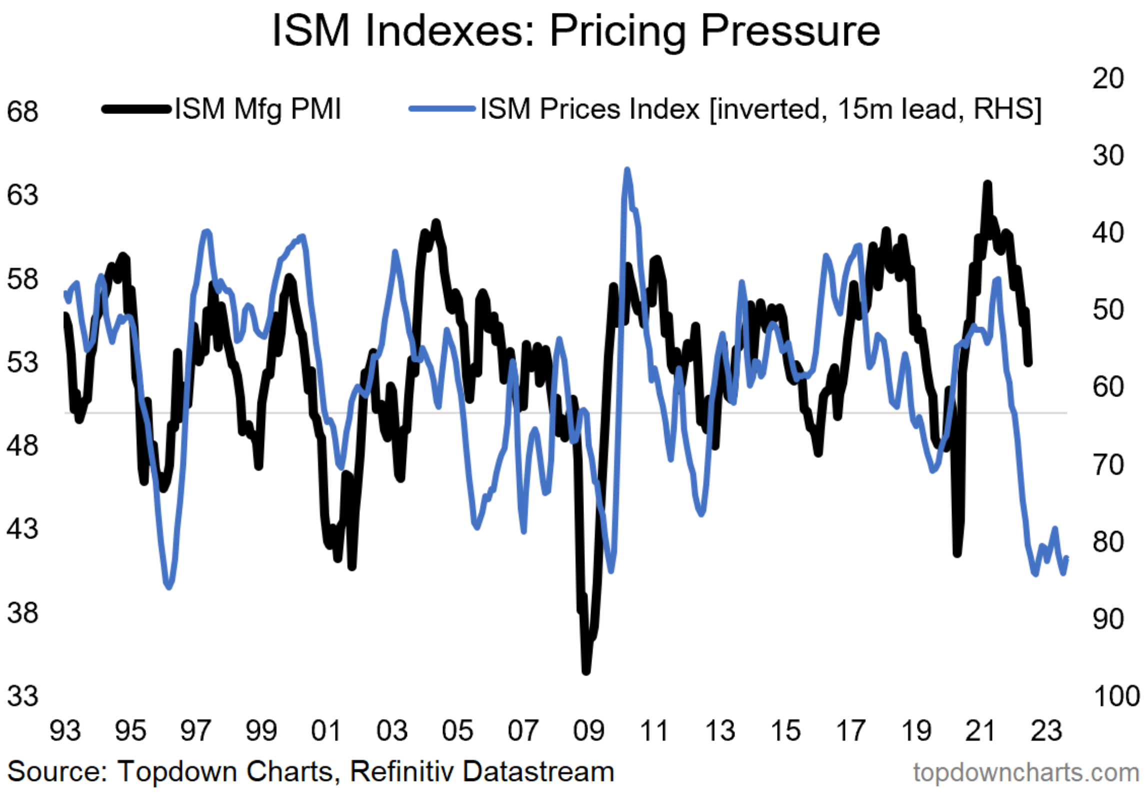
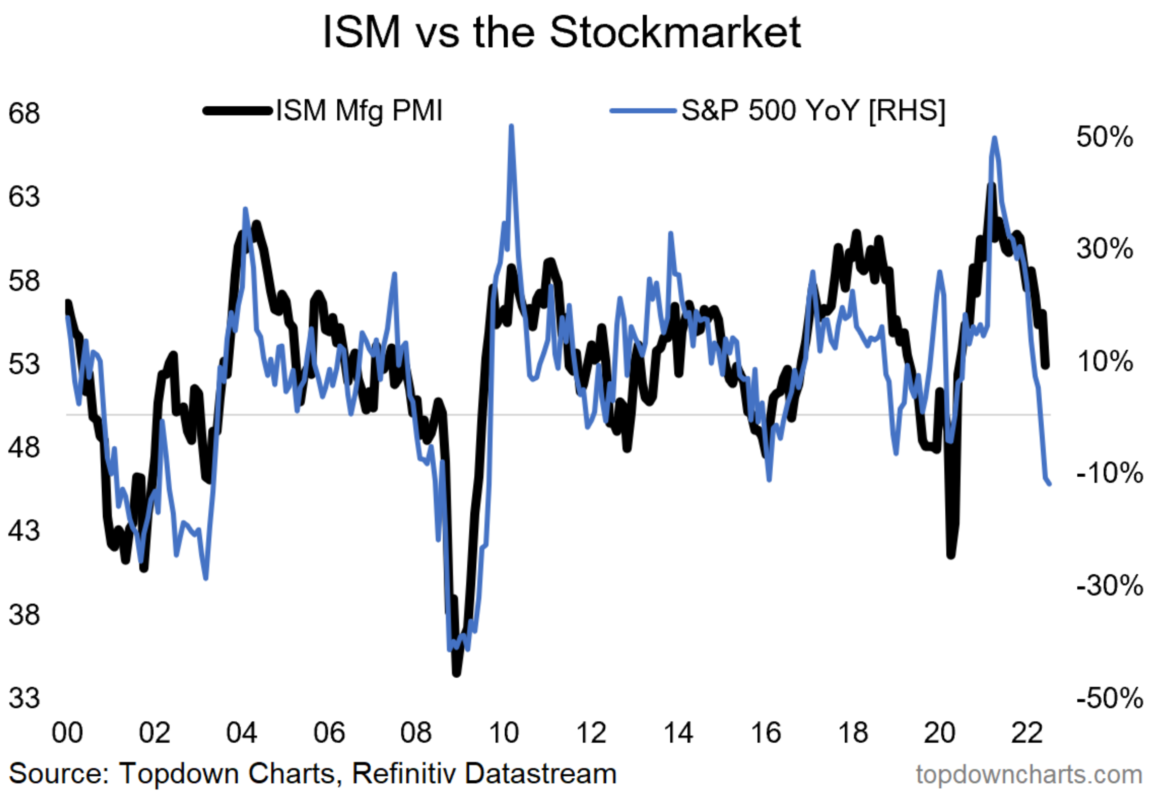
Elsewhere within the data, the pricing pressure aspect also remains in play, with a multi-month headwind basically fully baked-in at this point. Meanwhile though, you might argue that the S&P500 is already pricing this in to some extent given the current YoY change in the S&P is basically implying an ISM in the mid-40's. I might pushback slightly against that notion though on the basis that the first leg down in equities has been more about the bond yield spike and expensive valuation re-rating, rather than reflective of weaker earnings (which are likely to come in H2).





1. PMI Pulse/Recession Watch

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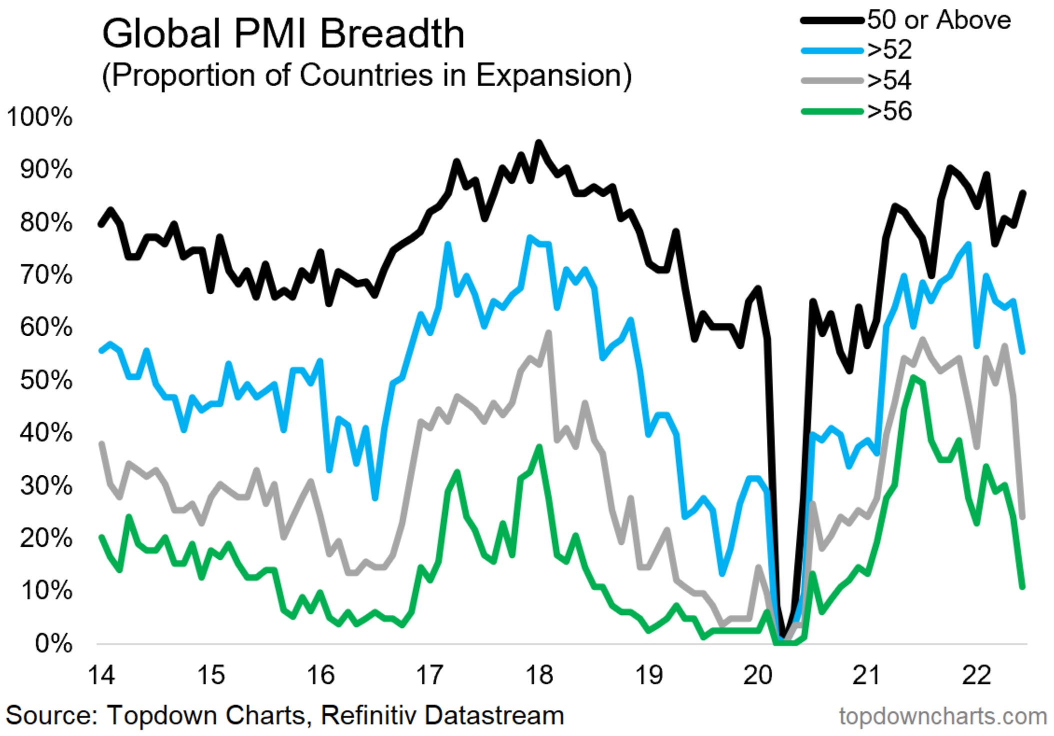
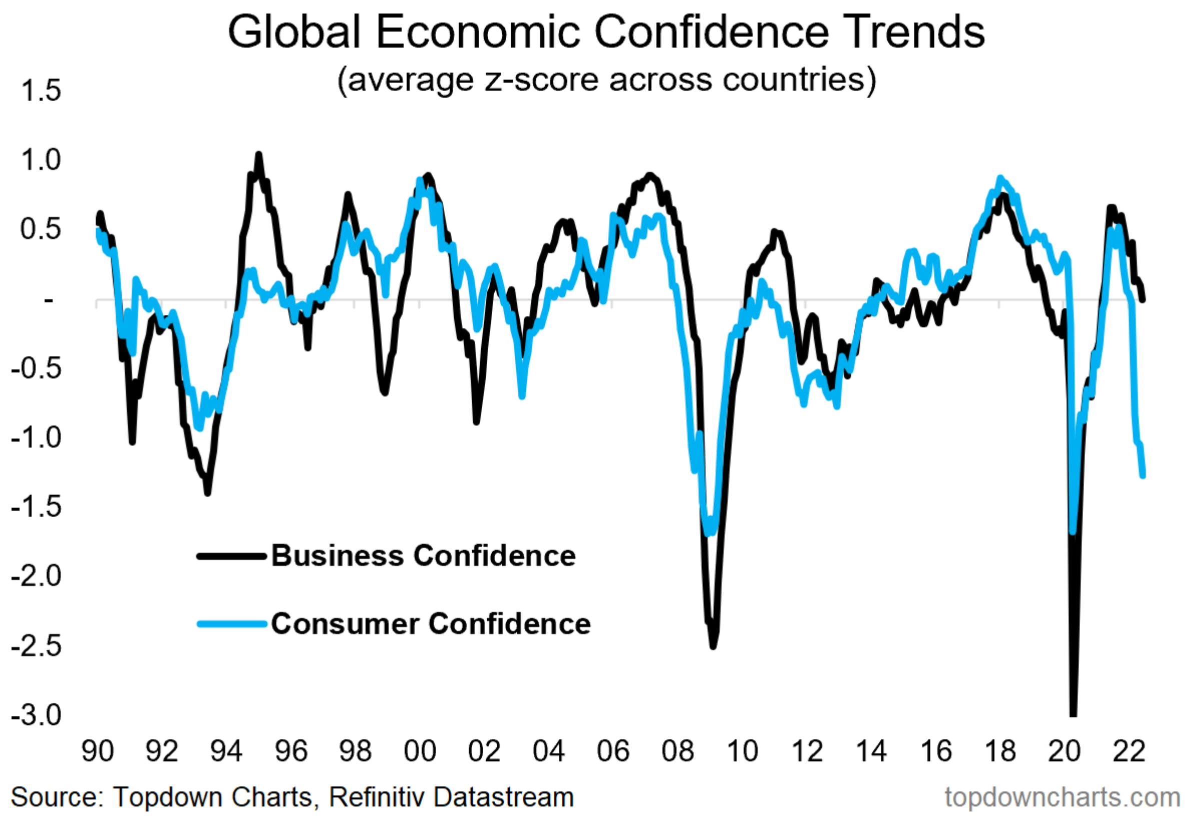
Globally, consumer confidence surveys have fallen off a cliff thanks to the commodity shock, geopolitics, asset price deflation vs generalized cost inflation. Business confidence is following closely behind, and could well be the next shoe to drop in that chart. Meanwhile the breadth of PMI readings across countries tells a story of an emergent weakening growth trend.





1. PMI Pulse/Recession Watch

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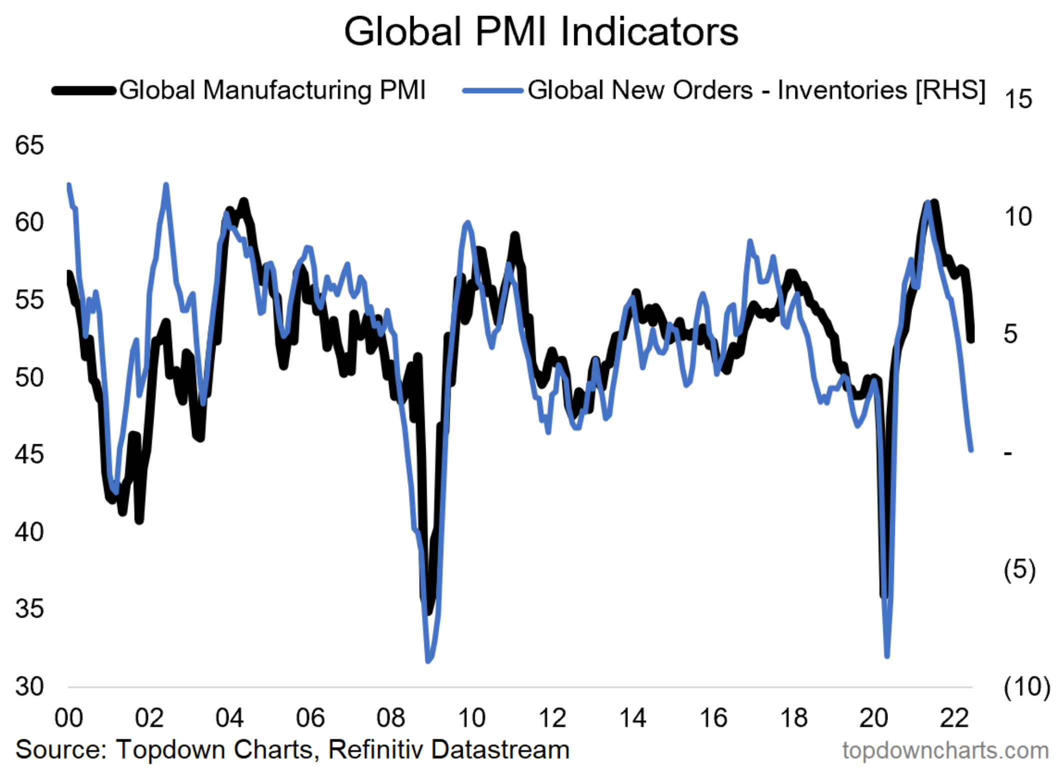
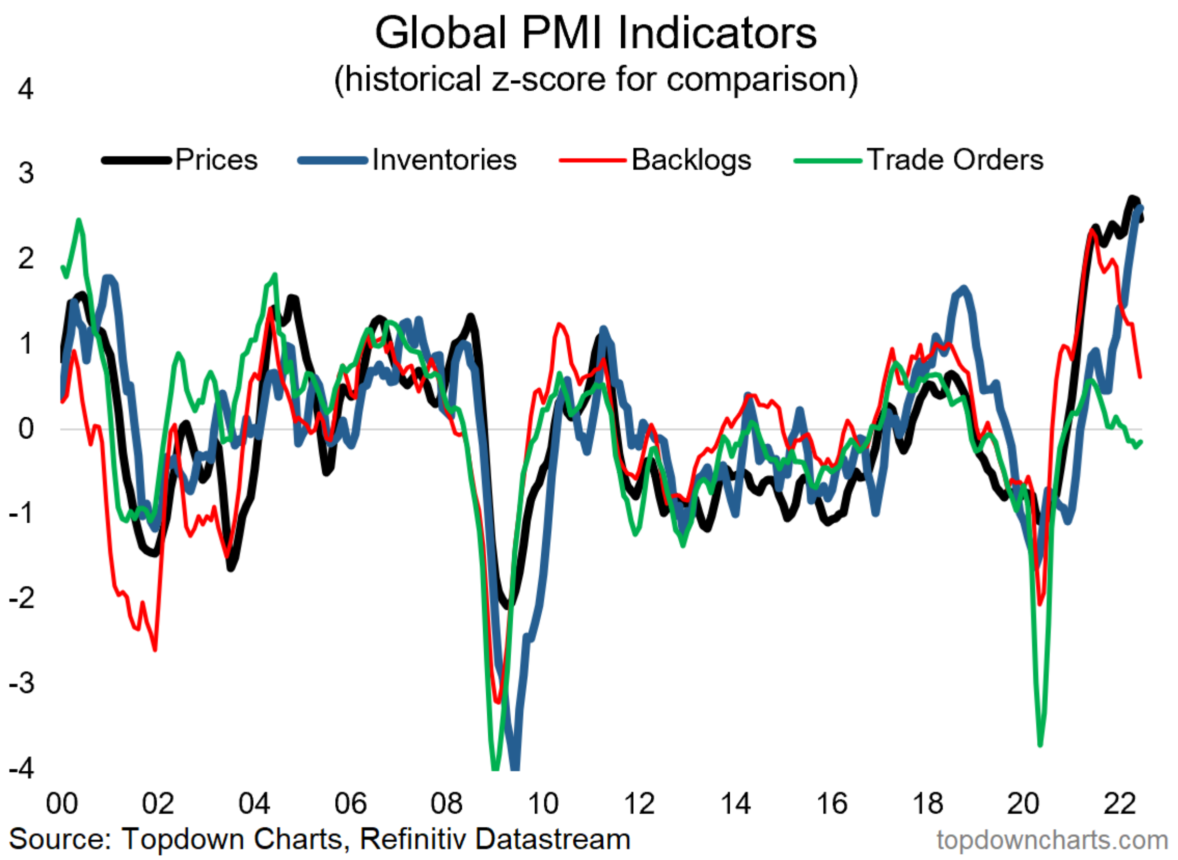
The detail of the global PMIs affirms that with the new orders vs inventories indicator pointing to the global PMI dropping towards the mid-40's and a transition of problems from excess backlogs to now excess inventories.





1. PMI Pulse/Recession Watch

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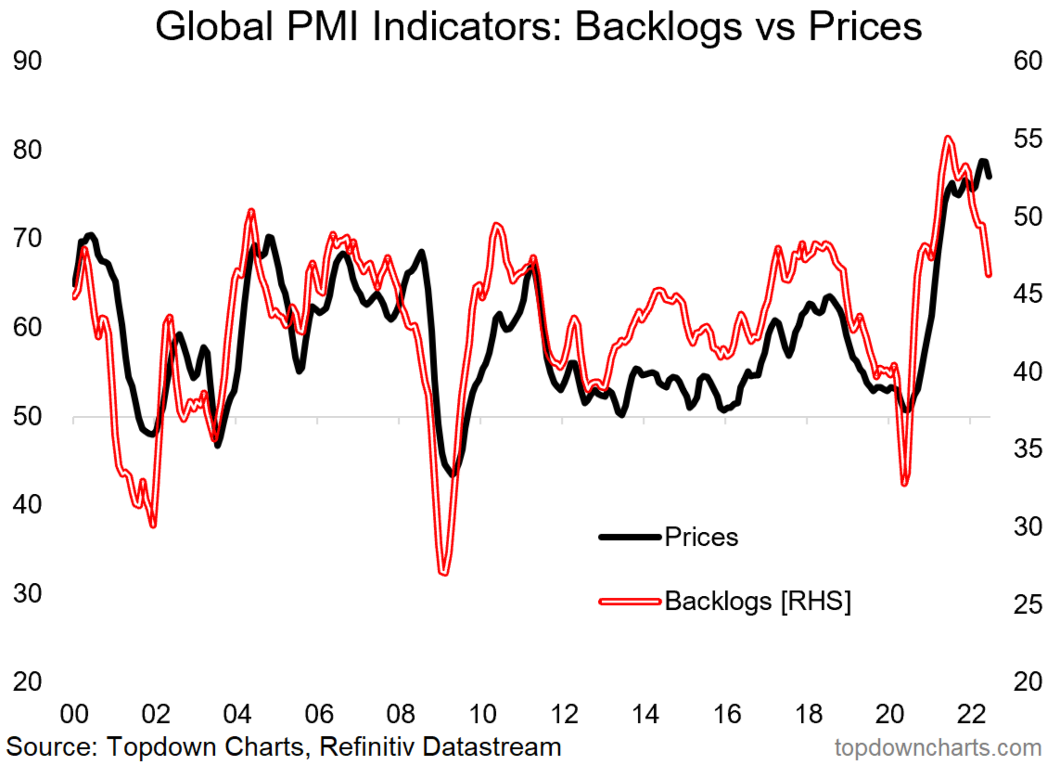
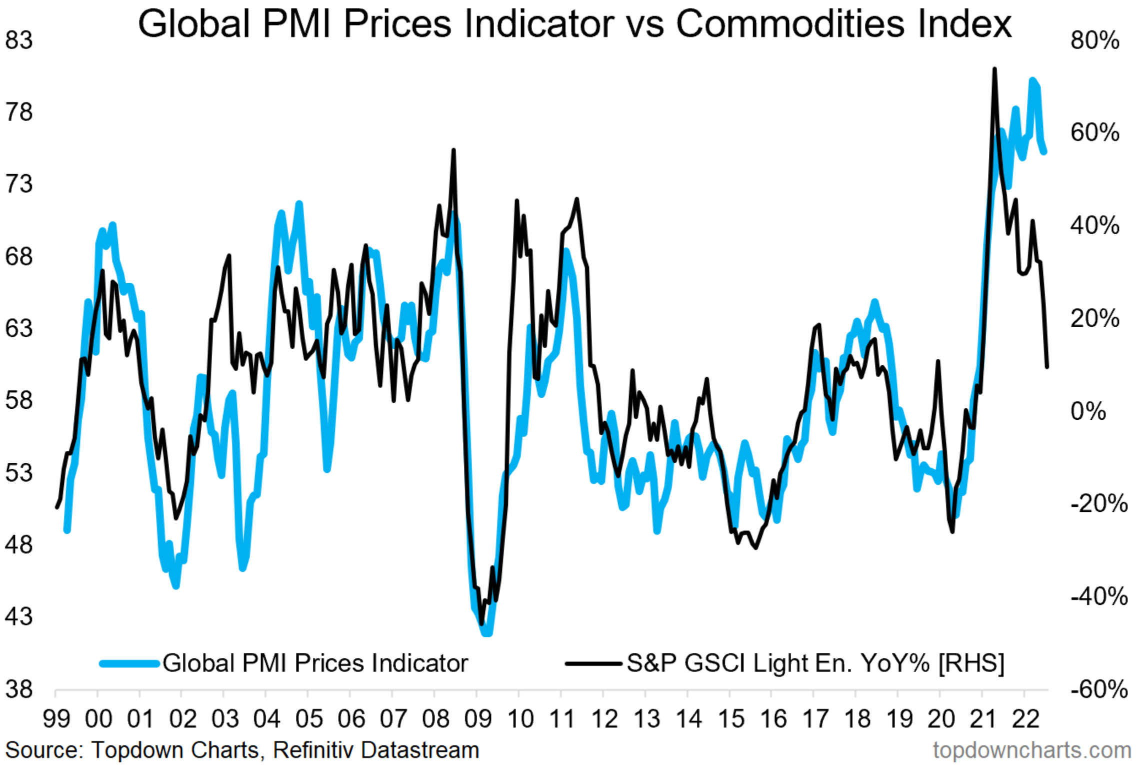
The easing-off in backlogs (and surge in inventories) will likely see pricing pressure starting to cool down too, especially given the moves in commodities (which are arguably reflective of the deteriorating growth outlook). The cooling off of inflation pressures is likely to give rise to a short-lived relief rally in equities as people get excited about a potential pause in policy tightening that may arise from that, however any such inflation relief rally could well be followed by an earnings disappointment correction if the leading indicators are anything to go by.





2. Stocks vs Bonds

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2. Stocks vs Bonds: All consistent with the bearish stocks vs bonds view…

- Prospective downside in the PMIs is consistent with bonds outperforming stocks.
- Aside waning economic momentum, weakening price momentum is also clear with the stock/bond ratio turning down after becoming quite stretched vs trend.
- The leading indicators point to bonds outperforming stocks over the next 6-18 months, and the next leg down in relative performance is likely to be driven by bonds turning in positive absolute returns (vs both stocks + bonds falling in H1).
- Sentiment and positioning are also turning down (e.g. sentiment now net-bullish bonds vs stocks), but remain far from washed out/contrarian levels.
- Relative value favours bonds vs stocks (notably, bonds are the only asset showing up as cheap – stocks, commodities, and especially property all still expensive).
- Globally it is same story: global stock vs bond breadth across countries has turned down (bonds starting to gain the upper hand vs stocks around the world).
- The stock/bond ratio appears to be topping out across the major chunks of global equities, and similarly – momentum has very clearly tapered off.

Bottom line: Reiterate bearish view on the stock/bond ratio (macro, technicals, sentiment, positioning, relative value); anticipate next wave features positive absolute returns for bonds.

2. Stocks vs Bonds

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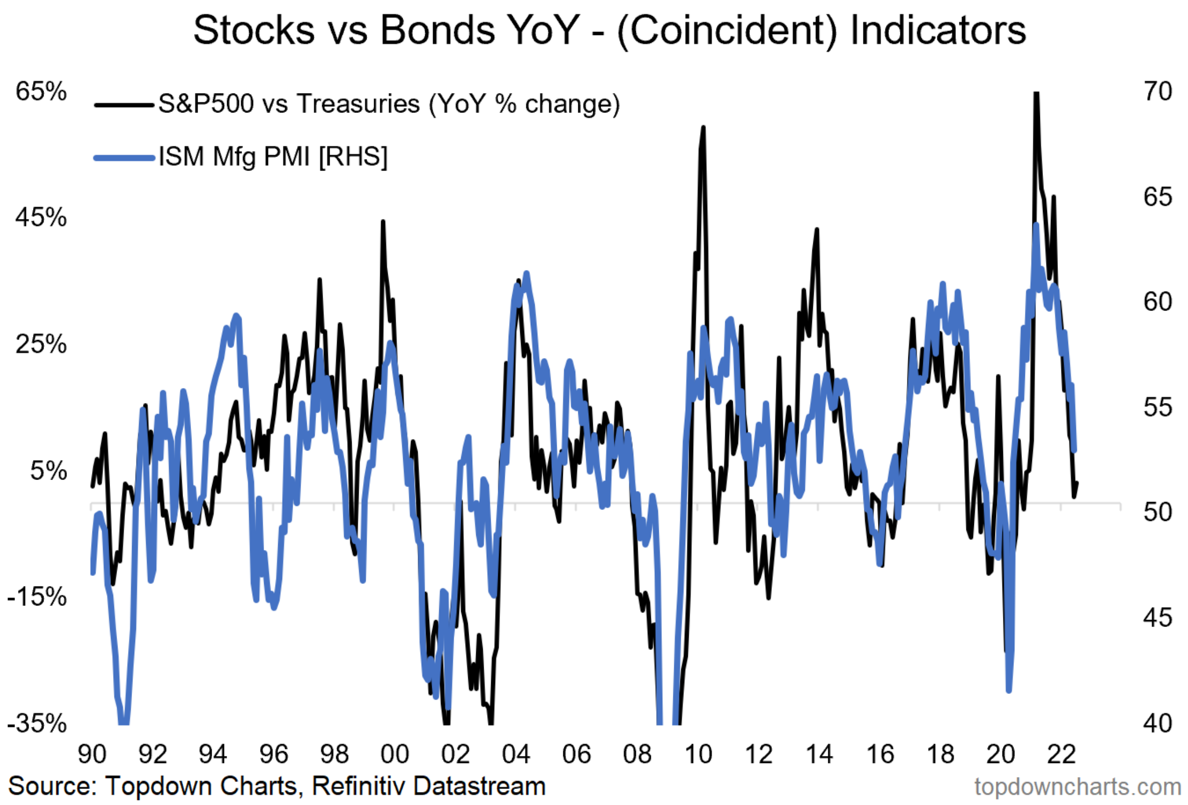
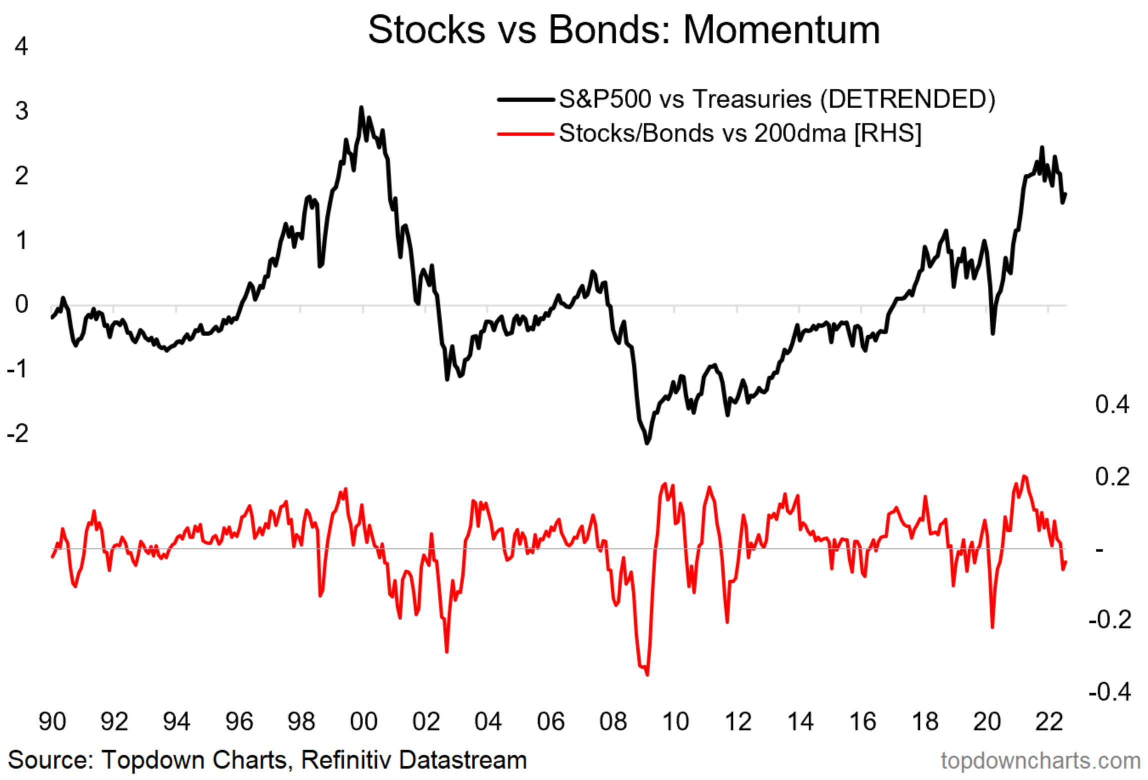
Following on from the previous topic with the prospective PMI passage into the 40's, this would be entirely consistent and fundamentally reinforcing of bonds outperforming stocks. Aside from the loss of economic momentum, the turn down in price momentum is also clear with the stock/bond ratio turning down after becoming quite stretched vs trend.





2. Stocks vs Bonds

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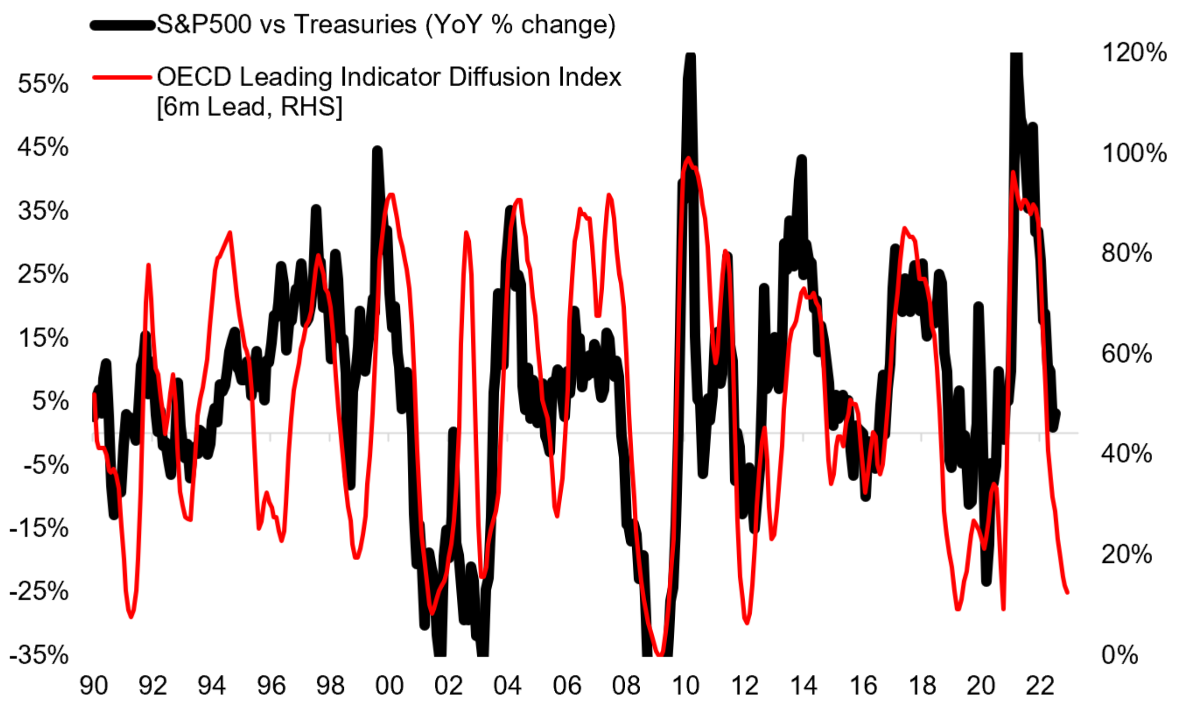
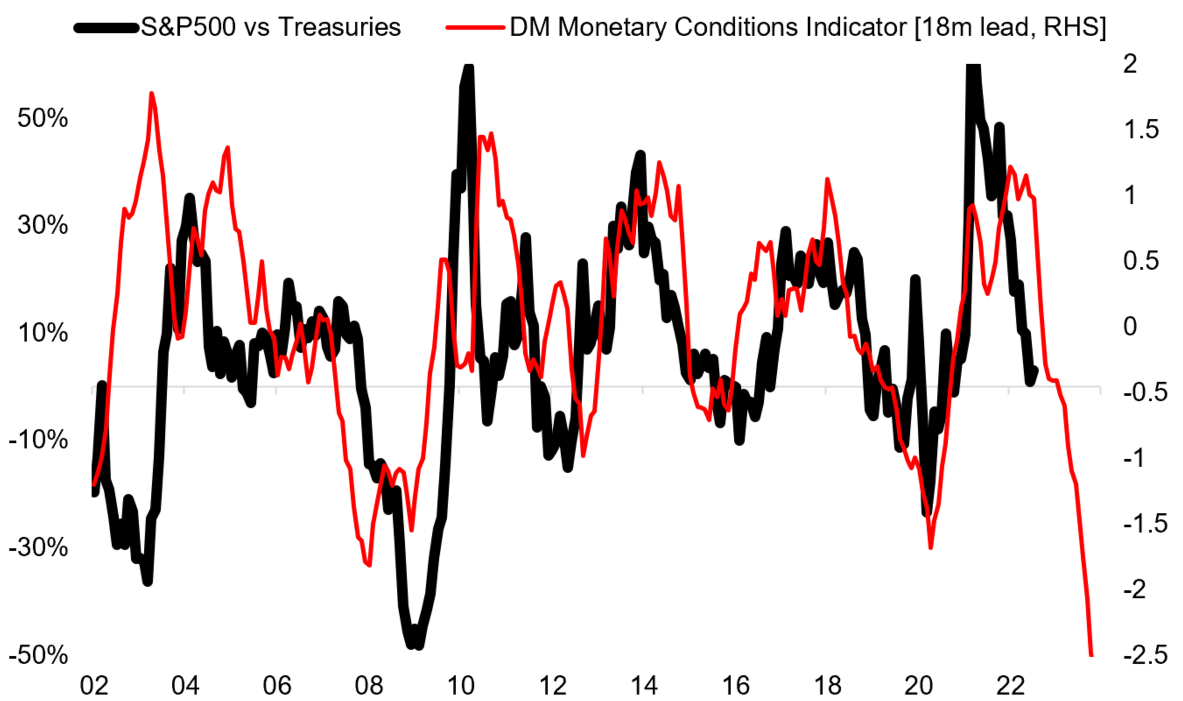
On the economic momentum aspect, the leading indicators are also pointing to bonds outperforming stocks. Given this is likely to be in a recessionary environment it's quite likely that going forward the next leg down in stocks vs bonds will be more driven by positive absolute returns from bonds, unlike in H1 where both were negative, but bonds were slightly less negative.

Stocks vs Bonds YoY - Leading Indicators



Source: Topdown Charts, Refinitiv Datastream   topdowncharts.com

Stocks vs Bonds YoY - Leading Indicators



Source: Topdown Charts, Refinitiv Datastream   topdowncharts.com

2. Stocks vs Bonds

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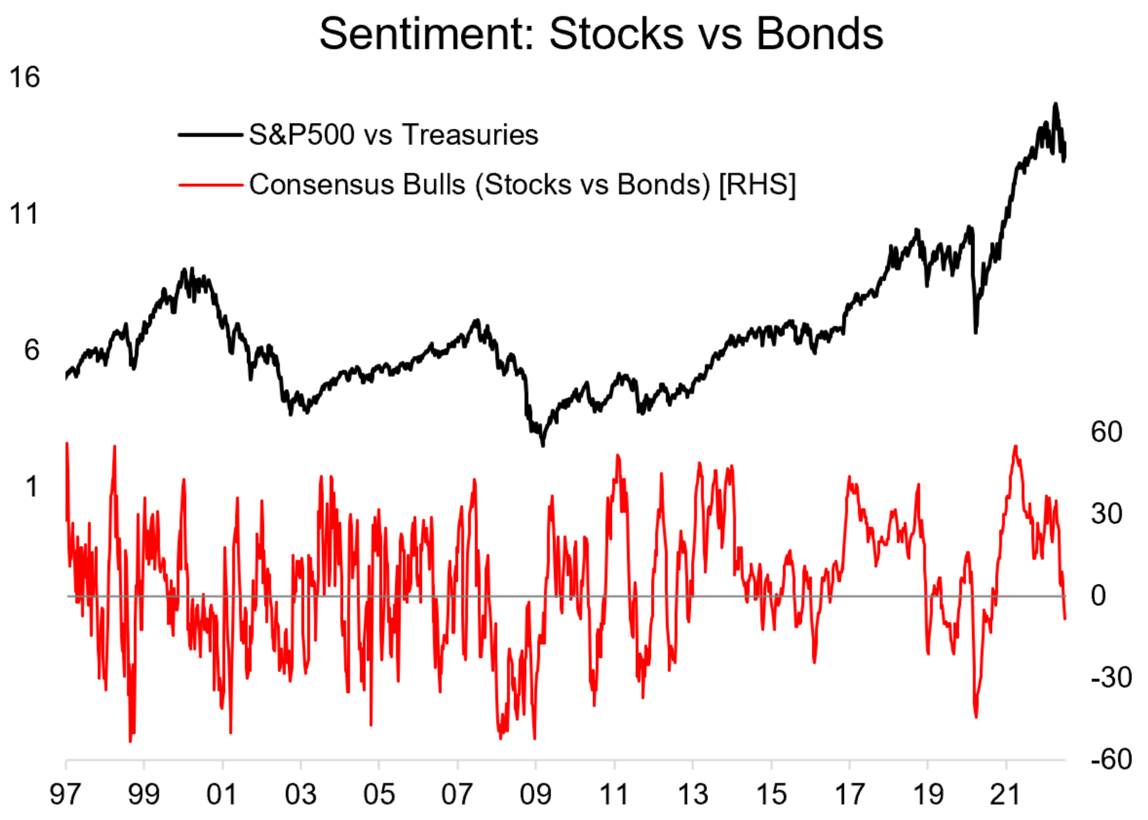
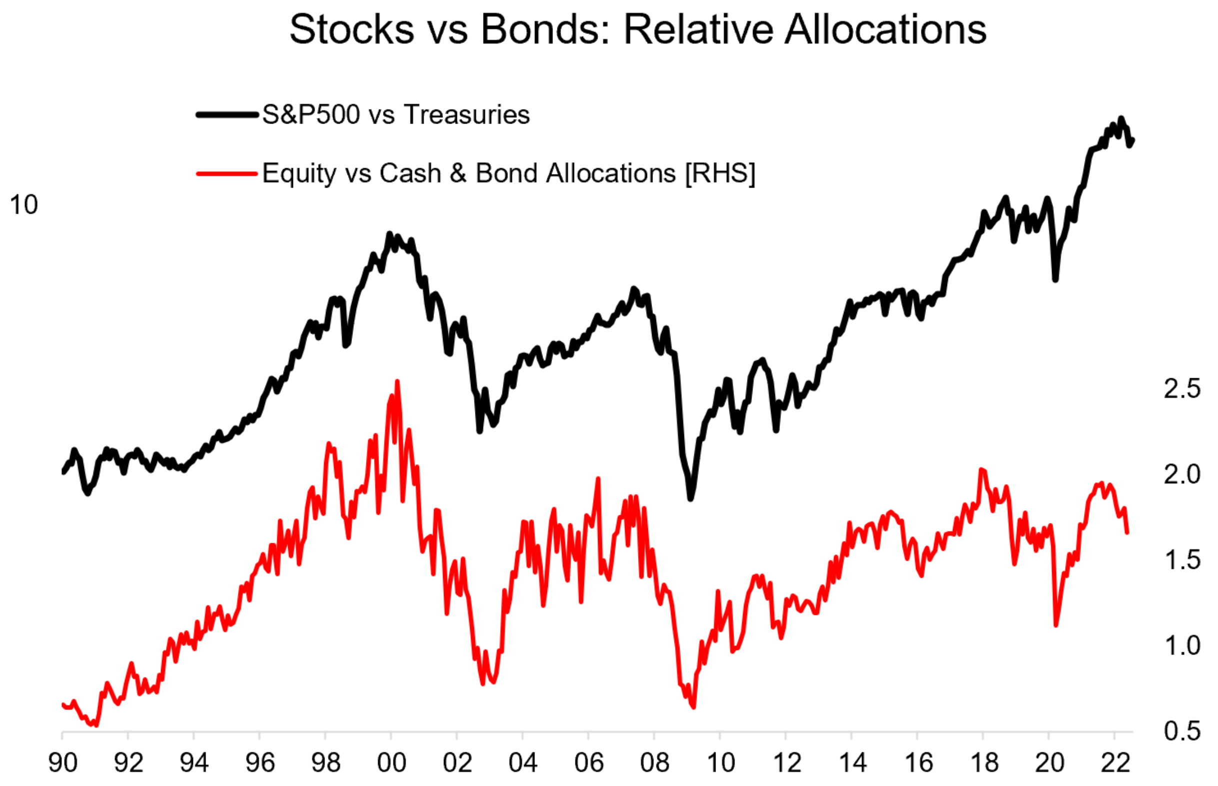
The other key development is the shift in sentiment and positioning. Relative sentiment has moved below 0, indicating that investors are now net-bullish on bonds vs stocks. The moves in this indicator are consistent with a topping pattern in the stock/bond ratio (bearish divergence). On positioning, the equity vs cash+bonds allocation ratio has rolled over from the upper end of the range, and on both respects remains far from contrarian bullish levels (e.g. cf 2020).



Source: Topdown Charts, Refinitiv, Consensus Inc. topdowncharts.com

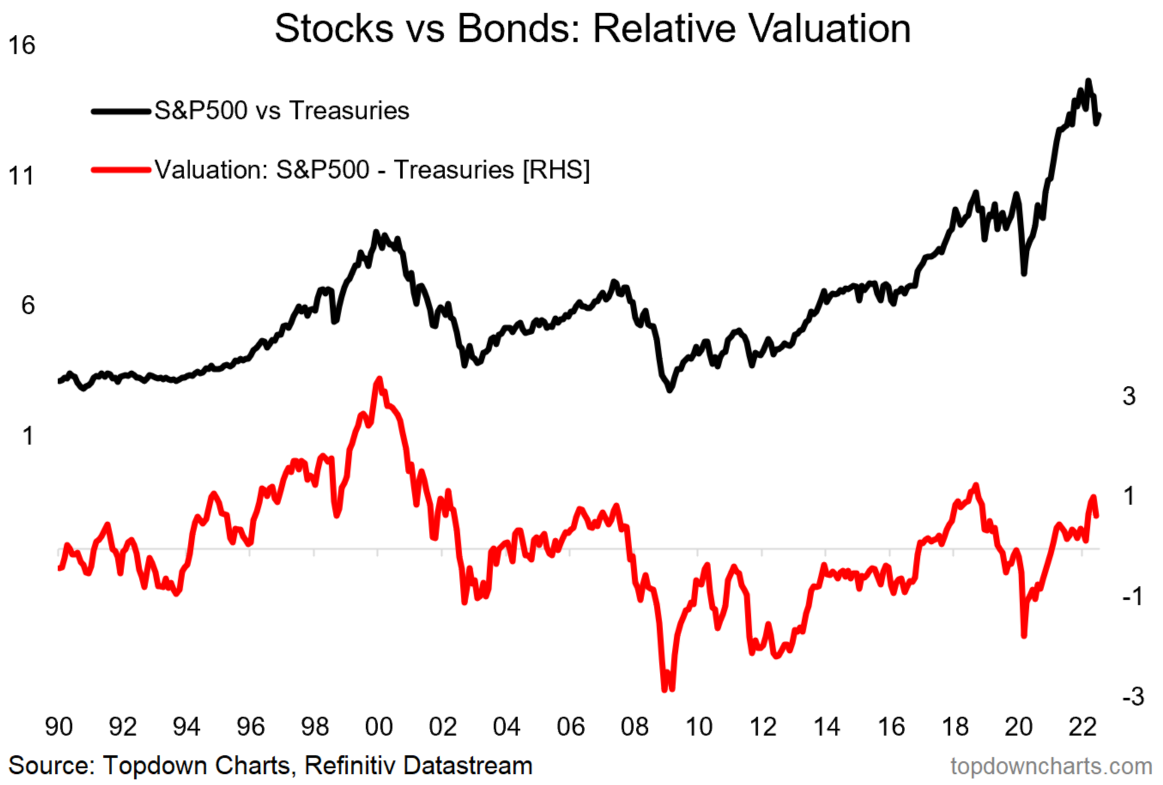


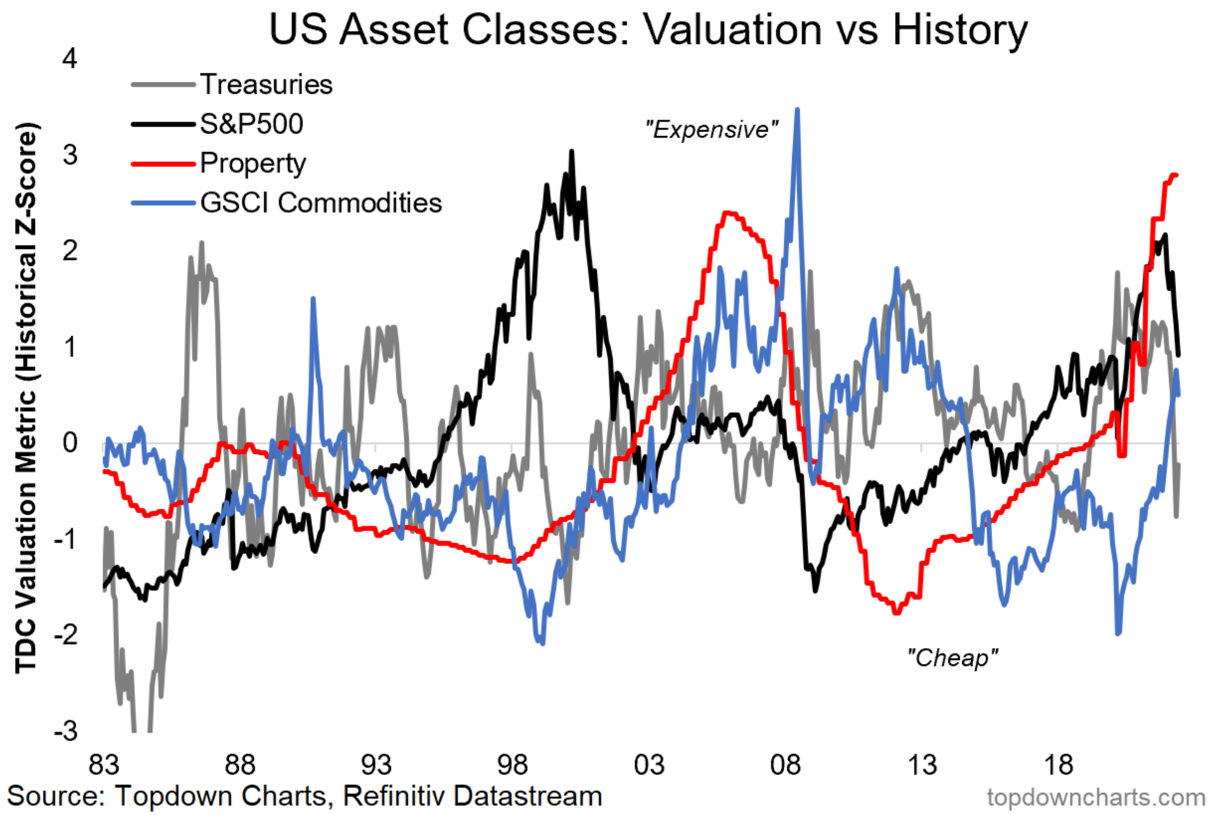
Source: Topdown Charts, Refinitiv Datastream topdowncharts.com

2. Stocks vs Bonds

TOP DOWN CHARTS

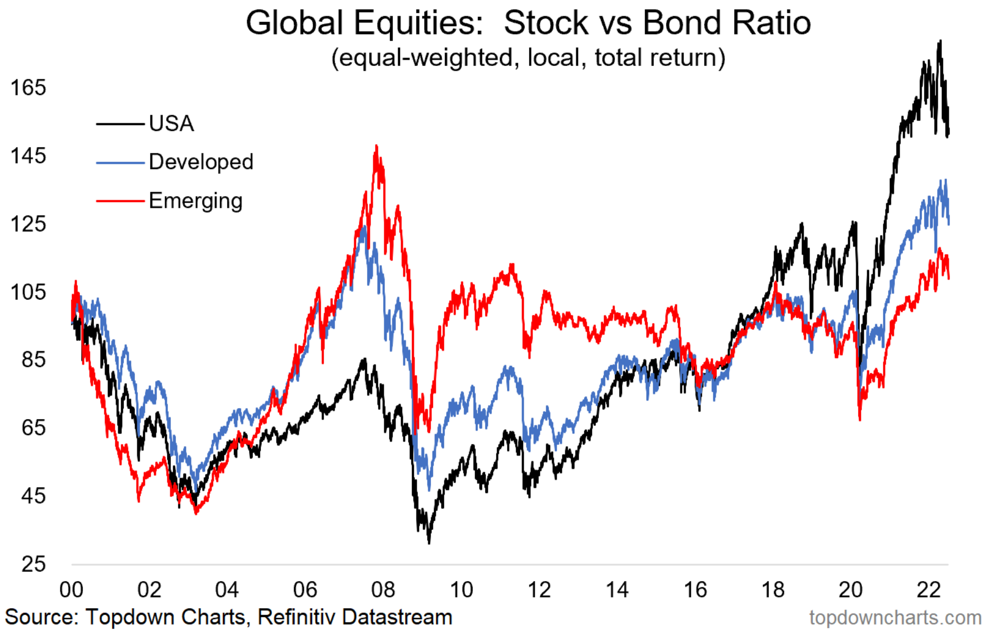
On relative value, it is a bit different this time as while stocks were certainly extreme expensive, bonds were also previously showing up as expensive. At this point the relative value indicator is starting to pull back from slightly elevated levels, again it is very far from being at a point where it would favour stocks vs bonds. Meanwhile, it's also interesting to note that bonds are basically the only asset class where there is clear value at the moment (meanwhile property valuations are a bit of a concern: possibly a risk-point).

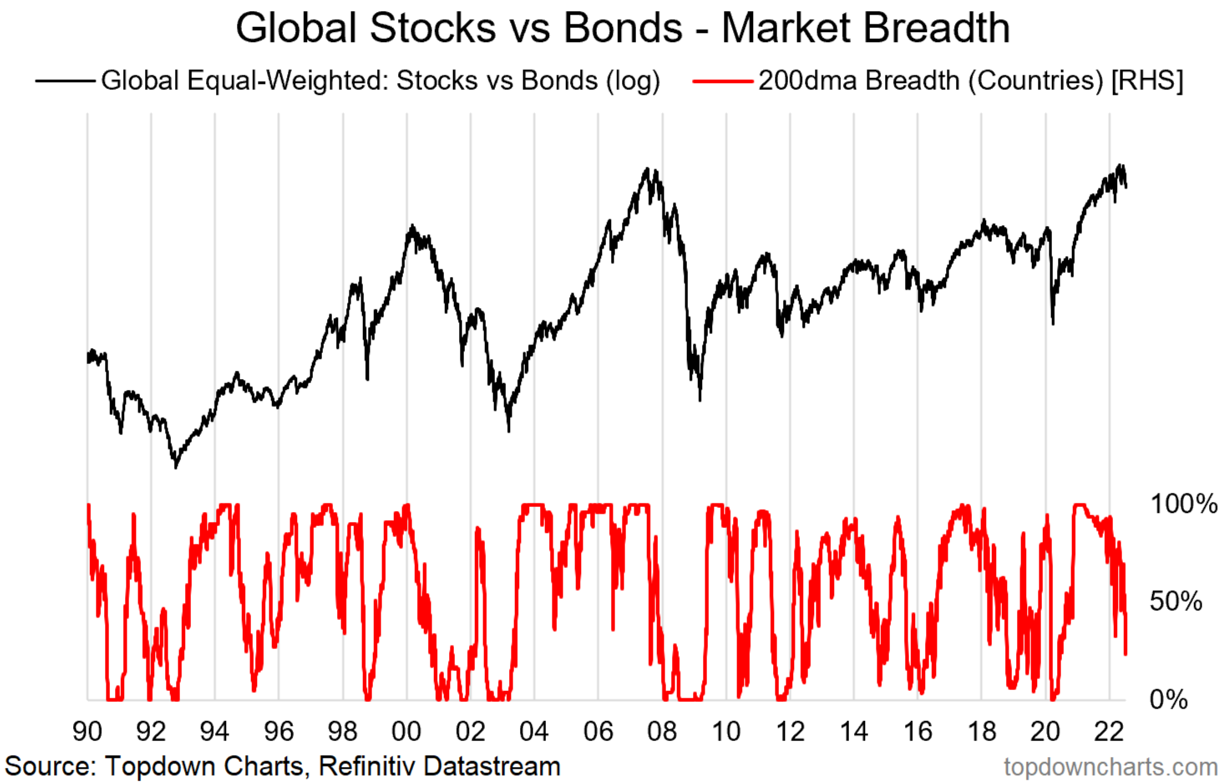


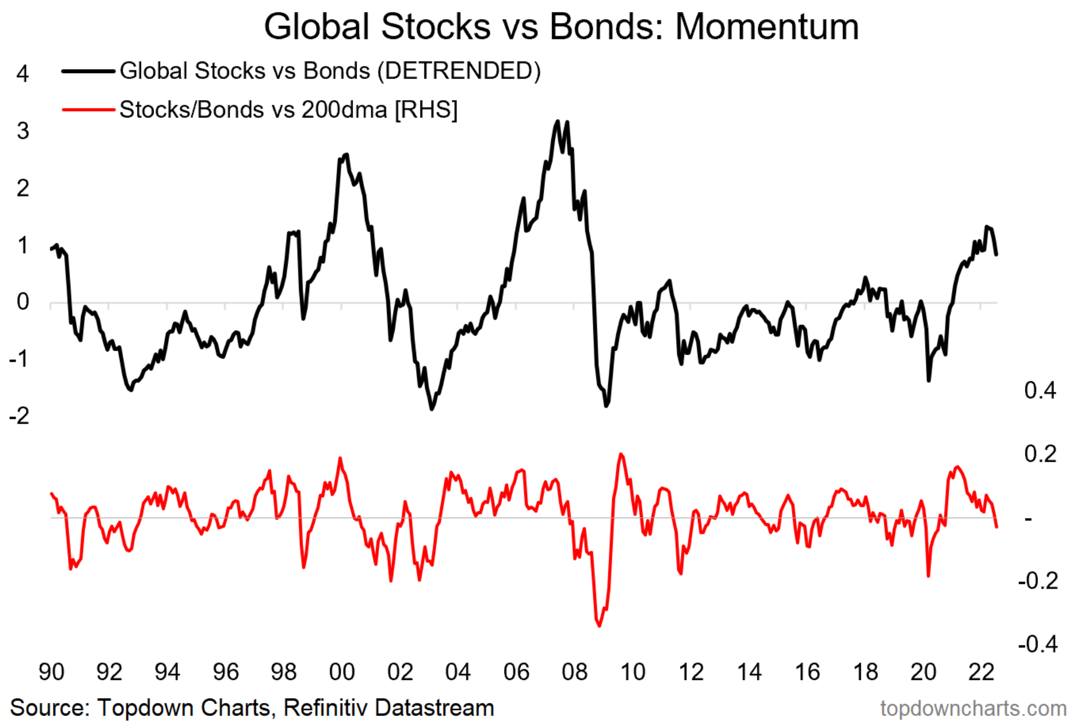


2. Global Stocks vs Bonds

Globally it is very much the same story: global stock vs bond breadth across countries has turned down (bonds starting to gain the upper hand vs stocks around the world), the stock/bond ratio appears to be topping out across the major chunks of global equities, and similarly – momentum has very clearly tapered off. All consistent with and reinforcing the bearish stocks vs bonds view.







3. EMFX

TOP DOWN CHARTS

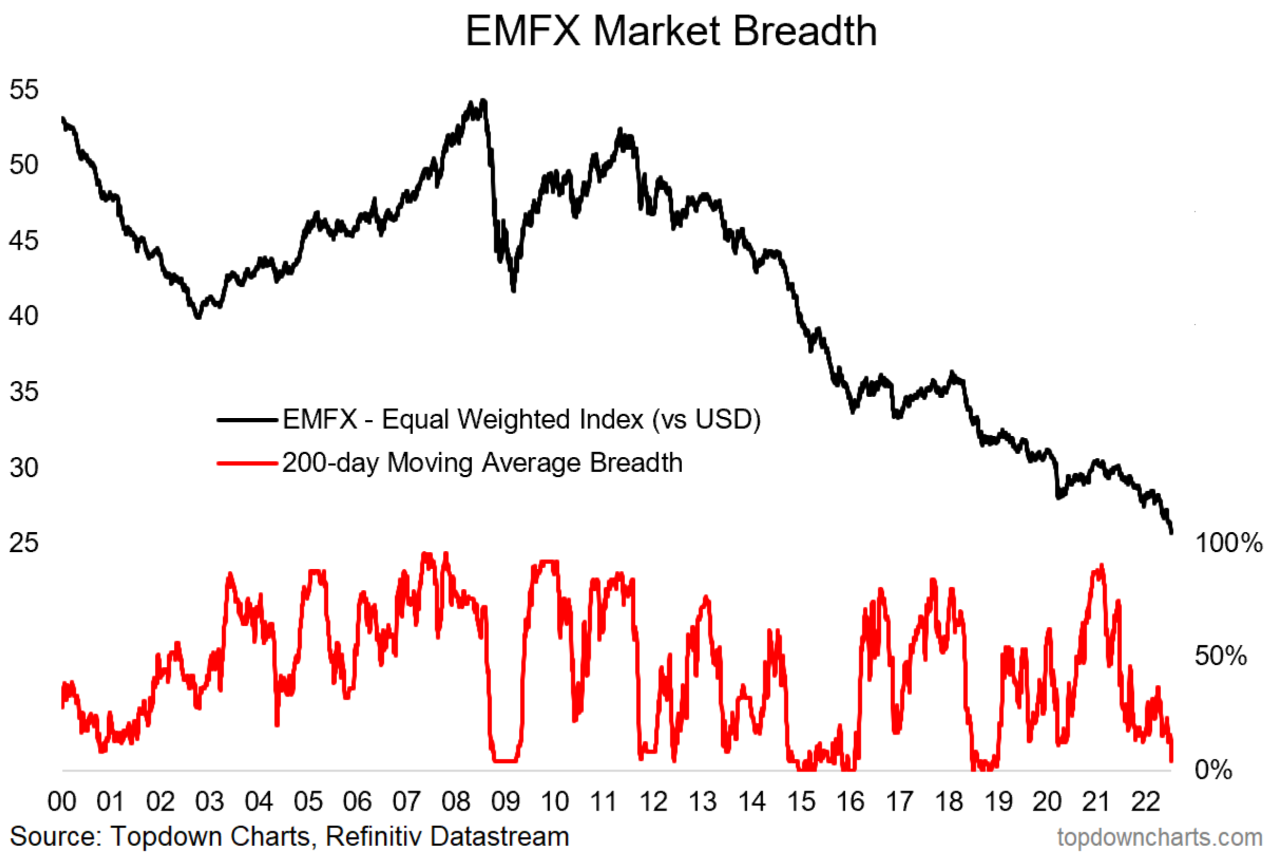
3. EMFX: A concerning array of concerns…

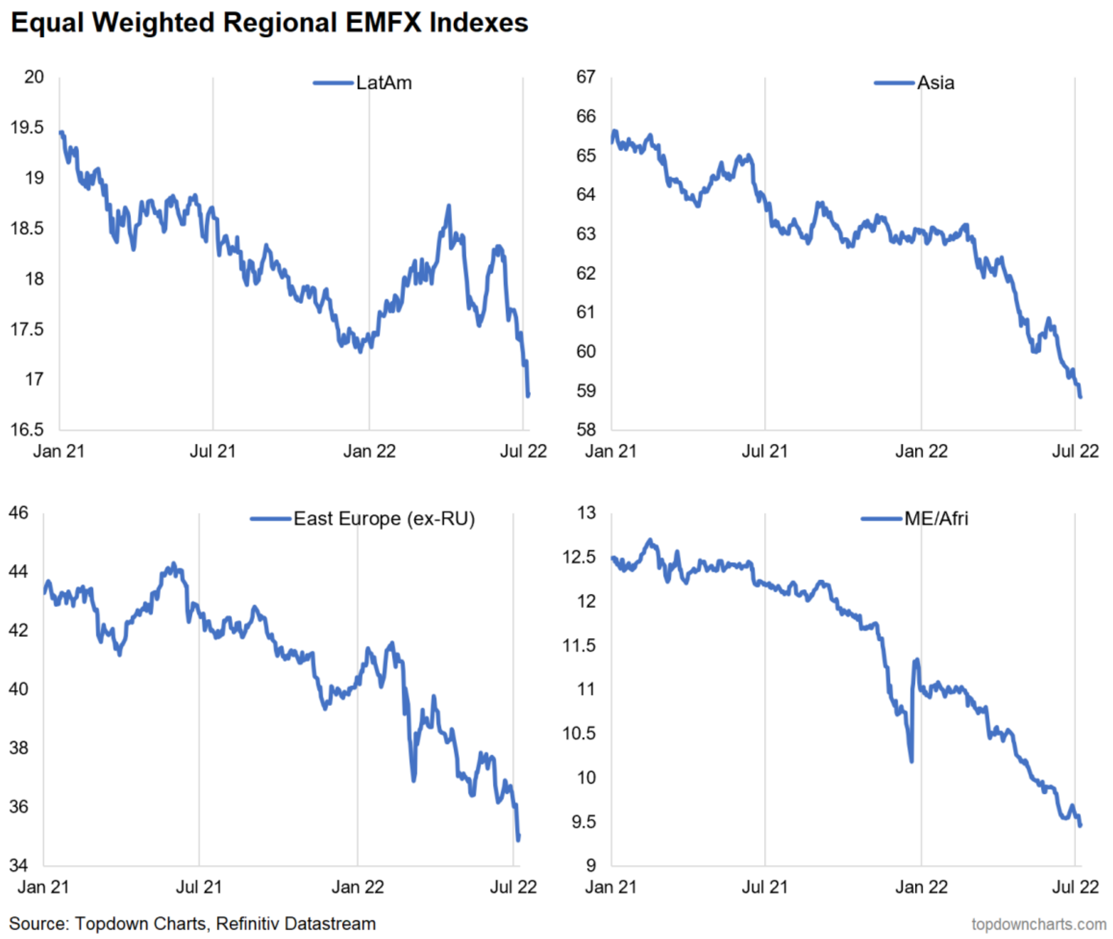
- EMFX has gone from bad to worse, breaking down to new lows and shifting into capitulation mode.
- The breakdown in Asian FX has been reinforcing the latest leg down, and even the previous strong spot of LatAm FX has broken down to new lows.
- Weakness in commodities is also reinforcing the move (ironically, previous strength in commodities did not help, but we could easily see "recoupling" on the way down).
- EM equities (in local currency terms) had been actually tracing a similar path (both trending downwards). Similarly, the concern is a breakdown in EMFX drives another leg down in EM equities – and they already look vulnerable at this point.
- EM sentiment and risk pricing have corrected somewhat, but the risk-case would be weakness across EMFX, EM equities, commodities, driving a cathartic last leg down and blowout in risk sentiment and collapse in investor sentiment to the lows.
- Meanwhile valuations for EMFX have dropped to the lowest since the early 2000's, and policy rate differentials are tracing a familiar pattern.

Bottom line: Although the valuation picture is very compelling, the array of concerning intermarket signals and clear bearish momentum means best to go neutral pending better entry (and macro/sentiment/intermarket confirmation).

3. EMFX

EMFX has gone from bad to worse, with even the previous strong spots getting clobbered. Initially LatAm had been resilient on commodity strength, but that pillar has been removed now, and renewed momentum in the USD has driven a shift into capitulation mode for EMFX.





3. EMFX

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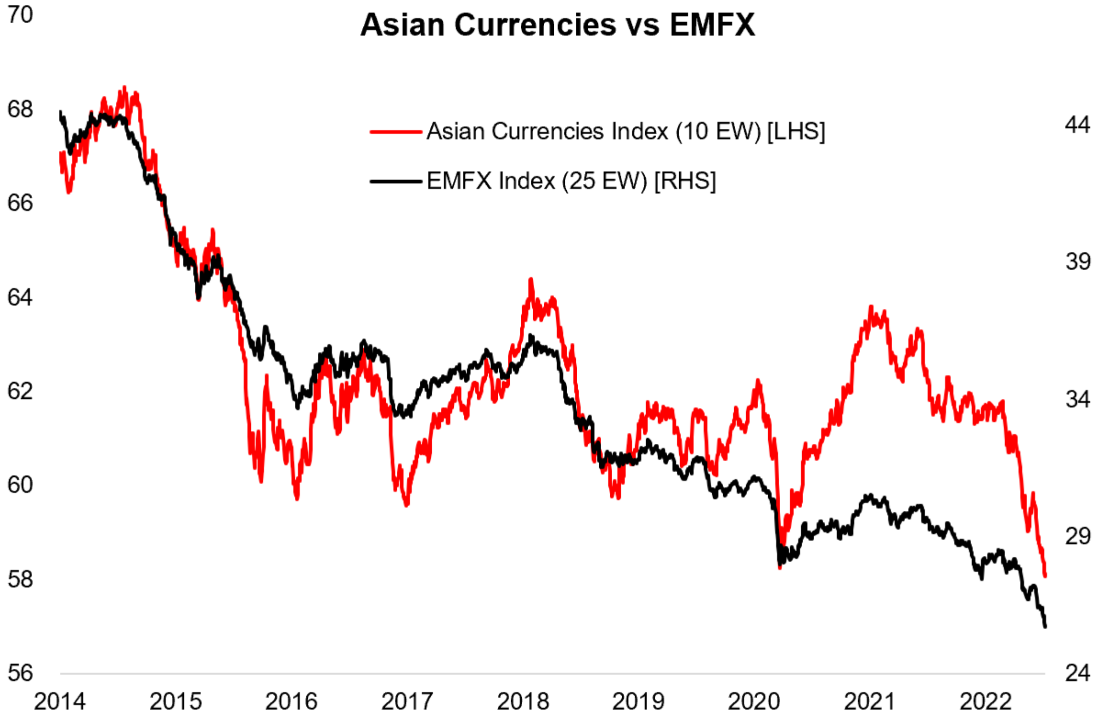
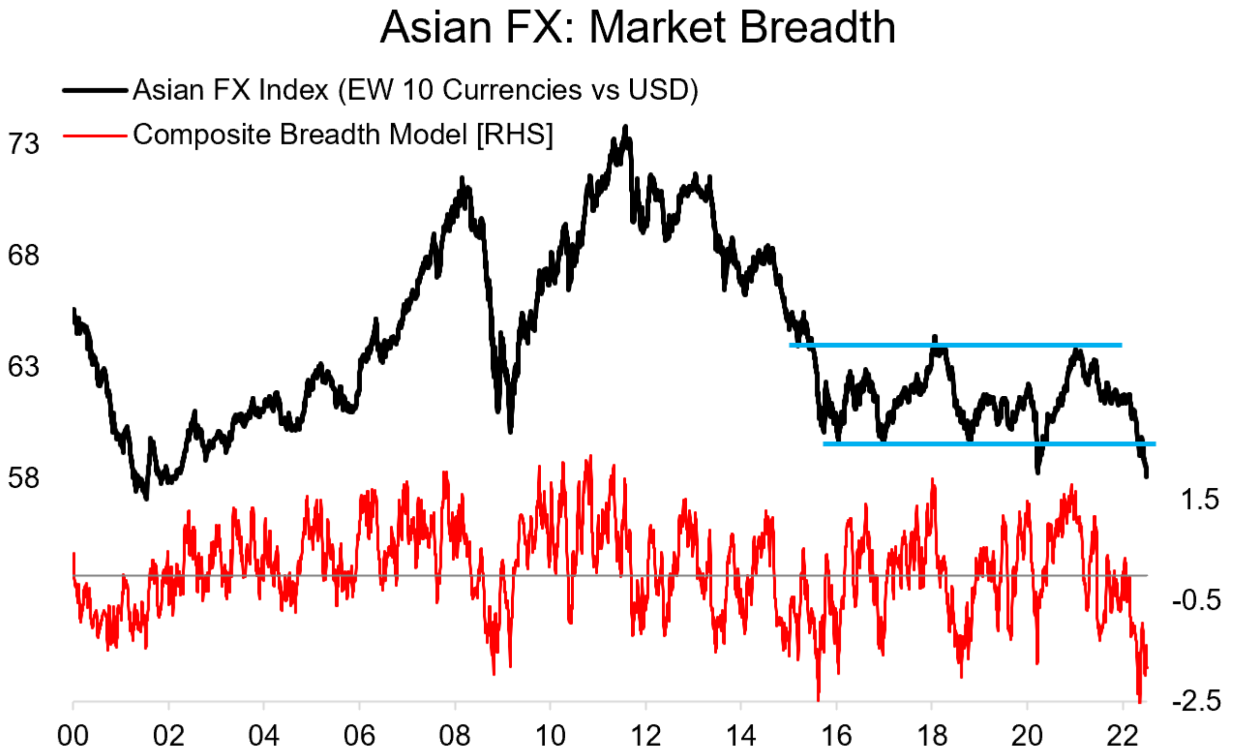
Asian FX had up until this year also been relatively resilient, but has likewise broken down – reinforcing the downdrafts in EMFX. The momentum is very clear and in one direction at this point. The concern is that it breaks down and keeps going like in 2014-15, or as during the financial crisis and early 2000's recession and bear market.



Source: Topdown Charts, Refinitiv Datastream
topdowncharts.com

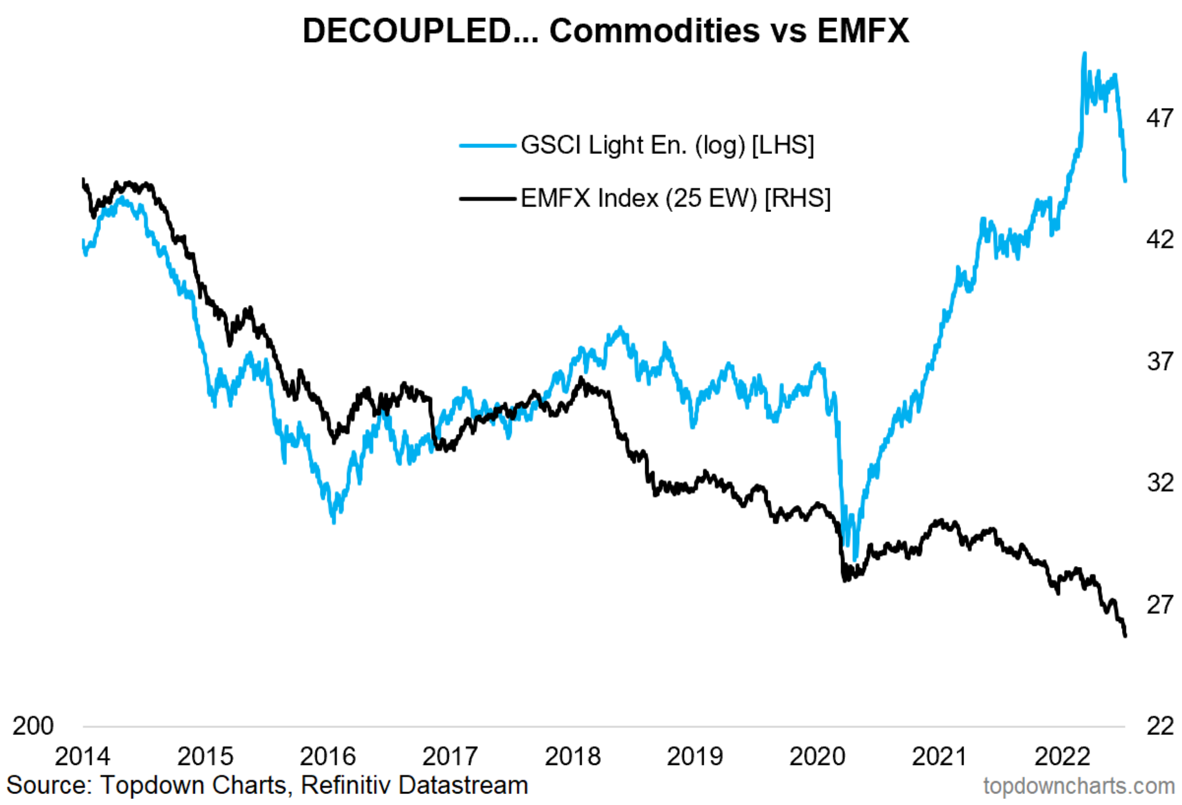


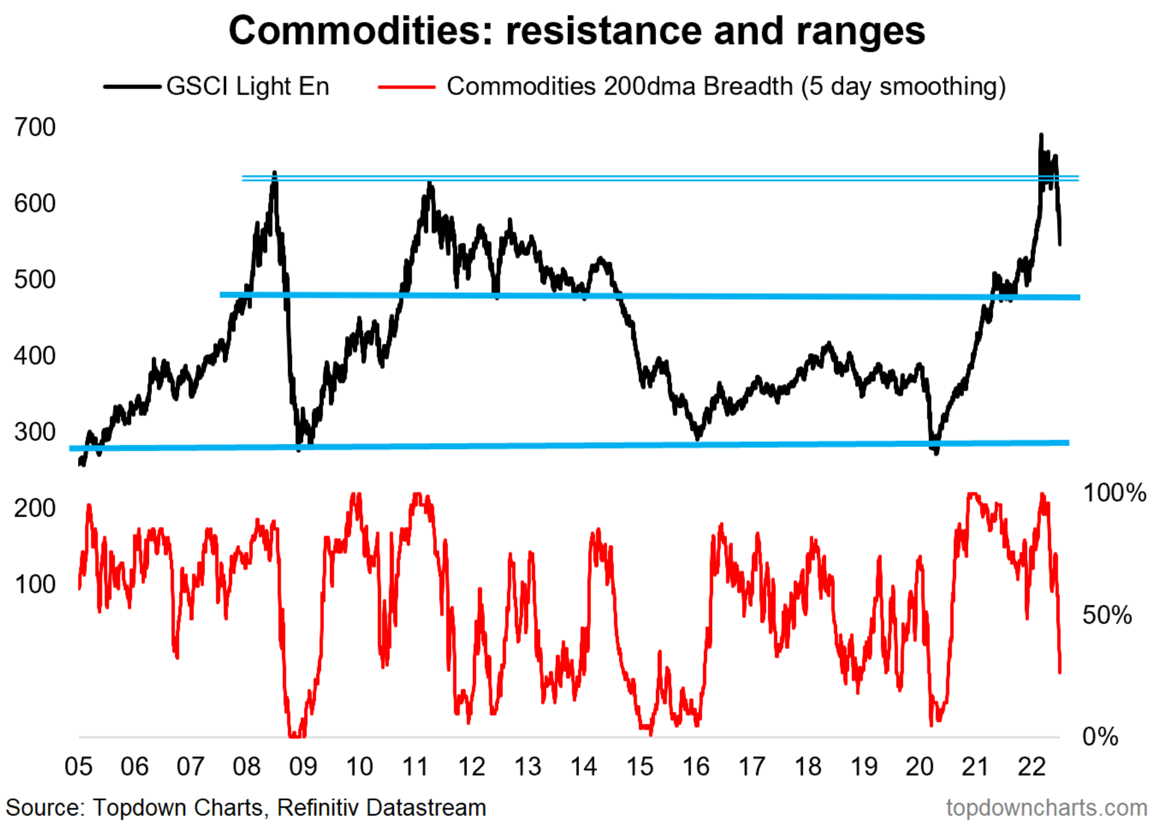
Source: Topdown Charts, Refinitiv Datastream
topdowncharts.com

3. EMFX

TOP DOWN CHARTS

It's a similar story with commodities: the GSCI had been diverging to the upside vs EMFX and even looked like it had basically decoupled – concern is that it recouples i.e. while upside in commodities didn't help much, downside in commodities could end up reinforcing the move (giving additional impetus to the US dollar, reflecting weaker demand across EM commodity consumers, and pain in EM commodity producers as prices come under pressure.

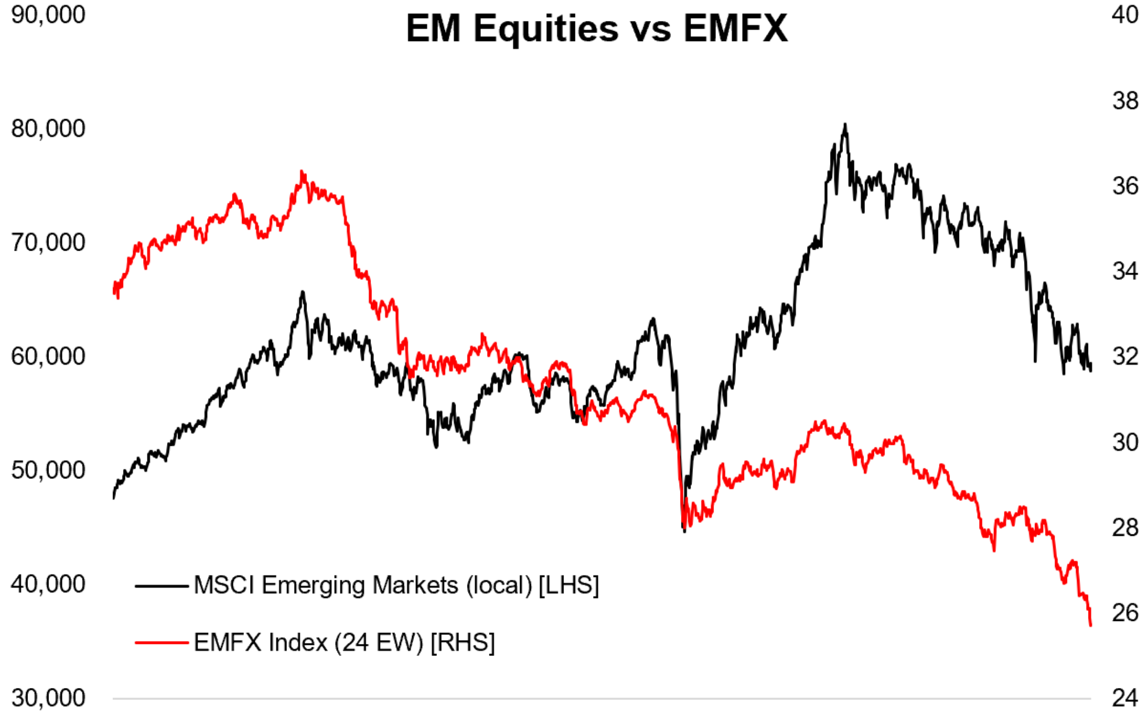




3. EMFX

TOP DOWN CHARTS

Similarly, on the equities, EM equities (in local currency terms even) had been actually tracing a similar path (both trending downwards). Similarly, the concern is a breakdown in EMFX drives another leg down in EM equities – and they already look vulnerable at this point (resting on that dotted uptrend line and with breadth still very weak).



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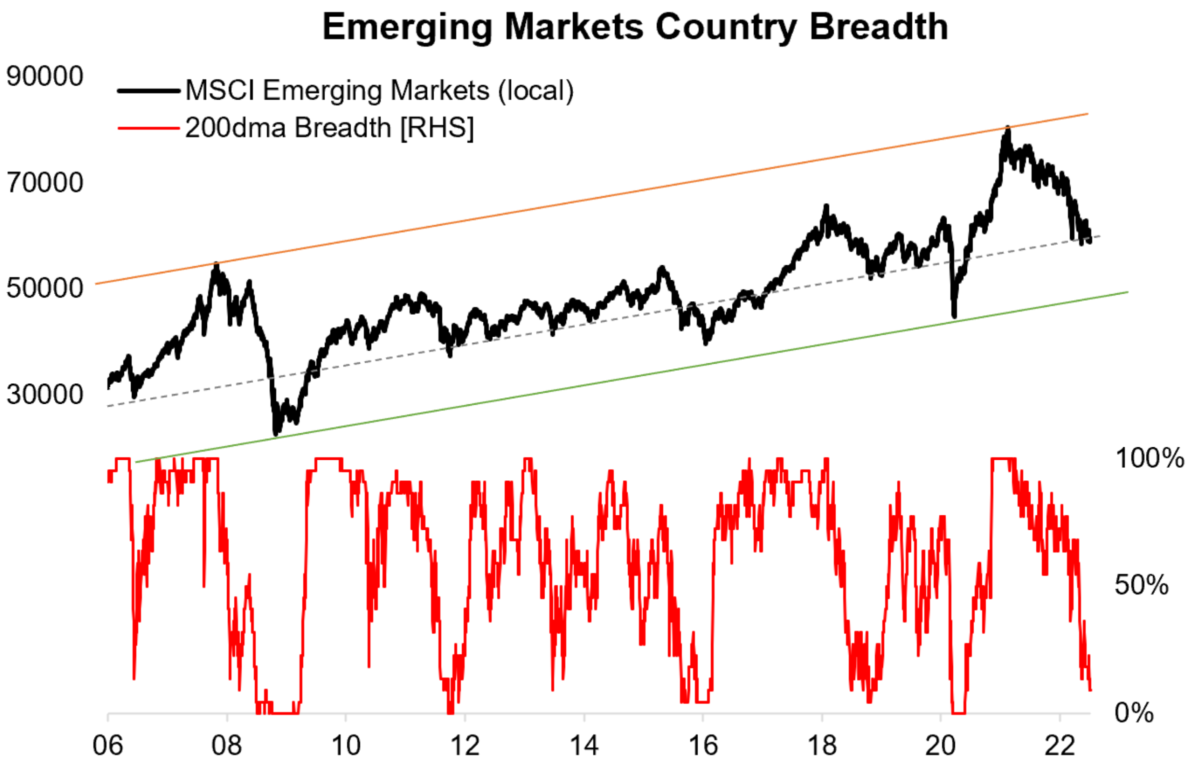
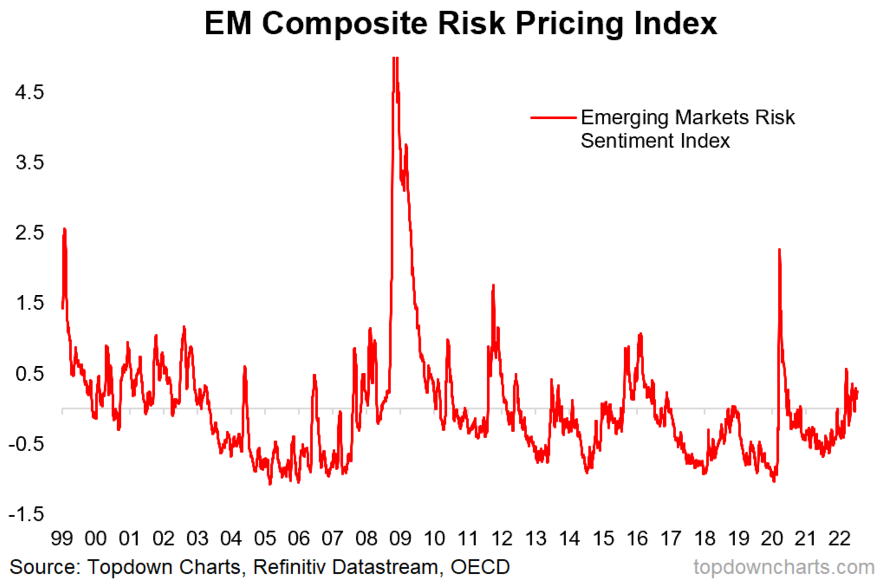
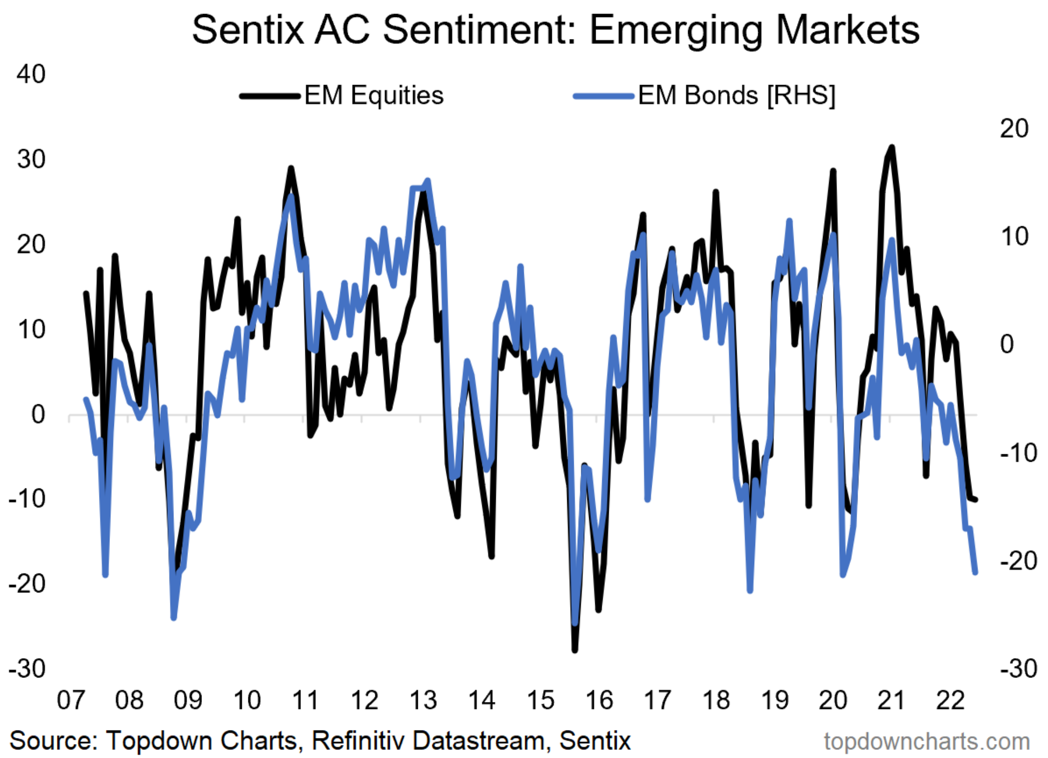


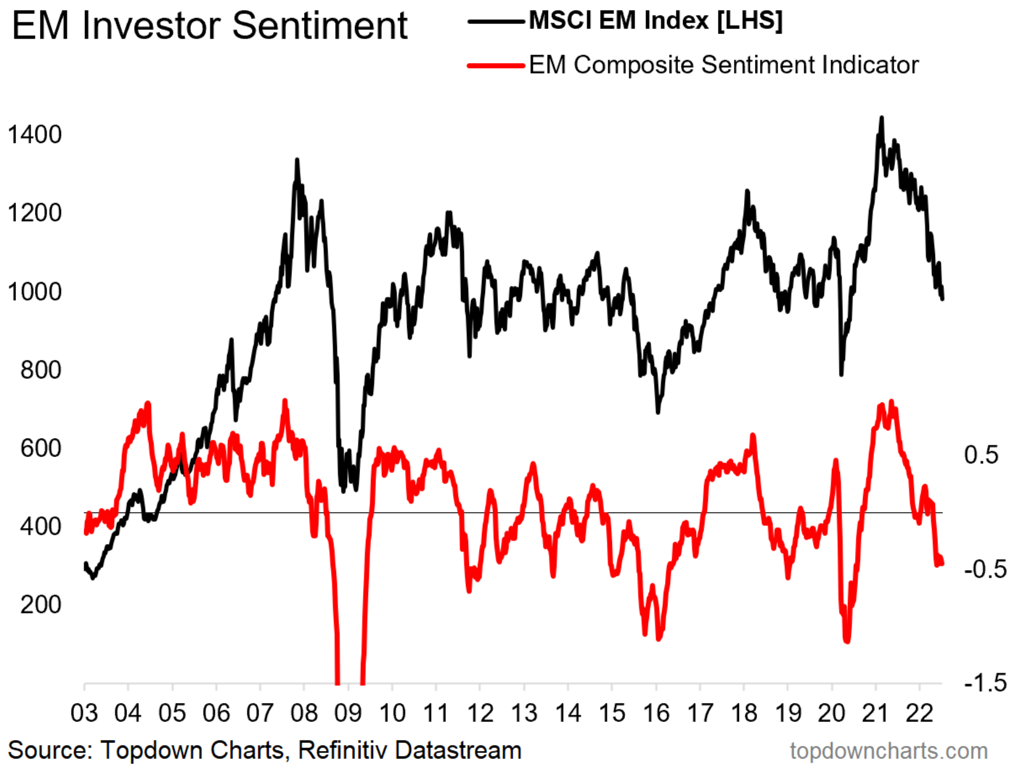
Source: Topdown Charts, Refinitiv Datastream
topdowncharts.com

3. EMFX

Hence it is unsurprising to see EM investor sentiment dropping towards the bottom end of the range, and other risk/sentiment indicators flaring up. One concern here is that neither of these indicators are yet at their worst. In other words, the risk-case would be weakness across EMFX, EM equities, commodities, driving a cathartic last leg down and blowout in risk sentiment and collapse in investor sentiment to the lows.



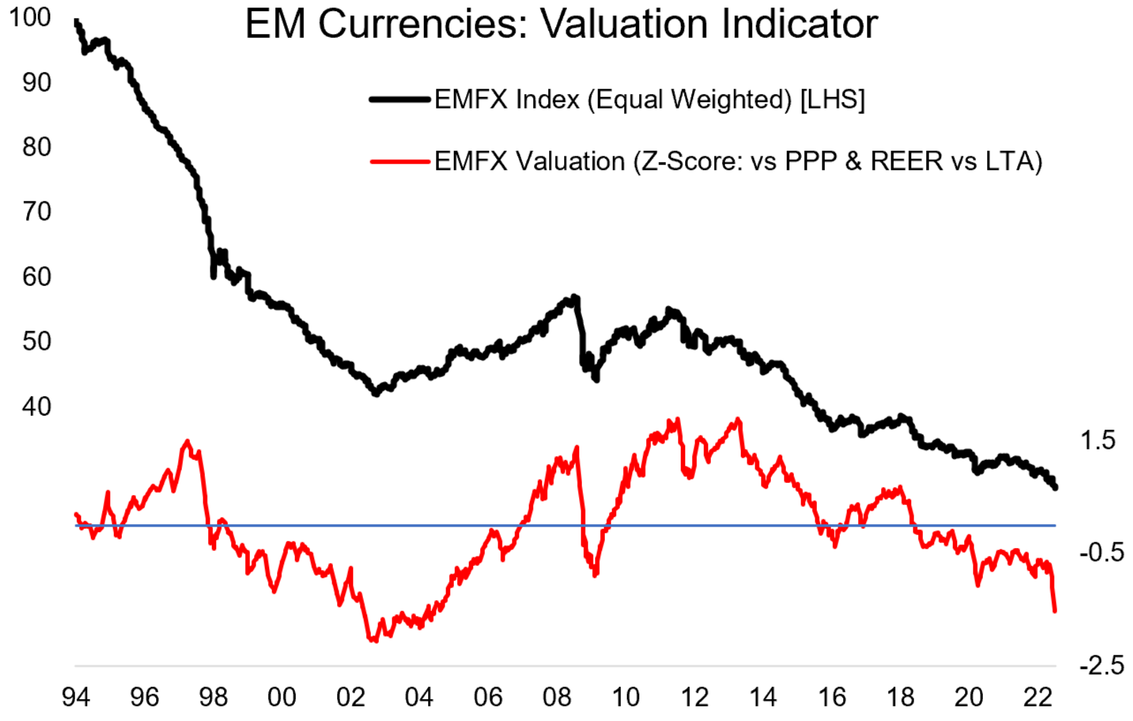




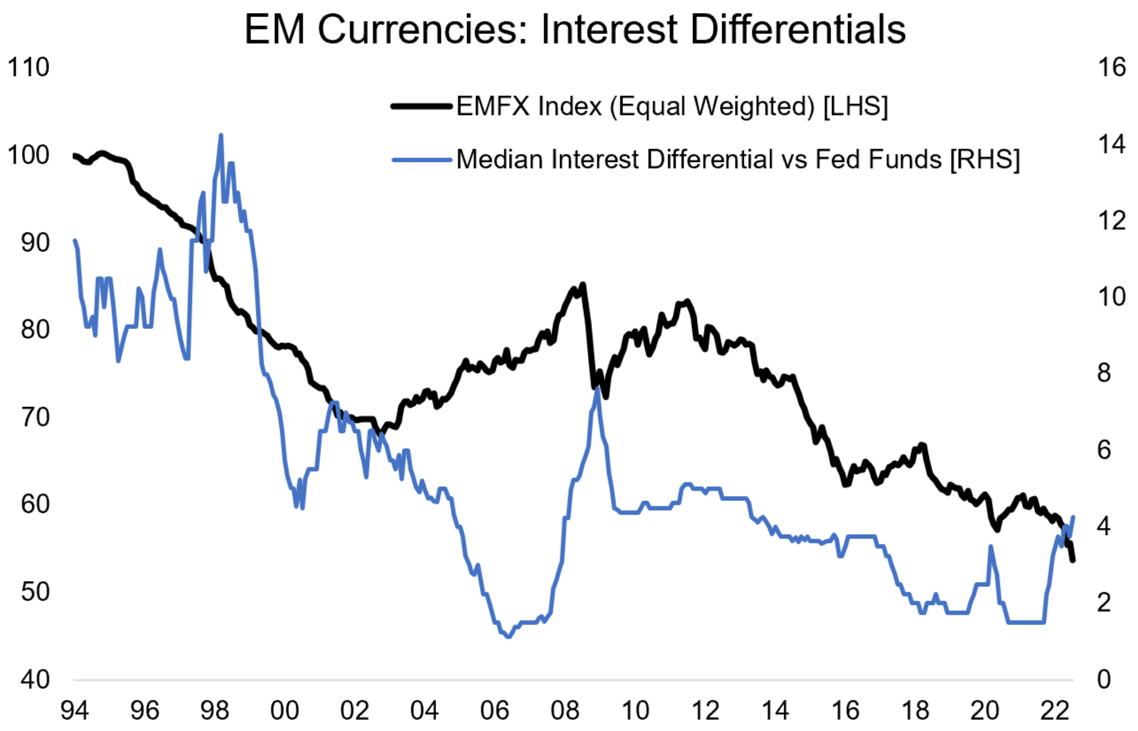
3. EMFX

TOP DOWN CHARTS

That all said, as things stand the valuation indicator for EMFX has dropped to the cheapest since the early 2000's (albeit as always, "cheap can still get cheaper"). Another interesting observation is that EM interest rate differentials act in a somewhat counterintuitive fashion: a spike in interest differentials, followed by a tapering off appears to be a bottoming signal (at least in early 2000's, 2009, and 2020). So one macro signal to watch for aside from stability in EM equities, commodities, and Asian FX, would be a peak in EM vs US policy rates.



Source: Topdown Charts, Thomson Reuters, BIS, IMF — topdowncharts.com



Source: Topdown Charts, Thomson Reuters — topdowncharts.com

Ideas Inventory – OPEN/CURRENT THEMES AND IDEAS

TOP DOWN CHARTS

Date	Category	Subject	Topic	Direction	Timeframe	Conviction	Comments/Notes	Updates
24 Jun 2022	**Macro**	Inflation	Global	Down	6-18m	Med.	WMT: commodity downside, growth risks, base effects, supply rebound	
17 Jun 2022	**Idea**	Equities	China	Bullish	6-18m	Low	WMT: Technicals/value/macro/policy/sentiment (A-shares + MSCI)	
13 May 2022	**Idea**	Bonds	Treasuries	Bullish	6-18m	Med.	WMT: initiate initial bullish view on technicals/sentiment/macro	24 June 2022: raise conv.
13 May 2022	**Idea**	Comdty	Commodities	Bearish	6-18m	High	WMT: technicals/sentiment/macro/value all point to downside risk	24 June 2022: raise conv.
11 Mar 2022	**Risk**	Equities	Global	Bearish	6-12m	Med.	WMT: weak technicals, policy/inflation headwinds, lack of value case	17 June 2022: reiterate
11 Feb 2022	**Risk**	Credit	Credit Spreads	Bearish	3-6m	Low	WMT: on risk-watch given risk flags, stretched valuations, rate hikes	10 June 2022: reiterate
28 Jan 2022	**Idea**	AA	Stocks vs Bonds	Bearish	6-18m	High	WMT: lead indicators, "growth scare" thesis, technicals/sentiment	8 Jul 2022: reiterate
21 Jan 2022	**Idea**	Bonds	EM Sovereign	Bullish	12-18m	High	WMT: absolute + relative value, supportive sentiment & technicals	24 June 2022: reiterate
21 Jan 2022	**Macro**	Economy	Global	Down	6-12m	High	WMT: multiple leading indicators point to a "Growth Scare"	8 Jul 2022: reiterate
23 Jul 2021	**Macro**	Capex	Global	Up	1-3yrs	Med.	WMT: expect capex to rebound, esp. commodities + infra/climate	10 June 2022: maintain
7 May 2021	**Macro**	Policy	Global	Hawkish	1-3yrs	High	WMT: switch to hawkish given turn in interest rates cycle + inflation risk	17 June 2022: reiterate
9 Apr 2021	**Macro**	Tax	Global	Up	1-3yrs	Med.	WMT: anticipate corporate tax trend turn, and fiscal headwinds	27 May 2022: maintain
19 Mar 2021	**Idea**	Equities	Defensive Value	Bullish	1-3yrs	Med.	WMT: (relative) increasingly cheap relative valuations	13 June 2022: reiterate
21 Aug 2020	**Idea**	Equities	UK Equities	Bullish	12-18m	Med.	WMT: cheap valuations, consensus underweight, tactical indicators	20 May 2022: maintain
22 May 2020	**Idea**	Equities	Europe vs US	Bullish	12-18m	Low	WMT: relative valuations favor Eurozone (favor hedged)	20 May 2022: maintain
10 Apr 2020	**Idea**	Equities	EM ex-Asia	Bullish	12-18m	Low	WMT: value, positioning, FX: *Lower Conv* favor LatAm	20 May 2022: on watch
27 Mar 2020	**Idea**	Equities	Global Ex-US	Bullish	3-5yrs	Low	WMT: cheap valuations (absolute & relative), expected return differential	10 June 2022: maintain
27 Mar 2020	**Idea**	Equities	Value vs Growth	Bullish	3-5yrs	Low	WMT: value cheaper than usual vs growth, techs + macro drivers +ve	17 June 2022: reiterate

Ideas Inventory – CLOSED/PAST THEMES AND IDEAS

TOP DOWN CHARTS

Date	Category	Subject	Topic	Direction	Timeframe	Conviction	Comments/Notes	Updates	Outcome	% Return
21 Jan 2022	**Idea**	FX	EMFX	Bullish	12-18m	Low	WMT: supportive valuations	8 Jul 2022: neutral/on watch	"Loss"	-9%
21 Aug 2020	**Idea**	Equities	Energy Stocks	Bullish	1-3yrs	Low	WMT: cheap valuations, contrarian signals, + rel. vs gold/miners	27 Jun 2022: change to neutral	" Profit "	105%
27 Aug 2021	**Idea**	Equities	US Small Caps	Bullish	6-12m	Low	WMT: capitulation in positioning/flows, reset in relative value	27 May 2022: change to neutral	"Loss"	-10%
10 Apr 2020	**Idea**	Equities	Eurozone	Bullish	12-18m	Low	WMT: relative value, pessimistic sentiment, policy (fiscal+monetary)	20 May 2022: neutral/on watch	" Profit "	26%
15 May 2020	**Idea**	Equities	Global Banks	Bullish	12-18m	Med.	WMT: cheap valuations, improving technicals/macro outlook	20 May 2022: change to neutral	" Profit "	50%
16 Jan 2021	**Macro**	Inflation	Global/US	Up	12-18m	High	WMT: mix of short/medium-term factors present clear upside risk	13 May 2022: run its course	Correct	n/a
20 Mar 2020	**Idea**	Comdty	Commodities	Bullish	3-5yrs	Low	WMT: underinvestment in supply, global capex/demand outlook	13 May 2022: reverse	" Profit "	74%
17 Sep 2021	**Idea**	Equities	Gold Miners	Bullish	6-12m	Low	WMT: (relative to S&P500) valuation, sentiment, positioning, technicals	6 May 2022: move neutral	" Profit "	12%
10 Apr 2020	**Idea**	Equities	EM	Bullish	12-18m	Low	WMT: Still some relative value, but risks more mixed now	25 Mar 2022: move neutral	" Profit "	27%
24 Sep 2021	**Idea**	Bonds	US Treasuries	Bearish	3-6m	Low	WMT: technicals, sentiment, macro, valuations, policy	21 Feb 2022: move neutral	" Profit "	3%
8 May 2020	**Idea**	FX	US Dollar	Bearish	1-3yrs	Low	WMT: long-term cycles, fading yield support, fiscal outlook, sentiment	25 Feb 2022: move neutral	" Profit "	3%
19 Nov 2021	**Risk**	Comdty	Ind. Metals	Bearish	3-6m	Low	WMT: place on risk-watch given weak technicals/sentiment/macro risks	4 Feb 2022: lift risk watch	"Loss"	-8%
30 Jul 2021	**Risk**	Equities	EM	Bearish	1-3m	Low	WMT: place on risk-watch given suite of risk indicators "orange flags"	21 Jan 2022: lift risk watch	" Profit "	3%
10 Apr 2020	**Idea**	Equities	Frontier	Bullish	12-18m	Low	WMT: strategic +MT case good, but ST mixed.	13 Dec 2021: move neutral	" Profit "	59%
9 Oct 2020	**Idea**	Comdty	Gold	Bearish	12-18m	Low	WMT: maintain medium-term bias: valuations, real yields, macro	12 Nov 2021: move neutral	" Profit "	3%
9 Jul 2021	**Idea**	FX	Safe Haven FX	Bullish	3-6m	Med.	WMT: value reset, positioning signal, technicals look bullish	22 Oct 2021: close (neutral)	"Loss"	-2%
13 Mar 2020	**Idea**	Equities	Global	Bullish	12-18m	Low	WMT: risks clearly shifted, but not enough to flip outright bearish yet	20 Aug 2021: move neutral	" Profit "	59%
6 Mar 2020	**Macro**	Capex	Commodities	Down	12-18m	Med.	WMT: Comdty Capex rolling over: key variable for LT AC view	23 Jul 2021: reverse	Correct	n/a
14 Aug 2020	**Idea**	Bonds	US Treasuries	Bearish	6-12m	Low	WMT: ST mixed (sentiment/techs), bearish MT on macro/value	9 Jul 2021: move neutral ST	" Profit "	4%
16 Apr 2021	**Idea**	Comdty	Gold	Bullish	1-3m	Low	WMT: bullish technical and sentiment signals	18 Jun 2021: change to bear	"Loss"	-1%
10 Apr 2020	**Idea**	Equities	US Small Caps	Bullish	6-12m	Low	WMT: n.b. *no more relative value*, but cyclicals + cycles positive	28 May 2021: change to neutral	" Profit "	82%
19 Feb 2021	**Macro**	Policy	Global	Neutral	12-18m	Med.	WMT: mon.policy outlook switching to neutral -- increasingly hawkish	7 May 2021: change to hawk	Correct	n/a
20 Mar 2020	**Idea**	Bonds	TIPS B/E	Bullish	12-18m	Low	WMT: *no longer cheap* but links to recovery and inflation theme	9 Apr 2021: change to neutral	" Profit "	8%
11 Sep 2020	**Idea**	Comdty	Agri/Grains	Bullish	12-18m	Low	WMT: low capex, supply disruption, sentiment/positioning, SOI	19 Mar 2021: change to neutral	" Profit "	33%
6 Mar 2020	**Macro**	Policy	Global	Dovish	12-18m	High	WMT: "Global Policy Pivot Part 2" - expect new big wave of stimulus	19 Feb 2021: change to neutral	Correct	n/a
27 Mar 2020	**Idea**	Equities	GLIF	Bullish	12-18m	Low	WMT: oversold technicals, cheap absolute & relative valuations	5 Feb 2021: close (neutral)	" Profit "	18%
26 Jun 2020	**Risk**	Equities	EM	Bearish	1-3m	Low	WMT: mindful of O/H resistance, EMFX divergence	9 Nov 2020: alert lifted	"Loss"	-19%
26 Jun 2020	**Idea**	Equities	Gold Miners	Bullish	12-18m	Med.	WMT: short + longer term technicals setup in gold + miners rel.	9 Oct 2020: close (bearish)	" Profit "	16%
17 Apr 2020	**Idea**	FX	AUDUSD	Bullish	12-18m	Low	WMT: cheap valuations, IRDs +metals turned, ~~crowded shorts~~	4 Sep 2020: close (neutral)	" Profit "	14%
13 Apr 2020	**Idea**	Equities	Gold Miners	Bullish	1-3m	Med.	GMM: rel perf. near breakout; technicals & sentiment bullish	26 June 2020: replace (LT)	" Profit "	14%
27 Mar 2020	**Idea**	REITs	US REITs	Bullish	12-18m	Low	WMT: oversold, rel val cheap, but abs val not, some uncertanties/risks	15 May 2020: close (neutral)	"Loss"	-4%
24 Feb 2020	**Risk**	Equities	EM + S&P500	Bearish	1-3m	Med.	GMM: bearish divergence for EM equities, S&P500, +EMFX breakdown	27 Mar 2020 (implied closed)	" Profit "	21%

n.b. The Ideas Inventory was only launched in early 2020 (so ideas older than that are not included). "WMT" = Weekly Macro Themes (ideas from this report) "GMM" = Global Markets Monitor (ideas from the market themes section of the Monday report)

Thanks for reading...

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Best regards,

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