Weekly Macro Themes

End of Year Special Edition - 2021

"The End of Year Special Edition takes a different format to the usual weekly slide deck, and presents you with highlights, reflections, and some of the best charts of 2021. I sincerely hope you enjoy it!"
-- Callum Thomas, Head of Research and founder of Topdown Charts

Topdown foreword: In a year where there was seldom a dull moment - looking back it seems almost boring by contrast to the previous year! But some of the forces set in motion this year could well transpire to make next year a little less "boring" as a number of transitions and themes play through and the balance of risks begin to shift for asset allocators.

This past year was a bit of a mixed bag across markets with ample scope to get it right or wrong given some of the significant divergences in performance across asset classes. Some of the big consensus ideas of 2021 fell flat on their face, while others exceeded all expectations.

Next year likely sees a whole new set of challenges and opportunities, some of which I highlight in this report. I hope you enjoy this selection of charts which I have meticulously handpicked from reviewing all of the Weekly Macro Themes reports of the past year. As an exercise in reflection, this has been very useful as I continue to hone my craft and refine the reports …and given me a number of ideas to work on in the year ahead!

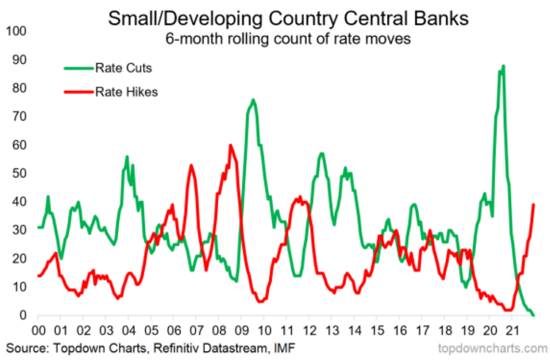
Best wishes for 2022, I look forward to catching up with you soon.

Section A. Charts That Worked

First up is a look at some of the charts and calls that worked particularly well during the year.

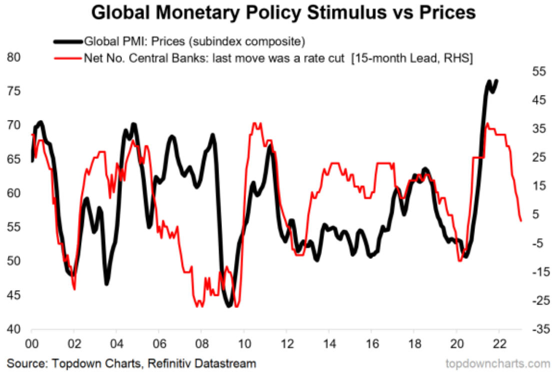
1. I was early to this theme, but that's what this excellent chart is designed to do! (i.e. provide advance warning on shifts in global policy tides).

"already a number of smaller/developing country central banks have moved to hike rates as inflation begins to pickup (5 so far: Mozambique, Tajikistan, Armenia, Zambia, Zimbabwe). I like to keep an eye on the smaller/developing central banks: many have structural weaknesses and tend to be more sensitive to inflation and hence will be the first to move on rates. In other words, while individually unimportant and idiosyncratic, collectively they have information." (19 Feb 2021)



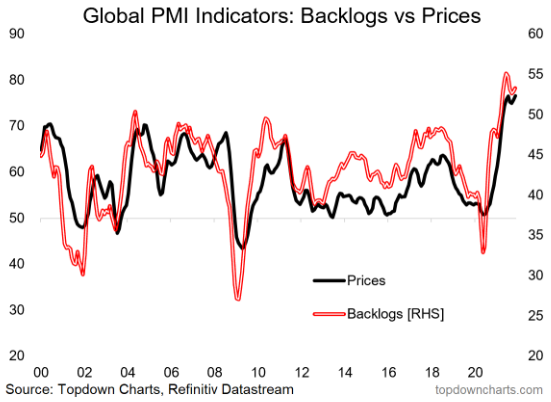
2. Closely related, a key theme for me this year was the clear upside risks to inflation. It seems obvious at this point given the global monetary policy pivot towards tightening and the constant news flow around inflation, but at the time it was a bit out of consensus and certainly was not without pushback in conversations earlier in the year.

"the prospect of normalization and economic recovery given powerful monetary + fiscal stimulus globally likely skews inflation risk squarely to the upside over the medium-term, and the monetary lead indicator points to upward pricing pressure over the next 12-18 months. The broader bullish commodity outlook also likely lifts price perceptions." (6 Jan 2021)



3. The previous chart was more about the sort of fundamental/underlying or medium-term inflation pressures, this next one laid out the short-term pressures stemming from backlogs – another topic that was fairly underappreciated at the time.

"In the short-term there are a few key dynamics which are set to put upward pressure on prices and the headline reported inflation rates. First is the issue of backlogs/global supply chain disruption – by the global PMIs and Google search trends (and anecdotally) it remains an important issue. Historically a rise in backlogs has led to a rise in pricing pressure (we've certainly seen it in freight rates, which are up 2-3x)." (15 Jan 2021)

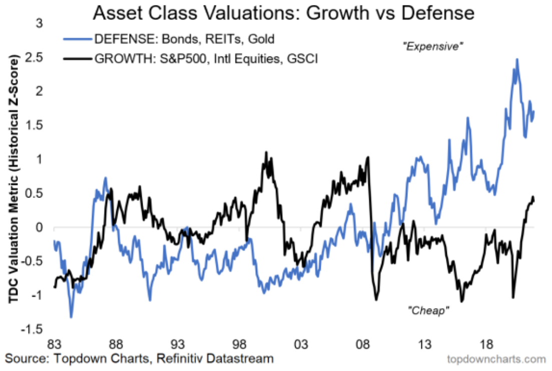


4. And of course, picking a resurgence in global trade was a key companion to the previous chart - I've said it before and I'll say it again: there are no backlogs without demand, and there was!

"perhaps the most interesting and stark example of green shoots is the rebound in global trade (funny what happens when you turn the global economy off and then turn it back on again). But a very closely linked theme is that of backlogs/supply chain disruption: this problem has intensified as economic activity picks up vs a still constrained global supply chain (and stuck boats don't help either)" (2 April 2021)

5. Throughout this year I advocated staying the course on the core asset allocation view to overweight risk/growth assets and underweight defensive assets – established in March/April 2020. Saying "stay the course" always feels like a boring conclusion, but sometimes asset allocation involves long periods of relative boredom!

"Aside from the big ideas, at the highest level I remain bullish growth vs defensive assets It is true that valuations have rebounded sharply for growth assets, but defensive assets remain extreme expensive Importantly, policy remains easy, earnings/cycle is turning up, and the technicals look good There's no clear case to get defensive from a big picture medium term standpoint yet, but obviously we'll keep monitoring the key sign posts for clues as the cycle progresses" (6 Jan 2021)



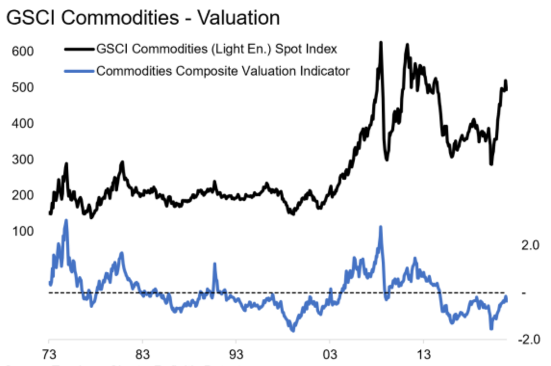
6. To continue on this topic, as you can see in the chart above, things have shifted quite a bit, so it prompted me early in the year to put this visual together to provide a map or conceptual framework to guide an eventual shift defensive (not yet, but steadily moving in that direction).

"But more importantly, checking back in on the sign posts. Valuations aren't unanimously expensive (ERP looks decent – yields would need to go to 3% to make the ERP expensive), policy is still very easy, the economic recovery is still early in the process, and a fairly well-established uptrend is in play." (22 Jan 2021)

	Max Growth	Max Defense
Valuations	Cheap	Expensive
Monetary Policy	Easy/Easing	Tight/Tightening
Earnings/Econ (1)	So bad it's good	So good it's bad
Earnings/Econ (2)	Turning up	Turning down
Sentiment	Excess pessimism	Excess optimism
Positioning	Light/Excess Cash	Heavy/Min. Cash
Technicals (1)	Oversold	Overbought
Technicals (2)	Breakout	Breakdown
Technicals (3)	Uptrend	Downtrend

7. In terms of specific asset class views, this was probably the one that worked best for me this year – and was very much closely aligned with the macro views outlined above. Again though, it was more of a "stay the course" (with high conviction) rather than a new earth-shattering idea as such.

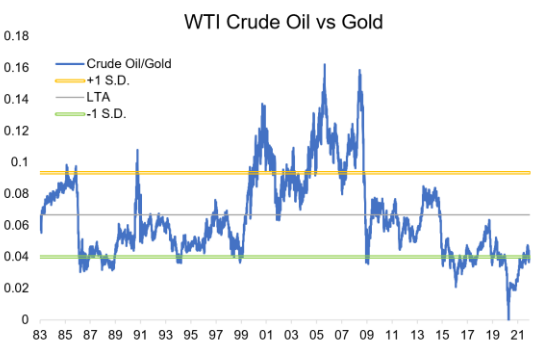
"Remain bullish commodities medium term (but like the US dollar are at risk of a short-term correction as sentiment/positioning have moved to excess optimism). Helping the case here is cheap valuations, weak capex, positive medium term technicals (e g market breadth), and commodities are likely to benefit from a prospective global growth rebound (and weaker USD)" (6 Jan 2021)



Source: Topdown Charts, Refinitiv Datastream

8. On a similar note – within commodities, this was probably one of the most interesting and successful granular ideas: overweight oil vs gold (and energy stocks vs gold miners). Stepping back and looking at the chart below – even though it basically doubled this year it may not even still be done if we assume an element of mean reversion and further (eventual?) normalization.

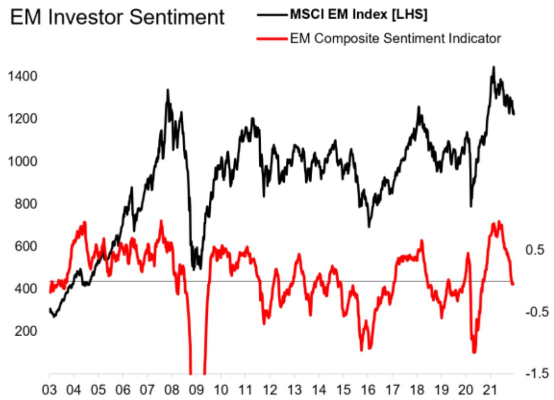
"Given the fiscal stimulus outlook in the US, crude oil (and energy stocks) likely disproportionately benefits at the expense of gold (and gold miners): energy benefits from greater demand, gold faces headwinds from prospective rising real yields and improving risk sentiment. Quite a non-consensus idea at this point." (6 Jan 2021)



Source: Topdown Charts, Refinitiv Datastream

9. While I will say I overstayed my welcome on the medium-term bullish view for emerging markets, the bearish tactical signals from sentiment did prompt me to attach a tactical bearish/risk-watch.

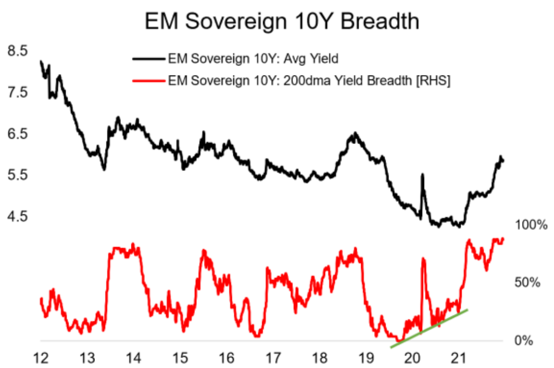
"First up is a scan of a couple of risk flags for EM equities: the short-term (50 day moving average) country breadth indicator has rolled over from overbought levels, the equal-weighted EMFX index has also rolled over after hitting resistance (diverging to the downside vs EM equities), meanwhile the EM composite sentiment indicator is approaching levels last seen during the late stages of the 2007 EM bull/bubble. Time to tighten up risk management." (29 Jan 2021)



Source: Topdown Charts, Refinitiv Datastream

10. As noted I had a bearish bias on bonds, which basically worked, but where it worked best was the bearish bias on EM – this chart in particular helped provide tactical clues on a fairly significant upshift in EM sovereign yields.

"EM sovereign yields remain slightly below my simple estimate of fair value (overvalued). Also of note is that 200dma yield breadth (i.e. proportion of EM countries whose 10yr sovereign yield is above its respective 200-day moving average) has been trending upwards (basically bullish divergence for yields: i.e. bearish divergence for EM sovereign bond prices)." (29 Jan 2021)



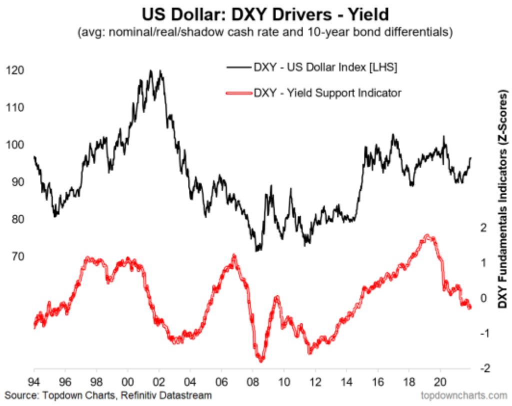
Source: Topdown Charts, Refinitiv Datastream

Section B. Charts That Didn't Work

Of course, it wouldn't be complete without a look at some of the charts that didn't work (or shall we say the ones that worked "less well!").

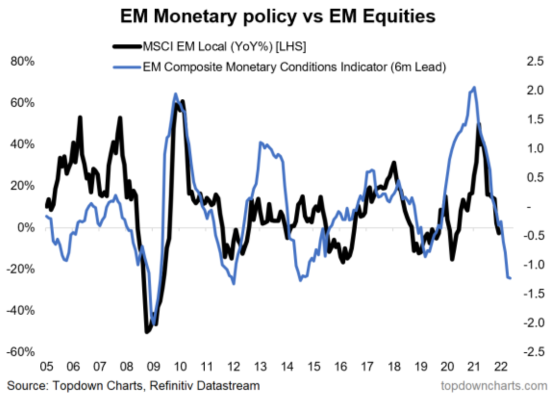
1. The US dollar defied my bearish expectations. In hindsight sentiment/positioning was very lopsided (extreme crowding to the short side) and this is in the context of what is now basically a half-decade long trading range.

"Retain the bearish medium-term view on the US dollar as the longer-term cycles play through, expect valuation to overshoot to the downside (now slightly cheap), and yield support has dissipated. That said, the DXY is still sitting around a key support level and sentiment/positioning have gone from extreme bullish to extreme bearish now, and technicals look oversold…" (6 Jan 2021)



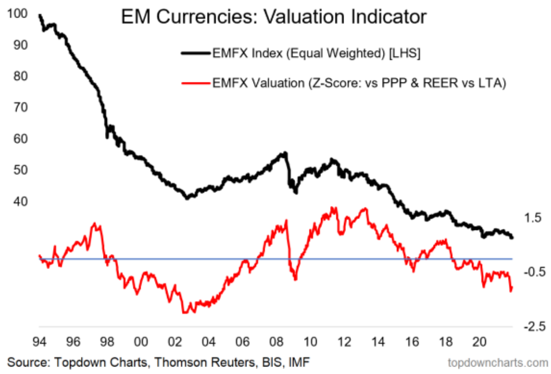
2. Similarly, stuck to my guns on the bullish medium/longer-term view on EM (wrong for now).

"…remain bullish EM equities on the basis of still reasonable valuations (absolute and relative) and monetary tailwinds - see chart. It's also internally consistent with the view on commodities and the US dollar (EM equities tend to benefit should the views there play out). However, sentiment has become quite stretched" (6 Jan 2021)



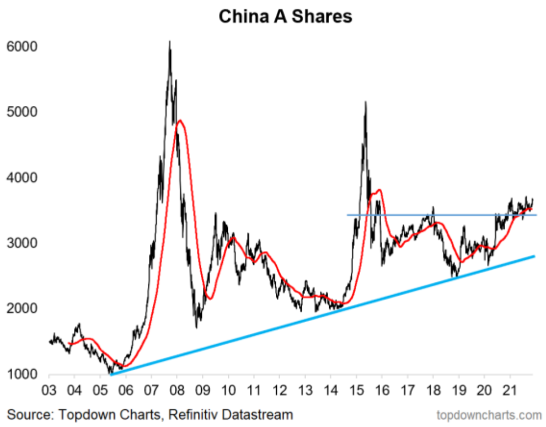
3. Closely related to the previous two was the bullish medium/longer-term view on EMFX, which was underpinned by valuations. Higher commodity prices did come through but offered little solace in the face of virus resurgences, US dollar resurgence, and investors re-evaluating their previously consensus bullish stance on EM.

"on the medium/longer-term case, the EMFX composite valuation indicator is still on the cheap side. Meanwhile as previously noted, I am still happy with the bearish medium-term view on the US dollar, and bullish medium/longer term view on commodities; both of which help the case here. Also, EM asset sentiment has improved notably, from a flows perspective this can help trigger a self-reinforcing positive cycle" (29 Jan 2021)



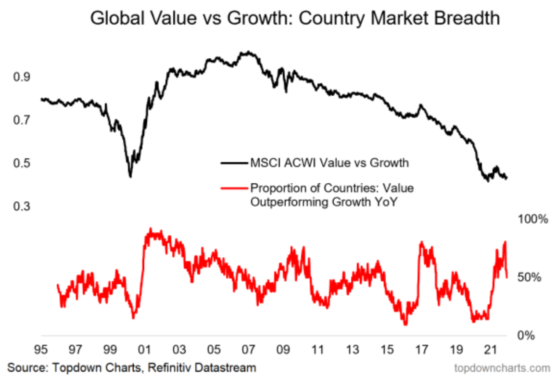
4. This one didn't not work, but just didn't play out the way I suggested could happen. In hindsight the macro-policy backdrop in China continued down a distinctly more restrained path relative to the rest of the world as they attempted to avoid past mistakes of monetary overstimulation.

"On the topic of breakouts, another market attempting a major breakout is the Shanghai Composite (i.e. China A-Shares). We've already seen China-sensitive metals iron ore and copper making explosive breakouts, so it's logical to ask if this is the next step." (15 Jan 2021)



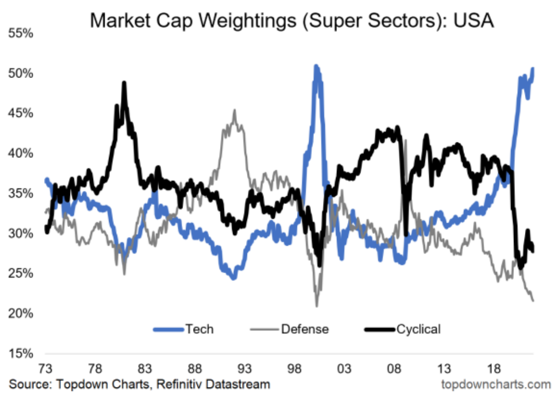
5. False dawn. Stuck to my guns on value vs growth both US and global and added a lot more nuance/indicators to the mix, but it was not to be – at least not just yet.

"the value vs growth underperformance secular trend has been a global phenomenon, and the turn likewise will probably be seen globally. Indeed, already the breadth of countries where value is outperforming growth on an annual basis has started to turn up from multi-year lows. I am wary of the risk of false dawns, but tempted to say it's different this time." (15 Jan 2021)



6. Similarly, saw a false dawn in global vs US equities. A key driver was the chart below – which shows the massive tilt by US equities to tech related stocks (which set a very high performance hurdle for basically everything else).

"Another aspect I wanted to highlight on the tactical front is how the Rest of the World (RoW) has a much greater weight to cyclically sensitive stocks at almost 50% [i.e. energy, financials, industrials, materials] vs about a quarter for the US. It's this part of the market I expect to perform better this year and going forward as the cyclical/real-economy picture starts to improve on the back of vaccination/normalization and historic stimulus efforts. I also think the one-off pandemic benefits to Tech (US = ~50%, RoW = ~30%) is going to be hard to replicate." (15 Jan 2021)

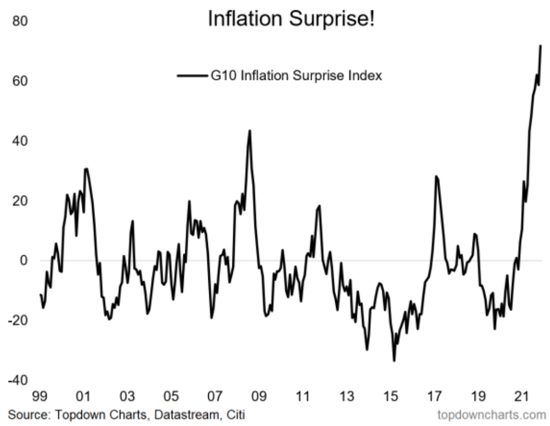


Section C. My Favourite Charts

These are some of my favourites – either new or interesting, or ones that helped illuminate some of the key developments across macro and markets.

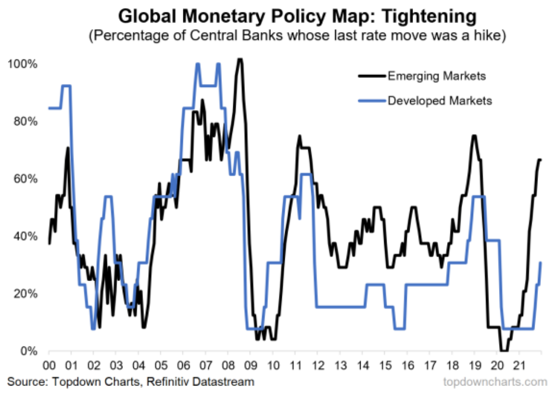
1. This was my go-to chart in highlighting the risks presented by inflation (as I figured that with folk's inflation expectations skewed downwards by a decade of deflationary winds that my upside inflation scenario would be a big surprise).

"Already we've seen inflation surprises go from downside surprises to upside surprises across developed economies, and I'd expect that trend to continue." (15 Jan 2021)



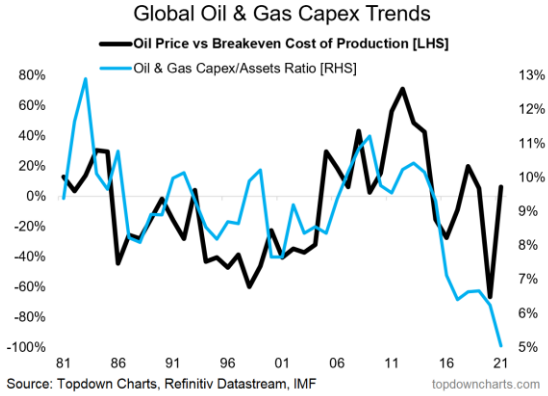
2. If the first chart in this report didn't make it obvious enough, this next chart should: central banks are stepping away from stimulus, OK?

"With the lift-off in emerging markets (and the small/developing central banks), the global weighted average policy rate has clearly turned the corner. As such I would double down on the call I made earlier in the year for central banks globally to move to a more neutral stance – and actually, would probably be about time to shift the global policy outlook to hawkish." (7 May 2021)



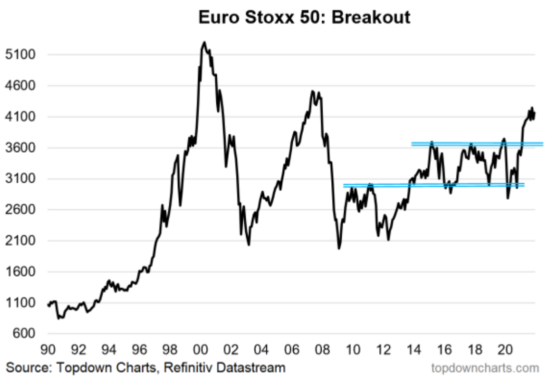
3. The next chart shows in the blue line the fall and fall of global Oil & Gas capex: a key reason I stuck with the bullish bias for commodities and crude oil in particular… and a key reason to stay that way. As I note, the path to carbon zero will be paved with a commodities bull market as a logical consequence of the shifts in supply and demand, and investment required to make that shift.

"the medium-term outlook for crude oil: I think it's worth highlighting again the capex picture for crude – global capex (and rig counts) remain near record lows. Clearly the pandemic has taken a toll on the sector. But the road to carbon zero is going to be a long one and the world won't kick its petroleum habit overnight, and before we know it the world will be vaccinated, open for business, and potentially overstimulated." (5 Feb 2021)



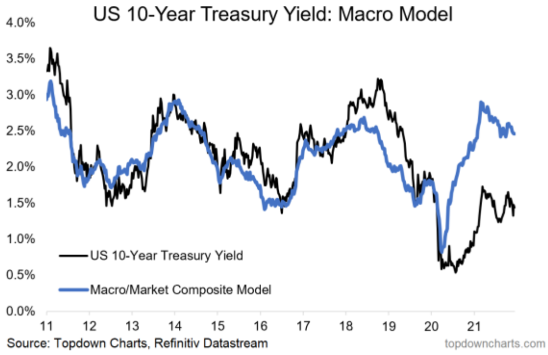
4. This next one makes the favourites list for a few reasons, first is just how text-book a breakout it is, second how significant it is – i.e. with regards to price breaking out from such an entrenched trading range, and how it also helped confirm my biases to expect a breakout in European equities!

"the first shows European equities basically stuck in a range and currently looks to be in the process of making another attempt at breaking out. Given the duration and durability of this trading range, I would say that when/if it does breakout, it will be very significant indeed." (5 Feb 2021)



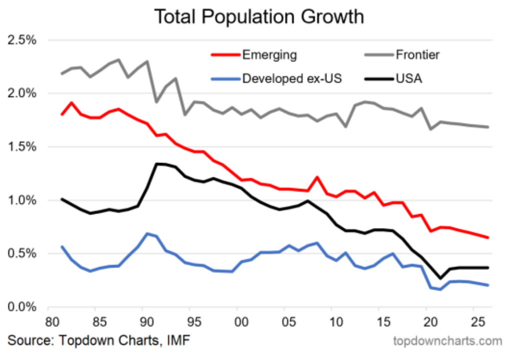
5. This chart was actually introduced later in the year but it basically was designed to present a single image – combining half a dozen different charts and indicators which were pointing to higher bond yields. As it stands, there is still quite the disconnect, and therefore upside risk to bond yields (even if they 'meet in the middle').

"Moving onto the macro/market indicators, we still see global consumer discretionaries vs staples + developed market manufacturing PMIs + inflation swaps all in agreement that 10-year treasuries should be (a lot) higher. Thus, risks are clearly skewed to the upside for bond yields." (22 Jan 2021)



6. The last one in this section is a key element [high and stable population growth vs low and falling growth elsewhere] of the strategic case for the often-forgotten Frontier Market Equities. Most allocators put FM equities in the too hard basket, but I have been advocating the surprisingly intriguing strategic case (in many ways superior to EM equities), but also the tactical case – basically nailed the exceptional run in Frontier Market equities over the past year.

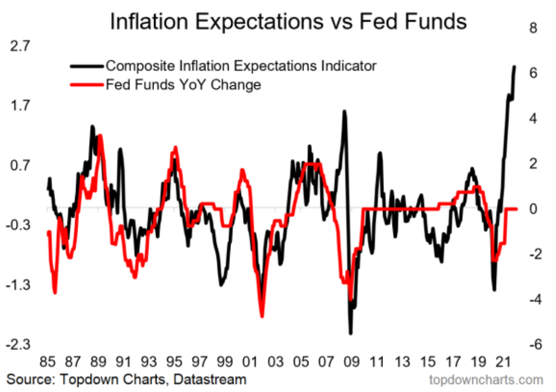
"Frontier Market equities have some interesting strategic characteristics: lower historical volatility vs EM, higher expected returns, relatively lower correlations to DM/US equities, and higher expected population growth. Although it is a relatively unpopular corner of global equities, it has begun to attract some attention as price has picked up." (5 Feb 2021)



Section D. Charts to Watch in 2022

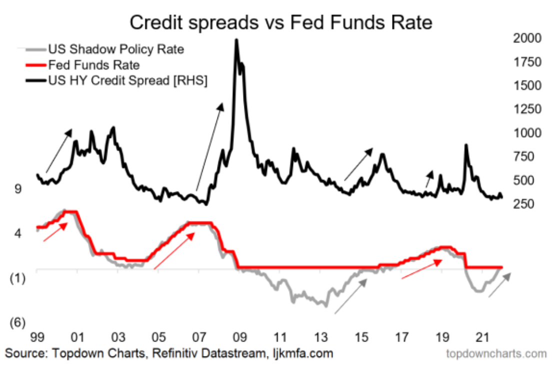
As interesting and sometimes amusing as it is to look back, as investors we get paid for looking forward, and there's a few existing trends and themes that will remain front of mind and be key to keep on the radar in 2022. Following is a selection of the key charts and indicators I will be watching in the new year.

1. Fed Behind The Curve: Based only on this chart we could make an assertion that the Fed has fallen behind the curve. Against that there is the argument that other factors are important too, and not to mention the point that the Fed basically decided to position itself behind the curve to try and prevent the mistake of tightening too soon. With the composite measure of inflation expectations at 40-year highs it's fair to suggest that the Fed may have some catching up to do as it kicks off the transition away from easing.

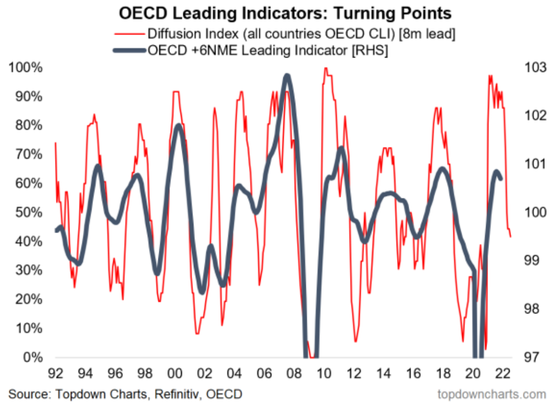


2. Fed Catch-Up Risk: Naturally the Fed now faces another risk – i.e. the risk of being dragged into a game of catch-up in the context of a very complacent market that has arguably come to expect permanent easing... "the Fed has my back"

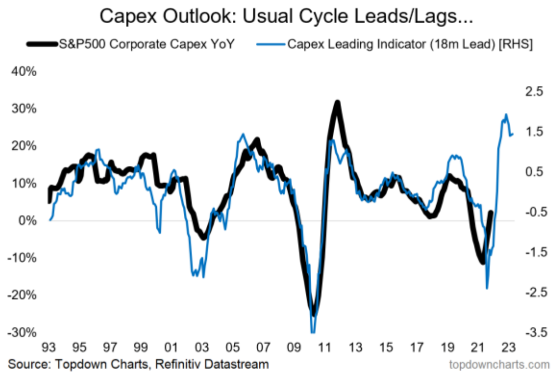
Just remember, the old saying of *'don't fight the Fed'* means don't fight against the tides, and the tides are starting to change.



3. Growth Scare 2022: But then again, maybe the Fed won't even get a chance to get a rate hike out the door if the chart below proves anywhere near accurate. This and a few other leading indicators are pointing to a possible growth scare in 2022. Maybe it will be one-and-done for the Fed? Or maybe any such growth scare only serves to extend the economic expansion further by triggering renewed stimulus. Certainly a risk and a key chart to keep on the radar.



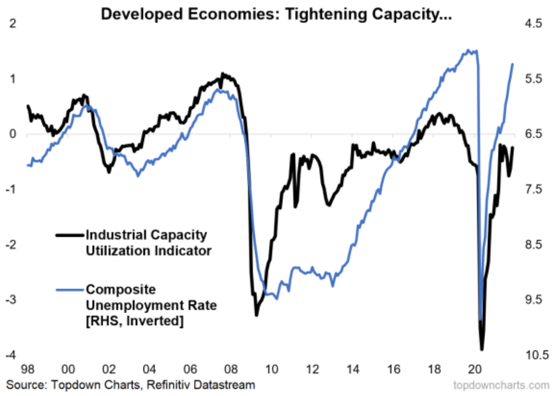
4. Corporate Capex: This chart hints at perhaps one of the most important themes I've been talking about over the past year – the prospect of a possible multi-pronged, multi-year investment boom. The chart below highlights the typical cycle leads and lags in terms of capex growth, and with easier funding conditions, booming corporate earnings, and a rebounding economy it's likely that we see a generalized uplift in capital expenditure.



But as I've been highlighting in the reports there are a few particular sectors that are likely to see a surge in investment in response to surging prices – for example, the global shipping sector, and commodity producers. Both of which have seen capex languish for the past decade, and both of which have seen an effective windfall from the pandemic (i.e. surging shipping rates and commodity prices).

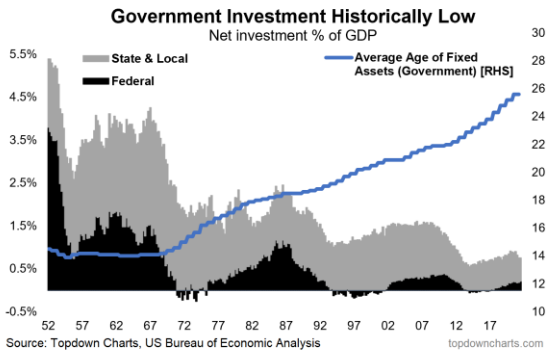
5. Capacity Utilization: Another key impetus to resurgent capex is tightening of capacity e.g. measures of labor market capacity utilization are close to pre-pandemic levels. This will put upward pressure on pricing and present an incentive or signal to firms to lift investment.

But it also speaks to the inflation theme. While some of the short-term upward pressures on inflation are likely to pass (e.g. backlogs, base effects, the initial bounce-back), should we see further and sustained tightening of capacity utilization it will put upward pressure on the more core or underlying inflation pulse.



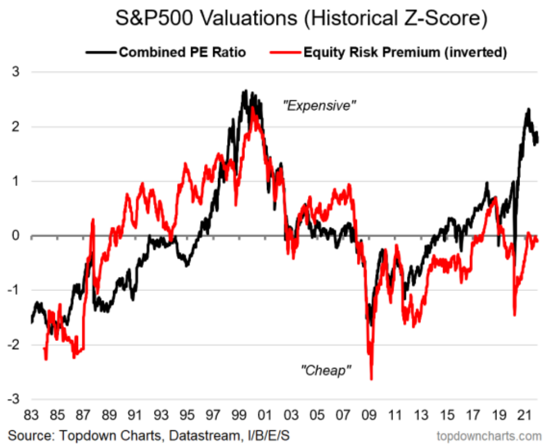
6. Government (and Green) Capex: To really drive it home, the capex/investment theme is not just about corporations responding to economic forces, it's also about governments responding to the pandemic as well as social/political forces.

Specifically in terms of recovery/rebuilding fiscal programs which in many countries have been targeted at infrastructure. But also climate related infrastructure and investment – something that is definitely part of fiscal packages, but also part of shifting investor preferences. We've observed a clear trend of rising financial investment into clean energy sectors being followed by uplift in real investment. So altogether it's quite interesting.

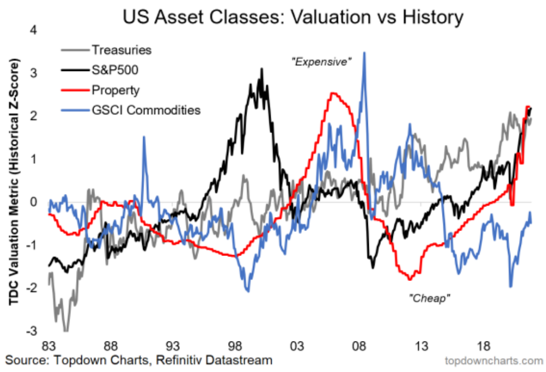


7. US Absolute vs Relative Valuations: Should all this talk of capex and investment booms come to pass, we'd likely start to see upward pressure on bond yields, and that will put a squeeze on the US equity risk premium.

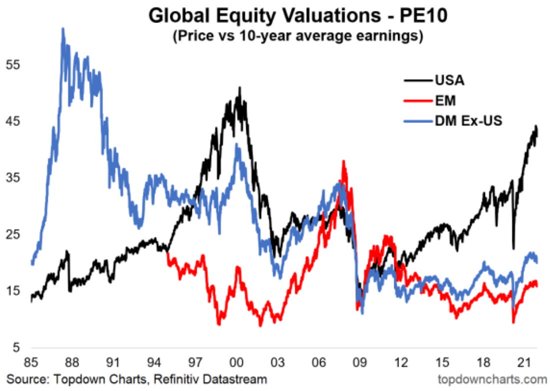
The chart below is one of my favourites for thinking about US equity valuations. It points out what most of us already know: US equities are expensive in absolute terms …i.e. the PE ratio is really very high. But if we factor in low bond yields then maybe it's not so bad. At present the chart says absolute valuations are wildly expensive, but relative valuations are ok (for now). That will change if/when bond yields rise – and in that sense it also goes to highlight the interest rate sensitivity of the market if we accept the statement that equities only offer reasonable value in a low yield environment.



8. US Asset Class Valuations: To complicate matters slightly, my valuation metrics show bonds expensive vs history as well – so: "equities look reasonable vs expensive bonds??". To make matters worse, property prices are also sailing into rarefied air. Commodities on the other hand, while not cheap, at least look reasonable by comparison and could benefit from increased capex.



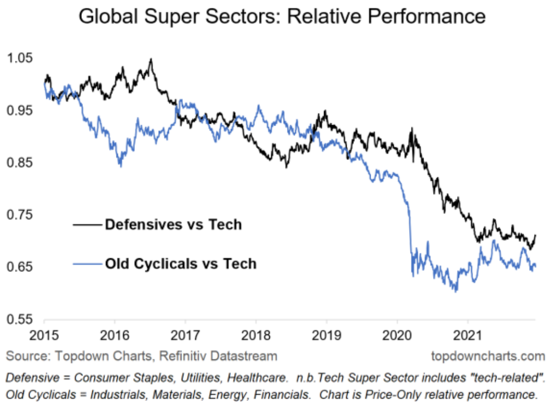
9. US vs Global Equity Valuations: Another chart that makes US equities look expensive by comparison is when you look at PE10 (or really just about any other valuation metric) for the US vs the rest of global equities. It is true that Emerging Markets and Developed Markets excluding the US have seen a decent rebound in valuations since the March 2020 lows, but there is a clear and compelling relative value case here.



10. Global Equity Super Sectors: The most logical pushback on the previous chart is to note that we could have said something similar for much of the past 5-10 years. So, the question is then what will it take for this gap to close?

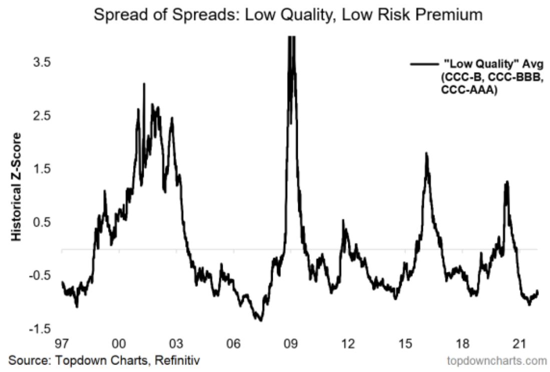
One avenue for a turn in relative performance of global vs US is the path of the "super sectors". A big part of US outperforming the rest of the world has been the high hurdle set by tech and tech related companies. Global ex-US has a big skew to "old cyclicals".

In that respect, the most important technical clues to a rotation in performance between US and global will be the chart below. Specifically look for an upturn in the blue line to get a jump on a 'virtuous turn' in US vs global relative performance (and value vs growth for that matter, also smalls vs large – it's a fairly sprawling issue in equities!).



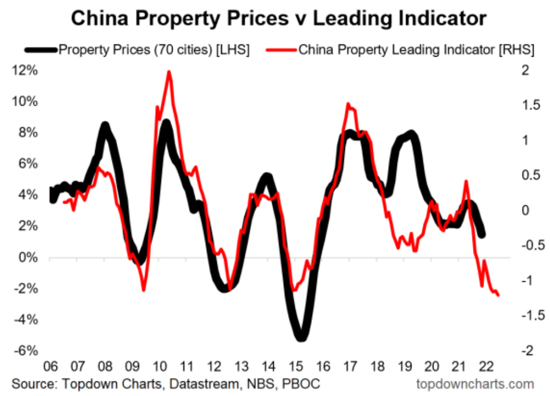
11. Low Quality Credit – Low Risk Premium: The valuation conundrum is not just the domain of equities – credit also is looking increasingly expensive. The chart that hammers the point home to me is this composite view of where the lower quality credits are trading relative to the higher quality credits. Basically we see a lower and lower risk premium for lower quality credit.

By itself this may not be an issue, particularly if the economic and monetary backdrop are supportive of credit conditions. But if credit conditions deteriorate things could turn sharply here – and indeed, we may well even see early clues of any impending stress in this very indicator itself. So very much one to keep checking in on.



12. China Property Downturn: I always say in my many years of covering China macro, if I could only choose one indicator it would be property prices, and perhaps if I were to pick only one chart it might be the one below.

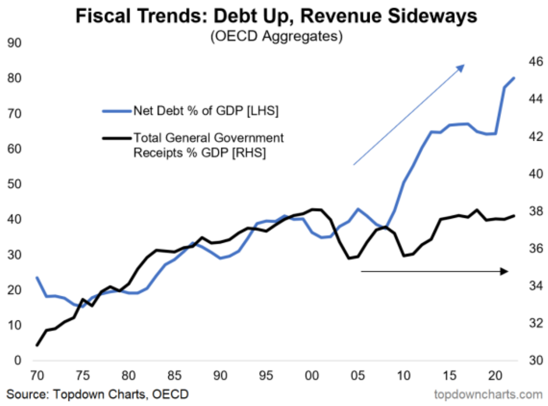
My composite leading indicator for Chinese property prices (money supply, interest rates, funding) is pointing to an extension of the current downturn deeper and well into 2022. This is of critical importance in so far as the economic pulse and commodity demand is concerned, but also – for the policy outlook: the lower that black line goes, the greater the probability of monetary stimulus (and you know what that means!).



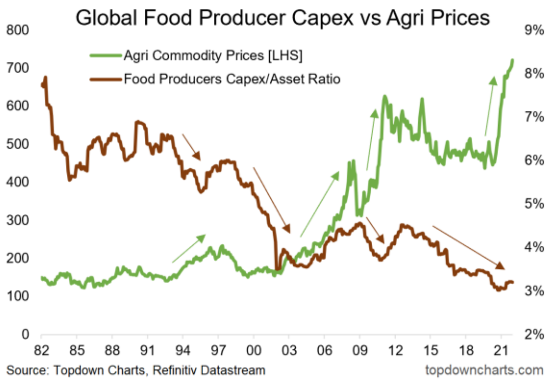
Section E. Honourable Mentions

These charts were worthy of mention but didn't quite fit into any of the previous categories.

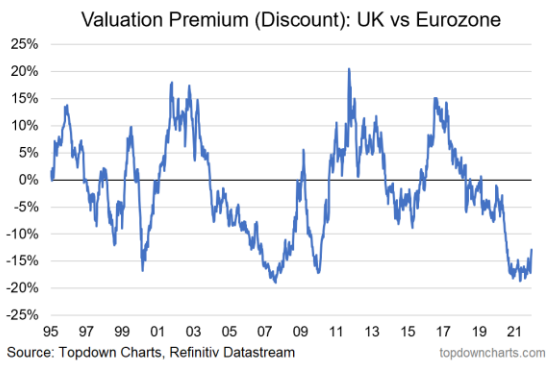
1. This chart arguably points to higher tax rates ahead given that government debt as a % of GDP has doubled over the past decade while effectively economy-wide tax-take has gone sideways.



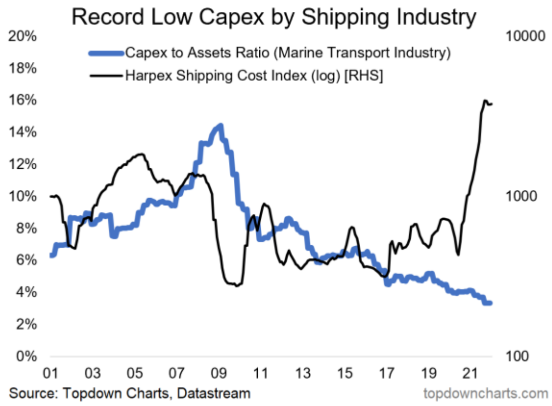
2. Stagnant capex by food producers contributed to a perfect storm for food prices (along with actual storms, pandemic disruption, rising costs).



3. In the wake of Brexit & pandemic woes, UK equities moved to decade-low valuations vs their European peers. From crisis to opportunity?

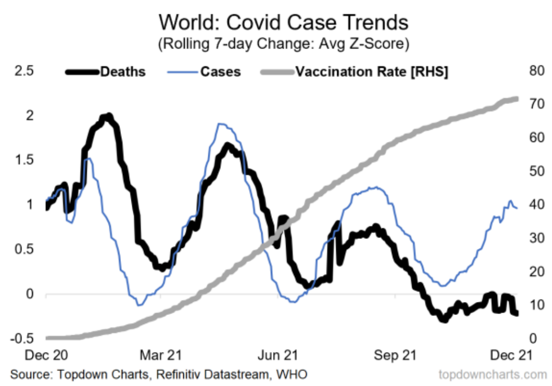


4. Shipping sector investment stagnated for a decade – contributing to the global supply chain chaos. Ironically it likely rebounds after banking windfall profits from the surge in freight rates.



5. A key driver of the long-term cycles of relative *price* performance of global vs US equities has been the cycles in relative *earnings*. That cycle will need to change for the price cycle to change.

6. Pandemic Progress: the global rollout of vaccines, rising immunity, societal adaptations, and therapeutics have helped result in a series of lower highs in deaths – I like the look of that trend. The light at the end of the tunnel, though flickering at times, does seem a little brighter now…



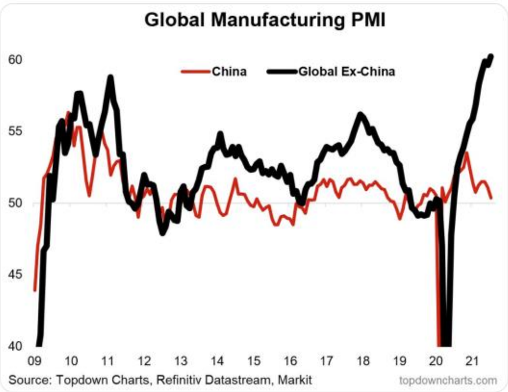
Section F. People's Choice Charts

In this section I defer to our followers on Twitter (@topdowncharts) for the most popular charts based on views and engagement.

These charts are *not* updated to the latest -- in contrast to those in the previous sections (because it helps explain why folk were so interested in them at the time …as always, just email me if you want to see any of these or others updated, or if you had any questions in general).

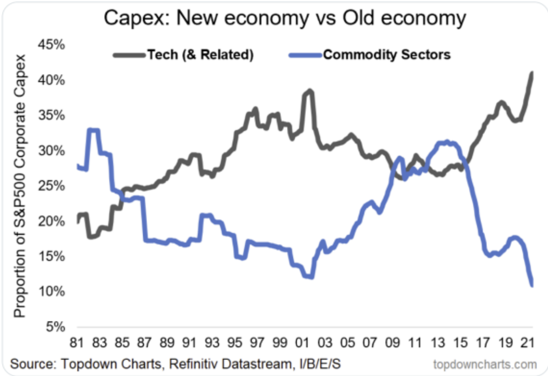
1. You can probably guess why this one gained traction! It shows the exponential run-up in analysts' long-term earnings expectations. To clarify, the "Brrrr" annotation is a tongue-in-cheek reference to the meme about the Fed money printers going "brrr", triggering off a frenzy of speculation across markets and assets.

2. In many ways this next one is also a reflection of stimulus: i.e. massive and unprecedented monetary + fiscal stimulus efforts globally …vs relatively muted stimulus in China. This chart not only reflects that key dynamic, but also provides a nod to the fact that "it's different this time" in that the rest of the world was able to keep trucking along on the back of reopening + stimulus vs being pulled down with the softening in the China macro pulse as in the last two mini-cycles.

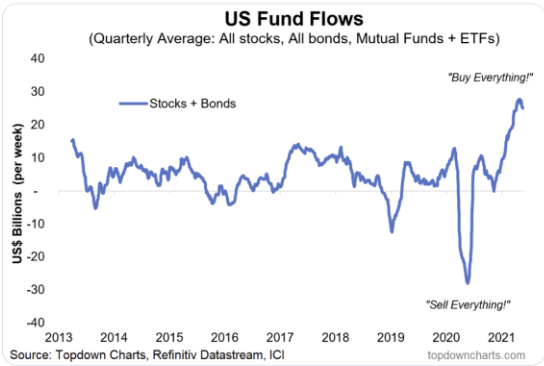


3. S&P500 Corporate Capex weightings:
-Commodity capex at a record low
-Tech capex at a record high

Seems familiar... (the exact words of the tweet – I think that is still a pretty good summation of it!).



4. Very interesting chart and sign of the times, with the rolling quarterly sum of flows into all stock and bond funds going from "Sell Everything!" to "Buy Everything!"

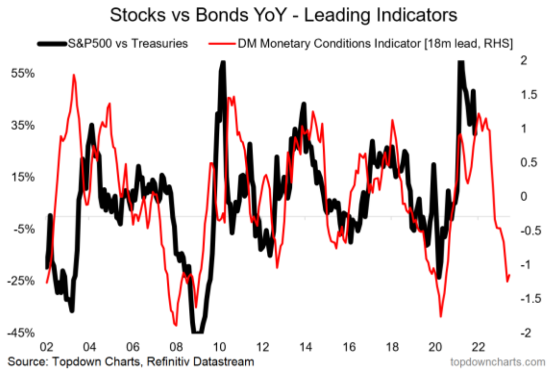


5. Speaking of speculative frenzy, this chart shows the degree to which traders are piling into leveraged long vs short equity ETFs. It's basically a sentiment indicator where spikes indicate excessive risk taking on the long side, and plunges indicate a pivot to the bearish side. This chart (from November) shows investors are all-in.

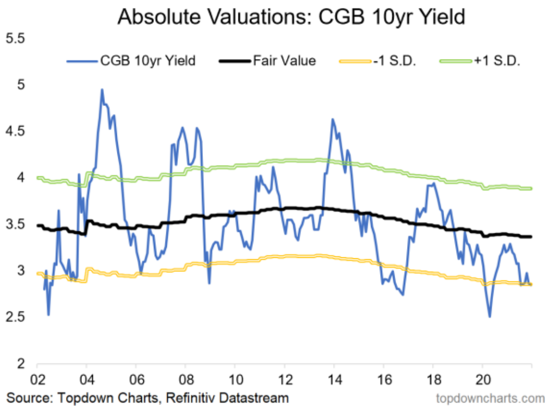
Section G. New Coverage

This section provides a brief selection of the areas of new/expanded coverage initiated over the year.

1. Stock/Bond Ratio: This exercise built-out some specific indicators for the stock/bond ratio, with very interesting conclusions.

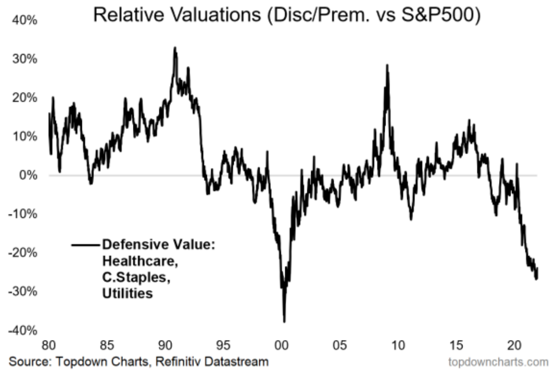


2. Chinese Government Bonds: Coverage of this increasingly significant sub-asset class initiated at the request of clients.

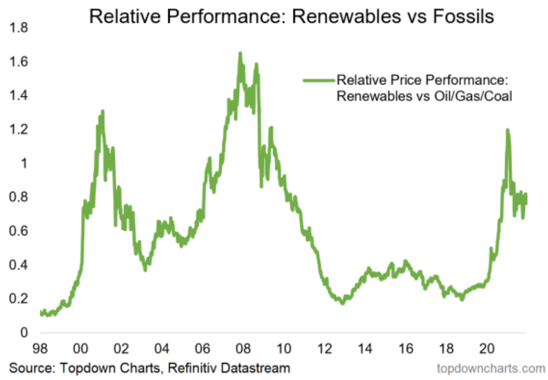


3. Emerging Markets ex-China: Much like Global Equities ex-US – by popular demand, breaking EM down into EM ex-China proved insightful.

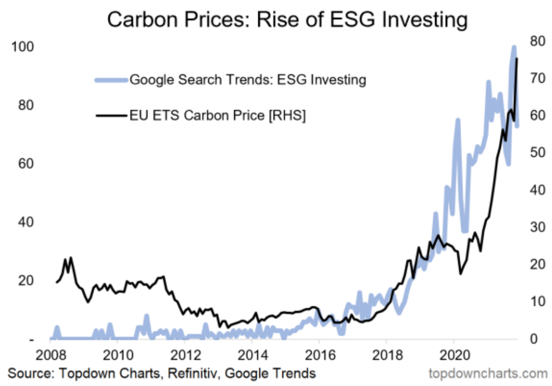
4. Defensive Value: Significantly expanded the suite of indicators on what may end up being a very important corner of equities in years to come. Also providing yet another echo of the dot-com boom with defensive equities looking very cheap on a relative basis.



5. Clean Energy: Built out an initial set of indicators on the clean energy equities sector – also comparing renewables vs fossil fuels.



6. Carbon: An intriguing asset class which bore many parallels to the frenzied price action across commodities and crypto/NFTs. Carbon is an important piece of the ESG/Zero-Carbon investing story as investor preferences (and politics) shift.



Report by Callum Thomas, Head of Research at Topdown Charts

About Topdown Charts

Topdown Charts provides chart-driven research across a global multi-asset universe. The key offering is the Weekly Macro Themes report which has been designed specifically for multi-asset portfolio managers, active asset allocators, and macro-driven fund managers. The perspective is that of a buyside strategist and the key deliverables of the report are: investment idea generation, top-down global macro insights, risk management input, and asset allocation research.

Research Process and Framework

TOP DOWN CHARTS

Research Process

Valuation

Valuation as a common anchor in the thesis
- Identify and develop valuation indicators
- Monitor for extremes (where the best opportunities are found)
- Explore the relative value case (no asset exists in a vacuum)

Cycle

Cycles are a constant across time and markets
- Identify the core cyclical/monetary drivers for the asset class
- Develop and monitor indicators and key data points
- Clarify how asset prices evolve across the cycle

Tactics

Round out the idea with tactical guidance
- Tactical indicators aid in idea generation + implementation
- Apply disciplined and sensible technical analysis techniques
- Look for extremes in sentiment, flows, and positioning

Key Beliefs

- Risk = owning an asset which is overvalued, overowned, overbought and out of time.
- Risk also = underexposed to assets which are undervalued, unloved, oversold, and turning around.
- See things as they are: avoid forecasting, be data-driven yet be unapologetically forward looking.
- Must define/frame key risks and drivers for a given asset class.
- Know what indicators/charts to watch and monitor (and strive for constant innovation/improvement).
- Aim = put the odds in your favour.

Key Objectives and Scope of Research

TOP DOWN CHARTS

Really there are 3 key objectives that we aim to deliver: **risk management input** (investors tend to disproportionately punish permanent loss of capital vs rewarding exceptional performance), **idea generation** (but exceptional performance is still critical!), and help our clients **gain perspective** (which not only helps them in managing money, but also communicating with their clients and stakeholders).

Risk Management
- Rule 1 of investing: don't lose money.
- What do we need to be paying attention to?

Idea Generation
- Engage multiple factors to find the best ideas.
- Create unfair advantage for our clients through superior research.

Gain Perspective
- Stay focused on the signal, not the noise.
- Inform our clients with cutting-edge studies.

Investment Universe

Equities
- ❑ Regions/Countries
- ❑ Sectors/Industries
- ❑ Styles/Factors

Alternatives
- ❑ Commodities
- ❑ Currencies
- ❑ REITs, MLPs

Fixed Income
- ❑ Government bonds
- ❑ Corporate credit
- ❑ Inflation linked

Topdown Charts -- What we do:

We work with portfolio managers to help make their job easier. The aim is to make the service look and feel like having an investment strategist on the team.

Core Institutional Service

The core institutional service is aimed at multi-asset portfolio managers and investors requiring top-down input in their process: who want something a little bit different, and share a similar philosophy and affinity for our chart-driven research approach.

The core service includes:

-Regular research reports (see below for a full listing)

-Help with questions and requests (either about the reports or in general)

-Use of the charts (e.g. in your own reports and presentations)

The Reports

Weekly Macro Themes: Core report, featuring 5 ideas/topics each week spanning investment ideas, risk management input, and meaningful macro insights.

Global Cross Asset Market Monitor: Weekly intelligence briefing on shorter term sentiment and technicals across global markets and asset classes.

Market Cycle Guidebook: A monthly focus on the medium-longer term factors such as cycle/valuation/monetary, updated capital market assumptions, and a summary of views across asset classes and TAA positioning guide.

Quarterly Strategy Pack: Slide pack of core views and charts across macro and markets to support discussions and presentations with clients.

Entry-Level Service?

Yes – new in 2021: Try us out on Substack – topdowncharts.substack.com