

Macro Outlook

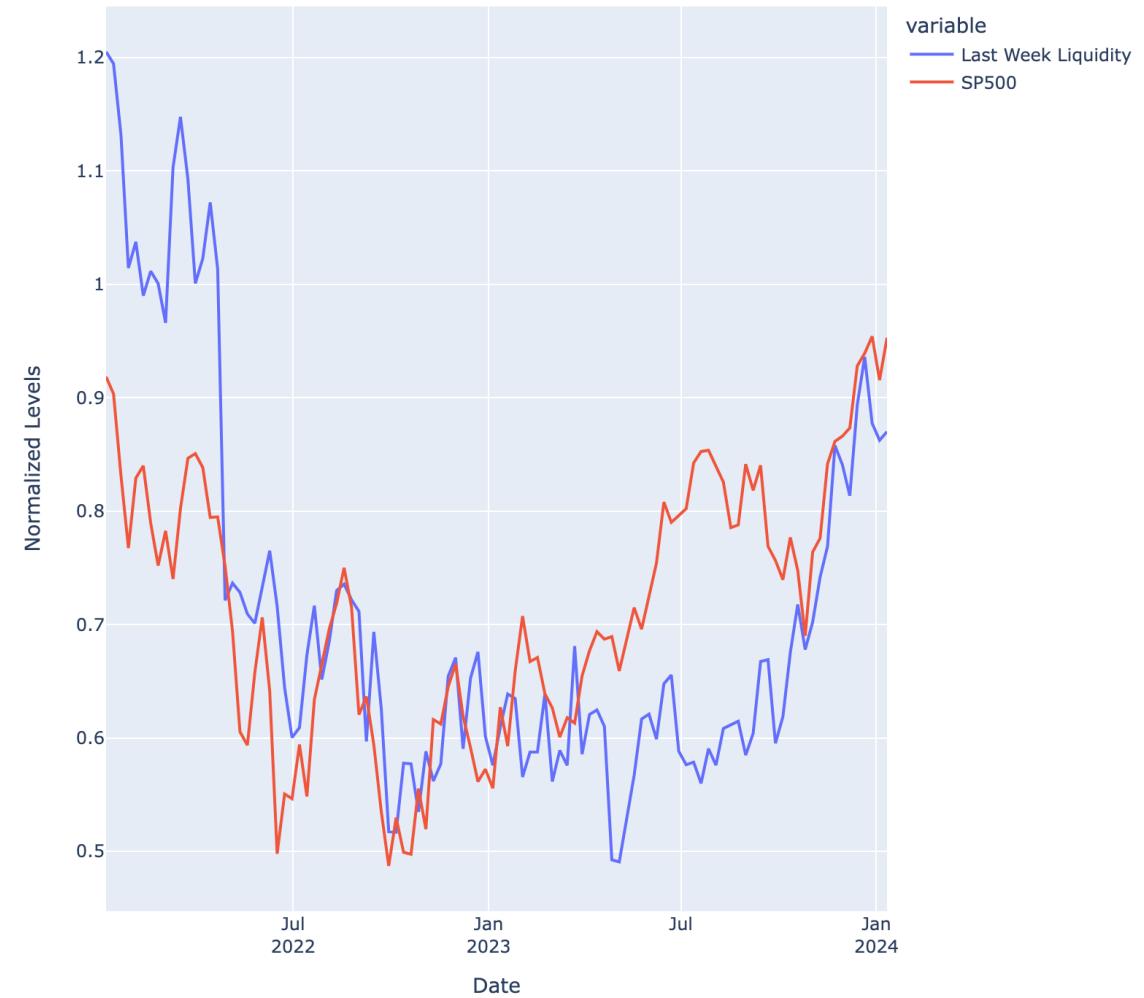
2024

Bullish Points

Fed Policy

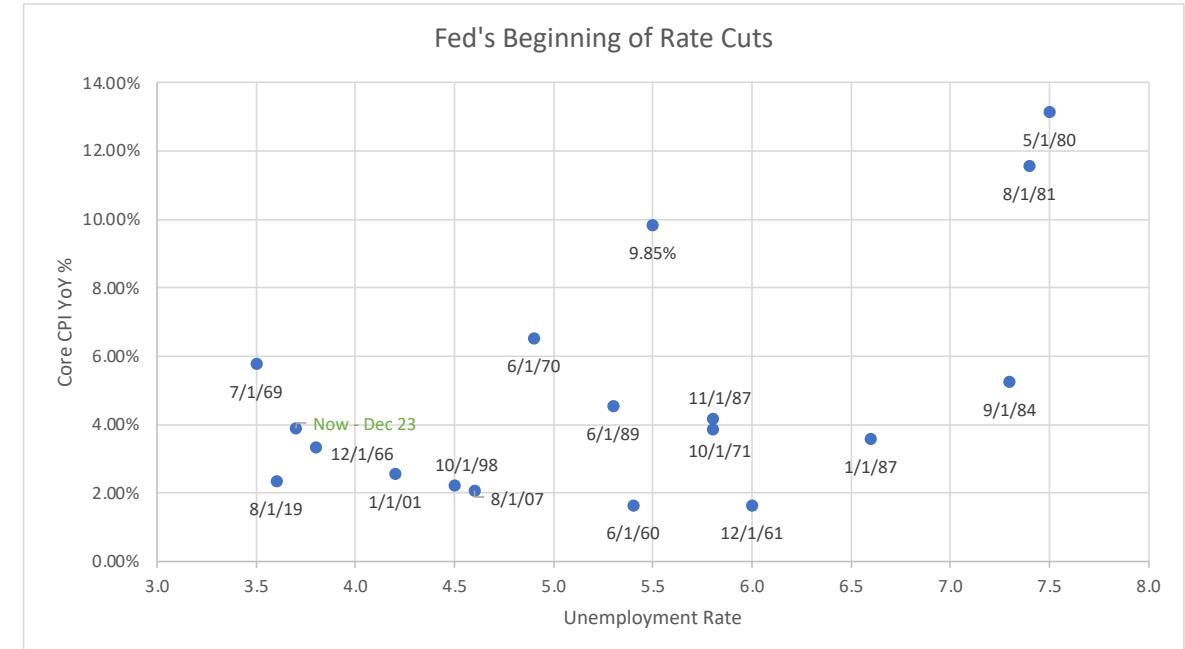
- Election Year: Fed is more politicized now
- Ever since 2022, SPX has tracked the Fed Balance Sheet very closely (Correlation: 0.78)
- Last Week Liquidity = SOMA – TGA – RRP
- Subtract TGA because treasury spending adds liquidity to the market
- Built up TGA and fast diminishing RRP

Monetary Policy v. SPX



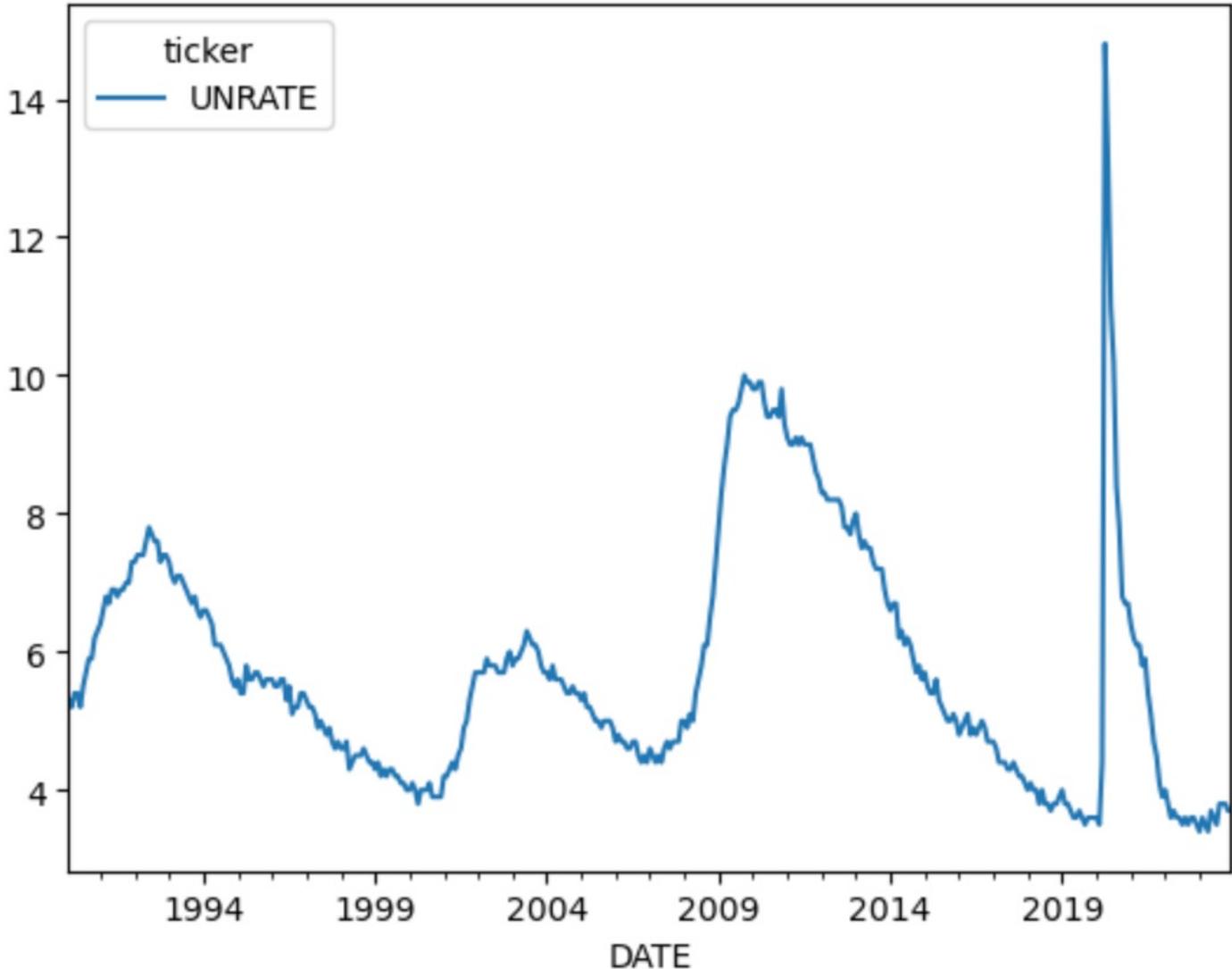
Core CPI and Unemployment: Fed Rate Cuts

- Can see why the markets are pricing in rate cuts starting at the beginning of March
- Green Text: Where we were most recently
 - Just under 4.0% for CORE CPI
 - Low Unemployment (3.7%)



Unemployment Rate

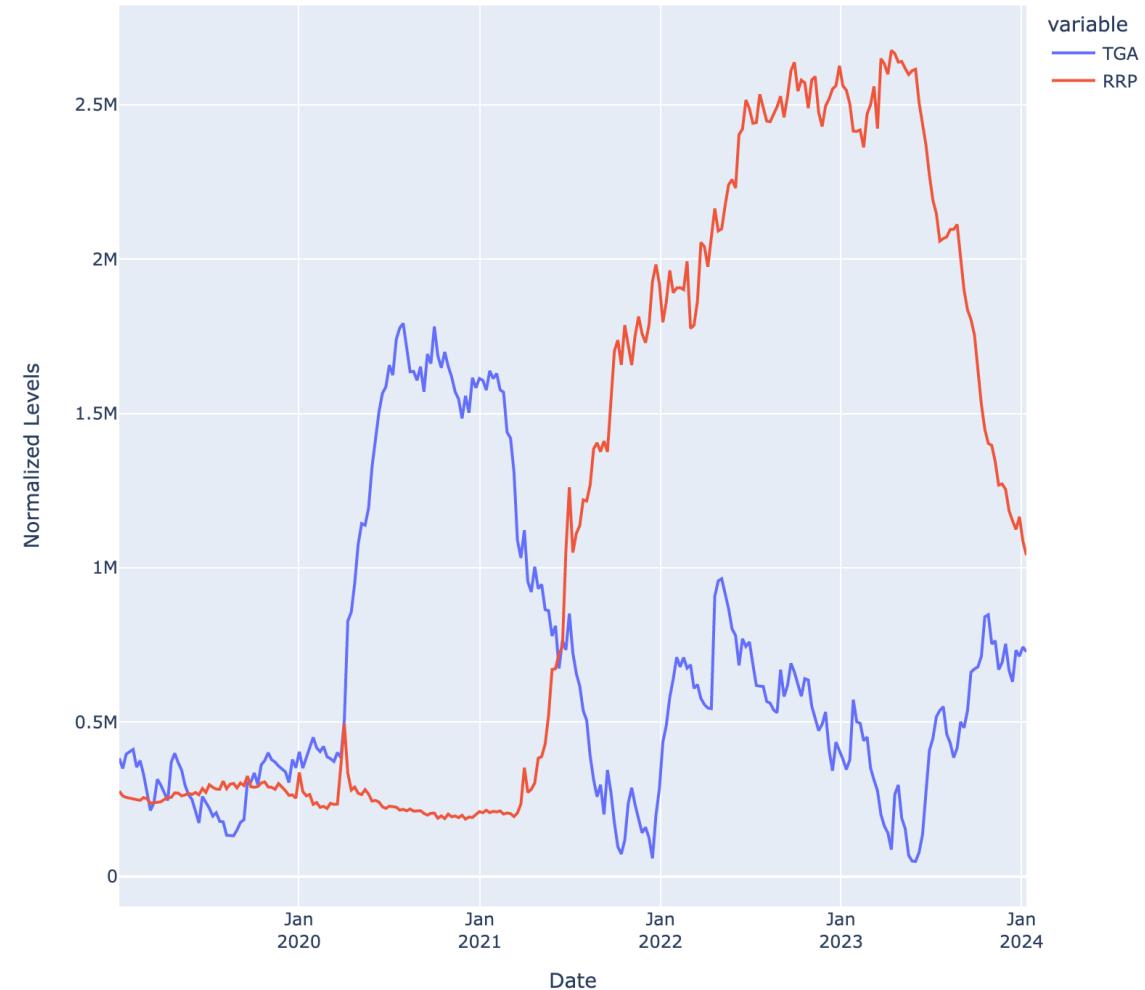
- After 525bp rate hike cycle, US unemployment rate is still below 4%
- Fed Dual Mandate: Price Stability and Full Employment
- Cuts in March might be priced in too early



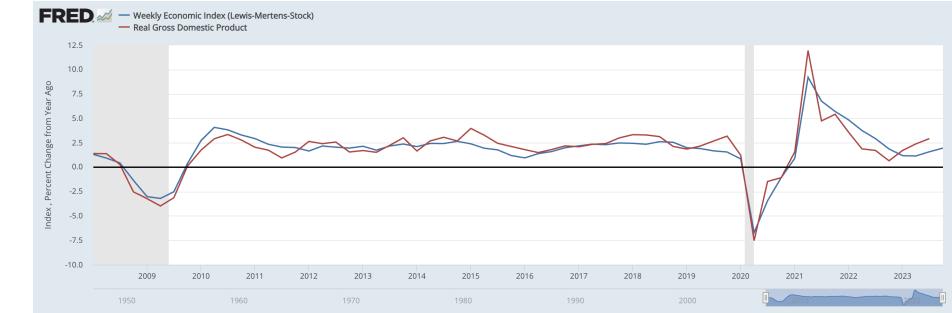
RRP

- Built up TGA with fast decreasing RRP is bullish for assets
 - Diminishing TGA is bullish because Treasury is spending money in the economy
 - This adds liquidity into the market
 - Diminishing RRP is bullish because:
 - A reduction in the usage of the RRP facility could be associated with changing expectations regarding interest rates. In an environment where interest rates are expected to decline, investors might seek higher returns in riskier assets, potentially benefiting equities

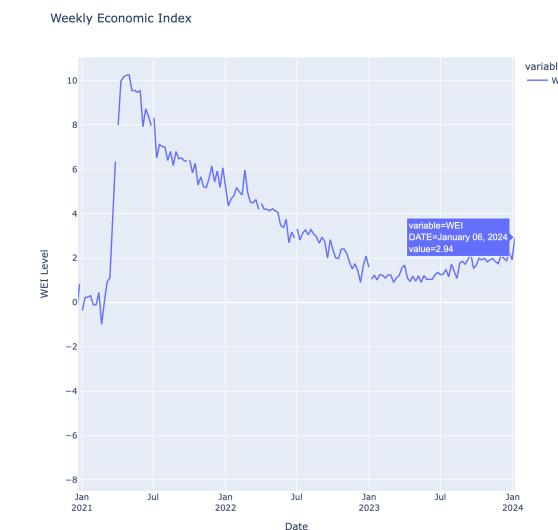
RRP Runoff



Growth – Positive Recent WEI Prints



- Real GDP relationship with Weekly Economic Index
- Jan 6th Level: 2.94
- By this measure, the economy seems to be growing despite tighter monetary policy



Bearish Points

Core CPI (Market is too Dovish)

- Core CPI has fallen quite significantly due to tighter monetary policy but still not close to 2%
- PCE is what Fed looks at, but most recent data comes out later in the month
- **Consensus for PCE Number: 2.9% y/y**
 - 0.2% m/m
 - **This number is coming down but seems to high for Fed to declare victory over inflation**
 - **Expecting rate cuts to not happen until May meeting (market is too dovish)**

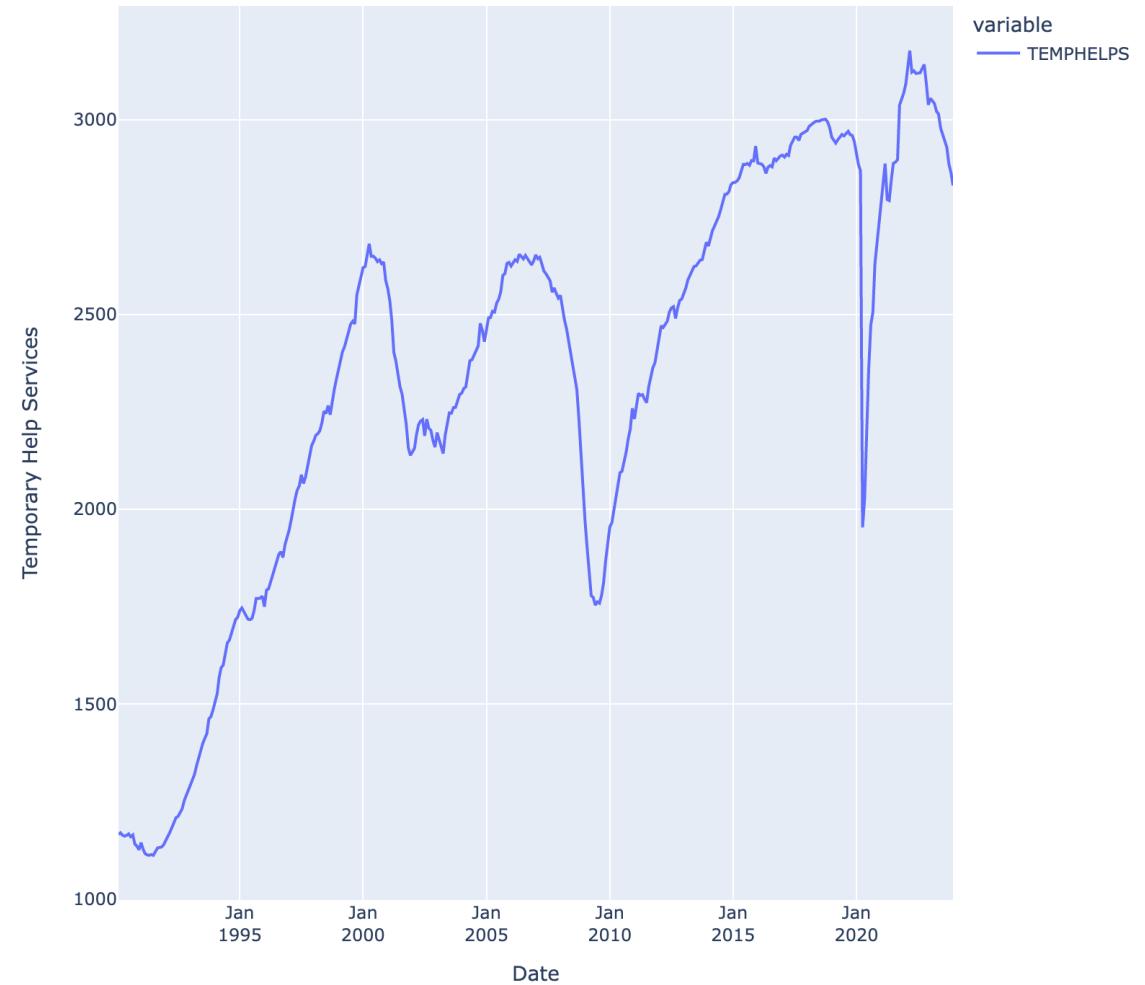
CORE CPI y/y



Temporary Health Services

- Starts declining in each economic downturn
- Leading indicator for Fed mandate of full employment

Temporary Help Services: Good Proxy for Economic Downturn



NFP Revisions

- Haven't seen so many NFP downward revisions since 2008
- Credit: Danielle DiMartino Booth

**NFP Revisions:
1st to 3rd estimates**

	2008*	2023*
Jan	-59	-45
Feb	-20	-63
Mar	-8	-19
Apr	-47	-36
May	2	-58
Jun	-38	-104
Jul	-16	-40**
Aug	-43	-22
Sep	-244	-74
Oct	-183	-45
Nov	-64	-26
Jan-Nov Avg	-65	-48

Source: BLS. *Pre-benchmark revision.

**Private only; excluding +99K gov't.

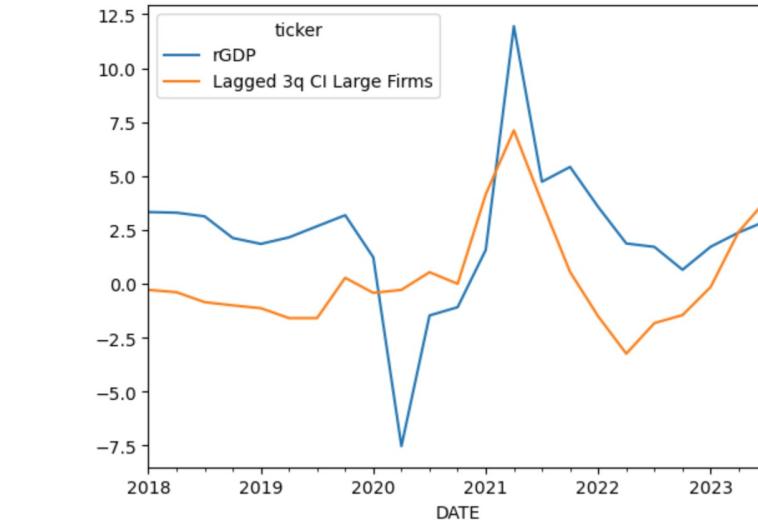
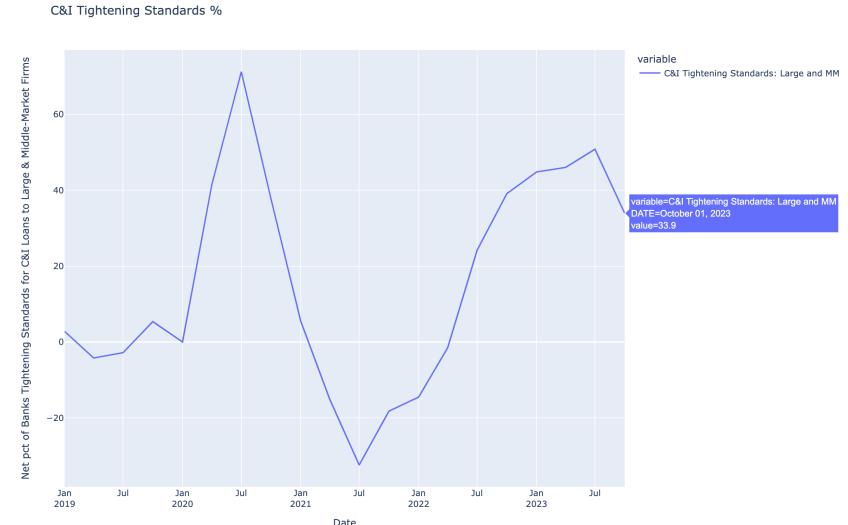
Wage Inflation

- Hawkish: ECI and AHE are trending downward but still no where near where Fed has targeted for proxy for wage inflation
- Relevant: Fed mandate for price stability and participants might be overlooking as March rate cuts around 70%



C&I Tightening Standards

- Real GDP tracks 3 quarter lag of C&I Tightening Standards for Large and MM Firms.
- Reaffirming consensus that Real GDP will slow 4Q23.



Geopolitical Risks

- Geopolitical experts claiming all or most are most likely connected
- Swarm Strategy implemented by China and Russia
 - 9 months ago: Xi and Putin came out of dinner saying, "changes not seen in 100 years."
- Ongoing Russia - Ukraine
- China's tactics recently in Taiwan Strait during election
 - Record number of balloons deployed (13 flew directly over Taiwan)
 - 108 aircraft and 61 warships around time of election on 13th
- China violates Vietnam and Philippines EEZ
 - US-Philippine Drills countered by Chinese show of force
- Hamas attack on Israel
- Houthis in Red Sea
- Crime Gang Violence in Ecuador
- SMERSH – Russia reinstates Anti-Spy

Overweights / Underweights

TLT 45 Day Differential: Post Disinflationary Thesis

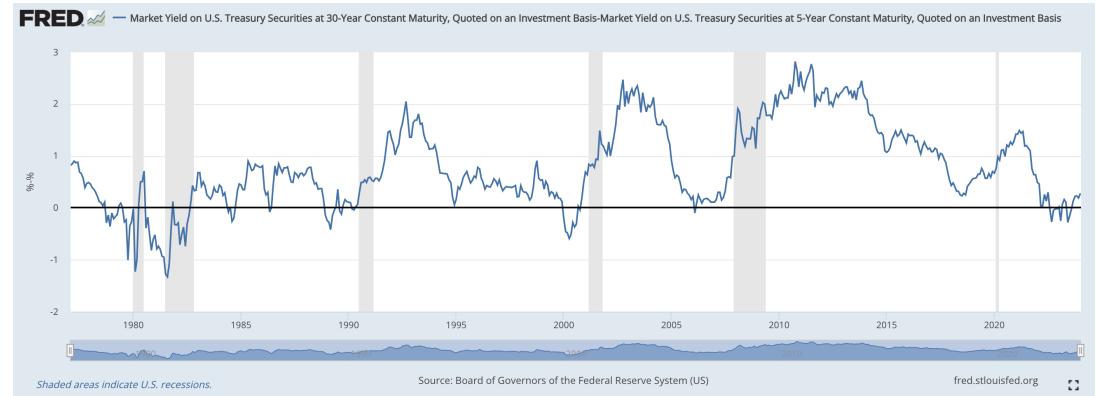


TLT (Overvalued Levels)

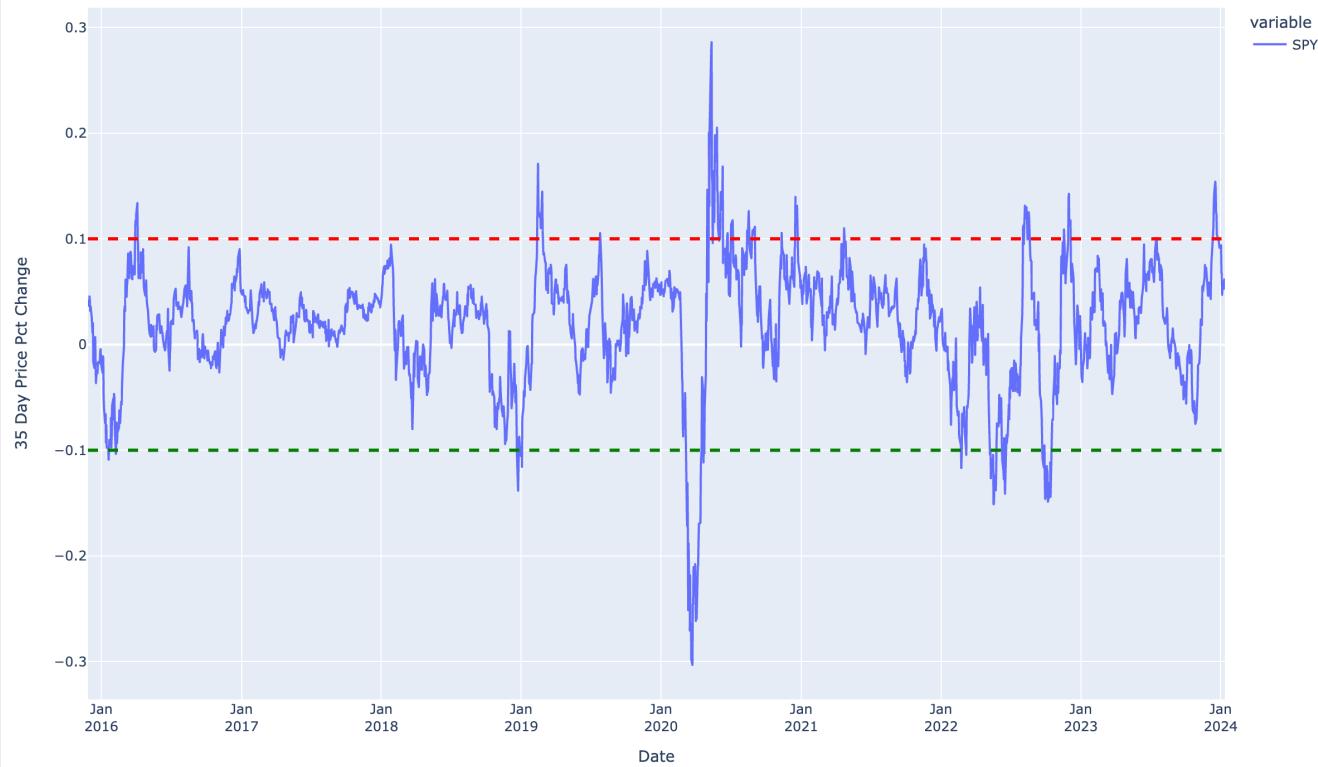
- Rates dropped due to 6.5 price cuts priced into market starting in March
 - Risks are skewed toward higher rates from here
 - Prefer steepeners (2s10s and 5s30s)
- Seems too early given the following:
 - Wage Inflation
 - Core CPI (trending down but no where near Fed target)
 - Tight labor market: 3.7% Unemployment
- Things to look out for:
 - PCE (what Fed looks at): comes out later in January. Market sees this number coming down a lot. Consensus 0.2% m/m putting number at 2.8%.
 - Seems still quite high compared to Fed target.

Steepeners

- Buy 5s, Sell 30s
- This looks like better trade than TLT
 - Markets already pricing excessive easing for 1H24
 - Increase in duration supply
- Steepeners – Hedge to recessionary shocks as Fed cuts rates (6.5 priced in for 2024)
- 5s30s looks more attractive as more exposure to duration



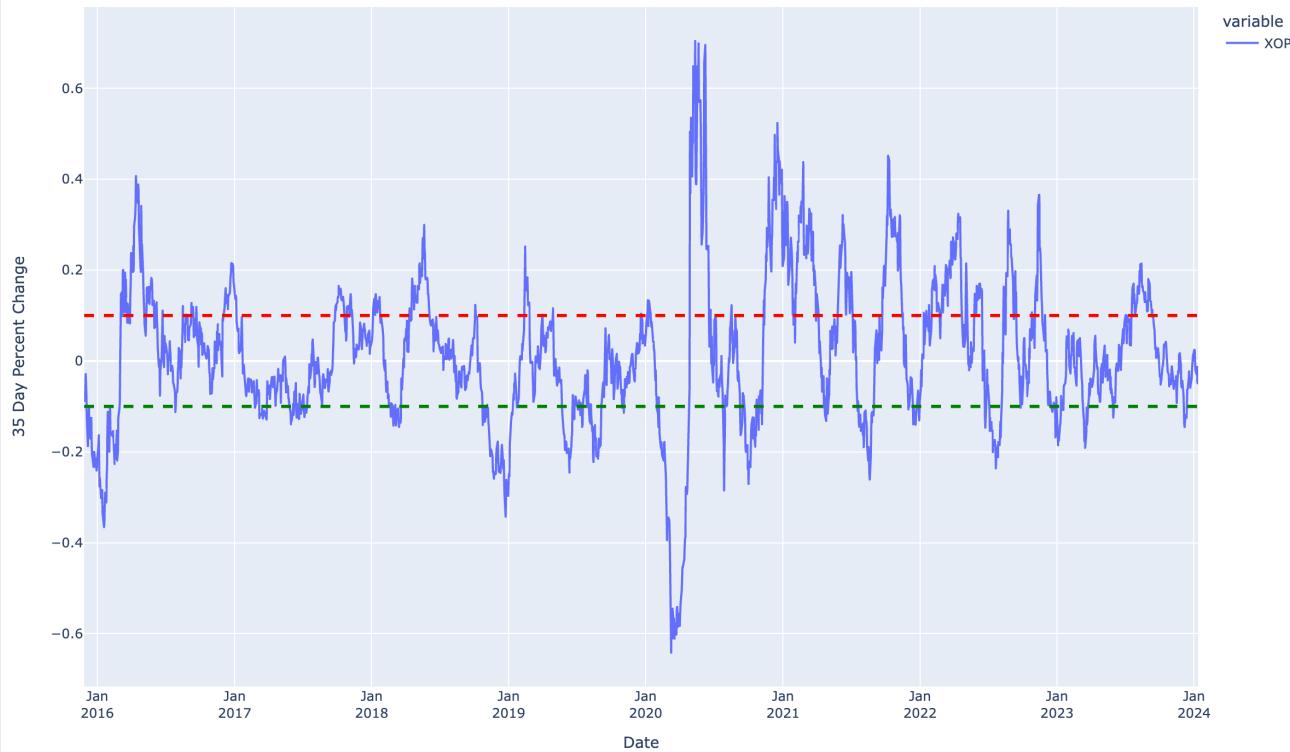
SPY 35 Day Percent Change: Post Disinflationary Thesis



SPY (Overvalued Levels)

- Disinflationary Thesis: Assets saw Santa rally in November and December of 2023 as people declared victory over inflation.
- SPY seems overvalued here following optimistic market and 35-day percent change in SPY, but looks better than bonds given 6.5 rate cuts priced in already.
- Cuts priced in for March given high wages, PCE consensus still in upper 2's, unemployment at 3.7%, and 3.9% Core CPI.

Oil and Gas 35 Day Differential: Geopolitical Risks



Oil and Gas

- Exposure to post-Russian energy transition
 - Exposure to oil companies that have great balance sheets and huge cash flow providers.
- Tends to outperform in stagflationary regimes.
 - Increasing YoY Headline CPI with decreasing Real GDP YoY growth
 - Immaculate Disinflation Thesis is most likely going to see pushback in early 2024
- DPP new leader in Taiwan wants to phase out Nuclear
 - Bullish for natural gas



Healthcare: Declining Growth

- Healthcare usually outperforms in quarters where GDP YoY contracts
 - 2 examples are:
 - Q419 and Q422
- Healthcare equities tend to outperform when growth (Real GDP y/y) contracts.
- XLV trending but not near overvalued levels

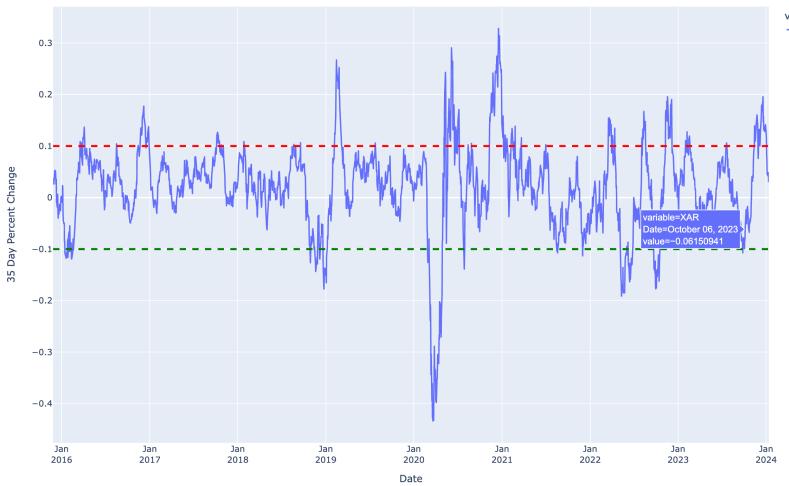
Gold

Gold 35 Day Pct Change: Geopolitical Risks



- Geopolitical strife
 - Hedge against geopolitical uncertainty

Defense 35 Day Pct Change: Geopolitical Risks



Defense 35 Day Pct Change: Geopolitical Risks



Defense Companies

- XAR saw steep equity increase after October 7th attacks against ally, Israel.
- Seeing heightened geopolitical risk all over the globe
- Believe geopolitical risks will remain heightened, especially in Middle East
 - Also touched on HII (due to AUKUS and South China Sea)
 - See HII Code and Results (Factors):
<https://github.com/RyanFineganTradingProjects/2023-11-27-Trades/blob/main/QD%20Trading%20Strat%20HII.ipynb>
 - See HII PDF:
<https://github.com/RyanFineganTradingProjects/2023-11-27-Trades/blob/main/HII%20Long.pdf>
 - (fundamental and systematic points) - quality name that has tailwinds suggesting Fed demand for larger, more modern fleet. (AUKUS, troubles in South China Sea, and Red Sea conflicts)

Appendix / Code

- Some of the code used in this deck:
 - <https://github.com/RyanFineganTradingProjects/MacroOutlook2024/blob/main/Macro%20and%20Asset%20Allocation.ipynb>
 - Most of code above was macro stuff I was playing around with
 - Should be easy to replicate as long as you install all packages listed at beginning of Jupyter Notebook.
- Can share code: Most of other sampled work located here
 - <https://github.com/RyanFineganTradingProjects/2023-11-27-Trades>
 - More idiosyncratic, but shows some macro points