

November 19, 2024

## EM Market Signals And China Reflation Watch

Global markets are digesting the potential impact of Trump's victory and the appointments of key staff in his new administration. EM assets have suffered a setback, but there are signs of resilience amid the latest selloff. Meanwhile, China's October growth figures have mostly been released, offering an initial glimpse into the impact of Beijing's reflation efforts from late September. Overall, the data has largely exceeded expectations, which may help explain why Beijing's recent stimulus measures have been modest. For EM assets, Washington's trade policies and Beijing's reflation efforts will be key driving forces going forward.

### Post-Election: Messages From The Market

Glancing through the post-election performance of numerous EM assets, a few observations can be made.

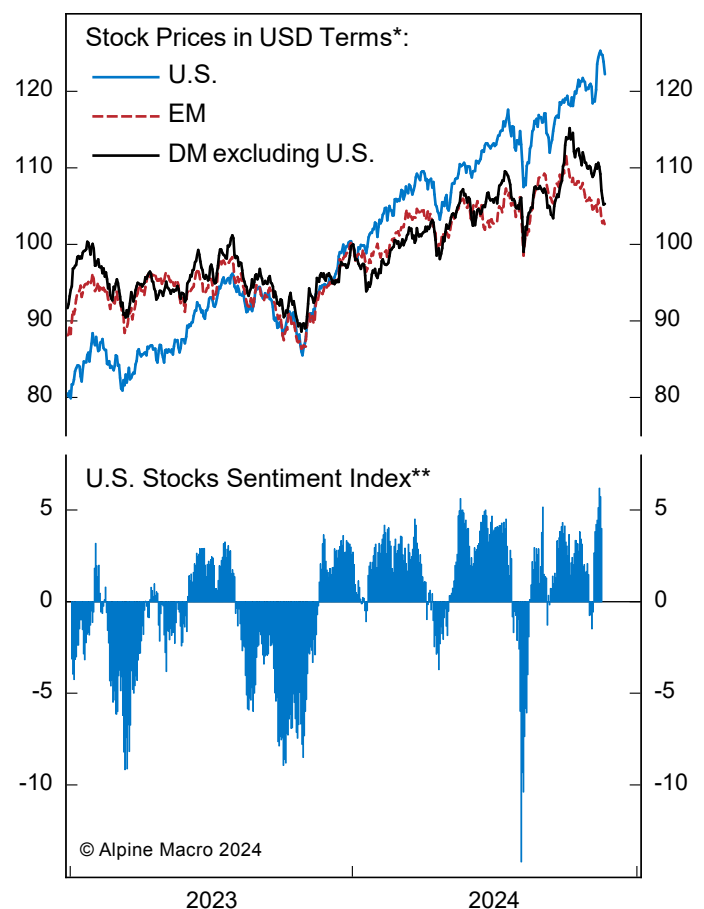
First, there has been an intriguing divergence between U.S. stocks and the rest of the world. U.S. markets have received an additional adrenaline boost from Trump's victory, pricing in tax cuts and deregulation, while stock prices in the rest of the world, both DM and EM, have cratered, anticipating punitive tariffs and a strong dollar ([Chart 1](#)).

Given American companies' significant global exposure, either through sales or procurement, it remains to be seen whether they can stay immune if Trump's trade assaults devastate other major economies. What's more certain is that sentiment

### In This Report

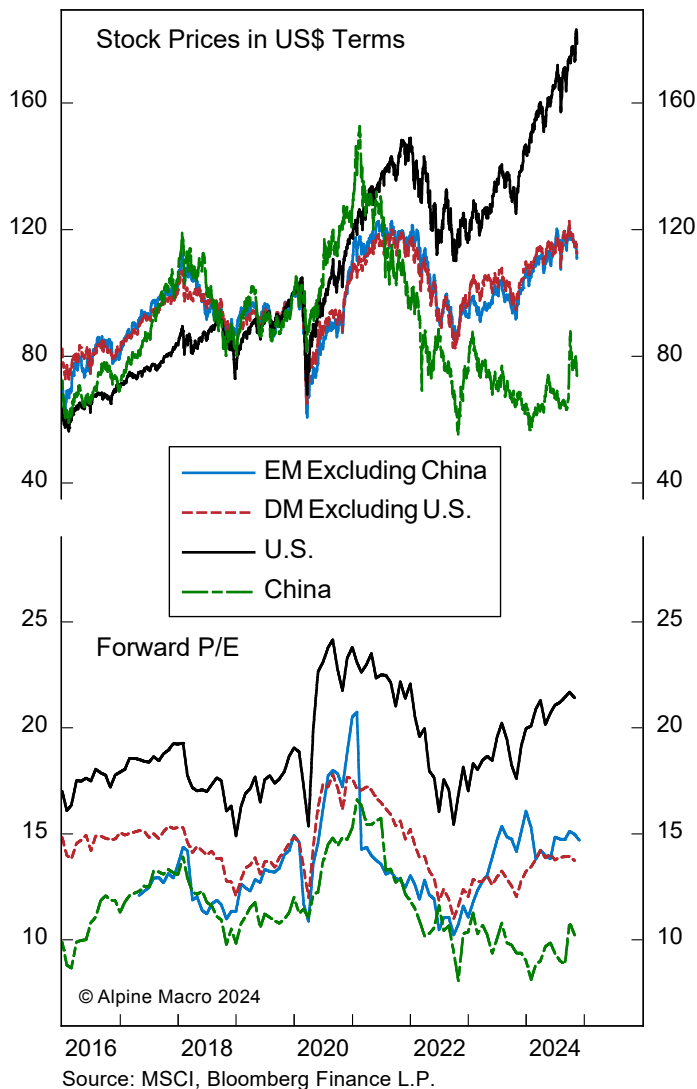
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**Chart 1 U.S. Exceptionalism Post-Election**



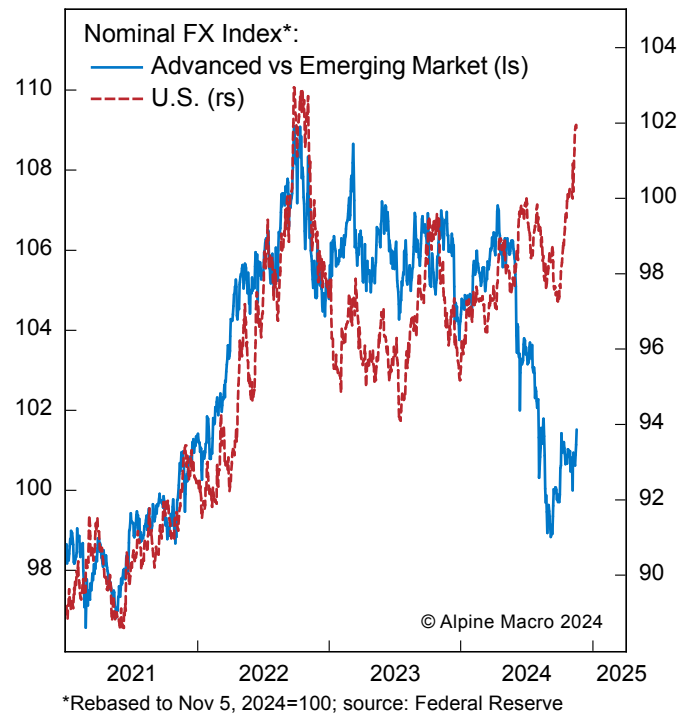
\*Rebased to Jan 2024=100; source: MSCI

\*\*Based on Z-score; source: S&P Global, CBOE, MSCI, Federal Reserve

**Chart 2** Mind The Valuation Gap

on U.S. stocks have been upbeat, and their valuation premium over their global peers has become ever more elevated ([Chart 2](#)).

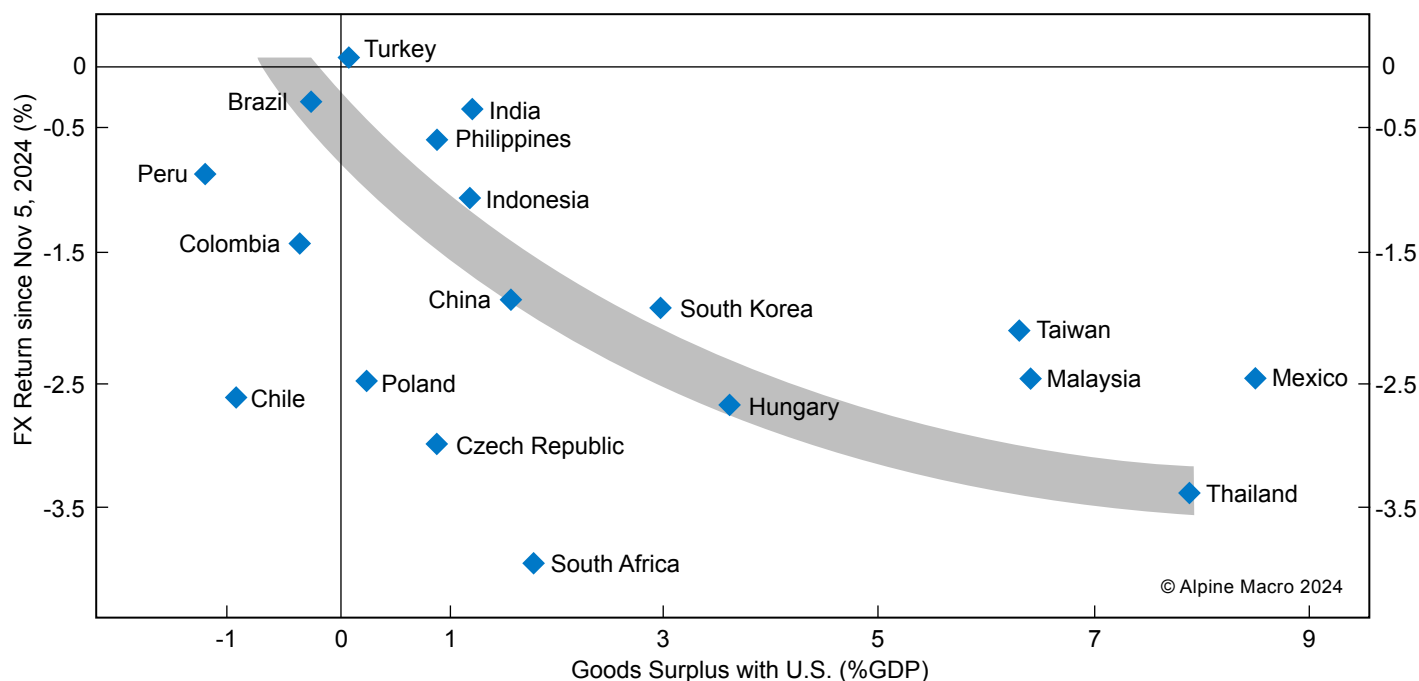
Second, aside from some usual suspects, EM currencies have not fared particularly badly compared to other majors. The EM currency index has weakened by about 1% against the U.S. dollar, compared to a 3% appreciation of the DXY index –meaning the dollar appreciated more against other majors, particularly the euro, than against EM currencies. Historically, EM exchange rates tend to

**Chart 3** EM Currencies Weakened Against The Dollar, But Outperformed Other Majors

suffer bigger losses than major currencies during a broad-based dollar rally ([Chart 3](#)).

Some of the weakest EM currencies since Trump's victory are from countries potentially high on his "hit list" for another trade war. [Chart 4](#) shows that **currencies of countries with higher surpluses with the U.S. have suffered bigger losses**. The Mexican peso and the Thai baht are among the worst performers, as we expected, and we remain short on them.<sup>1</sup> **The South African rand has also depreciated significantly, which, in our view, is unjustified by fundamental factors. The country is far from President Trump's trade war priorities, and its economy has been improving. As such, the latest selloff could present buying opportunities down the road.**

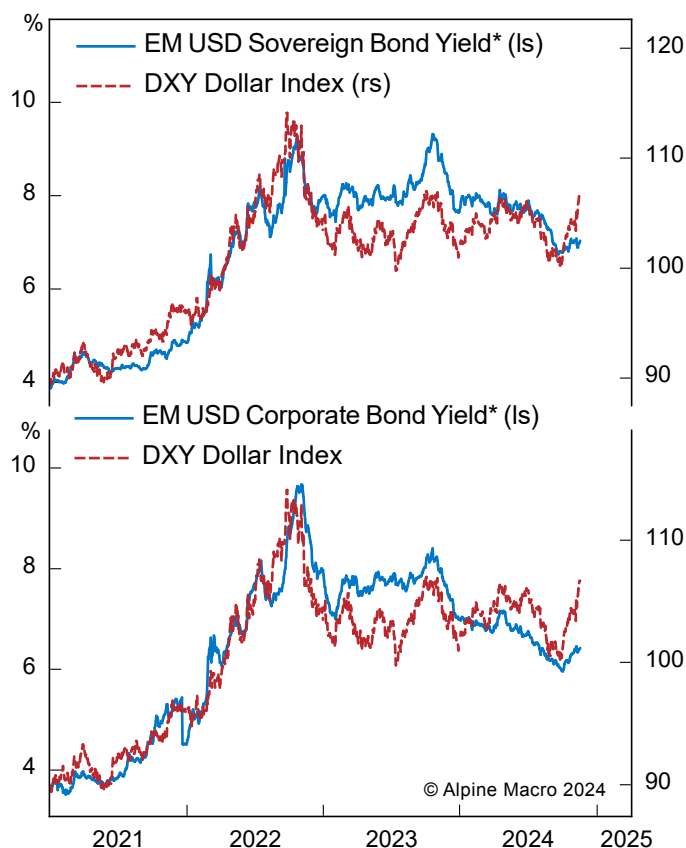
1 Alpine Macro *EM & China Strategy* "Three EM Currency Trades, Regardless Of U.S. Election" (November 5, 2024).

**Chart 4** Postmortem: EM Currency Performance Versus U.S. Trade Exposure

Third, EM dollar bond spreads, both sovereign and corporate, have barely moved of late, while historically such a sharp spike in the dollar has always led to widening spreads (Chart 5). The message from the market appears to suggest that the latest dollar strength is fleeting without significant additional impact on EM sovereign and corporate borrowers. We doubt EM dollar bonds can stay resilient if the greenback continues to strengthen.

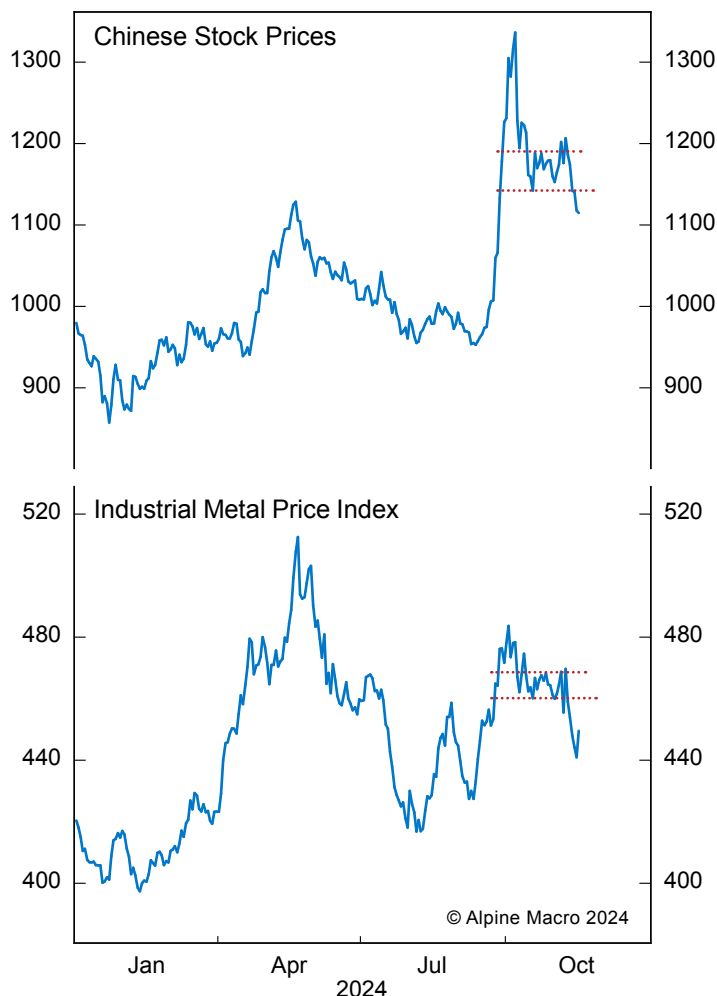
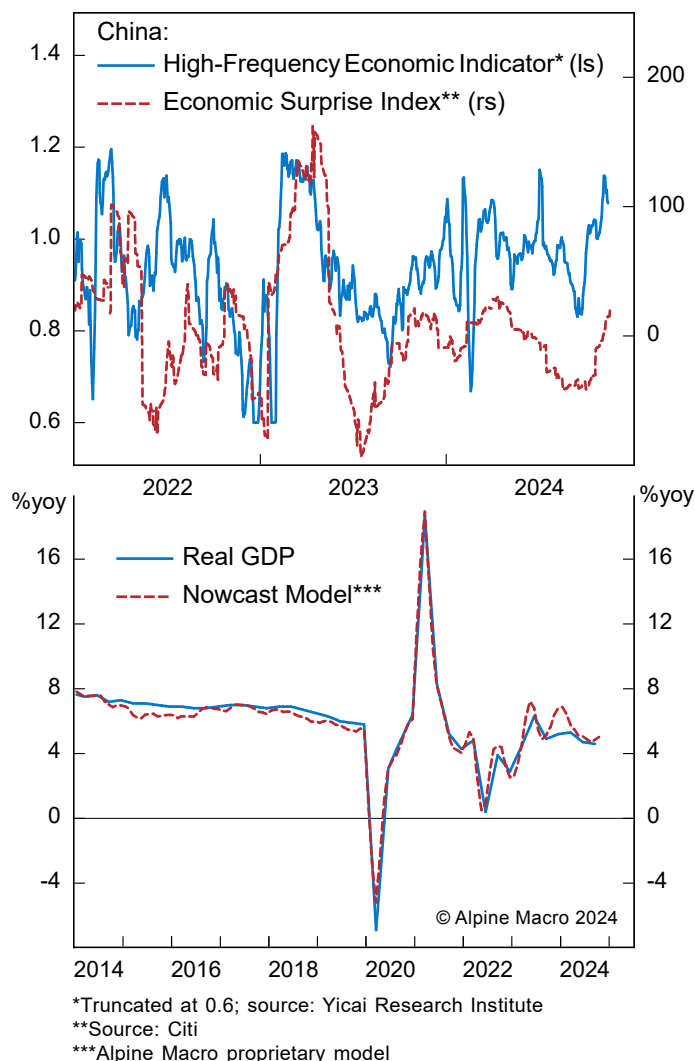
Finally, Chinese stocks have relapsed in the past two weeks, breaking down from the holding pattern that was in place after the September rebound (Chart 6). Similarly, China-sensitive metal prices have also pulled back sharply, reflecting the risks of a looming trade war with the U.S. and disappointment over Beijing's latest fiscal announcement.<sup>2</sup> The message from the market is that Beijing needs stronger policy easing to counter external shocks.

<sup>2</sup> Alpine Macro EM & China Strategy "Trump's Sweep And Beijing's Playbook" (November 12, 2024).

**Chart 5** EM Dollar Bonds Have Been Resilient

\*Source: Bloomberg Finance L.P.



**Chart 6** Breaking Down**Chart 7** Chinese Growth: Signs Of Improvement

## Chinese Growth: Tentative Signs Of Improvement

On the economic front, recent Chinese macro numbers have mostly surprised to the upside, an encouraging sign that the economy has improved, albeit mildly, due to the latest policy easing measures ([Chart 7](#)). Our nowcast model suggests that Chinese GDP growth will likely accelerate in Q4, potentially allowing Beijing to claim victory in achieving its growth target. The bad news is that this may make Beijing reluctant to ease more aggressively and pre-emptively, opting to save

some “bullets” to deal with the looming trade war. The good news is that the tentative signs of improvement suggest the economy is responding positively to policy stimulus, diminishing the risk of a bottomless downward spiral.

Page 8 provides an update of our **China Macro Watch** Chartpack, a selection of charts on the latest economic and financial market conditions. A notable bright spot is exports. Chinese exports jumped by 11.2% in October from a year ago, a sharp improvement from the 1.2% annual growth



rate in September. The sustainability of the latest export strength is questionable, however, as Chinese exporters and overseas buyers may have been frontloading transactions ahead of Trump 2.0 to avoid tariffs.

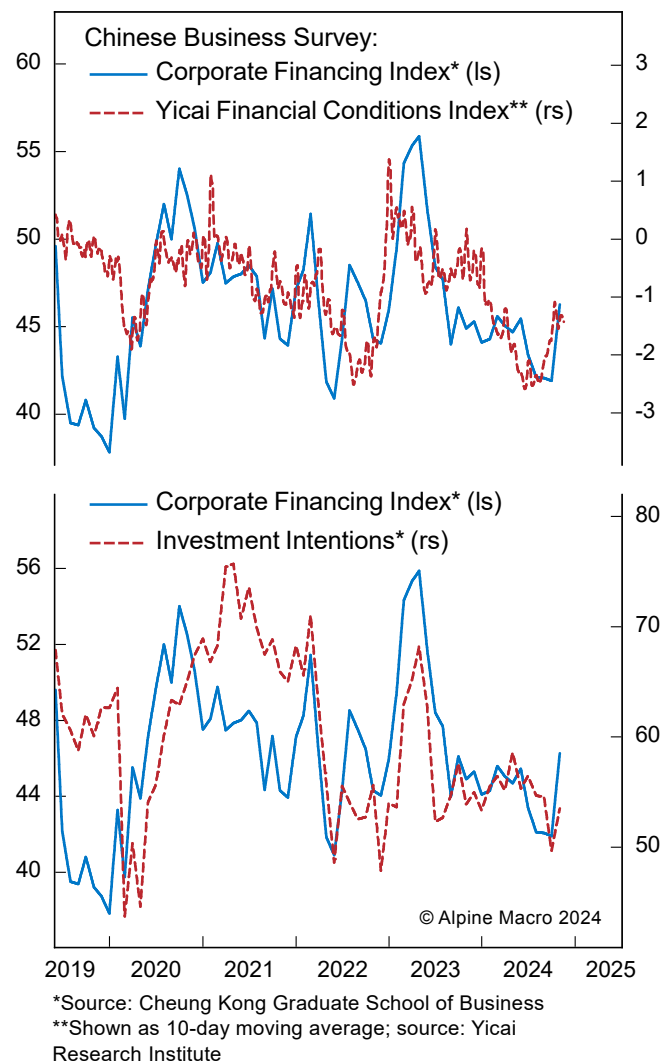
We have been tracking three groups of indicators—confidence and demand, money and credit, and housing activity—to monitor the impact of Beijing’s reflation efforts. The signals are mixed:

**Confidence and Demand:** Business confidence has inched higher, driven by improving corporate financial conditions, likely due to recent monetary easing measures (Chart 8). Funding conditions for small and mid-sized firms have improved more notably. Investment intentions in the corporate sector have also picked up from the deep slump earlier this year. This could, in turn, bode well for hiring, wages, and consumption.

On the consumer side, demand is still weak. A rare bright spot is the booming sales of consumer durable goods, as Beijing has been offering subsidies for consumers to upgrade household appliances. Sales of household appliances jumped by nearly 40% last month compared to a year ago. This indicates that Chinese households are highly price-sensitive, and similar stimulus measures will likely further boost demand.

**Money and Credit:** Broad money supply (M2) growth bottomed in June and has been accelerating for four consecutive months. Narrow money supply (M1) growth is still negative, but the contraction is easing. Overall, private demand for credit remains very weak, with the latest rise in social financing primarily supported by government bond issuance.

**Chart 8 Corporate Funding Situation Has Eased**

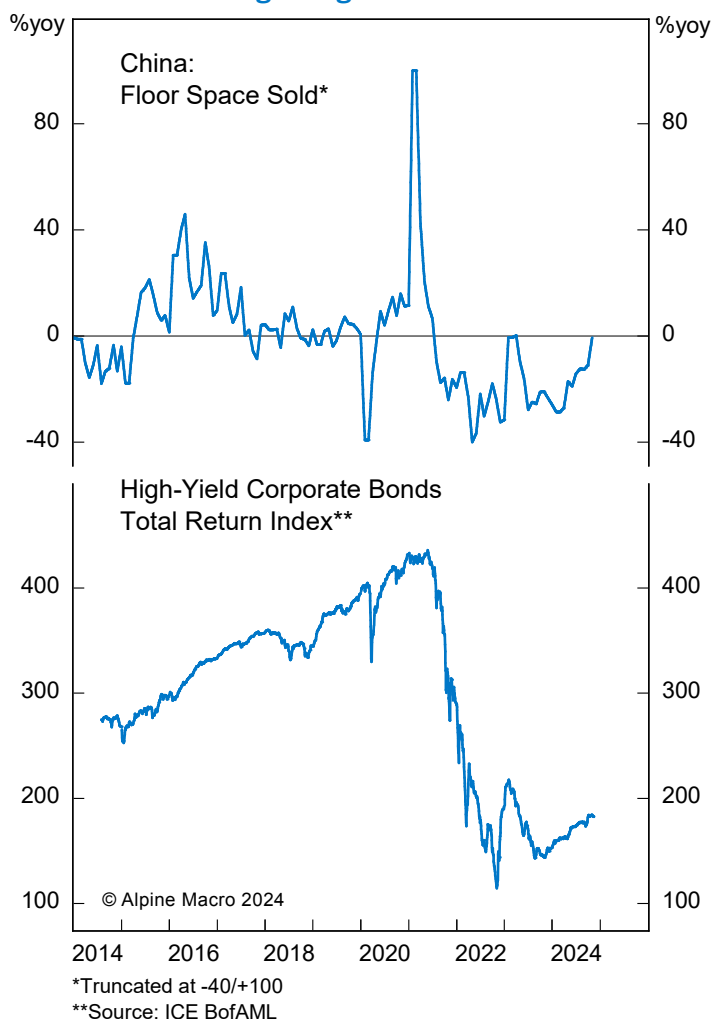


In its latest monetary policy report, the People’s Bank of China explicitly suggested achieving “reasonable price increases” as a monetary policy target—a new addition to the central bank’s multiple mandates. This likely indicates that the PBoC sees deflation as a greater threat, suggesting room for more monetary easing.

**Housing Activity:** The property market is also showing signs of stabilization. Nationwide floor space sold in October was 0.5% below last year’s



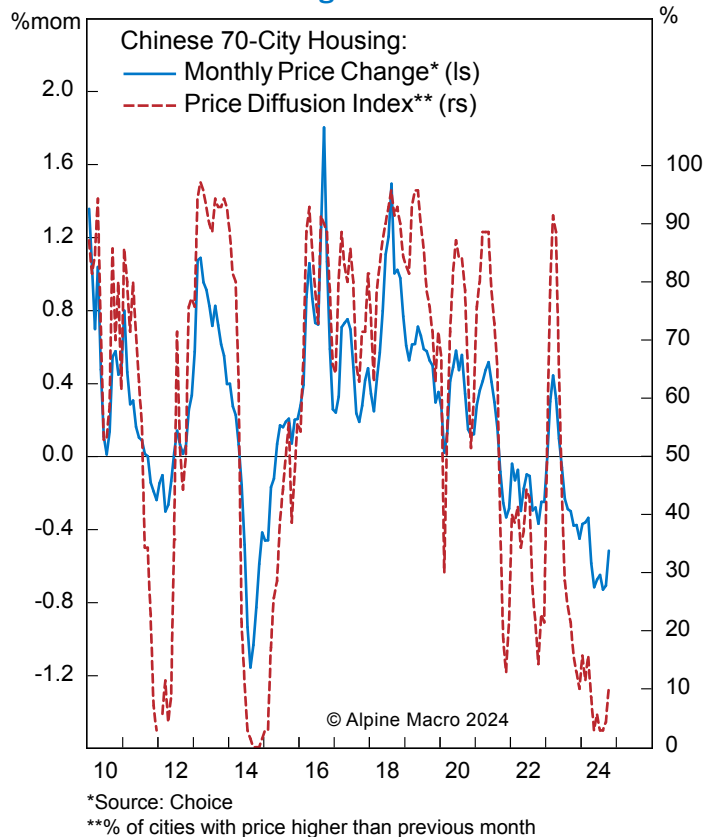
**Chart 9 Home Sales Slump:  
Beginning Of The End?**



level, compared with nearly a 30% contraction earlier this year ([Chart 9](#)). Sales by major developers last month registered the first positive year-over-year growth since the housing collapse. Developers' dollar bond prices have been creeping higher since the end of last year, reflecting marginal improvements in their funding conditions.

Historically, rising home sales typically lead to increased housing starts and investment—both of which are still contracting. Home prices have continued to fall, but at a slightly slower pace. Our

**Chart 10 Home Prices:  
Passing The Worst?**



home price diffusion index, which measures the percentage of cities with rising prices, shows that in some cities, home prices have stopped falling ([Chart 10](#)). Last week, regulators cut transaction taxes for homebuyers nationwide, aiming to boost demand for larger properties.

Taken together, the Chinese economy appears to be regaining some traction, but momentum remains very weak, and deflationary pressure is intense. It is imperative for Beijing to intensify stimulus efforts, especially on the fiscal front. The upcoming Central Economic Work Conference next month and the National People's Congress in March are key events to monitor for further policy actions.



In terms of investment strategy, we intend to continue holding Chinese stocks, as their valuations are still very depressed, and we doubt Beijing would tolerate much weaker stock prices or a relapse in growth momentum.

Please continue to page 8 for our **China Macro Watch** Chartpack.

**Yan Wang, CFA**

*Chief Emerging Markets & China Strategist*

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Market Performance											
Equity Benchmark*	Level	YTD Return (%)	1-Month Return (%)	1-Year Return (%)	P/E	P/B	Chinese Bond Yields	Level (%)	YTD Chg (bps)	1-Month Chg (bps)	1-Year Chg (bps)
MSCI China Free (US\$)	63.6	16.3	-4.0	11.6	12.0	1.4	10-Year Government Bonds	2.11	-44.1	0.3	-54.7
CSI 300	3950.4	16.9	4.3	10.5	15.1	1.7	Spread over U.S. 10-Year Treasury	-2.34	-97.8	-44.8	-54.8
Shanghai A Shares	3484.0	12.0	4.9	8.3	15.5	1.4	5-Year AAA-Rated Corporate Bonds	2.30	-64.6	6.1	-73.0
STAR 50	968.7	16.7	10.2	8.5	119.1	4.5	Currency	Level	YTD Chg (%)	1-Month Chg (%)	1-Year Chg (%)
Shenzhen A Shares	2057.2	8.5	7.4	1.5	35.8	2.3	USD/CNY	7.2325	-1.6	-1.6	-0.3
ChiNext	2191.0	19.4	7.7	9.9	32.2	4.2	Nominal Broad Effective RMB (CFETS)	100.05	2.2	0.8	2.0

\*In local currency terms, unless otherwise specified

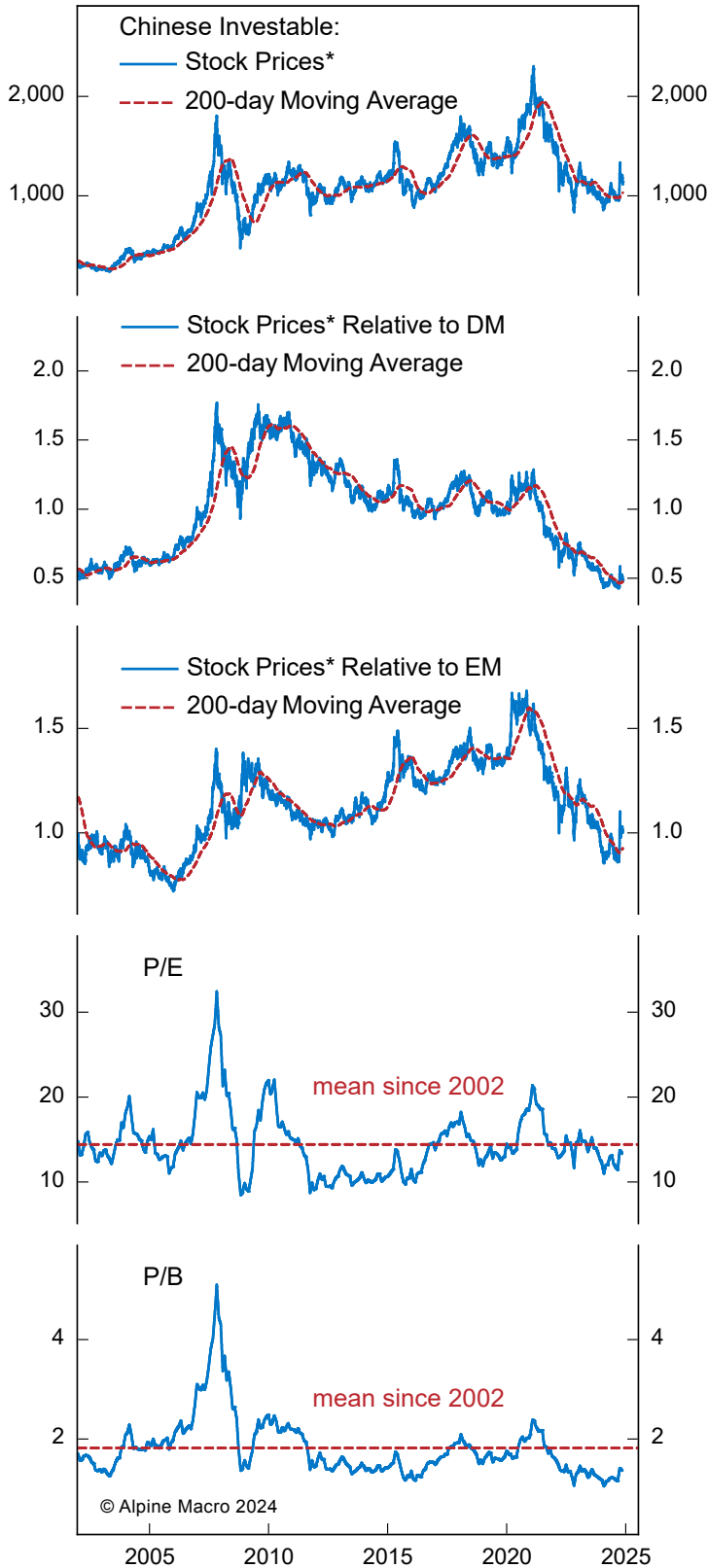
Note: Data as of November 18, 2024

Economic Barometer														
		2023-10	2023-11	2023-12	2024-01	2024-02	2024-03	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10
Leading Indicator	NBS PMI	49.5	49.4	49.0	49.2	49.1	50.8	50.4	49.5	49.5	49.4	49.1	49.8	50.1
	Caixin Manufacturing PMI	49.5	50.7	50.8	50.8	50.9	51.1	51.4	51.7	51.8	49.8	50.4	49.3	50.3
	Caixin Services PMI	50.4	51.5	52.9	52.7	52.5	52.7	52.5	54.0	51.2	52.1	51.6	50.3	52.0
Inflation (%yoy)	CPI	-0.2	-0.5	-0.3	-0.8	0.7	0.1	0.3	0.3	0.2	0.5	0.6	0.4	0.3
	Food CPI	-4.0	-4.2	-3.7	-5.9	-0.9	-2.7	-2.7	-2.0	-2.1	0.0	2.8	3.3	2.9
	Core CPI	0.6	0.6	0.6	0.4	1.2	0.6	0.7	0.6	0.6	0.4	0.3	0.1	0.2
	PPI	-2.6	-3.0	-2.7	-2.5	-2.7	-2.8	-2.5	-1.4	-0.8	-0.8	-1.8	-2.8	-2.9
Economic Activity	Unemployment Rate (%)	5.0	5.0	5.1	5.2	5.3	5.2	5.0	5.0	5.0	5.2	5.3	5.1	5.0
	Fixed Asset Investment* (%yoy)	2.9	2.9	3.0	3.6	4.2	4.5	4.2	4.0	3.9	3.6	3.4	3.4	3.4
	Industrial Production (%yoy)	4.6	6.6	6.8	6.9	7.0	4.5	6.7	5.6	5.3	5.1	4.5	5.4	5.3
	Retail Sales (%yoy)	7.6	10.1	7.4	6.0	4.5	3.1	2.3	3.7	2.0	2.7	2.1	3.2	4.8
	Car Sales Annual Change (Mn)	0.3	0.6	0.6	0.8	-0.4	0.2	0.2	0.0	-0.1	-0.1	-0.1	0.0	0.2
International Trade (%yoy)	Exports in US\$	-6.4	0.5	2.3	4.7	7.1	-7.5	1.5	7.6	8.6	7.0	8.7	2.4	12.7
	Imports in US\$	3.0	-0.6	0.2	1.9	3.5	-1.9	8.4	1.8	-2.3	7.2	0.5	0.3	-2.3
	Imports of Crude Oil**	13.9	12.2	11.9	12.4	12.9	10.5	11.1	9.4	4.7	3.0	-0.1	-1.3	-3.2
	Imports of Iron Ore**	5.4	6.2	6.7	6.7	6.8	5.6	6.2	6.4	5.9	6.6	5.3	5.4	5.4
	Imports of Copper**	-5.6	-6.0	-5.8	-4.8	-3.8	-0.9	0.8	2.5	3.6	3.6	3.0	3.4	1.5
	Imports of Coal**	60.8	64.3	68.7	64.7	60.6	48.1	43.0	36.2	28.0	23.9	20.0	18.8	19.2
Real Estate (%yoy)	Floor Space Sold*	-7.8	-8.0	-8.5	-14.5	-20.5	-19.4	-20.2	-20.3	-19.0	-18.6	-18.0	-17.1	-15.8
	Floor Space Started*	-23.2	-21.2	-20.4	-25.1	-29.7	-27.8	-24.6	-24.2	-23.7	-23.2	-22.5	-22.2	-22.6
	Floor Space Completed*	19.0	17.9	17.0	-1.6	-20.2	-20.7	-20.4	-20.1	-21.8	-21.8	-23.6	-24.4	-23.9
	Housing Price	-0.6	-0.7	-0.9	-1.2	-1.9	-2.7	-3.5	-4.3	-4.9	-5.3	-5.7	-6.1	-6.2
Credit	M1 (%yoy)	1.9	1.3	1.3	5.9	1.2	1.1	-1.4	-4.2	-5.0	-6.6	-7.3	-7.4	-6.1
	M2 (%yoy)	10.3	10.0	9.7	8.7	8.7	8.3	7.2	7.0	6.2	6.3	6.3	6.8	7.5
	New Loans Annual Change (Bn RMB)	123.2	-120.0	-234.8	20.0	-360.0	-800.0	11.2	-410.0	-921.2	-85.9	-460.0	-720.0	-238.4
	Aggregate Social Financing (%yoy)	8.7	8.7	8.7	8.4	7.8	7.6	7.4	7.3	6.8	6.8	6.6	6.3	6.2
Financial Markets & Interest Rates	MSCI China Free (%MoM)	-4.3	2.5	-2.6	-10.6	8.4	0.9	6.5	2.1	-2.6	-2.3	0.9	23.6	-6.0
	CSI 300 (%MoM)	-3.0	-2.1	-3.1	-5.0	9.4	2.3	0.2	-0.4	-3.1	-1.0	-5.1	23.1	-3.2
	Iron Ore Price (%MoM)	1.3	1.4	4.8	-0.7	-10.1	-13.6	10.5	0.7	-6.7	-6.4	0.5	2.4	-1.1
	Copper Price (%MoM)	0.3	1.7	0.6	-0.1	-0.6	4.9	13.1	0.4	-5.0	-4.9	0.1	6.8	-3.1
	Steel Price (%MoM)	0.0	3.0	1.1	-0.5	-0.7	-5.6	1.4	0.2	-3.8	-5.8	-4.4	0.2	7.2
	Loan Prime Rate 1-Year (%)	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.4	3.4	3.4	3.1
	SHIBOR 3-Month (%)	2.4	2.5	2.5	2.4	2.2	2.2	2.0	2.0	1.9	1.9	1.9	1.8	1.9
	10-Year Government Bond Yield (%)	2.7	2.7	2.6	2.4	2.3	2.3	2.3	2.3	2.2	2.1	2.2	2.2	2.1

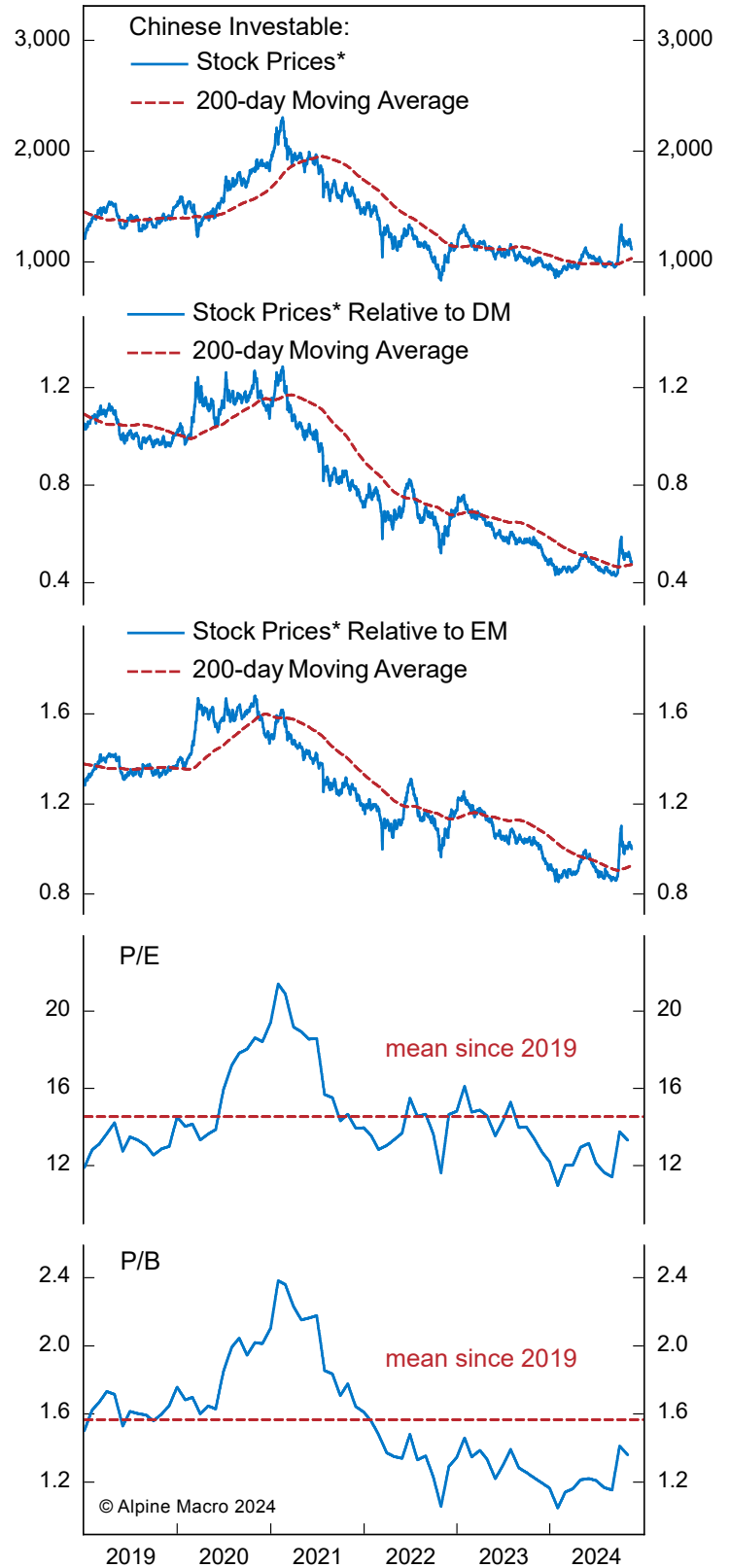
\*Shown as year-to-date

\*\*Imports in volume terms; shown as 12-month moving average

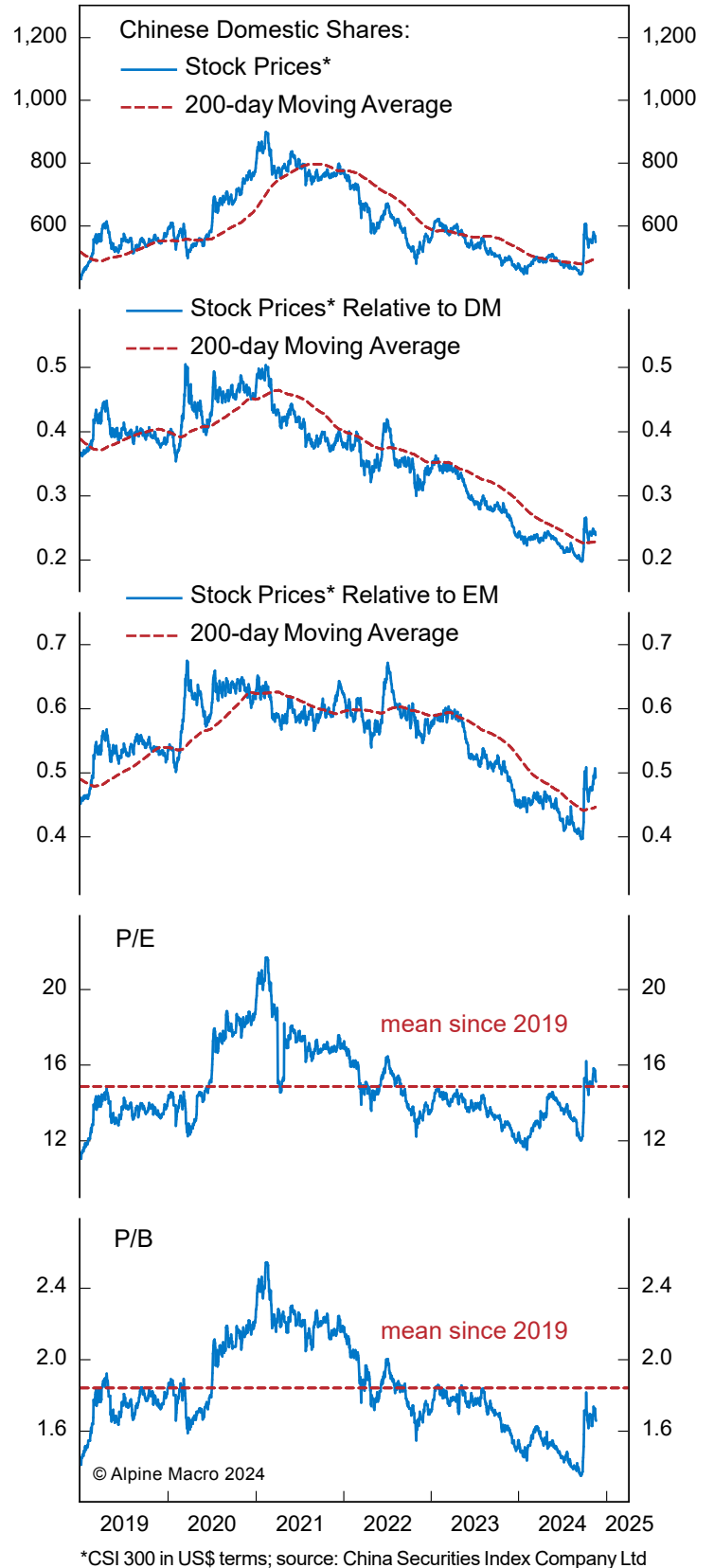
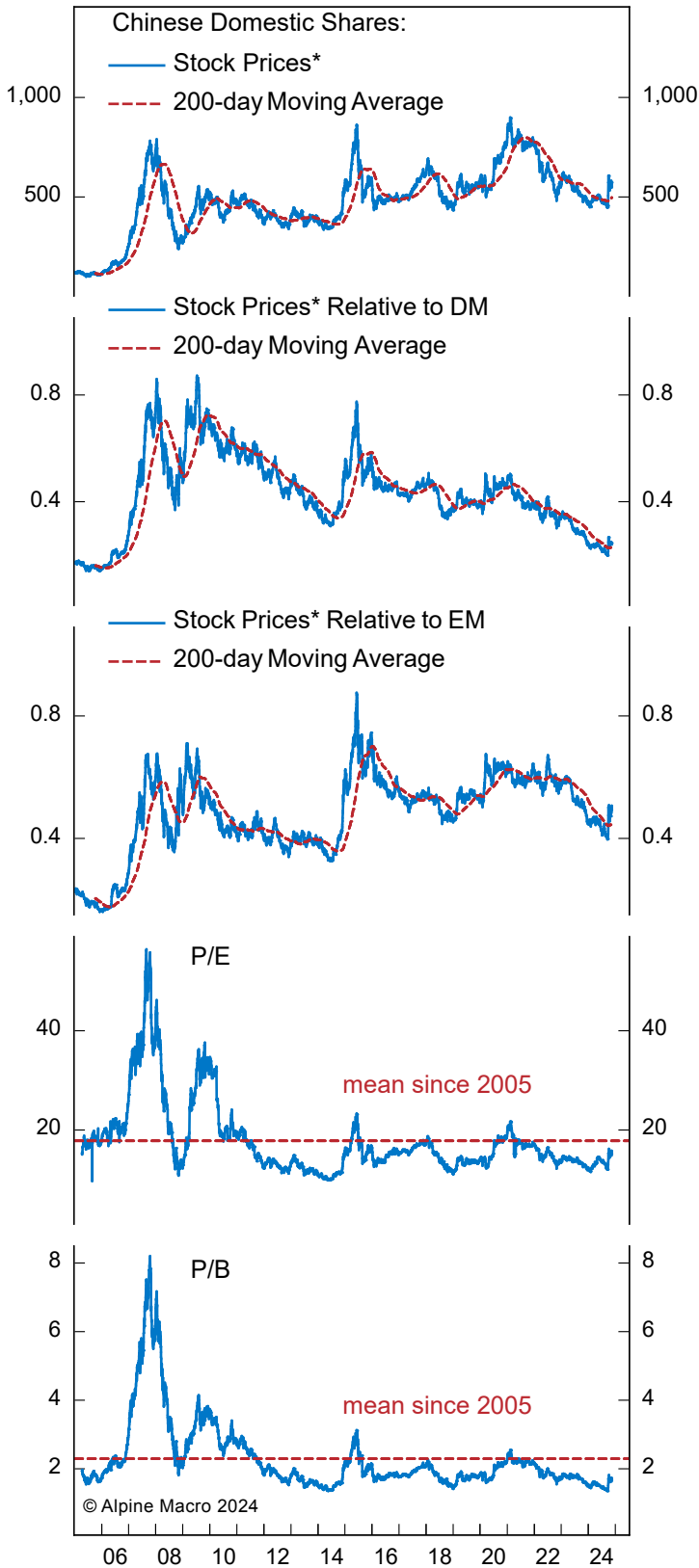


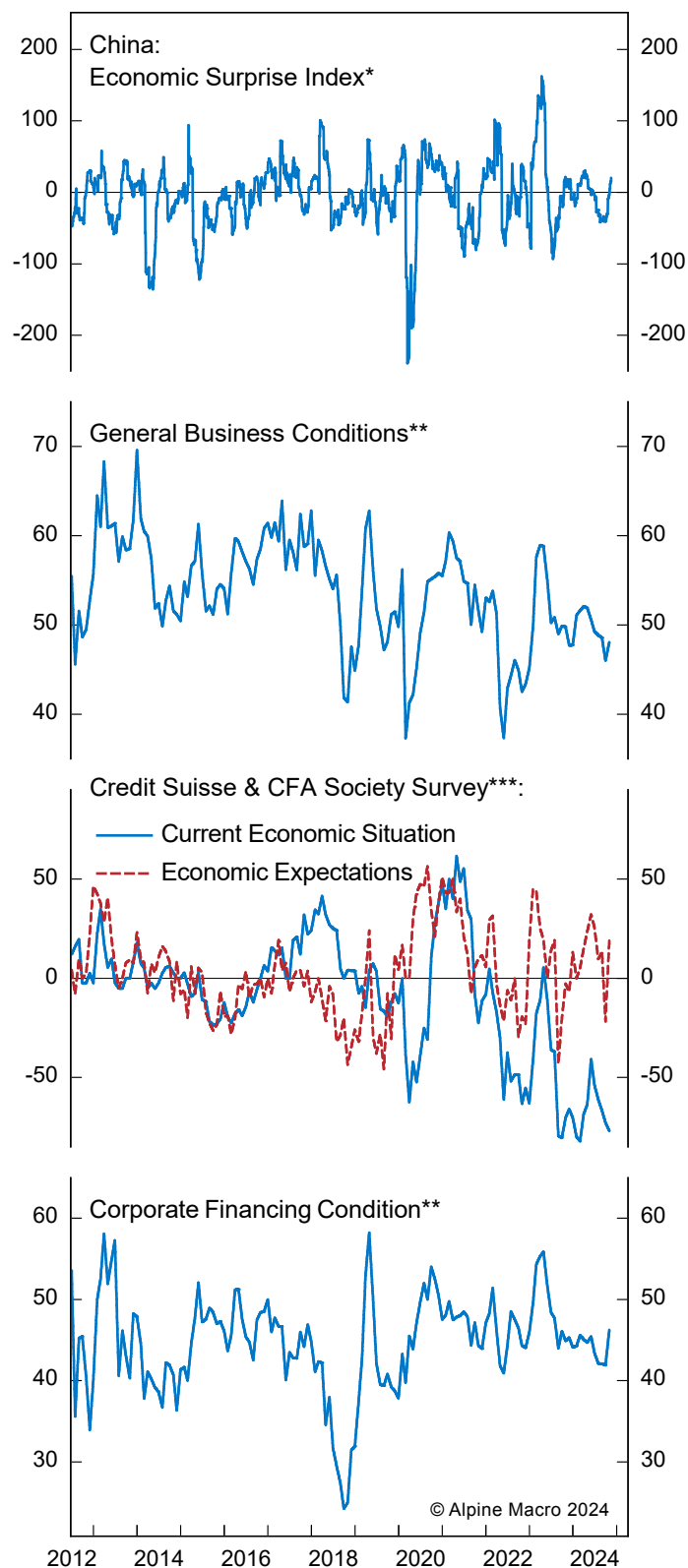
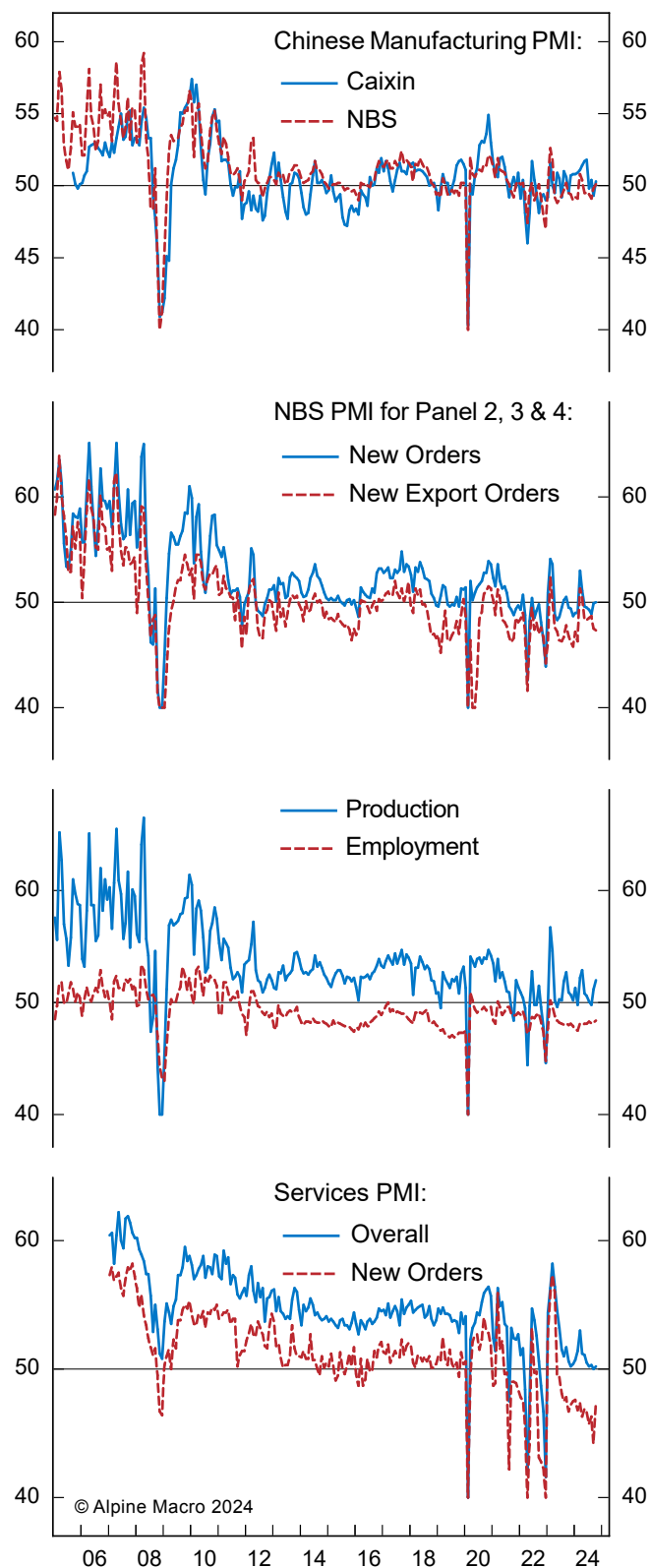


\*In US\$ terms  
Source: MSCI



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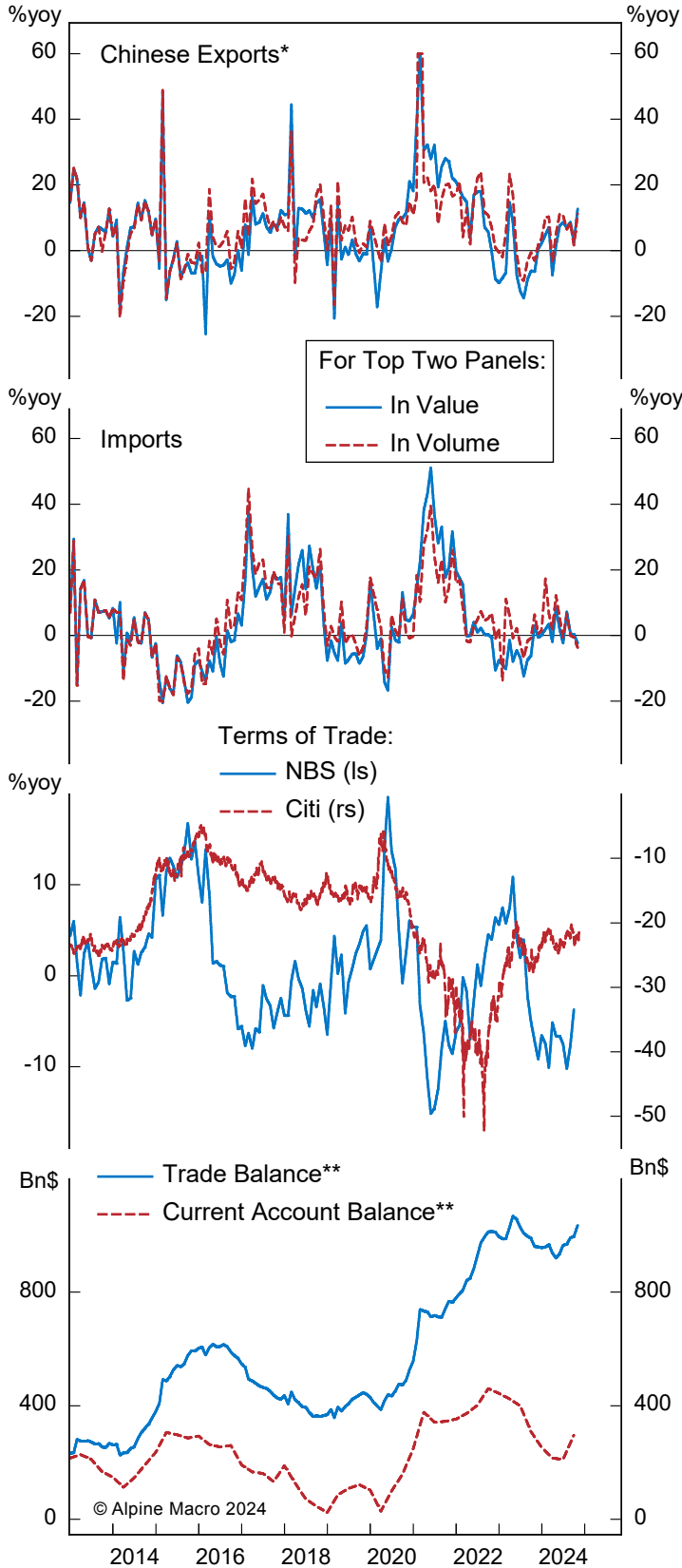




\*Source: Citi

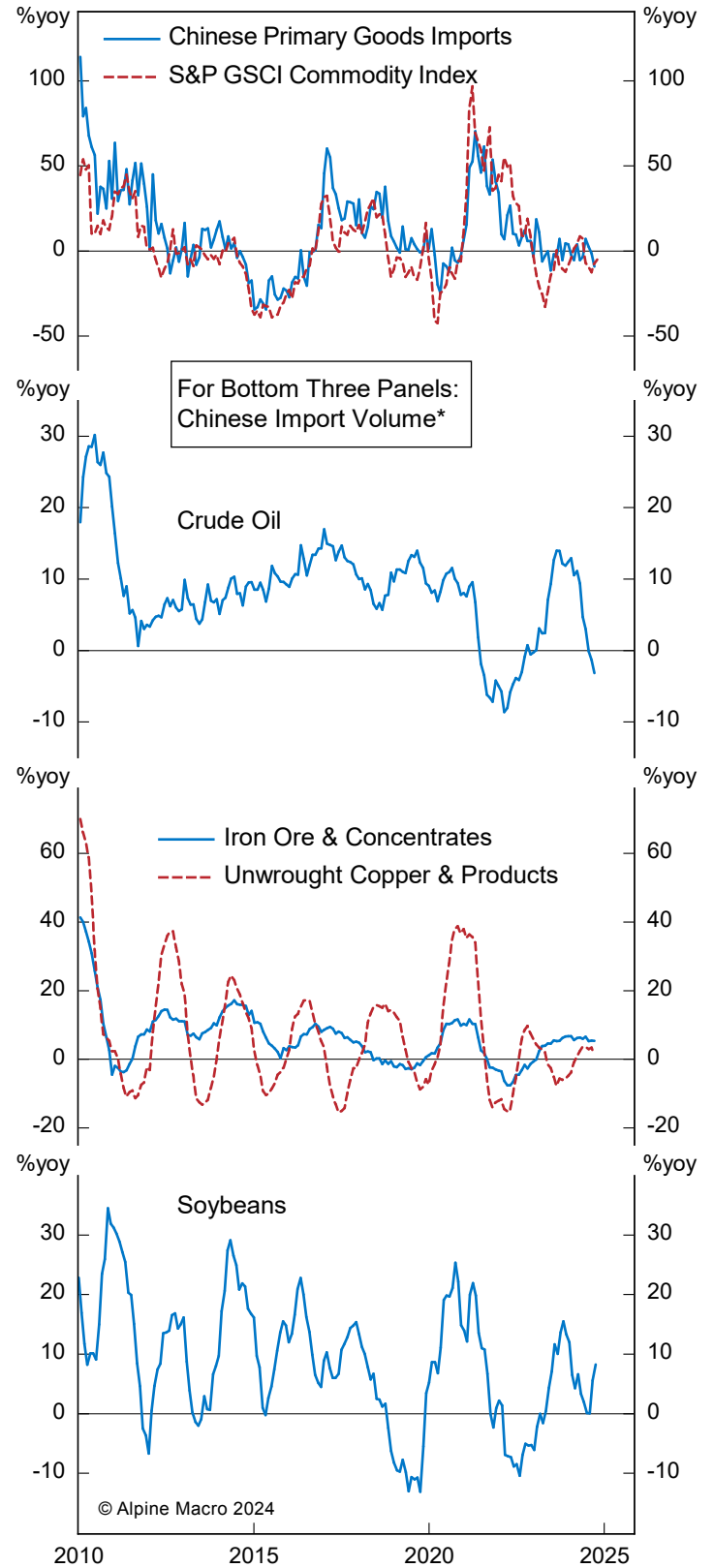
\*\*Source: Cheung Kong Graduate School of Business

\*\*\*Source: Credit Suisse

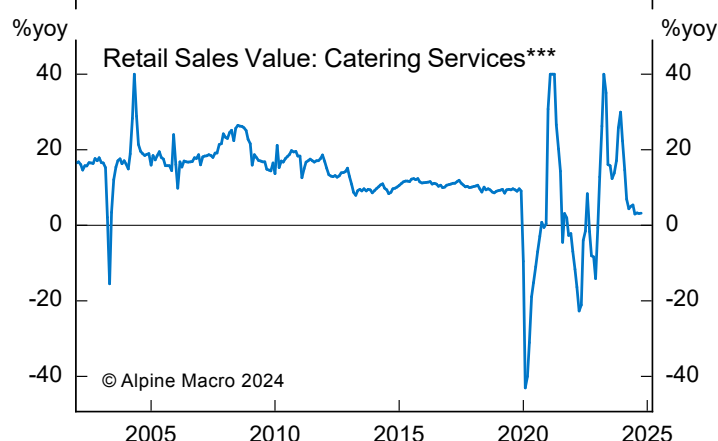
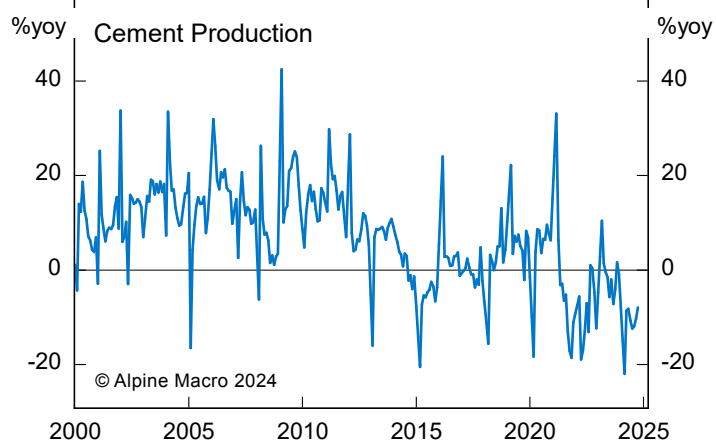
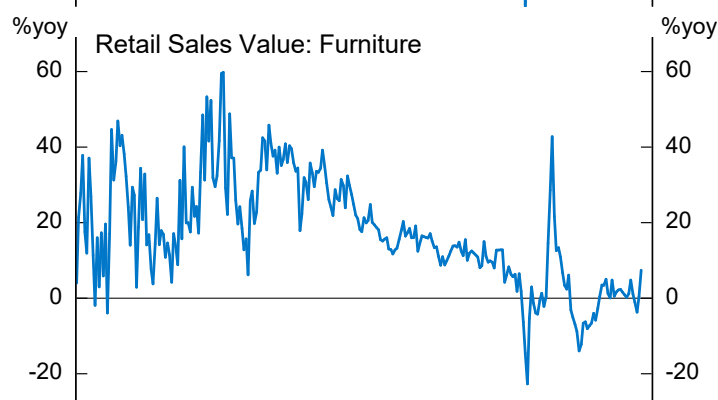
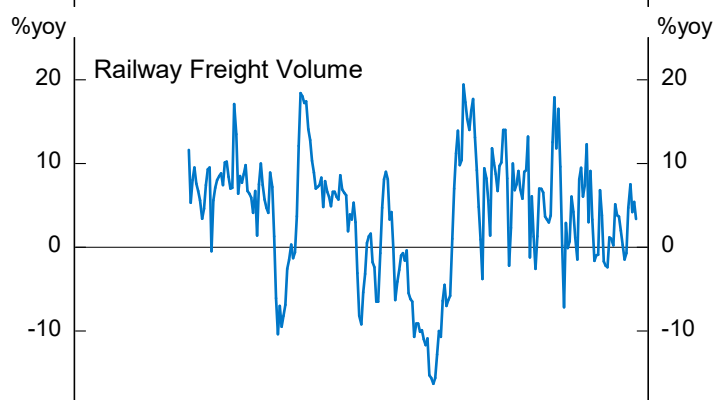
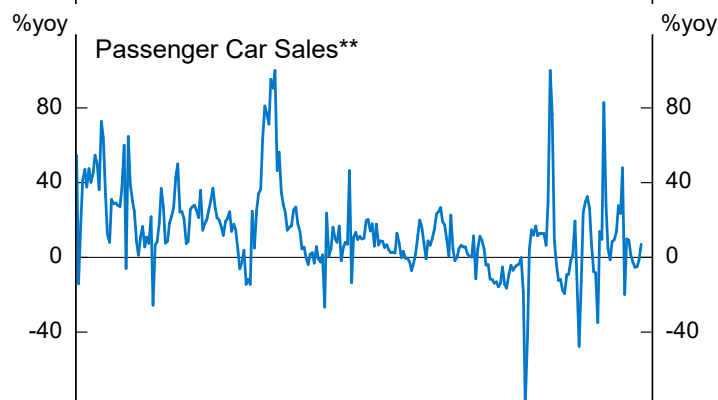
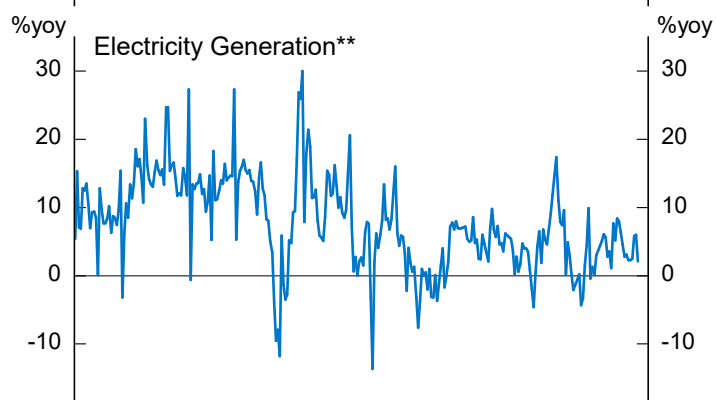
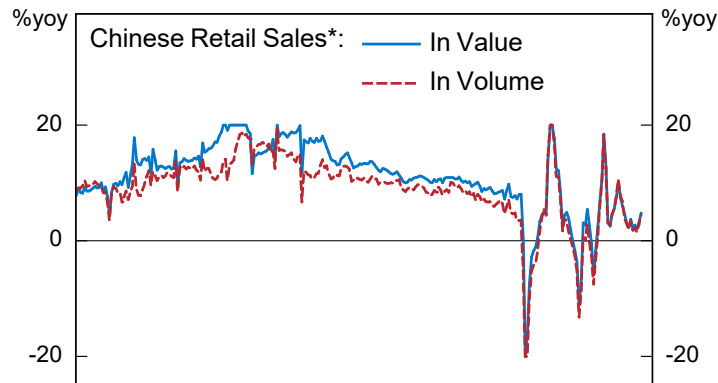
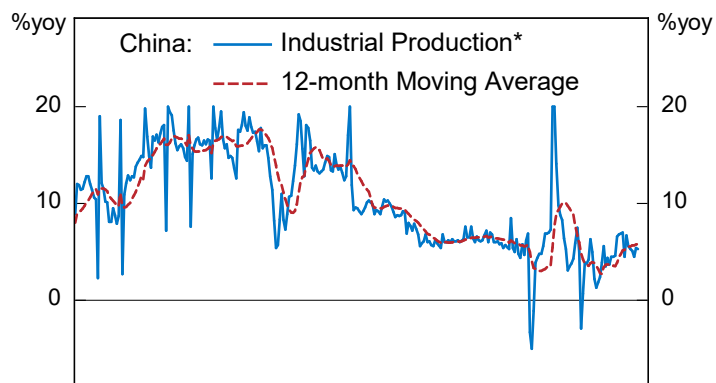


\*Truncated at 60

\*\*Shown as 12-month moving sum



\*Shown as 12-month moving average



\*Truncated at +20/-5

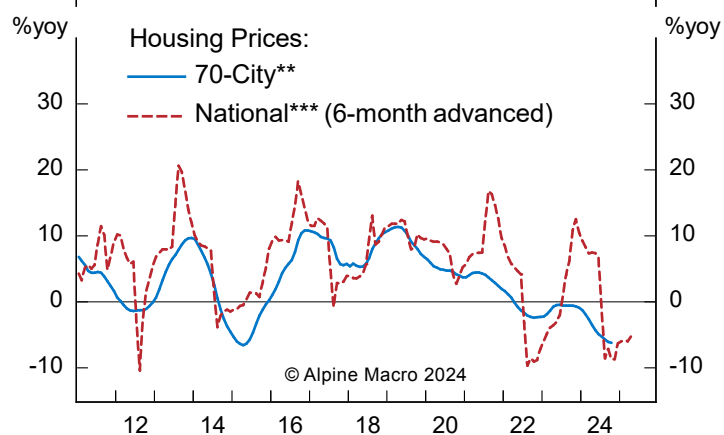
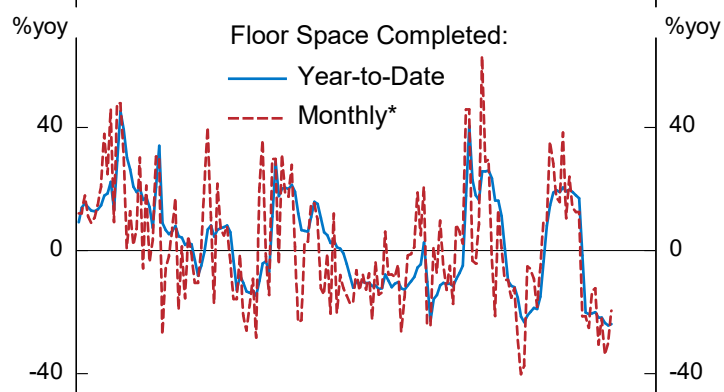
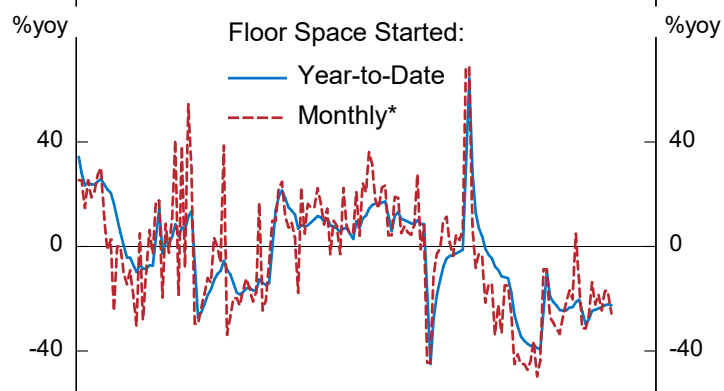
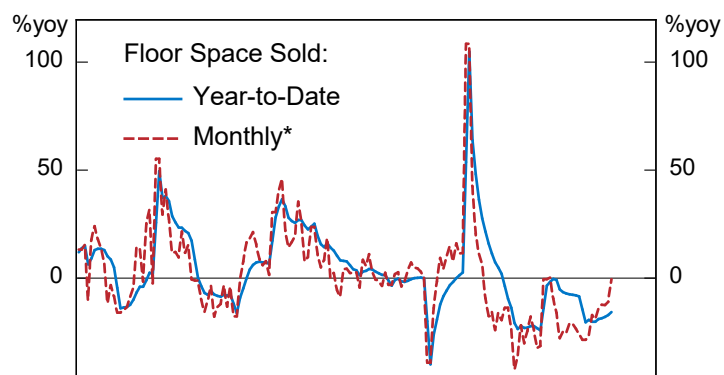
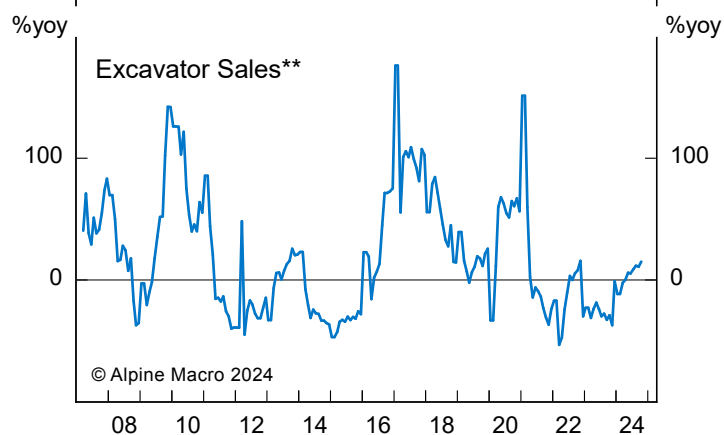
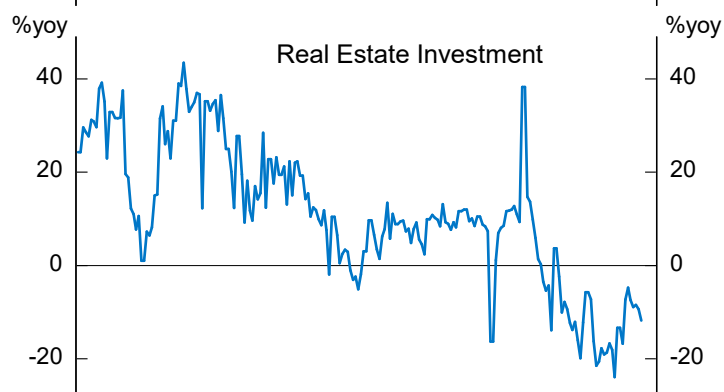
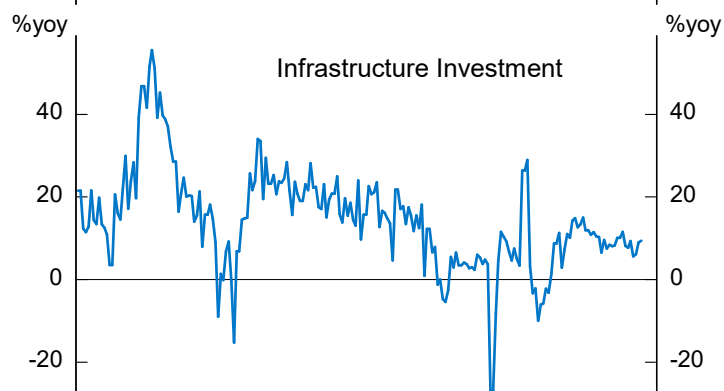
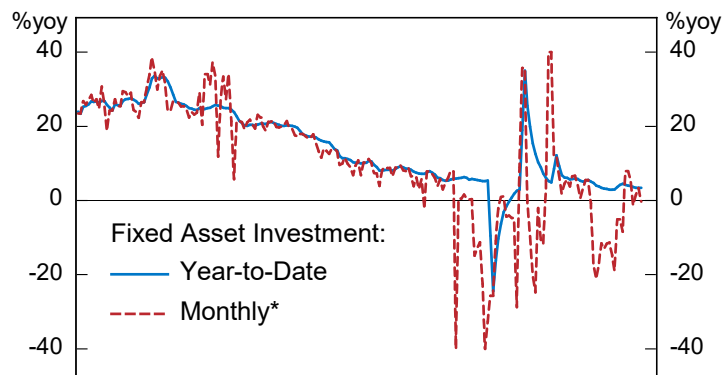
\*\*Truncated at 30

\*Truncated at +/-20

\*\*Truncated at 100

\*\*\*Truncated at +/-40





\*Truncated at +/-40

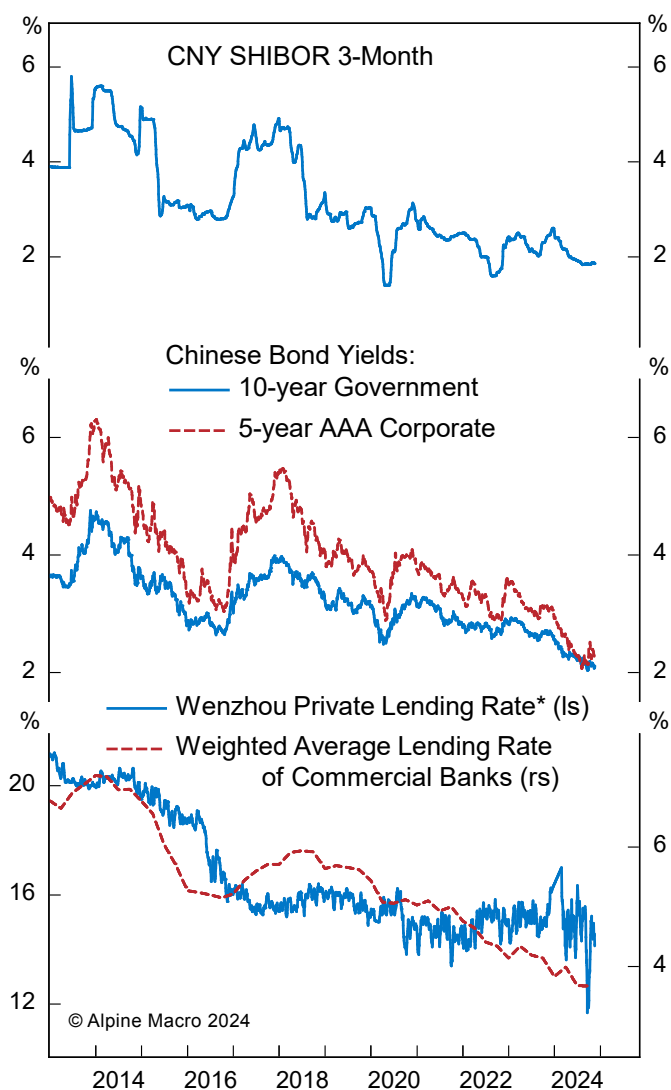
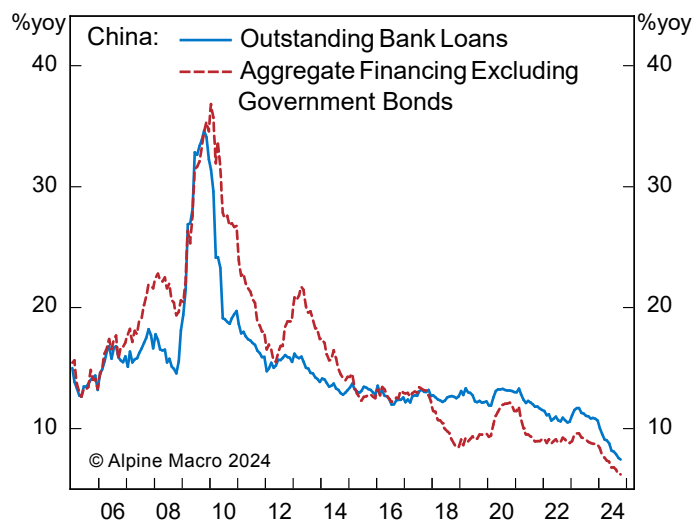
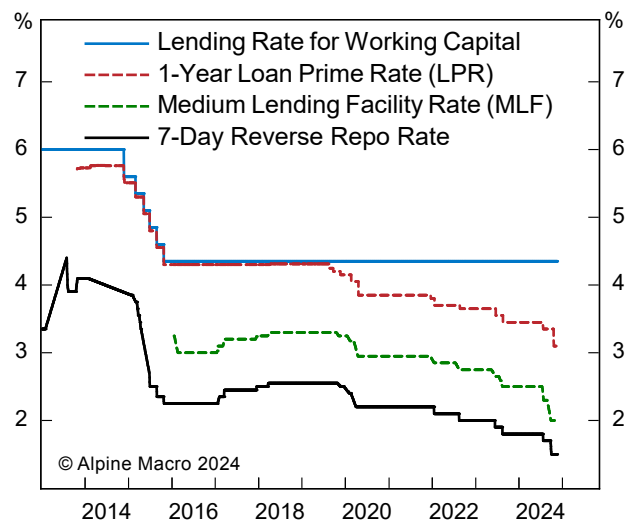
\*\*January and February data are averaged

\*Alpine Macro calculation based on year-to-date data

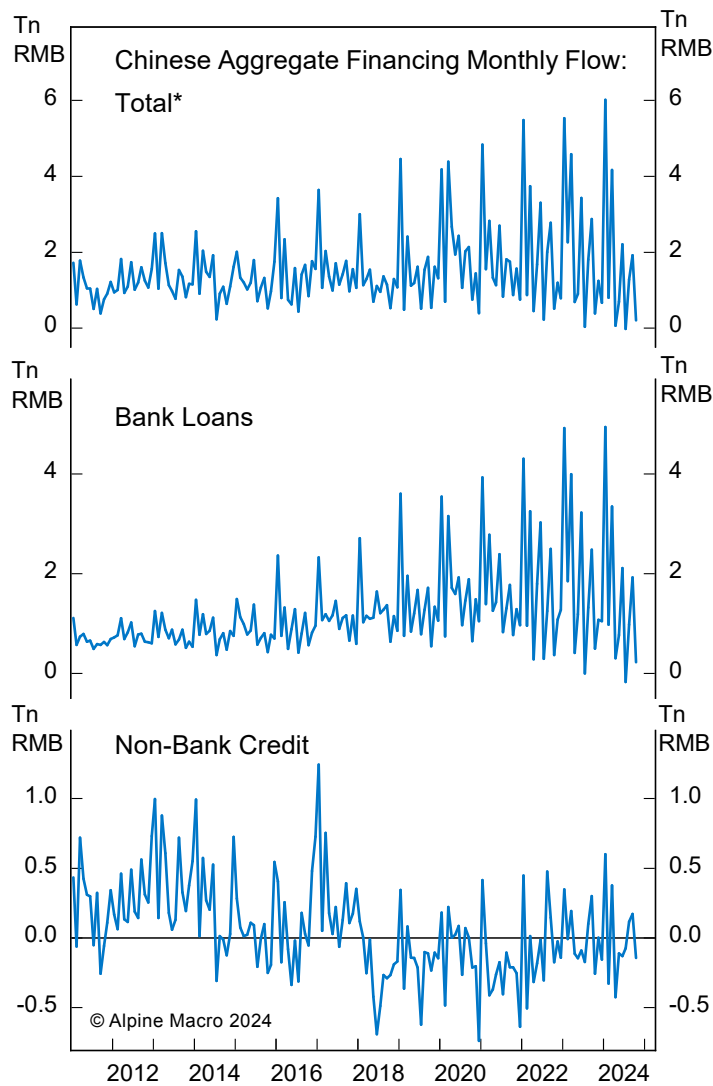
\*\*Source: NBS

\*\*\*Calculated as transacted value divided by units; source: NBS





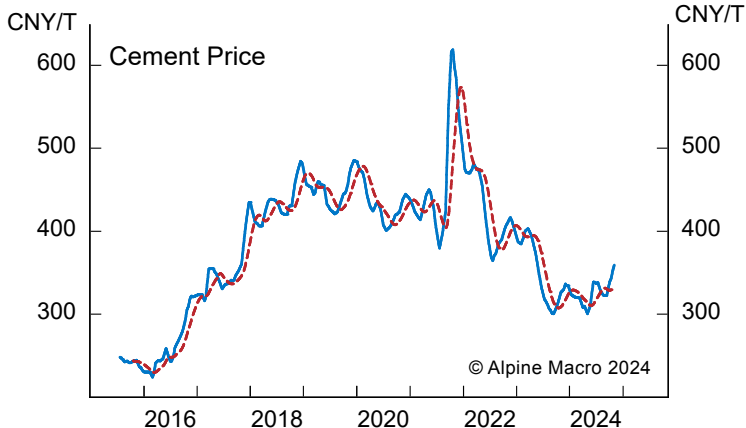
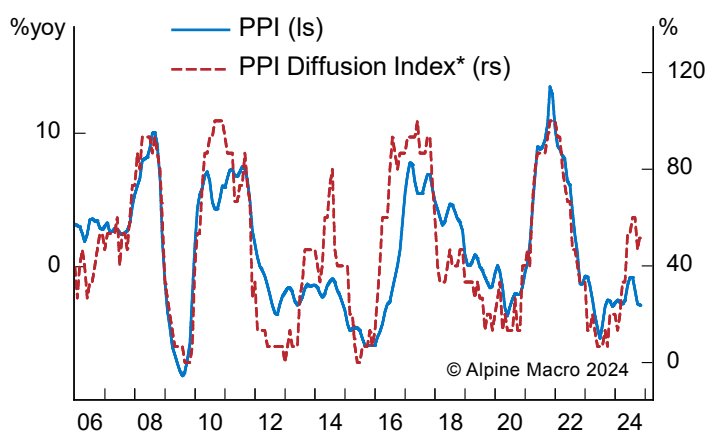
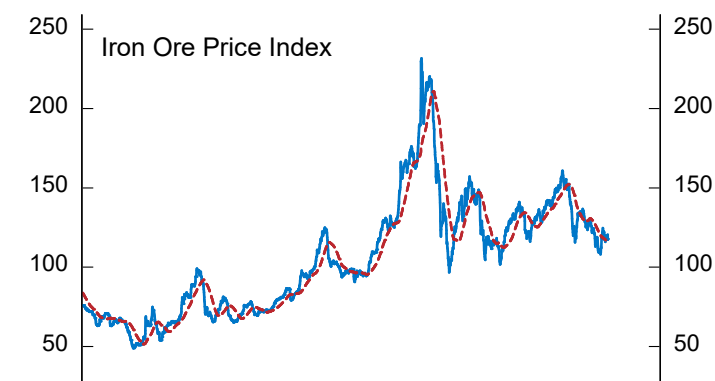
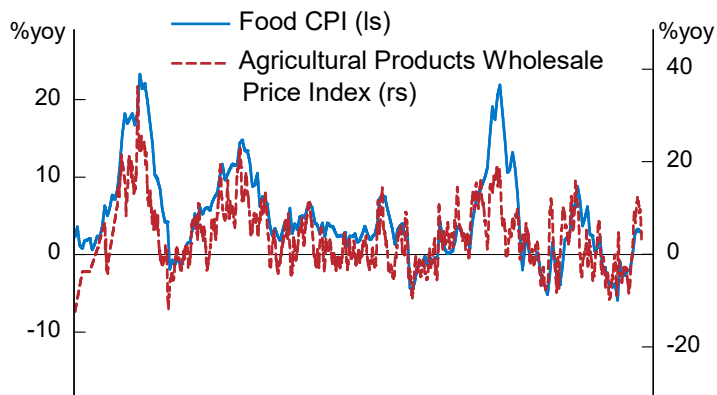
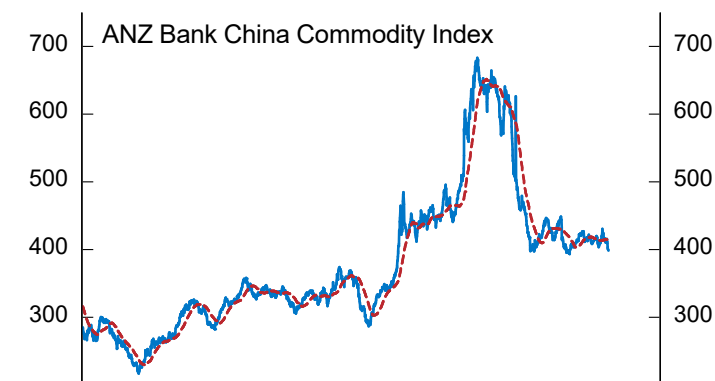
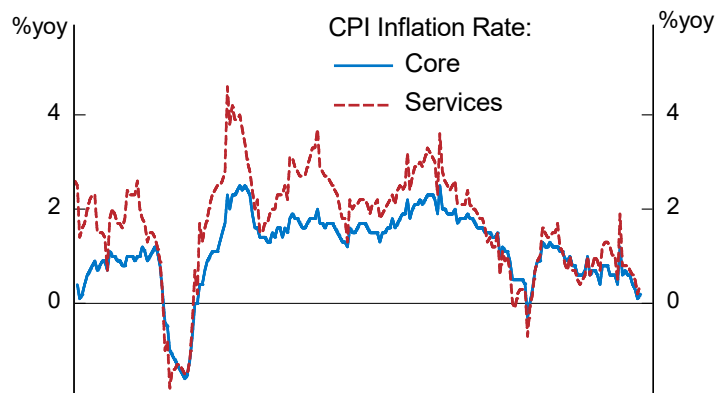
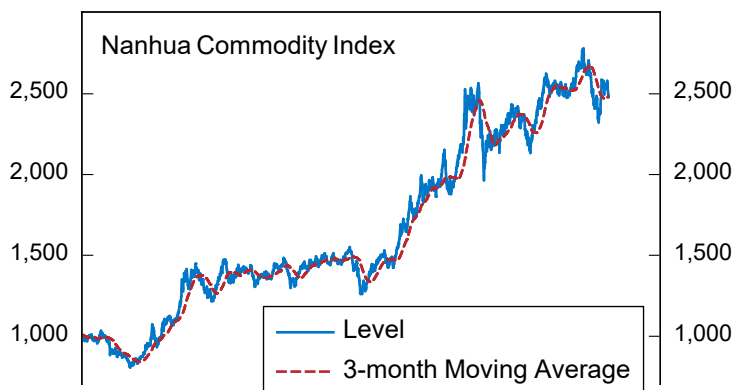
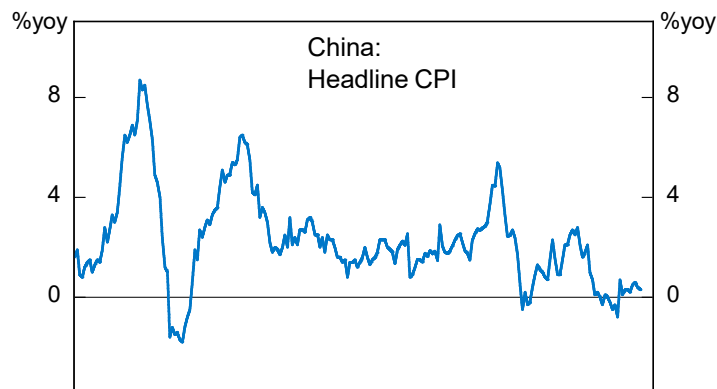
\*Shown as 10-day moving average



\*Includes bank loans, non-bank credit, corporate bonds & equity issuance

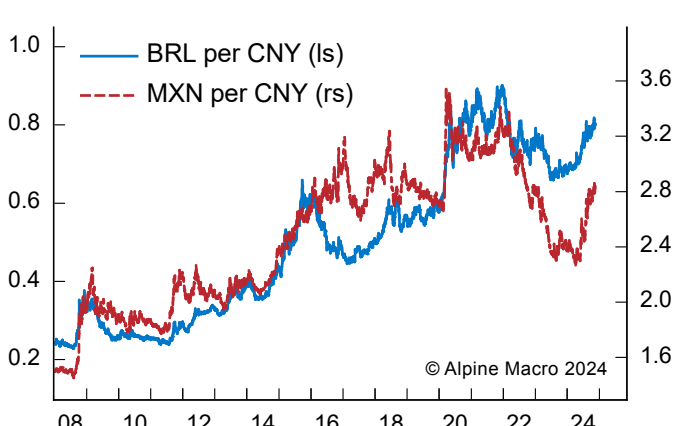
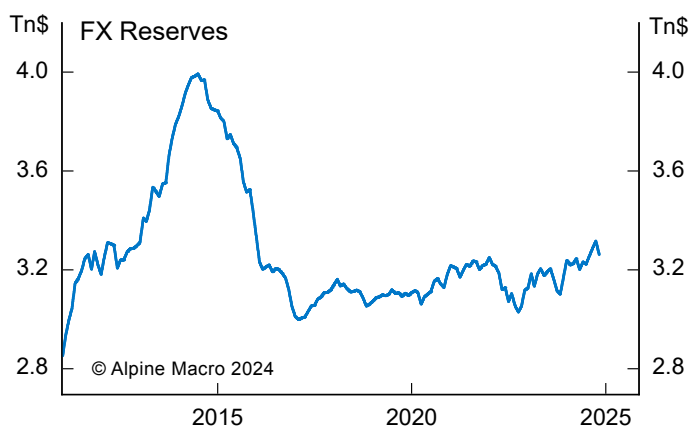
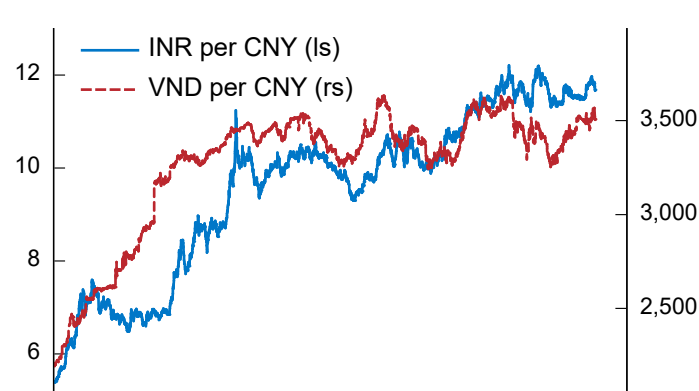
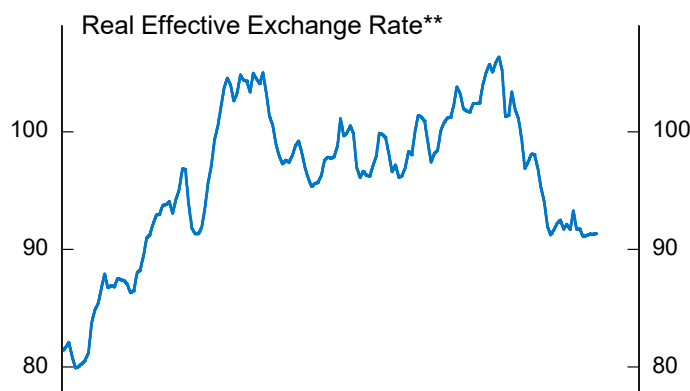
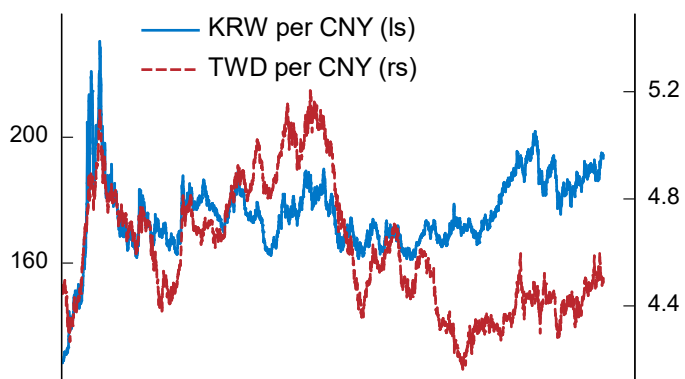
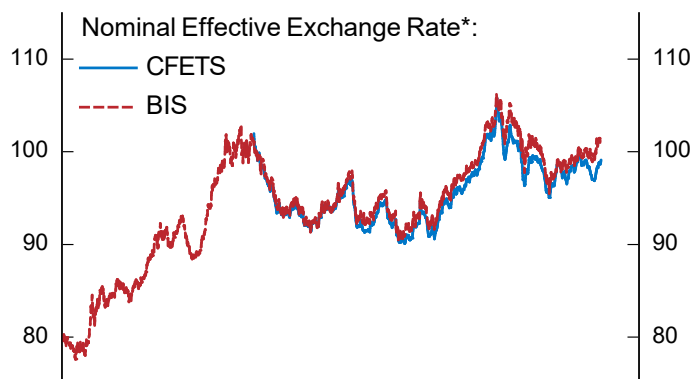
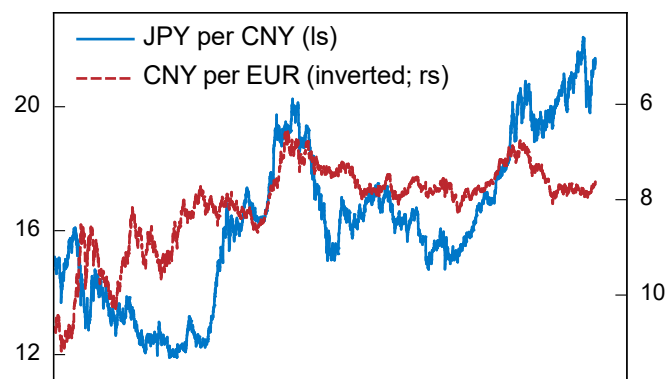
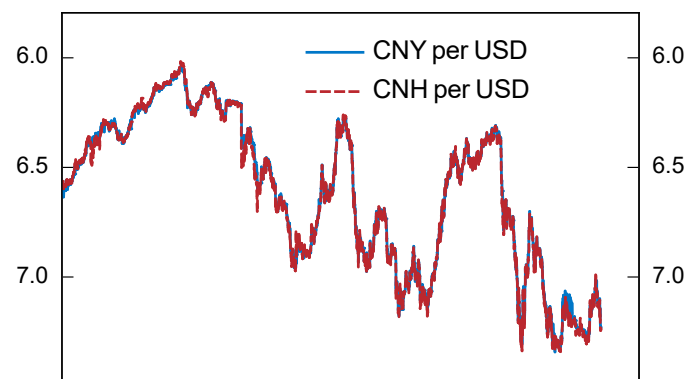






\*Percentage of major industries with higher prices than last year; Alpine Macro calculation





\*Both series are rebased to January 2016=100

\*\*Source: BIS



## Investment Recommendations

## Strategic Positions (6 - 12 months)

Recommendations	Open Date	Closing Date	Total P&L	Notes
Long Colombian 10-year Government Bond, Currency Unhedged	11/21/2023		3.2%	Long Colombian 10-year Government Bond, Currency Unhedged; <b>stop point at -10%.</b>
Long MSCI Greece Equity Index	11/21/2023		4.6%	Long MSCI Greece Equity Index in US\$ terms; <b>stop point at -10%.</b>
Long Indian 10-year Government Bond, Currency Unhedged	06/04/2024		3.4%	Long Indian 10-year Government Bond, Currency Unhedged; <b>stop point at -10%.</b>
Long Malaysian Equities, Currency Unhedged	08/20/2024		-4.6%	Long MSCI Malaysia Equity Index in US\$ terms; <b>stop point at -10%.</b>
Long ASEAN Equities, Currency Unhedged	09/17/2024		-8.8%	Long MSCI EM ASEAN Index in US\$ terms; <b>stop point at -10%.</b>
Long BRL/MXN	09/23/2024		0.4%	Long Brazilian <i>Real</i> versus Mexican Peso; <b>stop point at -10%.</b>
Short CNY/JPY	10/29/2024		0.3%	Short Chinese Yuan against Japanese Yen; <b>stop point at -5%.</b>

## Tactical Investment Positions (3 - 6 months)

Recommendations	Open Date	Closing Date	Total P&L	Notes
Short CZK/HUF	06/05/2023		2.3%	Short Czech Koruna versus Hungarian Forint; <b>rolling stop point at -5%, or -1.5% from current level.</b>
Long MSCI China Equity Index	02/20/2024		21.8%	Long MSCI China Equity Index in US\$ terms; <b>rolling stop point at -10%, or -4.2% from current level.</b>
Short COP/CLP	03/05/2024		7.8%	Short Colombian Peso versus Chilean Peso; <b>rolling stop point at -5%, or -1.7% from current level.</b>
Long CSI 300 Index	02/20/2024*		8.7%	Long China A-shares Index in US\$ terms; <b>stop point at -10%.</b> *Trade opened on Feb 20, 2024, closed on Sep 13, 2024 and reopened on Sep 24, 2024.
Short CNY/USD	10/29/2024		1.6%	Short Chinese Yuan against US Dollar; <b>stop point at -5%.</b>
Short THB/SGD	11/05/2024		1.5%	Short Thai Baht versus Singapore Dollar; <b>stop point at -5%.</b>

EM Equity Country Allocation				
Strong Overweight	Overweight	Neutral	Underweight	Strong Underweight
	Brazil		India	
	Chile		Czech Republic	
	China		Hungary	
	Colombia		Mexico	
	Greece		Peru	
	South Africa		Poland	
	Indonesia		Taiwan	
	Philippines		Turkey	
	Malaysia			
	Thailand			
	South Korea			

EM Equity Sector Allocation	
Strong Overweight	Overweight
	Materials
	Health Care
	Consumer Discretionary
	Consumer Staples
Neutral	
Energy	
Communication Services	
Information Technology	
Financials	
Strong Underweight	Underweight
	Industrials
	Utilities

EM Local-Currency Government Bond Allocation		
Overweight	Neutral	Underweight
Indonesia	Poland	Czech Republic
Peru	Hungary	Thailand
Brazil	South Korea	China
Colombia	Malaysia	Taiwan
Chile	Philippines	Turkey
India	South Africa	
	Mexico	



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