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Periodical

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WEEKLY REPORT

Three Macro Paradoxes Are About To Come True

- Paradox 1: U.S. growth will slow, and this will force the Fed to raise rates MORE quickly.
- Paradox 2: China will try to stimulate its economy, and this will HURT commodities and other risk assets.
- Paradox 3: Global rebalancing will require the euro area and Japan to have LARGER current account surpluses.

Faulty Assumptions

Investors assume that slower U.S. growth will cause the Fed to turn more dovish; efforts by China to stimulate its economy will boost market sentiment towards risk assets; and global rebalancing requires the euro area and Japan to reduce their bloated current account surpluses.

In this week's report, we consider the possibility that all three assumptions are wrong. Let's start with the U.S. growth picture.

U.S. Growth About To Slow?

The U.S. economy grew by 4.1% in the second quarter, the fastest pace since 2014. The composition of growth was reasonably solid. Net exports boosted real GDP by 1.1 percentage points, but this was largely offset by a 1.0 point drag from a slower pace of inventory accumulation. As a result, domestic final demand increased at a robust rate of 3.9%, led by personal consumption (up 4.0%) and business fixed investment (up 7.3%).

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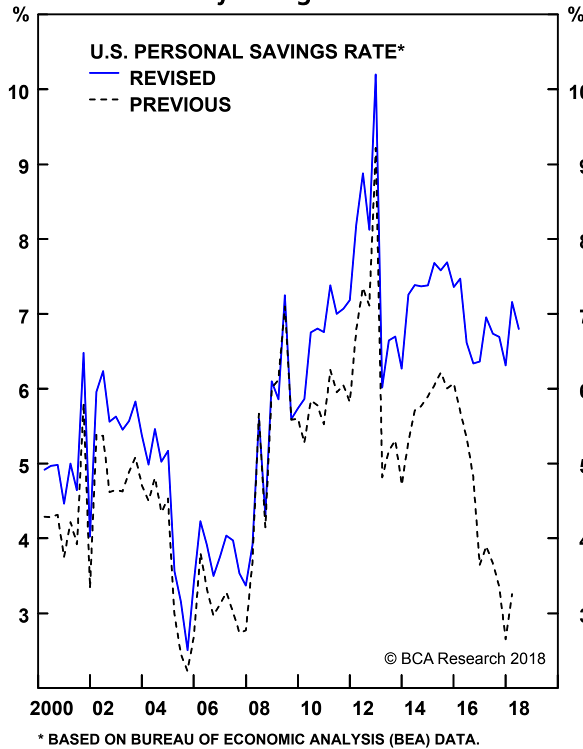
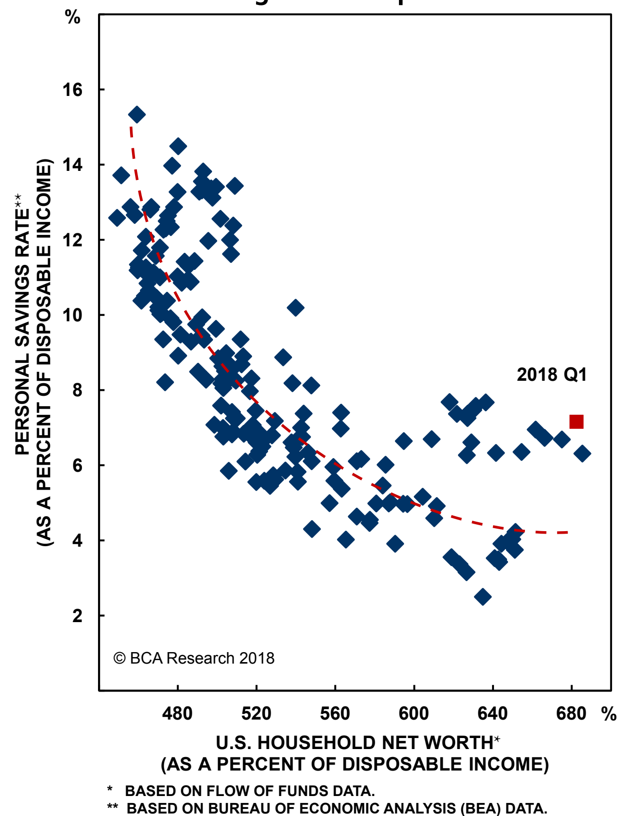
CHART 1
Households Are Saving More Than Previously Thought



* BASED ON BUREAU OF ECONOMIC ANALYSIS (BEA) DATA.

CHART 2
Consumption Could Accelerate As The Savings Rate Drops



* BASED ON FLOW OF FUNDS DATA.
** BASED ON BUREAU OF ECONOMIC ANALYSIS (BEA) DATA.

Unfortunately, the second quarter is probably as good as it gets for growth. We say this *not* because we expect aggregate demand growth to falter to any great degree. Quite the contrary. Consumer confidence is high and the labor market is strong, with initial unemployment claims near 49-year lows.

The Bureau of Economic Analysis' latest revisions revealed a much higher personal savings rate than had been previously estimated (**Chart 1**). The savings rate is now well above levels that one would expect based on the ratio of household net worth-to-disposable income (**Chart 2**). This raises the odds that consumer spending will accelerate.

Rising consumer demand will prompt businesses to expand capacity (**Chart 3**). Core capital goods orders surprised on the upside in June, with positive revisions made to past months. Capex intention surveys remain at elevated levels. So far, fears of a trade war have not had a major impact on business investment.

Fiscal spending is also set to rise. Federal government expenditures increased by only 3.5% in Q2, far short of the 10%-plus growth rate that some forecasters were projecting. The effect of the tax cuts have also yet to make their way fully through the economy.

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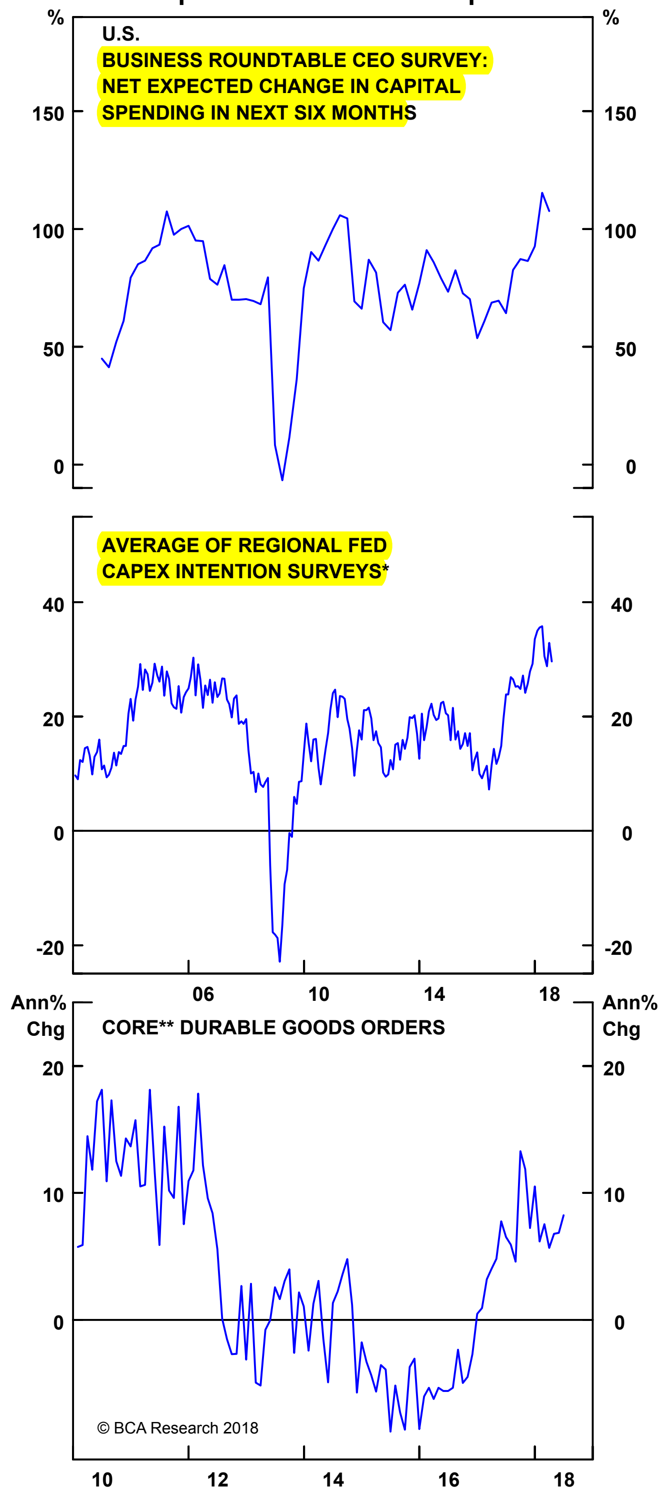
Rising inflation will force the Fed to engineer an increase in real interest rates, even in the face of slower GDP growth.

CHART 3
U.S. Companies Plan To Boost Capex



* AVERAGE OF CAPITAL EXPENDITURE EXPECTATIONS INDEXES (IN 6 MONTHS) FOR THE DALLAS, KANSAS CITY, NEW YORK EMPIRE, PHILADELPHIA, AND RICHMOND FED REGIONAL SURVEYS.
** MANUFACTURING NONDEFENSE CAPITAL GOODS EXCLUDING AIRCRAFT.

Supply Matters

Considering all these positive drivers of demand, why do we worry that growth could slow meaningfully later this year or in early 2019? The answer is that for the first time in over a decade, demand is no longer the binding constraint to growth – supply is.

Today, there are fewer unemployed workers than job vacancies (**Chart 4**). The number of people outside the labor force who want a job is near all-time lows. Businesses are reporting increasing difficulty in finding qualified labor.

New business investment will add to the economy's productive capacity over time, but in the near term, the boost to aggregate demand from new investment spending will easily exceed the contribution to aggregate supply.[1]

[1] This is partly because it can take a while for additional capital spending to raise aggregate supply. For example, it may take a few years to build an office tower or a new factory. Corporate R&D investment may not generate tangible benefits for a long time, especially in cases where the research is focused on something complicated (i.e., the design of new computer chips or pharmaceuticals). And even if investment spending could be transformed into additional productive capacity instantaneously, aggregate demand would still rise more than aggregate supply, at least temporarily. Here is the reason: The nonresidential private-sector capital stock is about 120% of GDP in the United States. As such, a one percent increase in investment spending would raise the capital stock by four-fifths of a percentage point. Assuming a capital share of income of 40% of national income, a one percent increase in the capital stock would lift output by 0.4%. Thus, a one-dollar increase in business investment would boost aggregate demand by one dollar in the year it is undertaken, while increasing supply by only 4/5*0.4 = roughly 32 cents.

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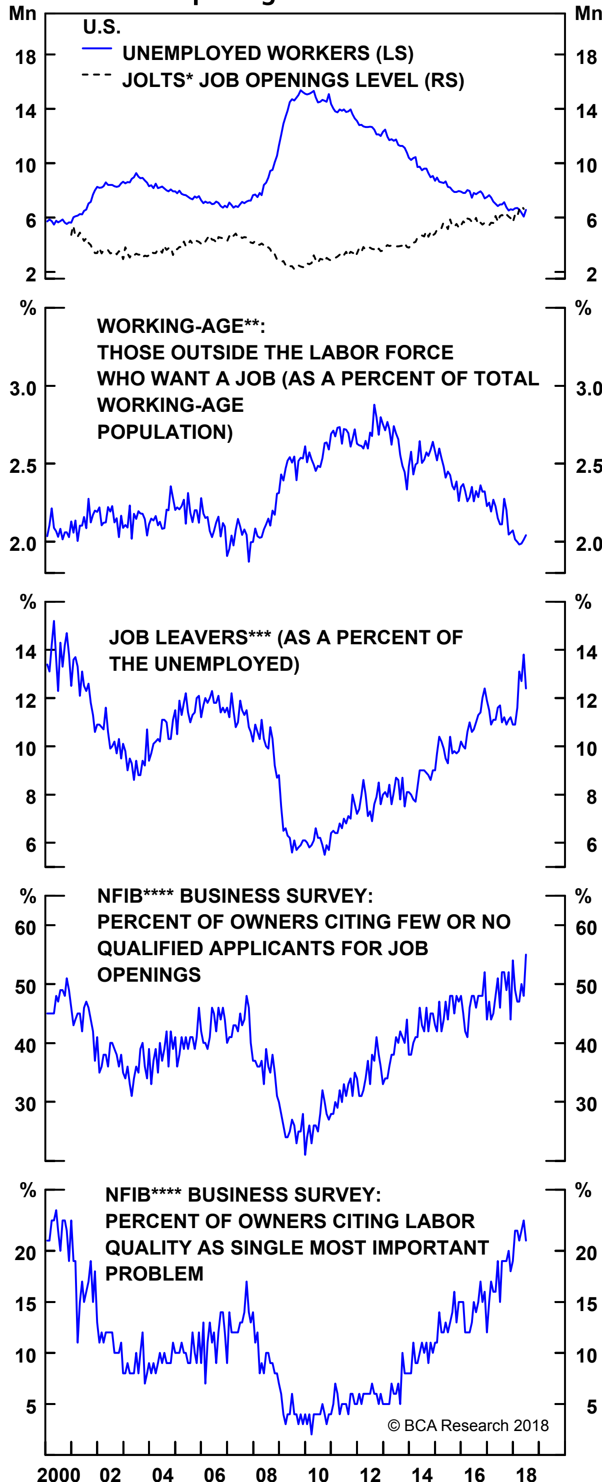
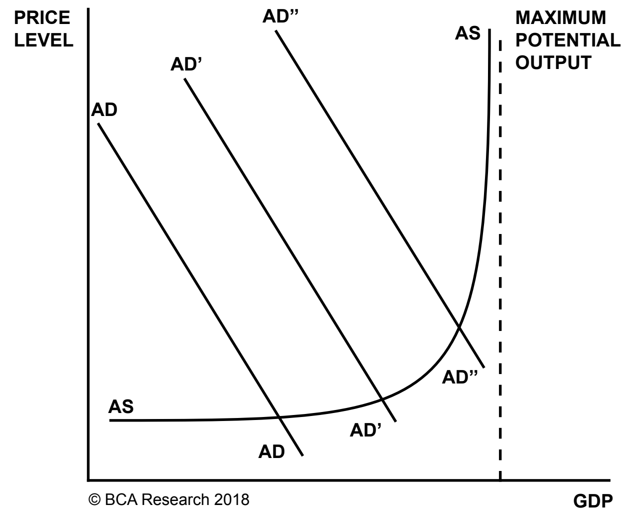
CHART 4
Companies Are Struggling To Fill Job Openings



* JOB OPENINGS AND LABOR TURNOVER SURVEY. SOURCE: BUREAU OF LABOR STATISTICS.
** THOSE AGED 16 YEARS AND OVER.
*** SOURCE: BUREAU OF LABOR STATISTICS.
**** NATIONAL FEDERATION OF INDEPENDENT BUSINESS.

CHART 5
Inflationary Pressures Tend To Increase When Spare Capacity Is Absorbed



The Congressional Budget Office estimates that potential real GDP growth is running at around 2%. What happens when the output gap is fully eliminated, and aggregate demand growth begins to eclipse supply growth? The answer is that inflation will rise. Instead of more output, we will see higher prices (**Chart 5**).

Rising inflation will force the Fed to engineer an increase in real interest rates, *even in the face of slower GDP growth*. Such a stagflationary outcome is not good for equities, which is one reason why we downgraded our cyclical recommendation on risk assets from overweight to neutral in June.

Higher-than-expected real interest rates will put upward pressure on the U.S. dollar. A stronger dollar will hurt U.S. companies with significant foreign exposure more than it hurts

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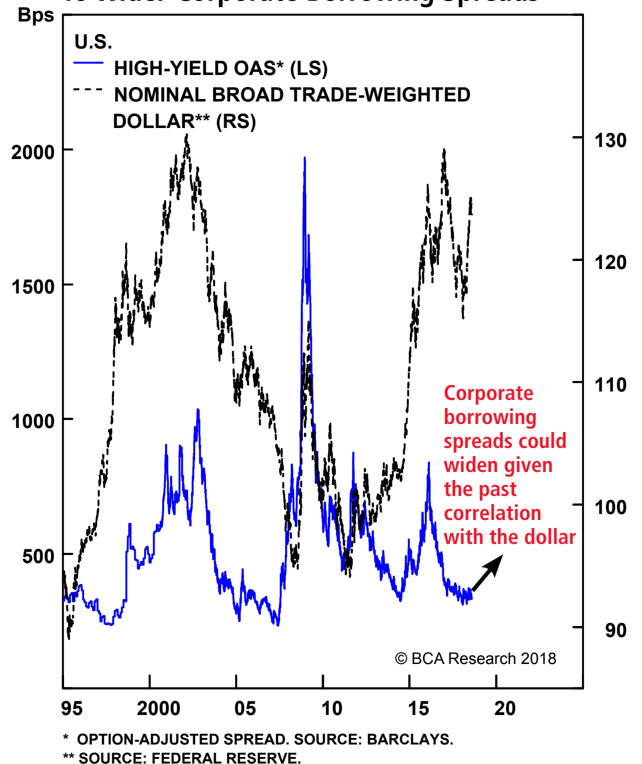
If Chinese growth continues to decelerate, what options do the authorities have?

their domestically-oriented peers. If history is any guide, a resurgent greenback will also cause credit spreads to widen (**Chart 6**).

CHART 6

A Stronger Dollar Usually Corresponds To Wider Corporate Borrowing Spreads



* OPTION-ADJUSTED SPREAD. SOURCE: BARCLAYS.
** SOURCE: FEDERAL RESERVE.

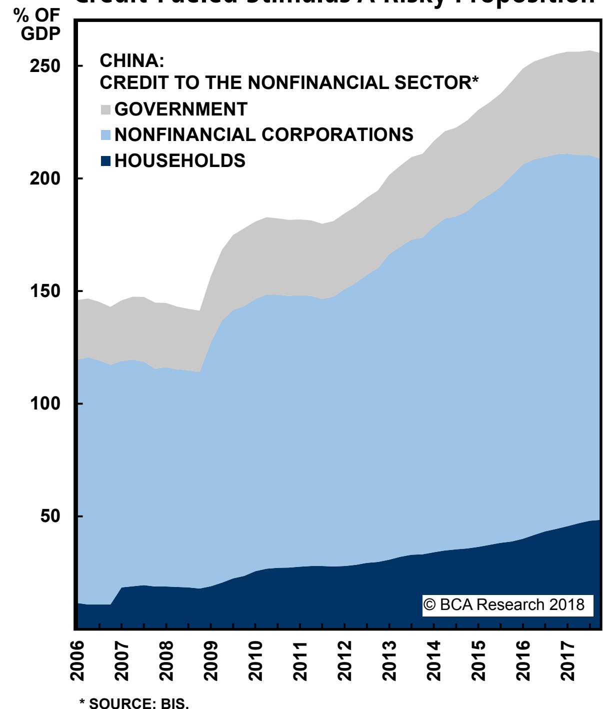
Chinese Stimulus: Be Careful What You Wish For

Chinese stimulus helped reignite global growth after the Global Financial Crisis and again during the 2015-2016 manufacturing downturn. With global growth slowing anew, will China once again come to the rescue? Not quite.

China does not want to let its economy falter, but high debt levels, and an overvalued property market plagued by excess capacity, limit what the authorities can do (**Chart 7**).

CHART 7

China: High Debt Levels Make Credit-Fueled Stimulus A Risky Proposition



* SOURCE: BIS.

Granted, the government has loosened monetary policy at the margin and plans to increase fiscal spending. However, our China strategists feel these actions are more consistent with easing off the brake than pressing down on the accelerator.[2] They note that the authorities continue to squeeze the shadow banking system, as evidenced by the continued deceleration in money and credit growth, as well as rising onshore spreads for the riskiest corporate bonds (**Chart 8**).

The Specter Of Currency Wars

If Chinese growth continues to decelerate, what options do the authorities have? One possibility is to double down on what they are already doing: letting the RMB slide.

2 Please see *China Investment Strategy Weekly Report*, "China Is Easing Up On The Brake, Not Pressing The Accelerator," dated July 26, 2018.

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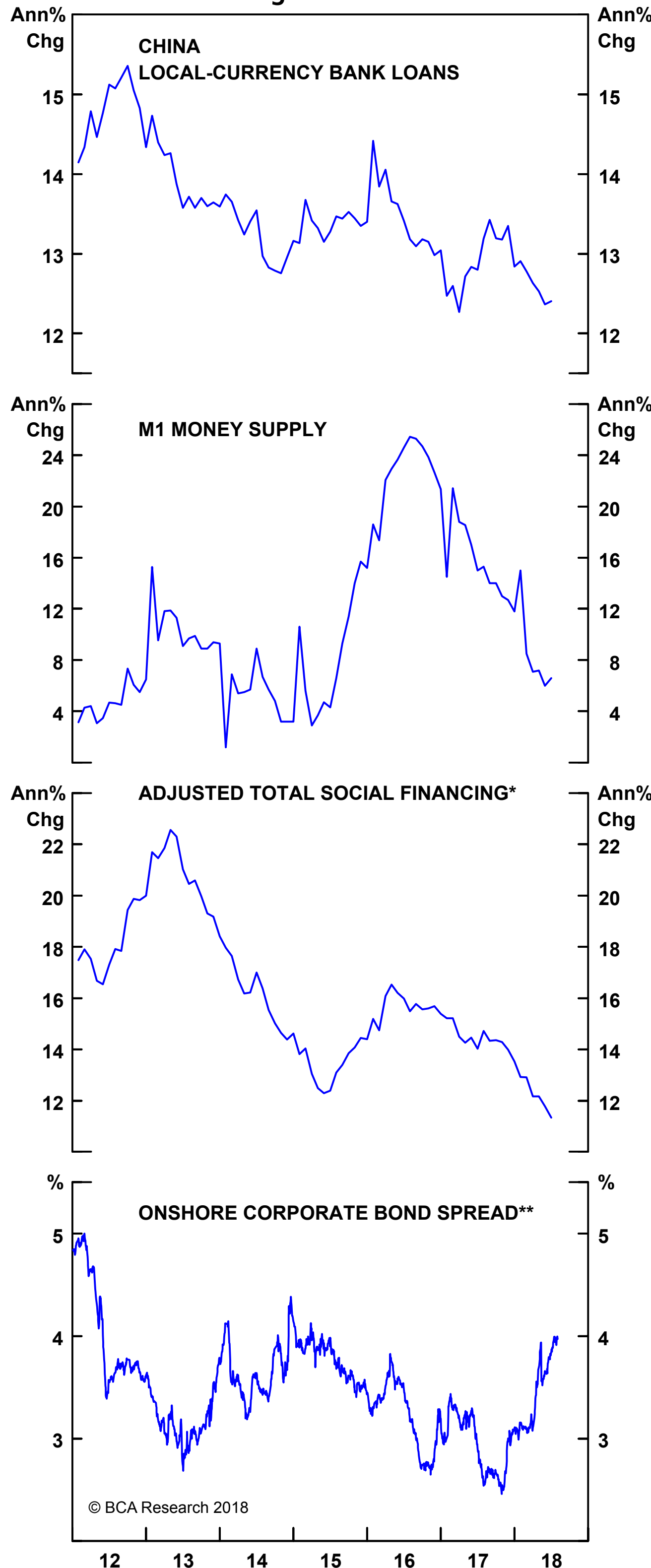
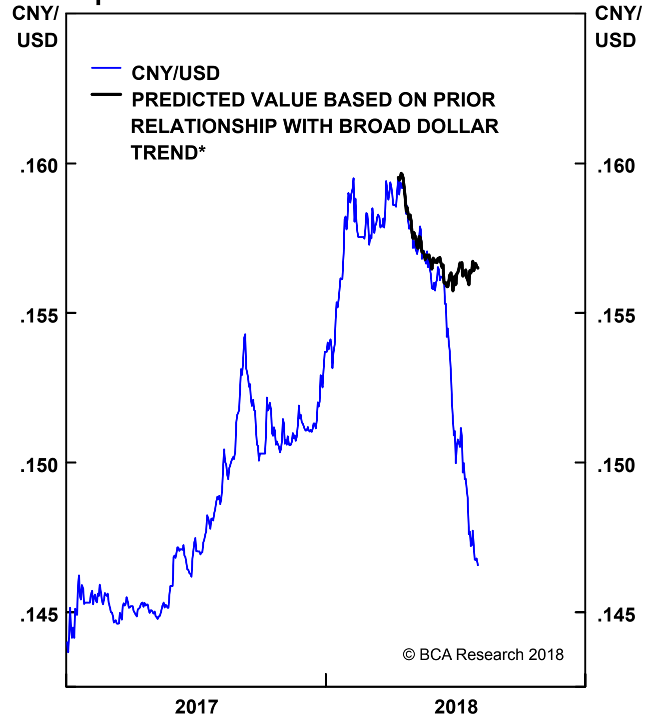
CHART 8
Chinese Credit Growth Has Been Slowing



* EXCLUDES EQUITY AND INCLUDES LOCAL GOVERNMENT BOND ISSUANCE.
** 5-YEAR CORPORATE BOND RATED AA- YIELD MINUS 5-YEAR GOVERNMENT BOND YIELD.

CHART 9
The Yuan Has Weakened More Than Expected Based On the Broad Dollar Trend



* BASED ON THE BLOOMBERG U.S. DOLLAR SPOT INDEX. BCA CALCULATIONS.

Chart 9 shows that the Chinese currency has weakened substantially more over the past six weeks than its prior relationship with the dollar would have suggested.

Letting the currency weaken is a risky strategy. Global financial markets went into a tizzy the last time China devalued the yuan in August 2015. The devaluation triggered significant capital outflows, arguably only compounding China's problems. This has led some commentators to conclude that the authorities would not make the same mistake again. But what if the real mistake was not that China devalued its currency, but that it did not devalue it by enough? Standard economic theory says that a country should always devalue its currency by enough to flush out expectations of a further decline. Perhaps China was simply too timid?

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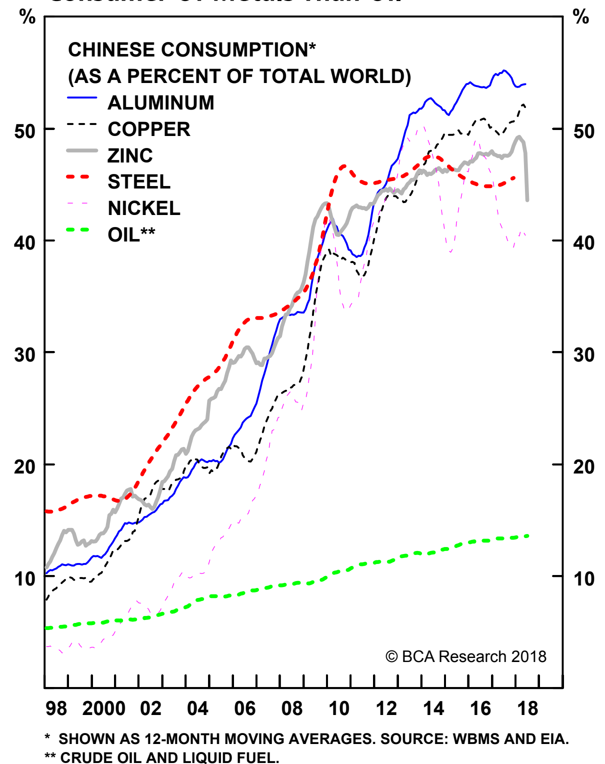
Efforts by China to devalue its currency would invite retaliation from the United States.

Capital controls are tighter in China today than they were in 2015. This gives the authorities more room for maneuver.

China is also waging a trade war with the United States. The U.S. exported only $188 billion of goods and services to China in 2017, a small fraction of the $524 billion in goods and services that China exported to the United States. China simply cannot win a tit-for-tat trade war with the United States. In contrast, China is better positioned to wage a currency war with the United States. The Chinese simply need to step up their purchases of U.S. Treasurys, which would drive up the value of the dollar.

Efforts by China to devalue its currency would invite retaliation from the United States. However, since the Trump Administration seems keen on pursuing a protectionist trade agenda no matter what happens, the Chinese may see their decision to weaken the yuan as the least bad of all possible outcomes.

CHART 10
China Is A More Dominant Consumer Of Metals Than Oil



* SHOWN AS 12-MONTH MOVING AVERAGES. SOURCE: WBMS AND EIA.
** CRUDE OIL AND LIQUID FUEL.

Unlike traditional stimulus in the form of additional infrastructure spending and faster credit growth, a currency devaluation would roil financial markets, causing risk asset prices to plunge. Metal prices would take it on the chin, since a weaker RMB would make it more expensive for Chinese businesses to import commodities. China now consumes close to half of the world's supply of copper, zinc, nickel, aluminum, and iron ore (**Chart 10**).

Investors should remain underweight emerging market equities relative to developed markets and shun the currencies of commodity-exporting economies. We are currently short AUD/CAD on the grounds that a China shock would hurt metal prices more than energy prices. The Canadian dollar is highly levered to the latter, while the Aussie dollar is more levered to the former.

Global Rebalancing: It's Not About Getting To Zero

We have argued before that China's high savings rate explains why the country has maintained a structural current account surplus, despite the economy's rapid GDP growth rate.[3] Both the euro area and Japan also have an excessive savings problem, minus the mitigating effect of rapid trend growth.

[3] Please see *Global Investment Strategy Weekly Report*, "U.S.-China Trade Spat: Is R-Star To Blame?" dated April 6, 2018.

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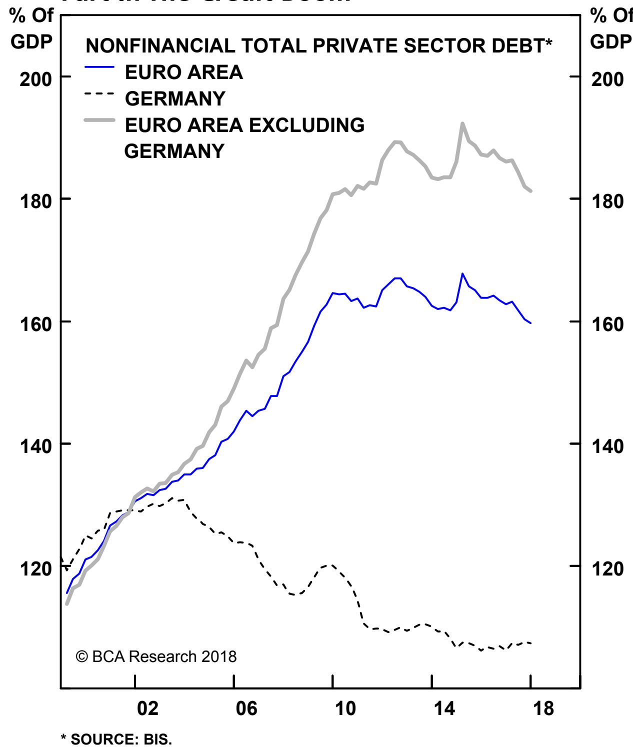
CHART 11
Germany Did Not Take Part In The Credit Boom



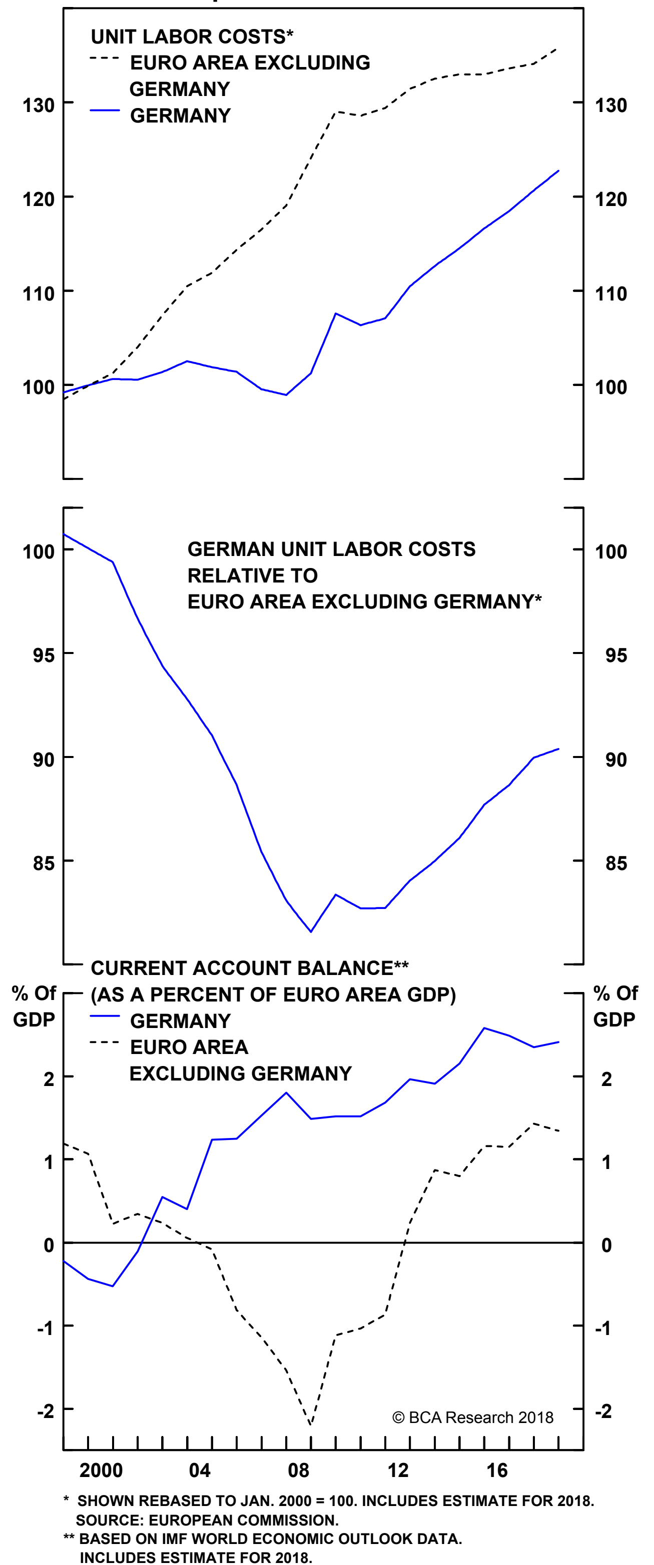
* SOURCE: BIS.

The euro area's excessive savings problem was masked during the nine years following the introduction of the euro by a massive credit boom across much of the region (**Chart 11**). Germany did not partake in that boom, but it was still able to export its excess savings to the rest of the euro area *via* a rising current account balance.

Germany Needs A Spender Of Last Resort

Chart 12 shows that Germany's current account surplus with other euro area members mirrored the country's increasing competitiveness *vis-à-vis* the rest of the region. In essence, the spending boom in southern Europe sucked in German exports, with German savings financing

CHART 12
Competitiveness Gains In The 2000s Allowed Germany To Increase Its Current Account Surplus



* SHOWN REBASED TO JAN. 2000 = 100. INCLUDES ESTIMATE FOR 2018. SOURCE: EUROPEAN COMMISSION.
** BASED ON IMF WORLD ECONOMIC OUTLOOK DATA. INCLUDES ESTIMATE FOR 2018.

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Thinking about global imbalances solely in terms of current account positions is not enough. One should also think about the distribution of aggregate demand across the world.

the periphery's swelling current account deficits. This is the main reason why German banks were hit so hard during the Global Financial Crisis: They were the ones who underwrote the periphery's spendthrift ways.

That party ended in 2008. With the periphery no longer the spender of last resort in Europe, Germany had to find a way to export its savings to the rest of the world. But that required a cheaper currency, which Mario Draghi ultimately delivered in 2014 when he set in motion the ECB's own quantitative easing program.

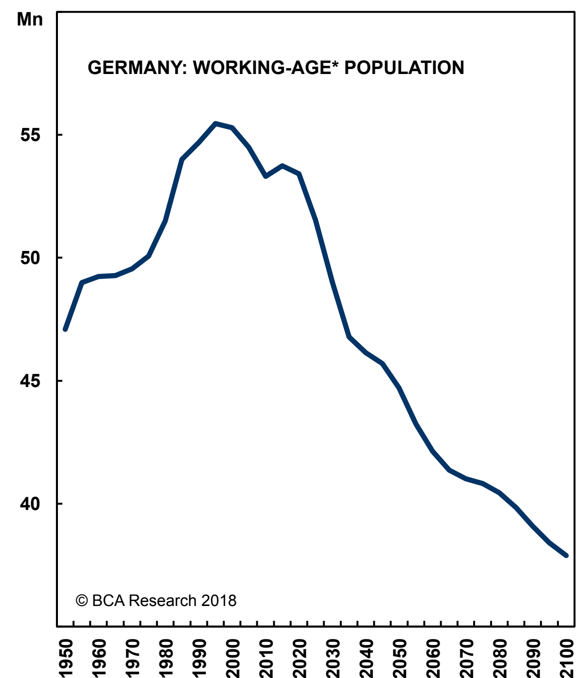
So where do we go from here? Germany's excess savings problem is not about to go away anytime soon. The working-age population is set to decline over the next few decades, which means that most domestically oriented businesses will have little incentive to expand capacity (**Chart 13**). The peripheral countries remain in belt-tightening mode. This will limit demand for German imports. Meanwhile, countries such as Spain have made significant progress in reducing unit labor costs in an effort to improve competitiveness and shift their current account balances back into surplus.

The ECB And The BOJ Can't Afford To Raise Rates

The private sector financial balance in the euro area – effectively, the difference between what the private sector earns and spends – now stands near a record high (**Chart 14**). Fiscal policy also remains fairly tight. The IMF estimates that the euro area's cyclically-adjusted primary budget balance will be in a surplus of 0.9% of GDP in 2018-19, compared to a deficit of 3.8% of GDP in the United States (**Chart 15**).

CHART 13

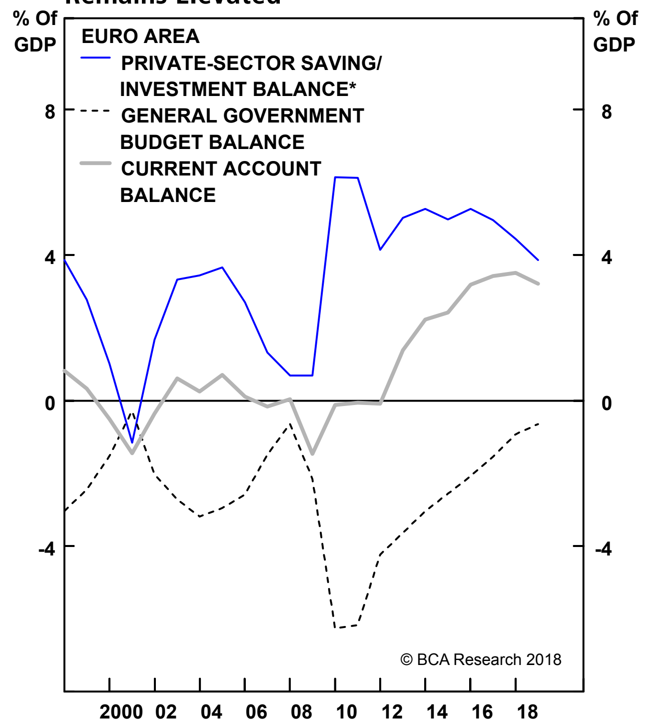
Germans Need To Have More Children



* AGED 15-64.
SOURCE: UNITED NATIONS, WORLD POPULATION PROSPECTS: THE 2017 REVISION.

CHART 14

Euro Area: Private Sector Balance Remains Elevated



* CALCULATED AS THE CURRENT ACCOUNT MINUS GENERAL GOVERNMENT NET LENDING / BORROWING. INCLUDES ESTIMATE FOR 2018. SOURCE: IMF.

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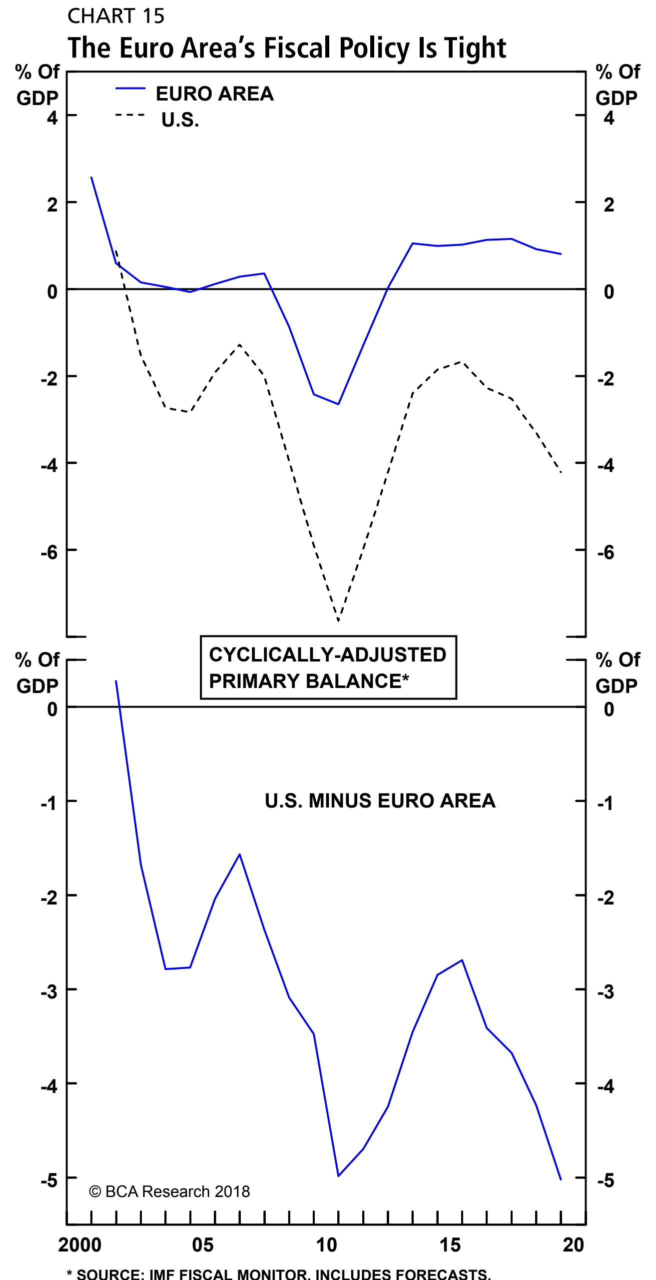
If the public sector is unwilling to absorb the private sector's excess savings by running large fiscal deficits, those savings need to be exported abroad in the form of a current account surplus. Failure to do so will result in higher unemployment, and ultimately, further political upheaval. This means that the ECB has no choice other than to keep rates near rock-bottom levels in order to ensure that the euro remains cheap.



Japan has been more willing than Europe to maintain large budget deficits, but the problem is that this has resulted in a huge debt-to-GDP ratio. The Japanese would like to tighten fiscal policy, starting with the consumption tax hike scheduled for October 2019. However, this may require the economy to have an even larger current account surplus, which can only be achieved if the yen weakens further.

This, in turn, suggests that the Bank of Japan will not abandon its yield curve control policy anytime soon. We were not in the least bit surprised this week when Governor Kuroda poured cold water on the idea that the BoJ was contemplating raising either its short or long-term interest rate targets.

The bottom line is that thinking about global imbalances solely in terms of current account positions is not enough. One should also think about the distribution of aggregate demand across the world. Countries with demand to spare such as the United States can afford to run current account deficits, while economies with insufficient demand such as the euro area and Japan should run current account surpluses. The key market implication is that interest rates will remain structurally higher in the United States, which will keep the dollar well bid.

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Strategy & Market Trends*

	EQUITY PRICES / WORLD BENCHMARKS**	BOND YIELDS	SHORT RATES	CURRENCY VS. US$
U.S.	UP	UP	UP	
CANADA	FLAT	UP	UP	FLAT
JAPAN	UP	FLAT	FLAT	FLAT
AUSTRALIA	FLAT	UP	UP	DOWN
U.K.	FLAT	UP	UP	FLAT
EURO AREA	UP	UP	FLAT	DOWN
EMERGING ASIA	DOWN	FLAT	FLAT	DOWN
LATIN AMERICA	DOWN	FLAT	FLAT	DOWN

* EXPECTATIONS FOR THE COMING 12 MONTHS.
** DM EQUITY PRICES RELATIVE TO WORLD BENCHMARK EXPRESSED IN LOCAL CURRENCIES. EM EQUITY PRICES RELATIVE TO WORLD BENCHMARK EXPRESSED IN USD.

NOTE: ITALICIZED AND BOLDED TEXT INDICATES A CHANGE IN THE VIEW.

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Tactical Trades

The purpose of this section is to provide investment ideas independent of our asset allocation model or direct market forecasts. Once recommended, we will monitor the investment recommendation until we close it out.

TRADE	INCEPTION LEVEL	INITIATION DATE	RETURN-TO-DATE	STOP	COMMENTS
SHORT AUSTRALIAN DOLLAR / LONG CANADIAN DOLLAR	0.975	JUN 28/2018	1.6%	-5.0%	
SHORT AUSTRALIAN DOLLAR / LONG JAPANESE YEN	87.958	FEB 01/2018	5.6%	-5.0%	
LONG SWEDISH KRONA/ SHORT SWISS FRANC	0.1156	JUL 20/2017	-2.8%	0.108	

NOTE: STOPS ARE BASED ON DAILY CLOSING LEVELS. PLEASE NOTE THAT ALL CURRENCY TRADE CALCULATIONS INCLUDE COST OF CARRY.

Strategic Recommendations

This table summarizes our longer-term strategic recommendations. Some of these positions may not necessarily be consistent with our "Tactical Trades."

POSITION	INCEPTION LEVEL	INITIATION DATE	RETURN-TO-DATE	CHANGE FROM PREVIOUS WEEK	COMMENTS
EQUITY RECOMMENDATIONS					
LONG MSCI ALL COUNTRY VALUE INDEX / SHORT MSCI ALL COUNTRY GROWTH INDEX	100	MAR 29/2018	-2.8%	2.2%	
LONG CHINA H-SHARE INDEX / SHORT EM EQUITIES[1]	100	FEB 23/2017	-6.7%	0.1%	
FIXED INCOME RECOMMENDATIONS					
LONG U.S. 30-YEAR GOVERNMENT BOND / SHORT GERMAN 30-YEAR GOVERNMENT BOND (UNHEDGED)	100	MAR 01/2018	2.7%	1.5%	
LONG 30-YEAR TIPS BREAKEVEN (LONG U.S. 30-YEAR TIPS / SHORT U.S. 30-YEAR TREASURY)[2]	100	MAR 01/2018	1.6%	0.4%	
SHORT JAPAN 20-YEAR / LONG JAPAN 5-YEAR GOVERNMENT BOND	100	AUG 24/2017	0.8%	0.7%	
LONG JAPANESE 10-YEAR CPI SWAP	22 BPS	MAR 31/2016	33 BPS	0.0 BPS	
LONG GERMAN 10-YEAR CPI SWAP	151 BPS	FEB 27/2015	40 BPS	0.3 BPS	
CURRENCY RECOMMENDATIONS					
SHORT EURO / LONG BRITISH POUND	0.9033	AUG 03/2017	2.0%	-0.2%	
SHORT EURO / LONG RUSSIAN RUBLE	68.65	JUL 06/2017	1.1%	-0.2%	
SHORT EURO / LONG CANADIAN DOLLAR	1.5132	MAY 18/2017	2.1%	0.9%	
LONG U.S. DOLLAR (DXY INDEX)[3]	86.915	OCT 31/2014	9.4%	0.4%	TARGET PRICE IS 98

1 CURRENCY UNHEDGED; THE CORRESPONDING ETFS FOR THIS TRADE ARE THE HANG SENG INVESTMENT INDEX FUNDS SERIES: H-SHARE INDEX ETF (2828 HK), AND THE ISHARES MSCI EMERGING MARKETS ETF (EEM US). THE HANG SENG CHINA ENTERPRISE INDEX COMPRISES OF CHINA H-SHARES (CHINESE STOCKS AVAILABLE TO INTERNATIONAL INVESTORS) CURRENTLY TRADING ON THE HONG KONG STOCK EXCHANGE.

2 TO TRACK THE PERFORMANCE OF THIS RECOMMENDATION, WE USE THE FOLLOWING SERIES: BLOOMBERG BARCLAYS 30-YEAR TIPS ON-THE-RUN INDEX, AND BLOOMBERG BARCLAYS 30-YEAR TREASURY NOMINAL COMPARATOR INDEX.

3 PERFORMANCE EXCLUDES A CUMULATIVE CARRY OF 2.9%.

NOTE: RETURNS RELATIVE TO BENCHMARK. MSCI WORLD FOR EQUITY RECOMMENDATIONS UNLESS OTHERWISE SPECIFIED. CUSTOM BENCHMARK FOR FIXED-INCOME RECOMMENDATIONS BASED ON GDP-WEIGHTED G10 GOVERNMENT BOND PERFORMANCE.

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Trades Closed In 2015-2018

TRADE	INCEPTION LEVEL	INITIATION DATE	CLOSING DATE	REALIZED P&L	TYPE OF TRADE
SHORT GOLD	1225	DEC 10/14	JAN 23/15	-5.0%	TACTICAL
LONG S&P 500 / SHORT WTI	100	OCT 2013	FEB 6/15	126.5%	STRATEGIC
LONG GERMAN 10-YEAR BUNDS / SHORT JAPANESE 10-YEAR JGBs	100	JUL 2013	FEB 27/15	13.5%	STRATEGIC
LONG GREEK STOCKS	716.38	JAN 30/15	MAR 9/15	15.0%	TACTICAL
LONG GOLD	1235	FEB 6/15	MAR 9/15	-5.0%	TACTICAL
LONG U.S. DOLLAR / SHORT JAPANESE YEN	111.94	OCT 31/14	APR 10/15	7.5%	TACTICAL
LONG INDIAN STOCKS / SHORT INDONESIAN STOCKS	5.29	OCT 24/14	APR 24/15	-5.0%	TACTICAL
UNDERWEIGHT COMMODITY-MARKET EQUITIES	100	NOV 22/13	MAY 8/15	19.2%	STRATEGIC
LONG CRB METALS INDEX / SHORT WTI CRUDE OIL	100	MAY 08/15	JUN 05/15	-5.0%	TACTICAL
LONG S&P DIVIDEND ARISTOCRATS / SHORT NASDAQ	0.3370	OCT 24/14	JUN 05/15	-5.0%	TACTICAL
LONG GLOBAL CYCLICALS / SHORT GLOBAL DEFENSIVES*	100	MAY 01/15	JUL 3/15	-5.0%	TACTICAL
LONG CHINA H-SHARE INDEX**	11922.56	MAY 23/14	JUL 3/15	50.0%	TACTICAL
SHORT CHINA A- SHARE INDEX / LONG CHINA H-SHARE INDEX	100	JUN 06/15	JUL 3/15	26.4%	STRATEGIC
LONG ITALIAN 10-YEAR GOV'T BONDS	5.878%	AUG 10/12	JUL 17/15	30.5%	STRATEGIC
LONG EURO AREA BANK STOCKS	50.12	JAN 16/15	SEP 24/15	5.9%	TACTICAL
LONG 30-YEAR U.S. TREASURYS / SHORT S&P 500	100	JUN 12/15	OCT 02/15	17.9%	TACTICAL
LONG 12-MONTH NDF USD/CNY	6.4025	MAR 06/15	OCT 02/15	2.5%	TACTICAL
LONG 2.1 UNIT OF U.S. BARCLAYS HIGH YIELD CORPORATE BOND INDEX / SHORT ONE UNIT OF S&P 500	100	OCT 22/15	NOV 26/15	-5.0%	TACTICAL
SHORT NASDAQ 100 MAR 2016 FUTURES	4,692.50	NOV 06/15	JAN 20/16	16.2%	TACTICAL
LONG CHINESE A-SHARES AND H-SHARES	100	JUL 01/15	MAY 19/16	-27.0%	STRATEGIC
SHORT EURO / LONG JAPANESE YEN	139.15	JUN 01/15	JUN 16/16	19.4%	STRATEGIC
SHORT EUROPEAN EQUITIES (U.S. DOLLAR TERMS)	100	JUN 09/16	JUN 24/16	8.2%	TACTICAL
LONG U.S. 30-YEAR / SHORT U.S. 10-YEAR GOV'T BONDS	96 BPS	FEB 07/14	JUL 08/16	22.5%	STRATEGIC
SHORT BRITISH POUND / LONG SWEDISH KRONA	13.16	NOV 12/15	AUG 11/16	19.1%	TACTICAL
LONG 10-YEAR U.S. TREASURYS / SHORT 10-YEAR GERMAN BUNDS	100	AUG 15/14	OCT 27/16	18.5%	TACTICAL
LONG SPANISH 10-YEAR GOV'T BONDS / SHORT ITALIAN 10-YEAR GOV'T BONDS	16 BPS	OCT 15/15	DEC 8/16	6.2%	TACTICAL
LONG CHINESE BANK EQUITIES	100	MAY 19/16	JAN 19/17	32.3%	STRATEGIC
SHORT U.S. DOLLAR / LONG RUSSIAN RUBLE	64.59	NOV 19/15	JAN 19/17	20.1%	STRATEGIC
SHORT NASDAQ 100 MAR 2017 FUTURES	4820.50	AUG 23/16	FEB 23/17	-10.0%	TACTICAL
SHORT U.S. / LONG BASKET OF EURO AREA, JAPANESE, AND CHINESE EQUITIES***	100	FEB 6/15	FEB 23/17	-10.0%	STRATEGIC
SHORT S&P 500	2389.52	MAY 4/17	JUN 15/17	-2.0%	TACTICAL
SHORT EURO / LONG U.S. DOLLAR	1.1205	MAY 25/17	JUN 29/17	-1.6%	TACTICAL
SHORT JAPANESE, GERMAN AND SWISS 10-YEAR GOV'T BONDS	100	JUL 5/16	JUN 29/17	5.3%	STRATEGIC
SHORT FED FUNDS JAN 2018 FUTURES	98.79	APR 20/17	JUL 6/17	11 BPS	TACTICAL
OVERWEIGHT AUSTRALIA (ADD CURRENCY HEDGE)****	100	JAN 23/09	JUL 20/17	59.5%	STRATEGIC
OVERWEIGHT NEW ZEALAND (ADD CURRENCY HEDGE)****	100	JAN 23/09	JUL 20/17	74.2%	STRATEGIC
LONG BRITISH POUND / SHORT JAPANESE YEN	132.01	AUG 11/16	AUG 3/17	9.9%	TACTICAL
SHORT FED FUNDS JUN 2018 FUTURES	98.55	JUL 6/17	SEP 7/17	-18 BPS	TACTICAL
LONG BRENT OIL DEC 2017 FUTURES	49.33	MAY 4/17	SEP 21/17	13.8%	TACTICAL
SHORT S&P 500	2585.64	NOV 16/17	NOV 30/17	-2.0%	TACTICAL
LONG 2-YEAR USD/ SAUDI RIYAL FORWARD CONTRACT	3.89	DEC 10/15	JAN 11/18	-2.9%	STRATEGIC
LONG GLOBAL INDUSTRIAL STOCKS / SHORT GLOBAL UTILITIES	100	SEP 29/17	FEB 1/18	12%	TACTICAL
LONG AUSTRALIAN DOLLAR / SHORT NEW ZEALAND DOLLAR	1.0815	APR 25/14	FEB 1/18	-1.8%	STRATEGIC
SHORT ONE UNIT OF EUR/USD & LONG 1.5 UNITS OF 30-YEAR U.S. TREASURYS VERSUS 30-YEAR GERMAN BUNDS	100	JAN 25/2018	FEB 6/18	-2.5%	TACTICAL
SHORT FED FUNDS DEC 2018 FUTURES	98.6500	SEP 7/2017	FEB 6/18	70 BPS	TACTICAL
LONG S&P 500 / SHORT U.S. BARCLAYS HIGH YIELD CORPORATE BOND INDEX	100	JAN 11/2018	FEB 15/18	-5.0%	TACTICAL
SHORT U.S. 30-YEAR GOVERNMENT BOND	100	JUN 29/2017	MAR 1/2018	3.8%	STRATEGIC
LONG EUROPE AND JAPAN / SHORT U.S. EQUITIES	100	FEB 23/2017	JUN 19/2018	-5.4%	STRATEGIC
AVERAGE RETURN	-	-	-	**12.3%**	-
CUMULATIVE RETURN	-	-	-	**555.5%**	-

* CYCLICALS INCLUDE MATERIALS, ENERGY, INDUSTRIALS, AND CONSUMER DISCRETIONARY; DEFENSIVES INCLUDE TELECOM, CONSUMER STAPLES, AND HEALTH CARE.
** LONG CHINESE BANKS FROM MAY 23, 2014 UNTIL OCTOBER 17, 2014; LONG CHINESE A SHARES FROM OCTOBER 17, 2014 TO FEBRUARY 13, 2015.
*** EQUALLY-WEIGHTED BASKET. HEDGE CURRENCY EXPOSURE.
**** CURRENCY HEDGE ADDED AS OF SEPTEMBER 26, 2014.

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