

CCSIF Guest Lecture
Medium run macroeconomic forecast with portfolio suggestions

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 - Roadmap to the future
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Self-intro and disclaimer

A short introduction and disclaimer first [▶ Disclaimer](#)

I first became interested in the FX market in 2008, and later on in the financial markets in general. [▶ An old pic.](#)

And in 2014 I made a bet with my family's portfolio manager from Citibank that Nikkei 225 will get up to 25k by the end of 2020.

[▶ N225](#)

I was going to become a PhD in Economics at Cambridge, but decided to switch to Mathematics after reading my MPhil in Economic Research here in 2018.

Cited / Extensive readings

- ① The history:
 - John Campbell (2000), Margaret Thatcher The Grocer's Daughter, *Jonathan Cape London*
 - Margaret Thatcher (1993), The downing street year, *Harper Collins*
- ② Monetary Theory:
 - Frederic Mishkin (2019), The Economics of Money, Banking, and Financial Markets, *Pearson*, 10th ed.
 - Parley Ruogu Yang (2018), Money and Monetary Policy: a contemporary and historical review, *parleyyang.wordpress.com*
 - Peter Howells and Keith Bain (2008), The Economics of Money, Banking and Finance, *Pearson*, 4th ed.
- ③ Macroeconomics and Finance: too broad to enumerate.

Remarks from the history



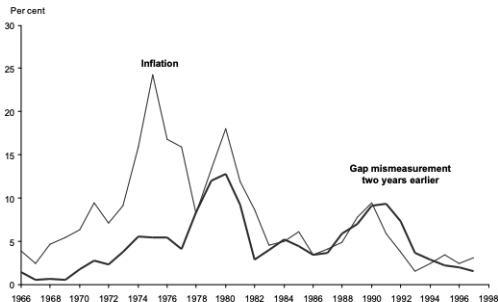
Figure: PM Margaret Thatcher at the Conservative Party conference in 1989 (Reuters)

Campbell (2000, p.150): On Thatcher's speech in her constituency during 1962:

She warned that the country was paying itself more than it earned and must compete in world markets to maintain its standard of living.

A set of navigation icons typically found in Beamer presentations, including symbols for back, forward, search, and other slide controls.

Chart 6: RPI inflation against output gap mismeasurement two years earlier, 1966–97



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Figure: Inflation at those times, bearing in mind some mismeasurement that modern economists would argue.

¹Nelson and Nikolov (2001), UK inflation in the 1970s and 1980s: the role of output gap mismeasurement, Bank of England Working Paper

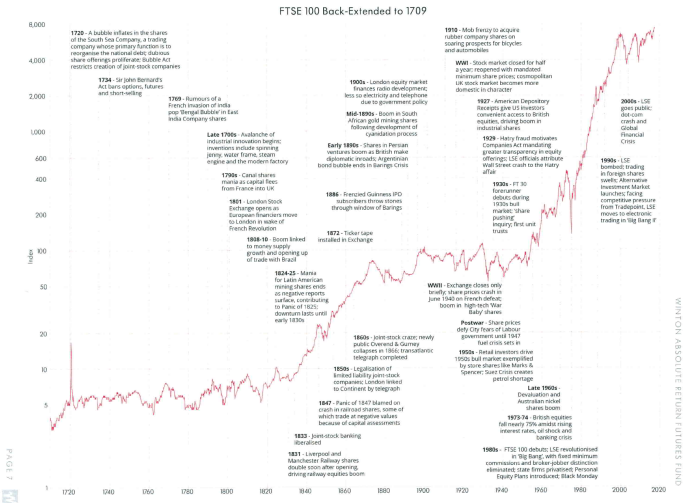


Figure: FTSE 100 (backward-induced) prices from the early 18th history.

Note that the scale is logarithmic. Source: ABFM

White Board: Clarification on the difference between a demand-shock and a supply-shock, and a thought about the inflationary trajectory.

White Board 2

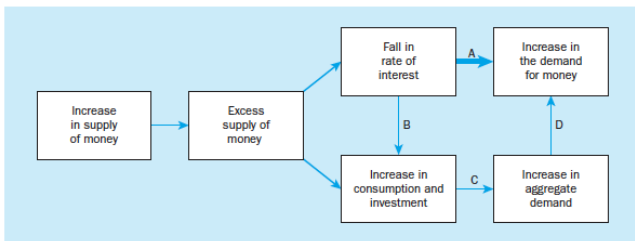


Figure 13.2 Simplified Keynesian view of monetary policy

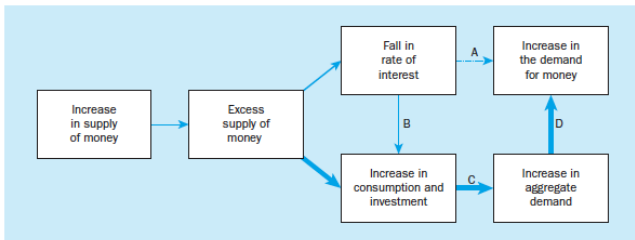


Figure 13.3 Simplified monetarist view of monetary policy

White Board 3

Fisher's equation of exchange $MV = PQ$ &
Fisher's equation of interest rate $r = i - \pi$

Roadmap to the future

A capitalist² way to solve a few social problems³

²As oppose to a socialists' revolution.

³Many of which are long-term issues

On the word "Society"

Thatcher (1993, p.626):

Society was not an abstraction, separate from the men and women who composed it, but a living structure of individuals, families, neighbours and voluntary associations.

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Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output

Key forecasts for 2021, 2022, or 2023: ⁶

- A gigantic cyclical unemployment plus an unusually large structural unemployment [Short-term event, A.S.]
- Raising public debt to a level that it becomes theoretically unaffordable under the 2% inflationary assumption and continuous structural deficit [Continuous event, H.L.]
- Tory to dominate the popularity with continuous expansionary monetary and fiscal policies. More monetary-fiscal collaboration to be foreseen. [Continuous event, H.L.]
- Feeding up big banks to be deliberately avoided by the government, but benefiting capital markets in general is unavoidable. [Continuous event, A.S.]

⁶Roughly speaking T and $T + 1$ where T is the year that COVID-19 is successfully contained, potentially through a herd immunity via vaccination.

- There will be a re-bounce, potentially uncontrollable re-bounce of inflation at a rate of $> 10\%$ (ann.) for a short period, accompanied by a jump in the equity market at either an immediately-early or a later stage [Short-term event, H.L.] ⁷
- The solution to the above trouble is:
 - by firstly contracting certain capital or even the commodity flows (potentially by regulating the financial institutions or even the commercial ones) [Short-term event, H.L.]
 - and later re-designing the monetary policies and potentially entering a new era of technical micro-driven fiscal-monetary coordination [Long-term event, L.]

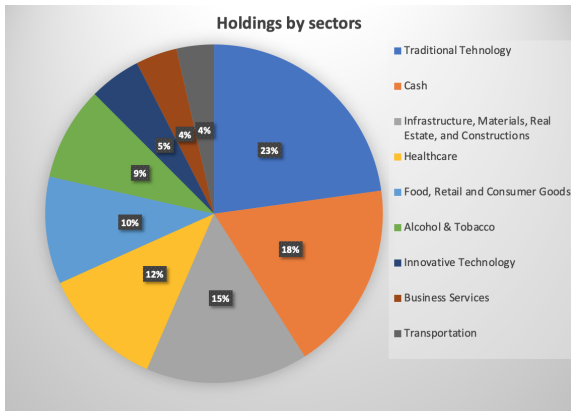
⁷Related economic concept: domestic hot money, liquidity bounce, free capital flow.

An inflationary trajectory towards a capitalistic social reform

The equity market under high inflation

- Ones to watch:
 - Utilities [E.g. National Grid]
 - Consumer Staples [E.g. Tesco, ABF]
- Ones that we need to be more careful about, despite potential benefits from high inflation:
 - Potentially being overvalued at its current state:
 - Innovative Technologies [E.g. Rightmove]
 - Healthcare [E.g. Astrazeneca]
 - Potential sunset companies:
 - Certain industrial commodities [E.g. RDS]
- Uncertain ones:
 - Mid-Sized Banks [E.g. Metrobank, Lloyds]
- More uncertain ones:
 - International Banks [E.g. HSBC, DB]

Portfolio Review via a Pie chart



- Generally diversified, though ones in the TT and IMREC to watch out for, at a Micro-level. AZN overloaded.
- No Financial Services (doesn't mean we need) and no Utilities (we probably need)

Stocks suggestions

A bit of technical background:

- Dividend discount model

$$PV \approx \int_{t \geq 0} \frac{D(t)}{r(t)} dt = D(0) \int_{t \geq 0} \frac{g(t)}{r(t)} dt$$

- Interest rate structure with an aged example

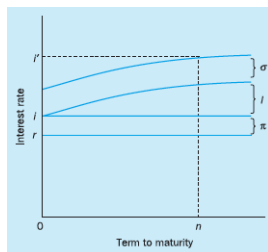
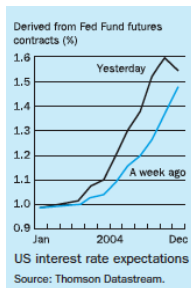
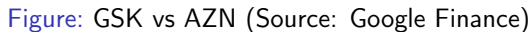


Figure: Howells and Bain (2008, pp.213, 221)

Company / Ticker	Industry	Div Yield (ann. %)
SSE	Utilities	5.8
GSK	Healthcare	5.5
NG	Utilities	5.1
United Utilities	Utilities	4.6
Tesco	Retail	4.3
WHSmith *	Retail	4.2
Pennon Group ⁸ *	Utilities	4.2
Morrisons	Retail	4
Severn Trent	Utilities	3.9
Sainsbury's	Retail	1.6

- Only FTSE 350 companies are considered, due to the restrictions as per the charter. The ones with * are in FTSE 250, and the rest are in FTSE 100.
- Data collected on 12 November.

⁸Owens South West Water



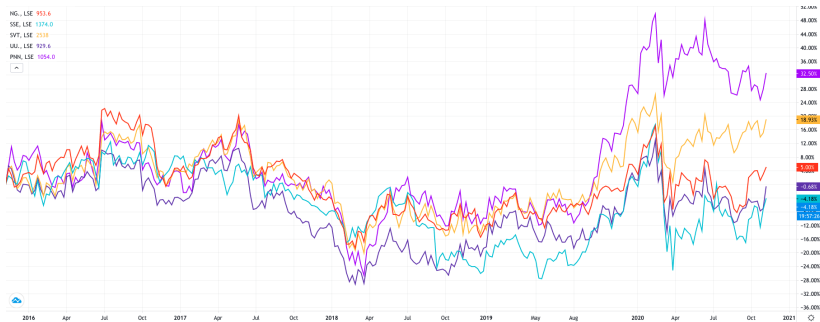


Figure: Comparisons within the Utilities' lists (Source: Tradingview)

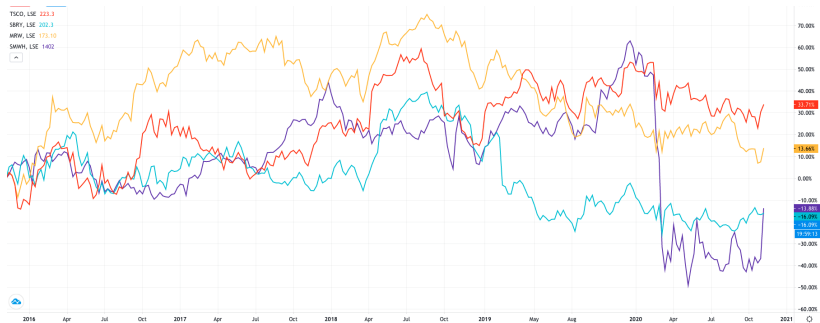


Figure: Comparisons within the Retail's lists (Source: Tradingview)

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The only function of economic forecasting is to make astrology look respectable.

”

— Professor Ezra Solomon (1985)

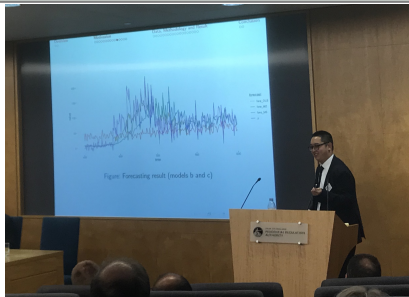


Figure: My BoE presentation in 2019



SOURCE: TRADINGECONOMICS.COM

Figure: Nikkei 225 since 2011 (Source: Tradingnomics)



Figure: A screen shot of my interview took place in 2011 (CCTV Documentary)

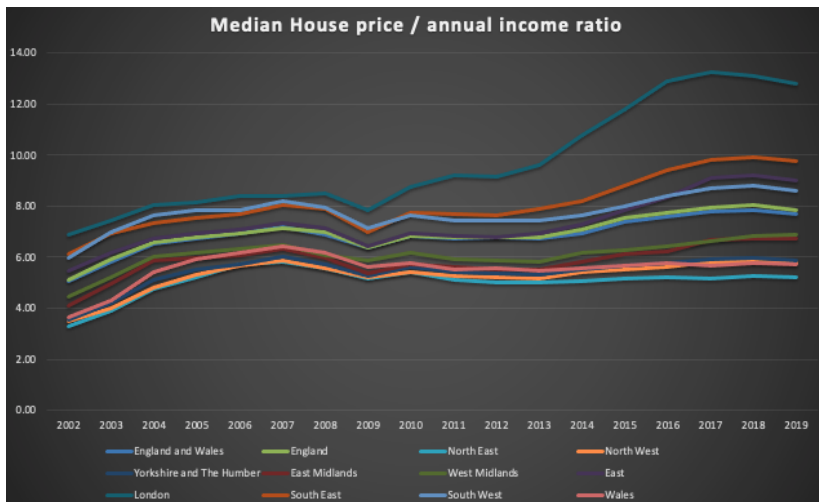


Figure: Data: ONS

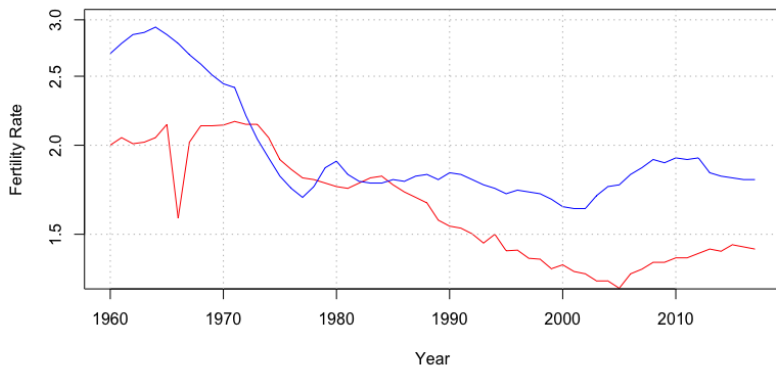


Figure: Blue is the UK, and red is Japan. Data: World Bank