



# Long Pause Or Finally A Peak?

Where The Global Economy  
Stands And The Outlook For  
Asset Markets.

April 29, 2019

An independent research firm that uses big data to present timely investment ideas in an easy to understand format.

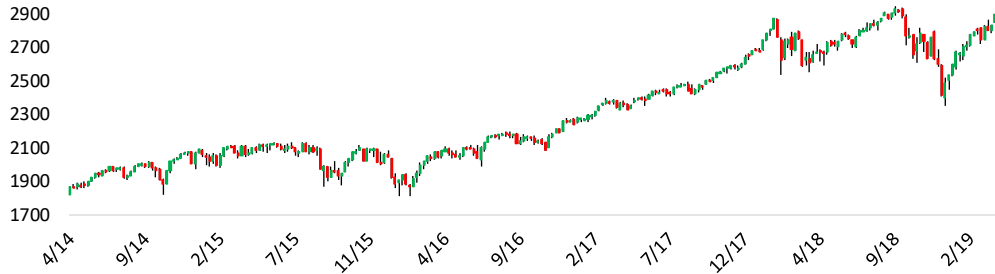
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# Introduction

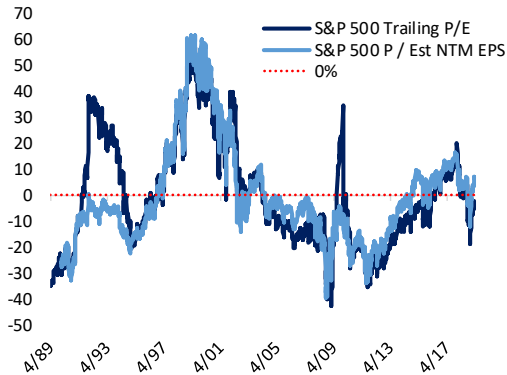
- *Bespoke Investment Group* is an independent research provider and asset manager headquartered in Harrison, New York.
- What is a *Global Macro Strategist*?
- More importantly, what is “*Global Macro*”?
- “*Macro*” refers to an investment process that is *top-down, policy-sensitive, driven by economic trends, involves multiple asset classes, and pursues absolute returns.*
- Macro investing does not rule out investment in single stocks, but generally seeks to identify *macroeconomic* catalysts as opposed to *microeconomic* catalysts.
- *Policy* catalysts: central bank or fiscal authority reactions to economic, financial, or political changes.
- *Economic* catalysts: economic or financial market shocks or trends.
- *Behavioral* catalysts: identifying market mispricing of risk driven by bias or poor understanding.
- Toolkit: *economic data, economic models* (either *formal* or *informal*), *policy communication, technical analysis.*
- Successful macro trading requires risk management, diversification, and flexibility.

# Four Down, Eight To Go: Market Recap

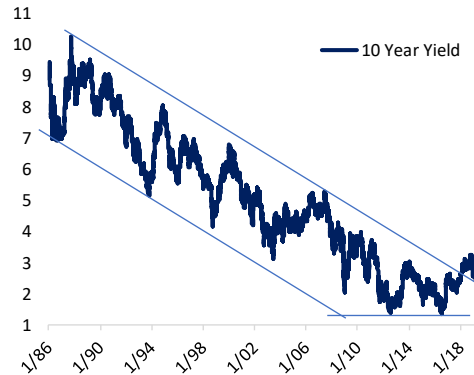
S&P 500, Weekly, Past 5 Years



P/E vs 30y Average (%)



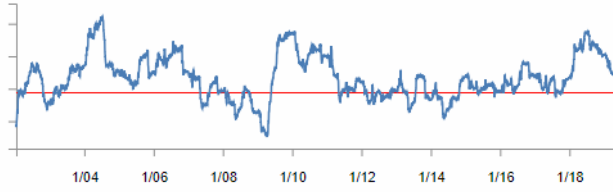
10 Year Yield, 1986 - Current



# EPS Good, Revenues Good, Guidance Rough

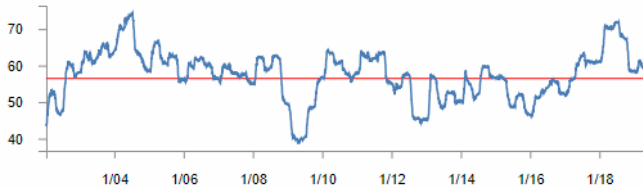
EPS Beat Rate (%), 3 Mo. Rolling

Current: 62.16 | Avg: 59.37



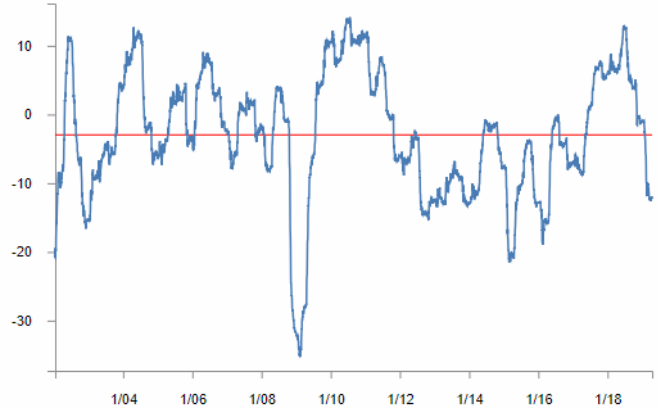
Sales Beat Rate (%), 3 Mo. Rolling

Current: 59.22 | Avg: 56.45



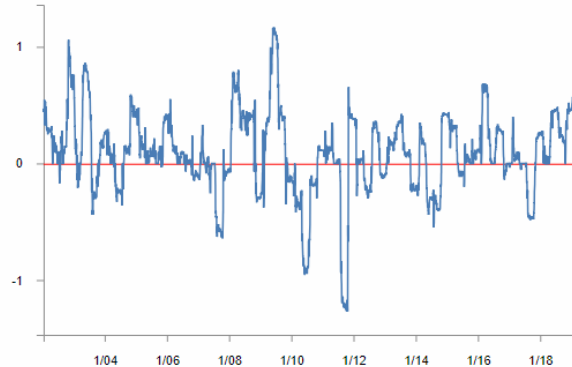
Guidance Spread (%), 3 Mo. Rolling

Current: -11.93 | Avg: -2.97



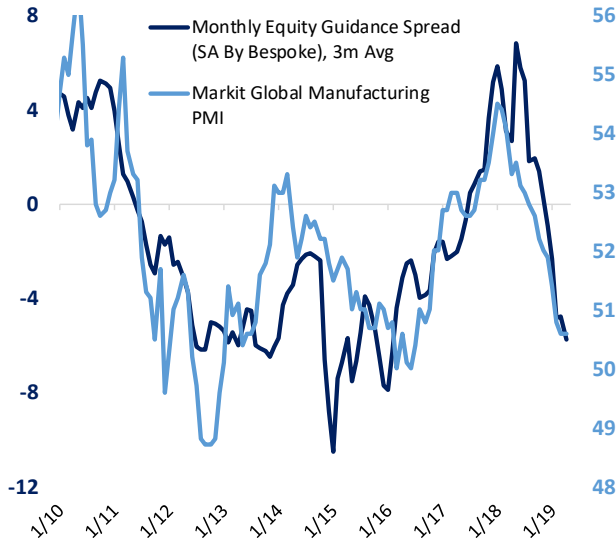
1 Day Median Change (%), 3 Mo. Rolling

Current: 0.45 | Avg: -0.01



# The Fly In The Ointment: Global Growth

## US Guidance Is Sensitive To Global Growth

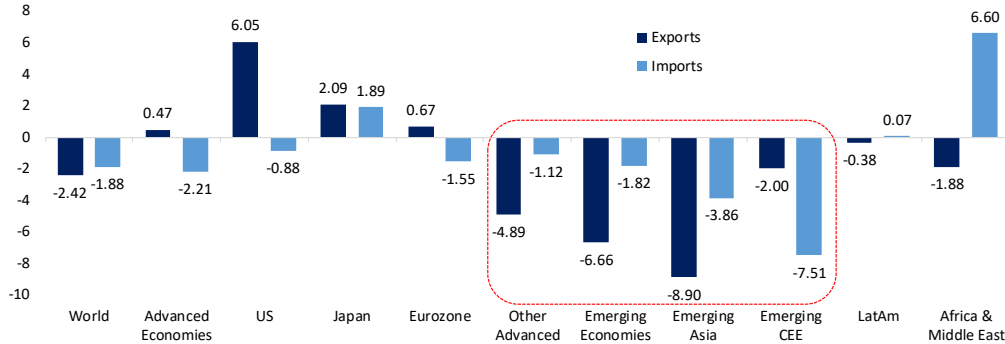


## Global Activity Reversed Hard In 2018

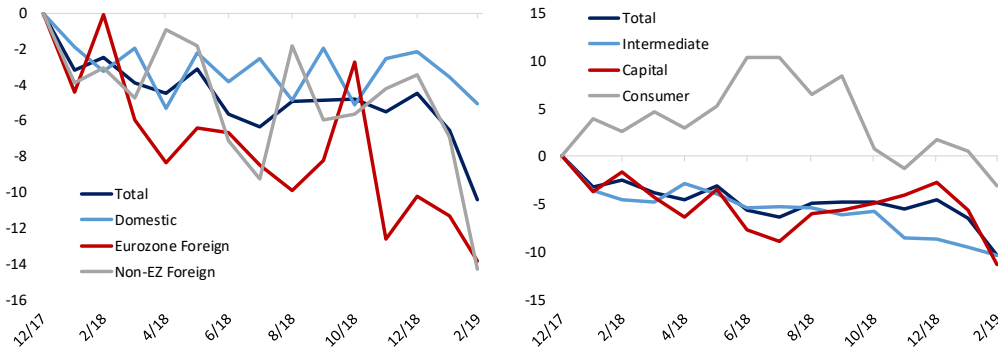


# Where Does The Shock Come From?

Decomposition of YoY Global Trade Volumes By Region, Through January 2019

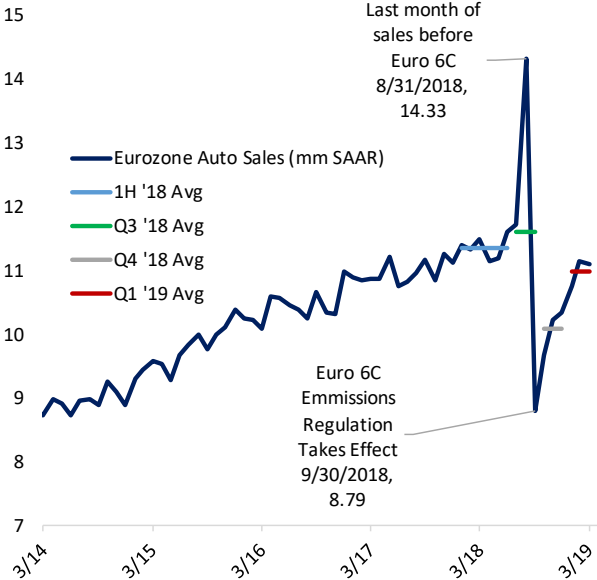


Germany Manufacturing New Order Volume % Change Since December 2017 Peak

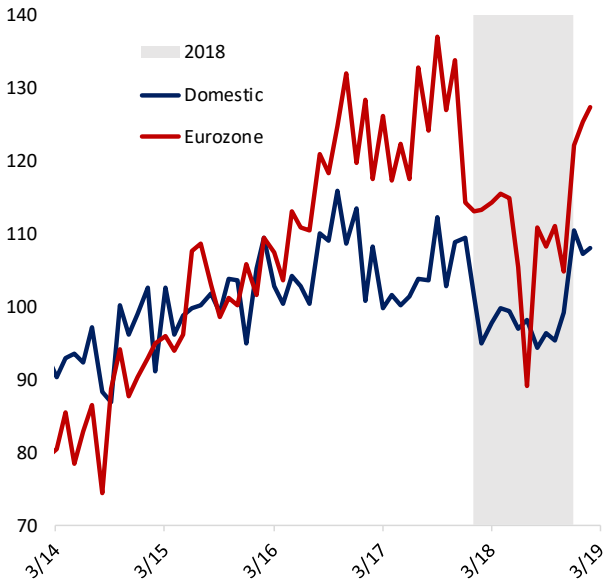


# Eurozone Shock: Auto Industry

**Eurozone Exogenous Shock: Emissions Regulation**

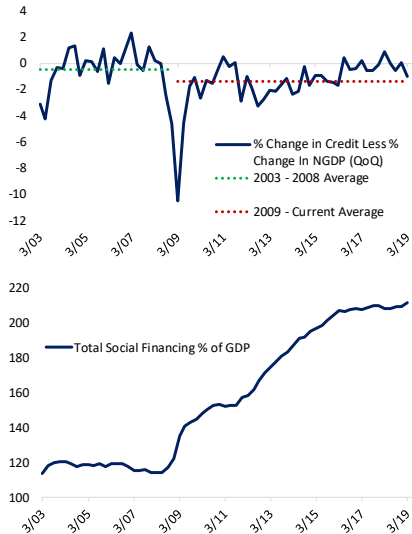


**Germany Auto Manufacturing Order Volumes**



# Chinese Credit: Real Or Behavioral?

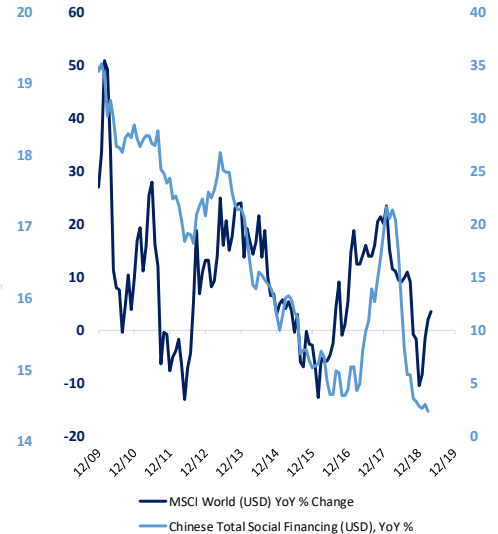
Chinese Growth Has High Credit Intensity



Chinese Credit Looks Correlated To Equity Markets...



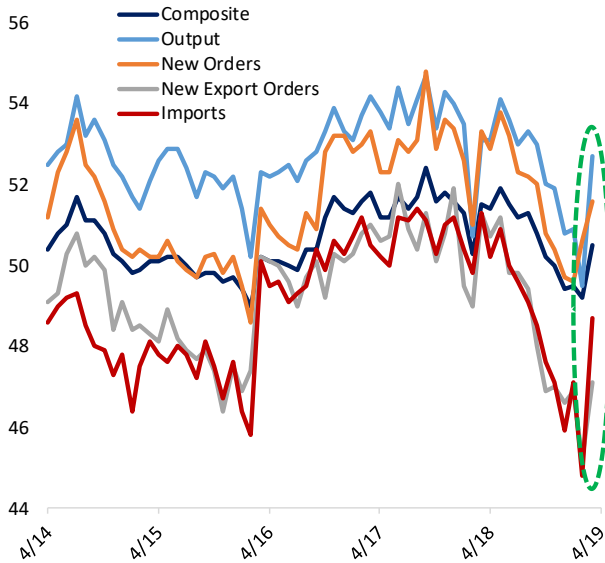
...But Much Less So Presented Like-For-Like



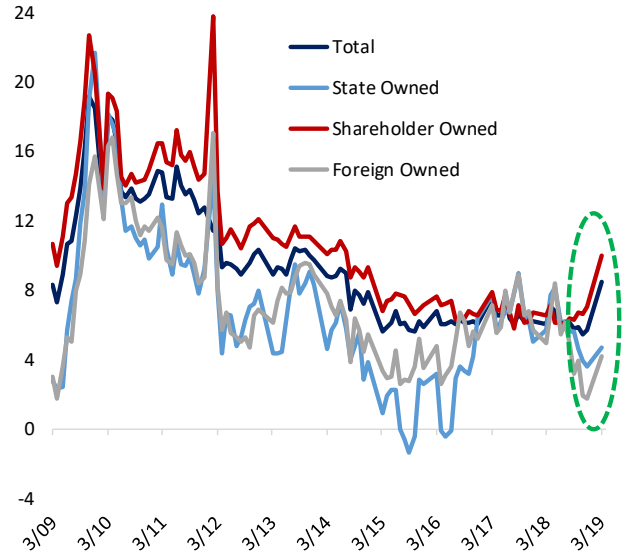


# Made In China Makes A Comeback

## Chinese PMI Confirms Domestic Strength

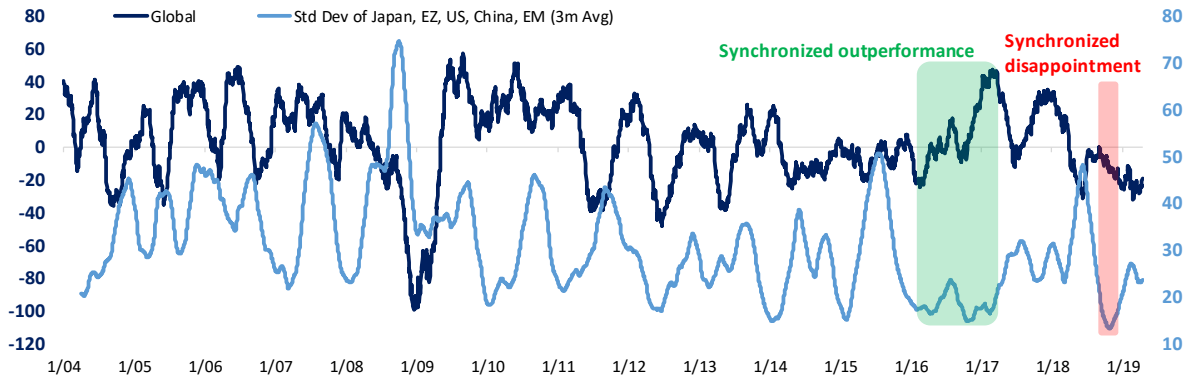
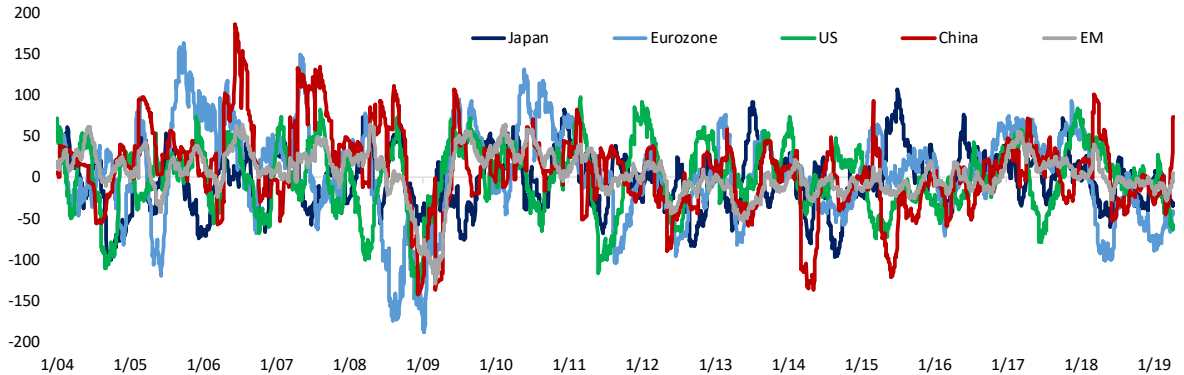


## China Industrial Production Volumes: Past 10 Years YoY



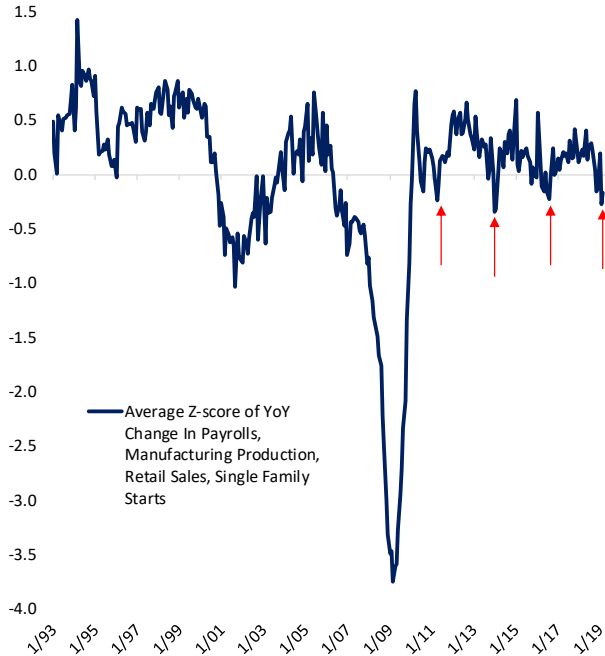
# Third Shock: Not A Shock At All

Global Expectations Cycle: Citi Economic Surprise Indices, 2004 - Current

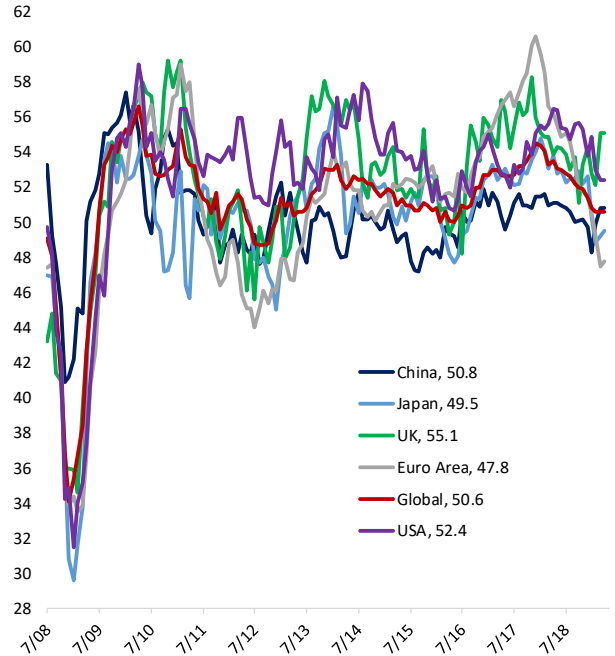


# What About The US?

## Another Mid-Expansion Slowdown Has Played Out

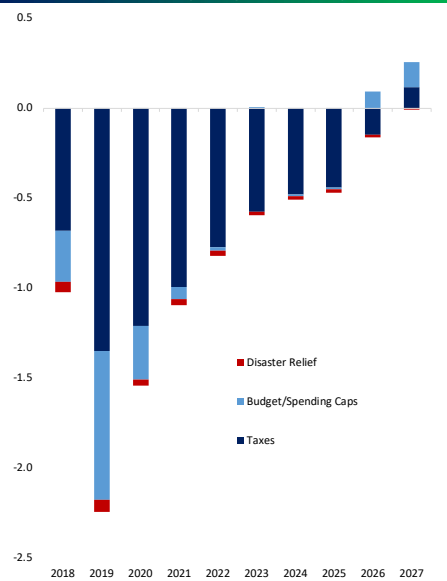


## ISM Manufacturing PMIs: US Outperforms, But Not Immune

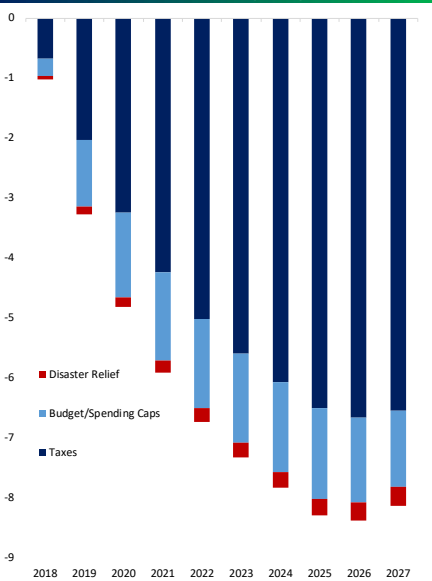


# Fiscal Stimulus Offered Promise

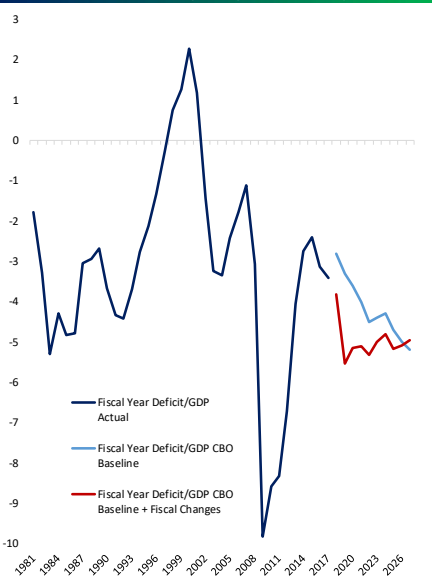
Net Effect of Fiscal Policy Changes, % of GDP By Fiscal Year



Cumulative Fiscal Effect of Policy Changes, % of GDP

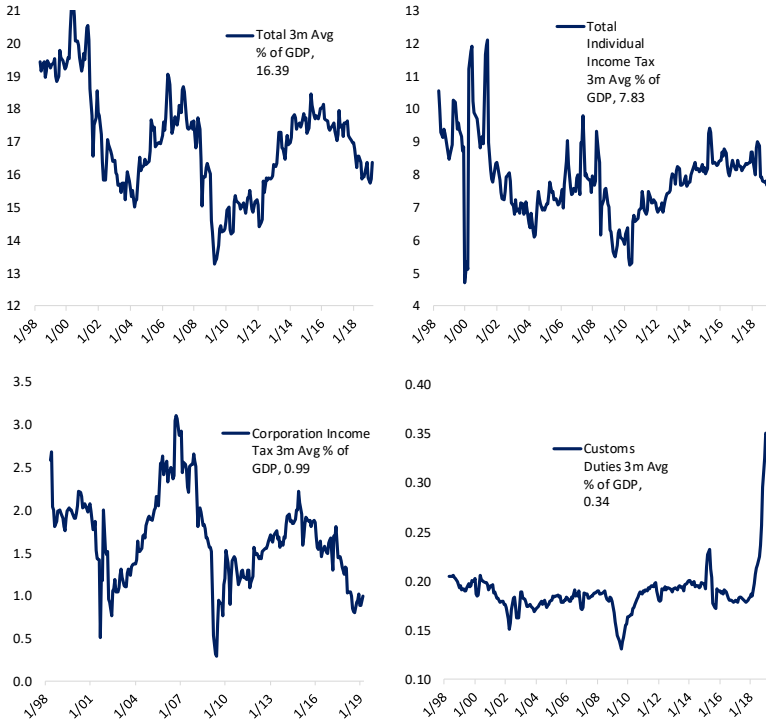


Fiscal Effect of Recent Policy Changes, % of GDP By Fiscal Year

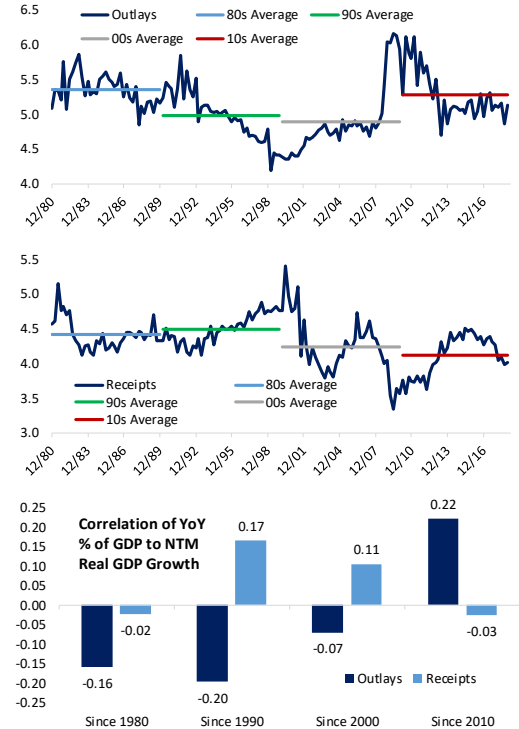


# Declining Receipts Have Not Boosted Growth

Federal Receipts By Major Type, 3m Average, % of GDP

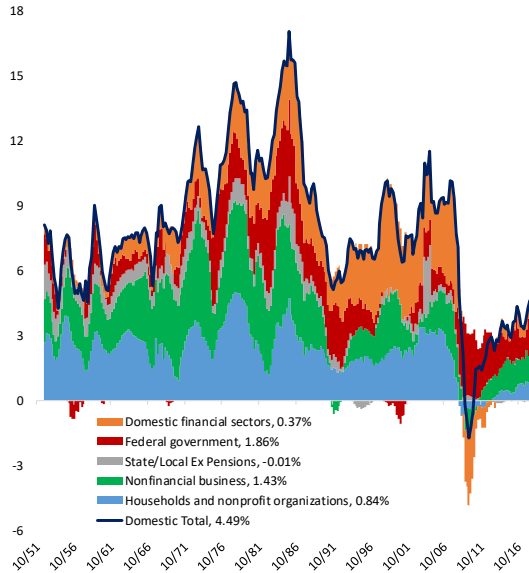


Federal Outlays, Receipts, & Growth Sensitivity

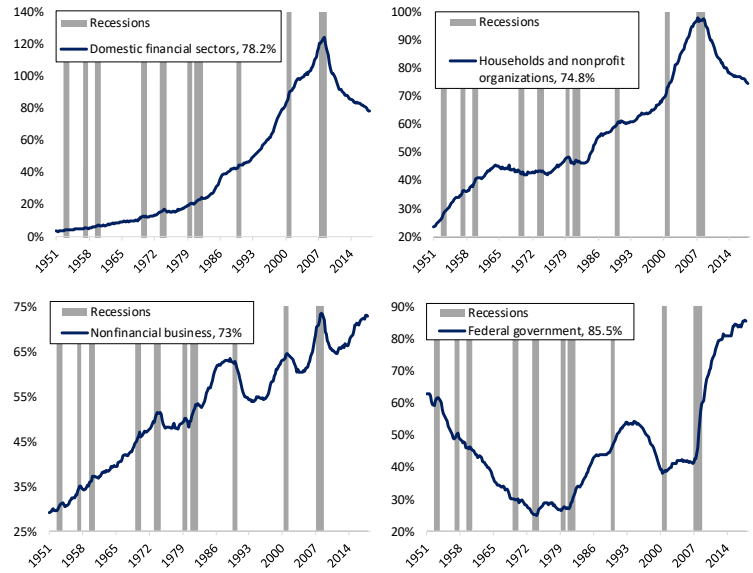


# US Households Still Not Re-Leveraging

Composition of YoY Growth In Domestic Debt, By Sector

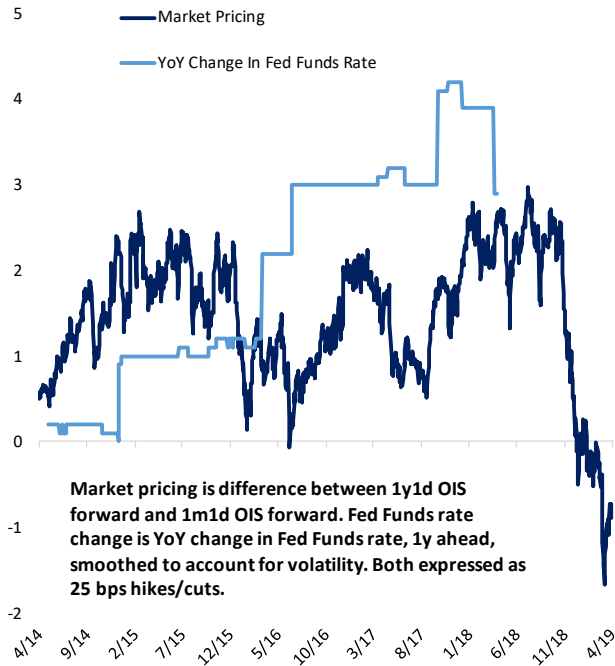


Debt by Sector, % of GDP

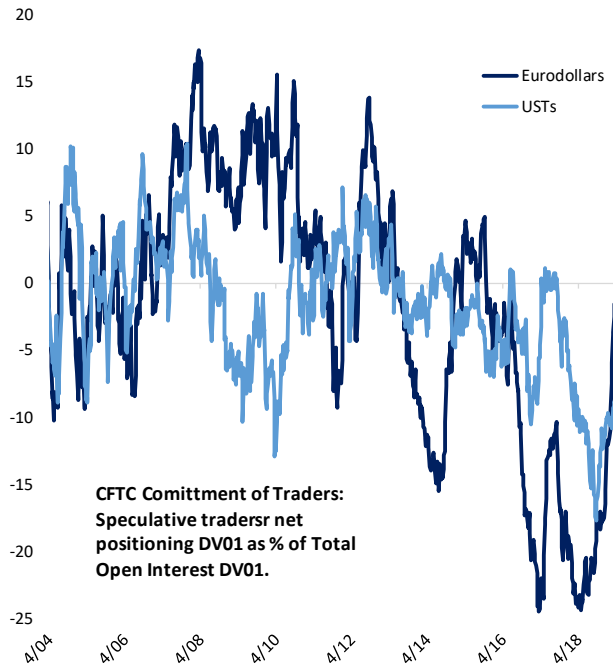


# Markets To Fed: The Cycle Is Over

## Hike Pricing Hasn't Been Very Accurate: Reason To Doubt Cuts?

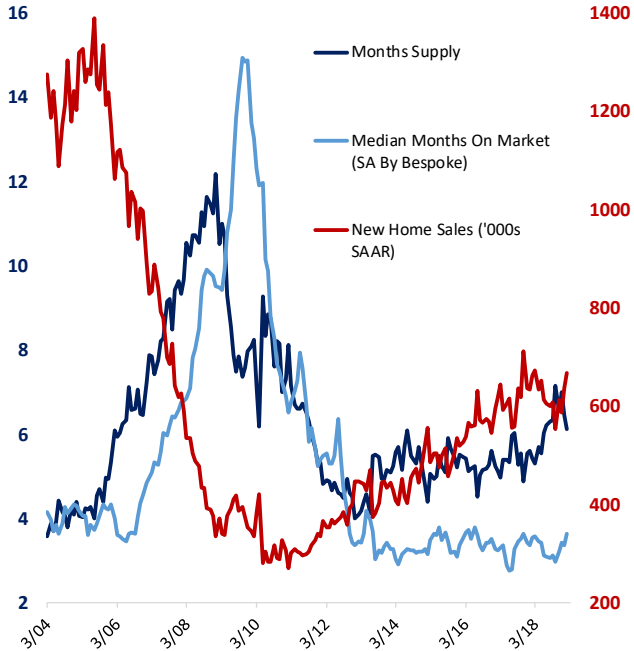


## Recent Rates Rally Was Positioning-Driven



# US Catalyst: Housing

## New Home Sales Reversing Higher, Inventories Clearing



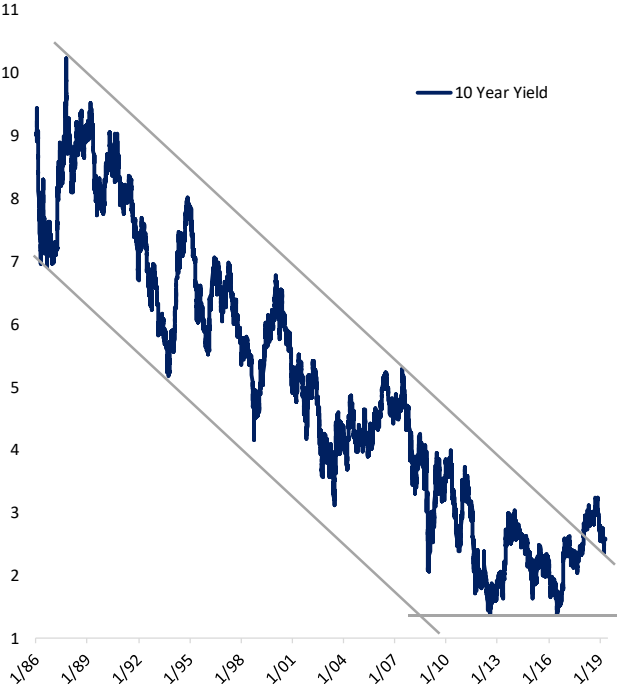
## Rates Heuristic: Housing Stocks vs Mortgage Rates



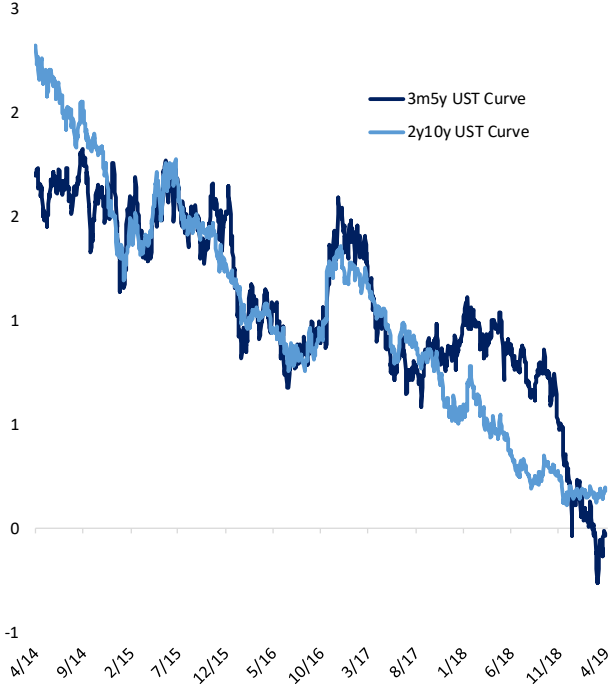


# Implications: Interest Rates

The Trend Is No Longer Duration's Friend

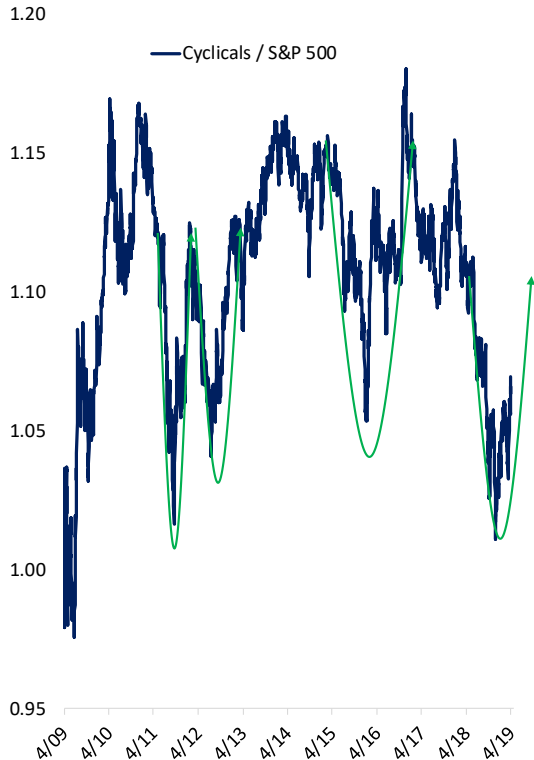


Term Structure Inverted...Depending On The Curve (%)



# Implications: Equity Markets

## Cyclicals Are Where To Look For Outperformance



### GICS Level 4 Sector

### Stocks

GICS Level 4 Sector	AAPL	HPE	HPQ	NTAP	STX	WDC	XRX						
<b>Tech Hardware, Storage &amp; Peripherals</b>	AAPL	HPE	HPQ	NTAP	STX	WDC	XRX						
<b>Capital Markets</b>	AMG	AMP	BEN	BK	BLK	CBOE	CME	ETFC	GS	ICE	IVZ		
	MCO	MS	MSCI	NDQA	NTRS	RJF	SCHW	SPGI	STT	TROW			
<b>Semis &amp; Semi Equip.</b>	ADI	AMAT	AMD	AVGO	INTC	KLAC	LRCX	MCHP	MU	MXIM	NVDA		
	QCOM	QRVO	SWKS	TXN	XLNX								
<b>Banks</b>	BAC	BBT	C	CFG	CMA	FITB	FRC	HBAN	JPM	KEY	MTB		
	PBCT	PNC	RF	SIVB	STI	USB	WFC	ZION					
<b>Metals &amp; Mining</b>	FCX	NEM	NUE										
<b>Chemicals</b>	ALB	APD	CE	CF	DOW	DWDP	ECL	EMN	FMC	IFF	LIN		
	LYB	MOS	PPG	SHW									
<b>Textiles, Apparel &amp; Luxury Goods</b>	CPRI	HBI	NKE	PVH	RL	TPR	UA	UAA	VFC				
<b>Automobiles</b>	F	GM	HOG										
<b>Industrial Conglomerates</b>	GE	HON	MMM	ROP									
<b>Hotels, Restaurants &amp; Leisure</b>	CCL	CMG	DRI	HLT	MAR	MCD	MGM	NCLH	RCL	SBUX	WYNN		
	YUM												
<b>Leisure Products</b>	HAS	MAT											
<b>Consumer Finance</b>	AXP	COF	DFS	SYF									
<b>Machinery</b>	CAT	CMI	DE	DOV	FLS	FTV	IR	ITW	PCAR	PH	PNR		
	SNA	SWK	WAB	XYL									
<b>Specialty Retail</b>	AAP	AZO	BBY	FL	GPS	HD	KMX	LB	LOW	ORLY	ROST		
	TIF	TJX	TSCO	ULTA									
<b>Airlines</b>	AAL	ALK	DAL	LUV	UAL								
<b>Construction &amp; Engineering</b>	FLR	JEC	PWR										
<b>Elec. Equip., Instruments, Components</b>	APH	FLIR	GLW	IPGP	KEYS	TEL							
<b>Air Freight &amp; Logistics</b>	CHRW	EXPD	FDX	UPS									
<b>Electrical Equipment</b>	AME	EMR	ETN	ROK									
<b>Diversified Financial Services</b>	BRK/B	JEF											
<b>Household Durables</b>	DHI	GRMN	LEG	LEN	MHK	NWL	PHM	WHR					
<b>Road &amp; Rail</b>	CSX	JBHT	KSU	NSC	UNP								
<b>Multiline Retail</b>	DG	DLTR	JWN	KSS	M	TGT							
<b>Building Products</b>	ALLE	AOS	FBHS	JCI	MAS								
<b>Auto Components</b>	APTV	BWA											
<b>Distributors</b>	GPC	LKQ											
<b>Construction Materials</b>	MLM	VMC											

# Conclusion

- The global economy has paused, but looks likely to recover.
- European and Chinese activity are the key areas to watch for confirmation of a recovery.
- US economic activity has paused, but should rebound.
- Favor cyclical stocks and low-duration fixed income.

## *Questions?*

*Contact*

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