# Investing In A World Of Multiple Crises
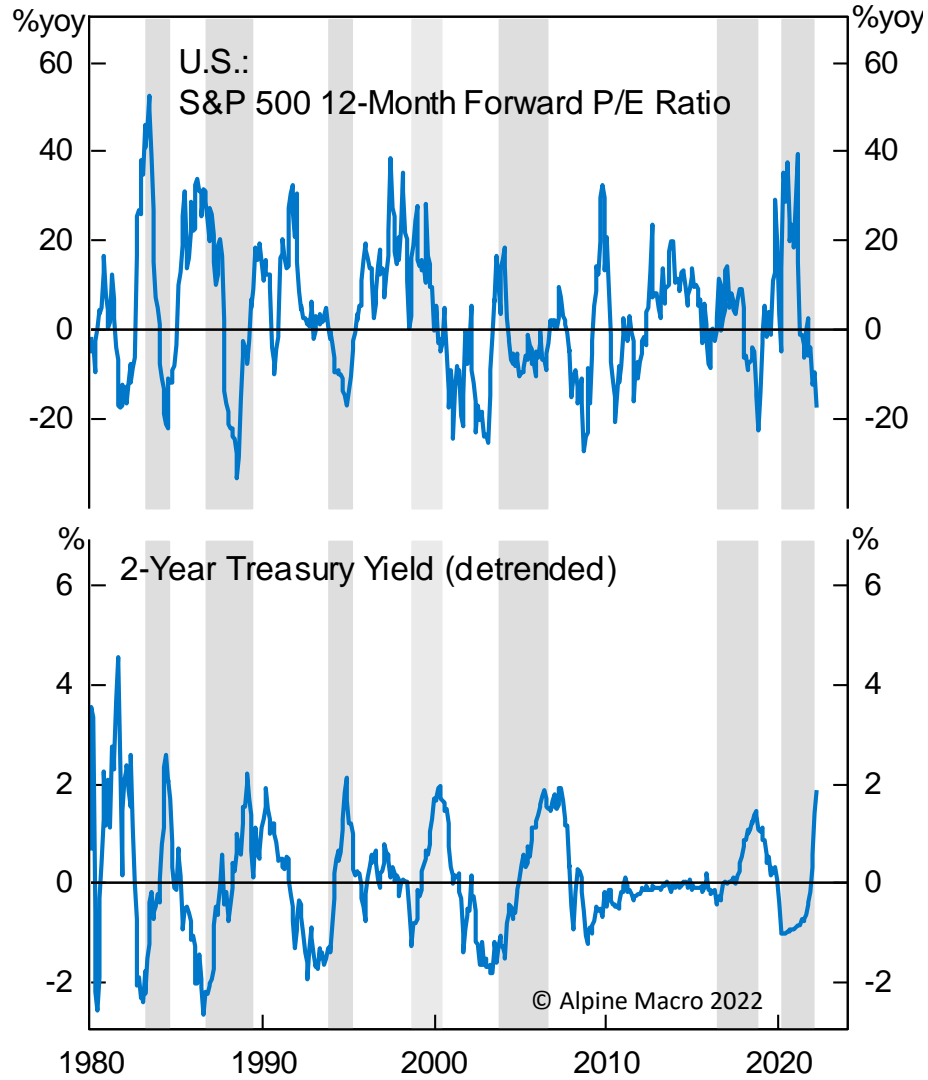
**Chen Zhao**

**Chief Global Strategist**

info@alpinemacro.com

1-514-558-1414

ALPINEMACRO

A Unique Mind On The Markets

May 2022

To request a trial: alpinemacro.com/trial-access/

# Rising Rates Always Depress P/E Multiples

**U.S.:**
**S&P 500 12-Month Forward P/E Ratio**
(%yoy)

**2-Year Treasury Yield (detrended)**
(%)

© Alpine Macro 2022

Note: Shaded areas denote periods of rising 2-year yields

# Equity/Bond Ratio: Slowdown But No Recession

**U.S.:** — S&P 500 12-Month Forward EPS (ls)
- - - Stock-to-Bond Ratio* (rs)
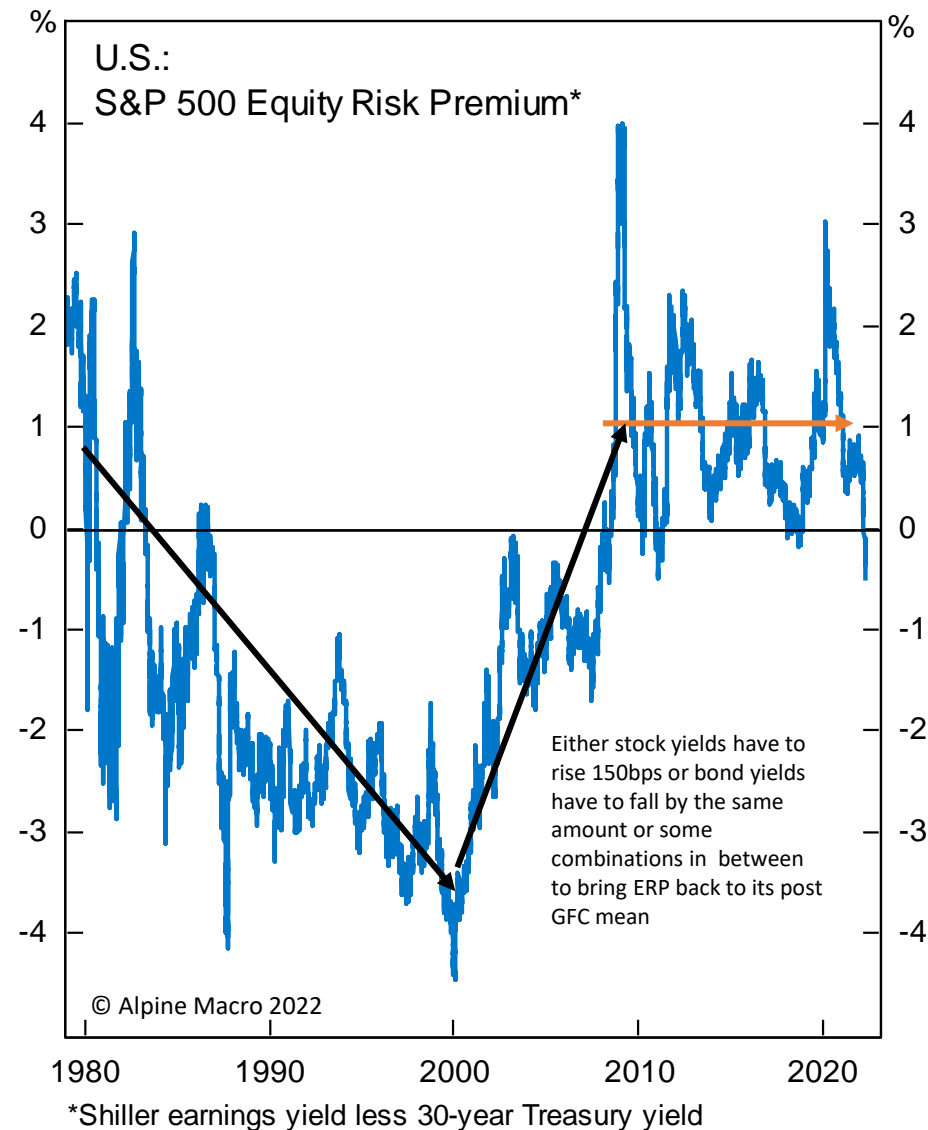
© Alpine Macro 2022
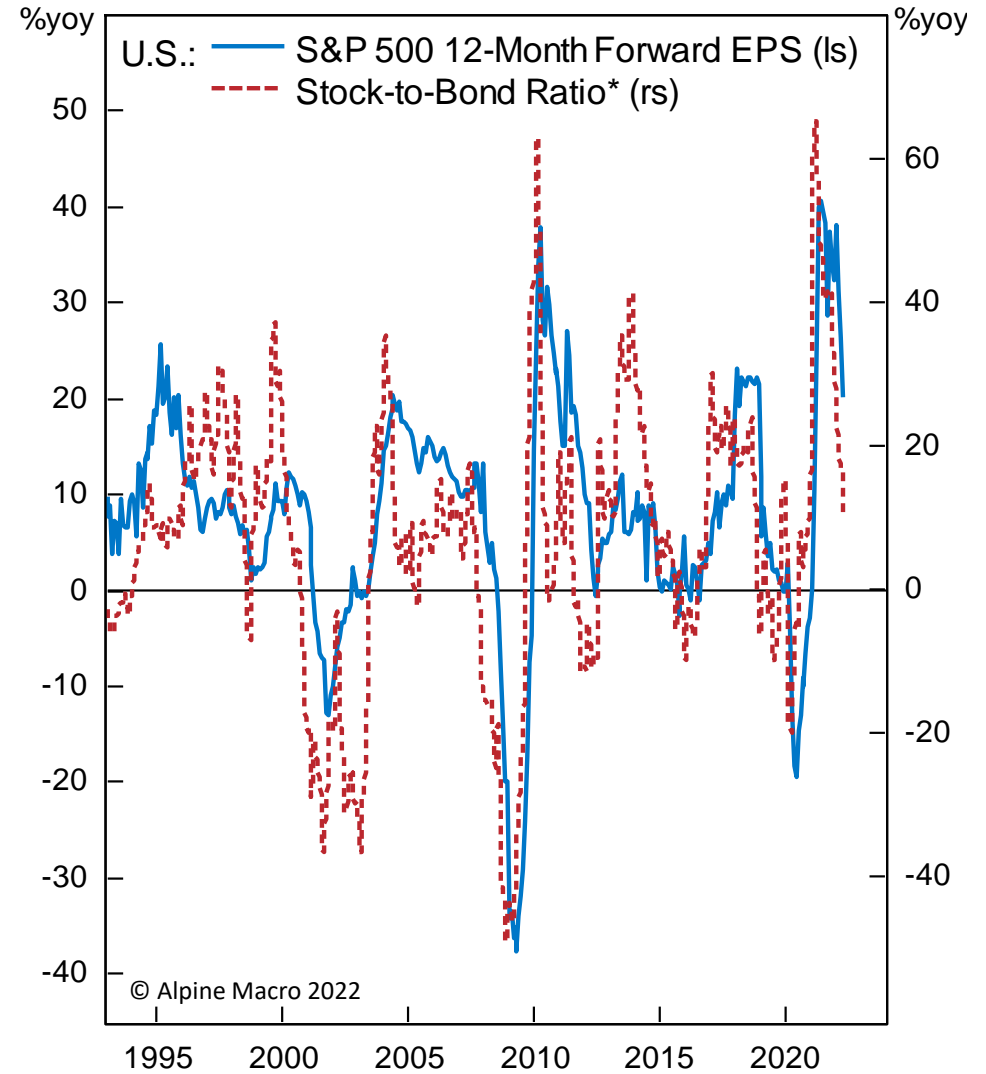
*S&P 500 total return divided by 10-year Treasury total return

ALPINEMACRO

# QT Will Cause More Pain
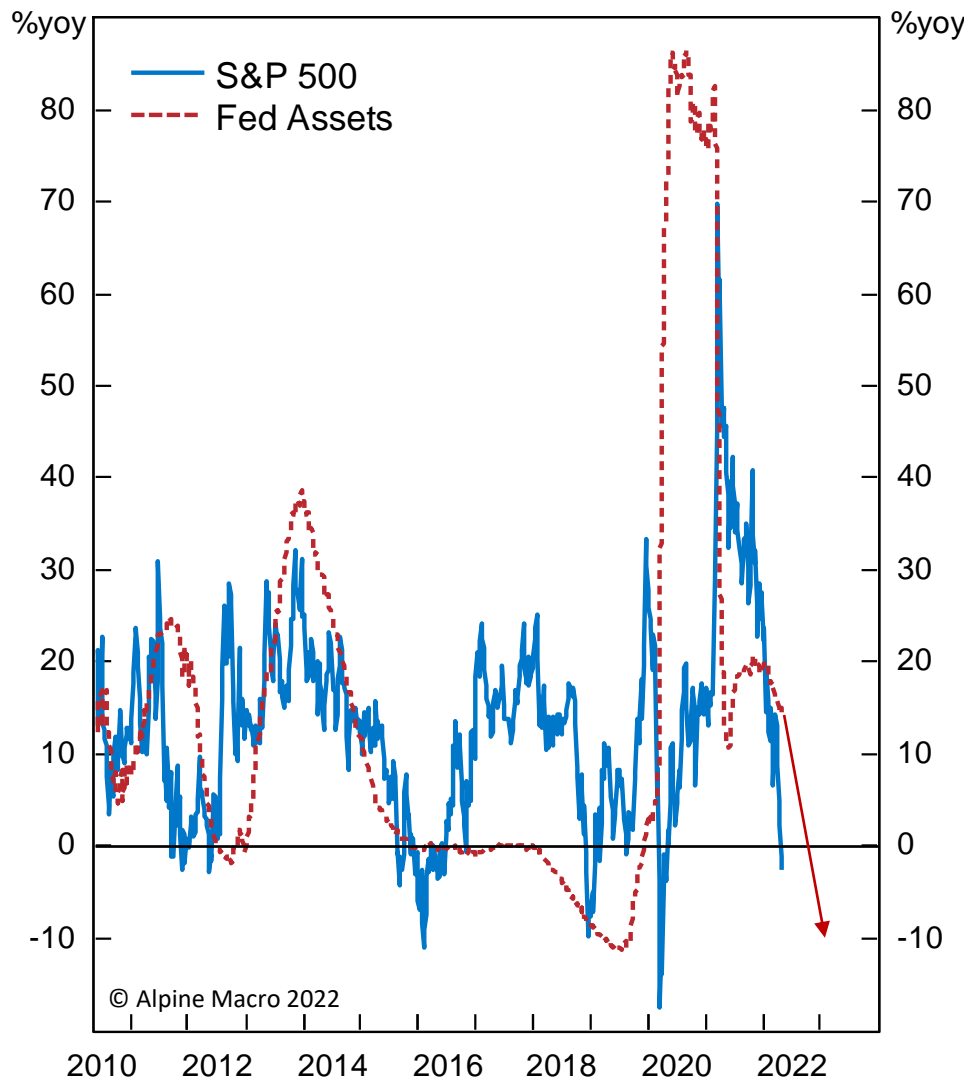


# Equity Remains Expensive After Price Decline



U.S.:
S&P 500 Equity Risk Premium*

Either stock yields have to rise 150bps or bond yields have to fall by the same amount or some combinations in between to bring ERP back to its post GFC mean

© Alpine Macro 2022

*Shiller earnings yield less 30-year Treasury yield

# The Oil Crunches In the 1970s: War & Iran
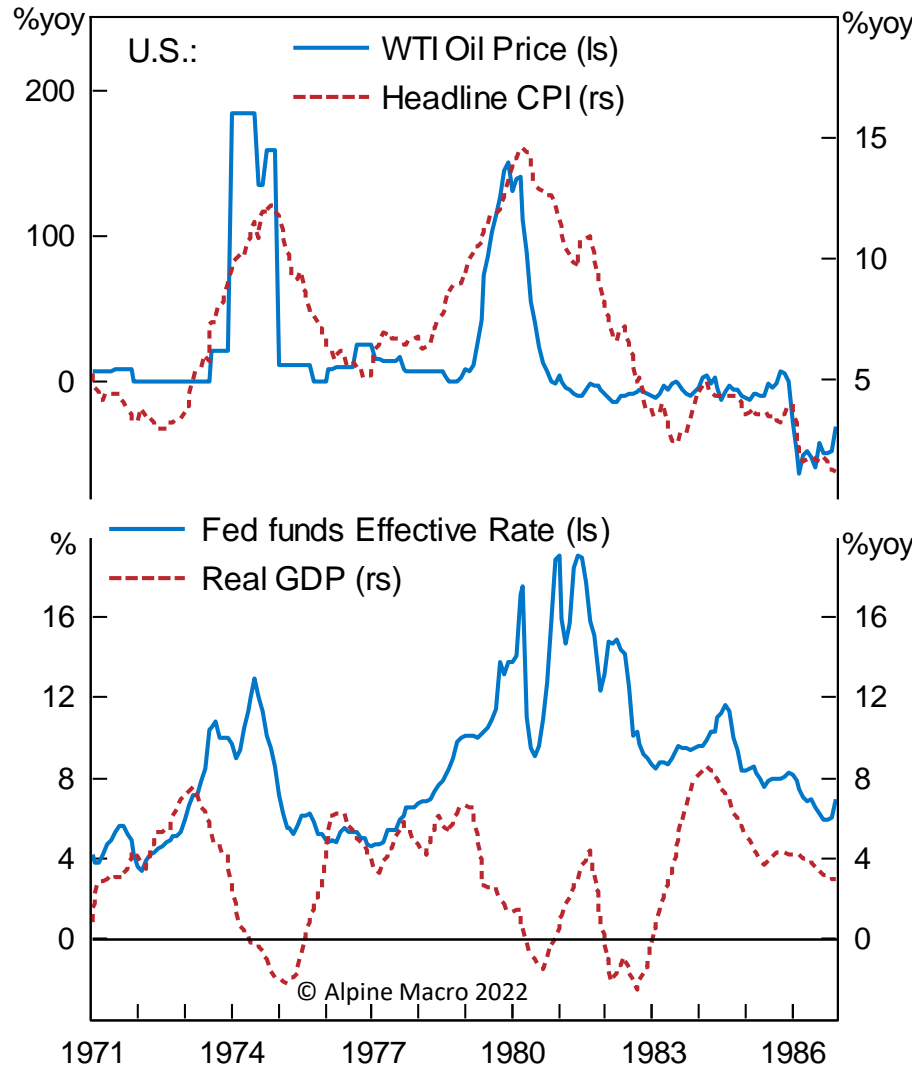
# The Oil Crunch Today: ESG & Russia



U.S.:
— WTI Oil Price (ls)
--- Headline CPI (rs)

— Fed funds Effective Rate (ls)
--- Real GDP (rs)

— Brent Crude Oil Price (ls)
--- U.S. CPI Inflation (rs)

© Alpine Macro 2022

ALPINEMACRO
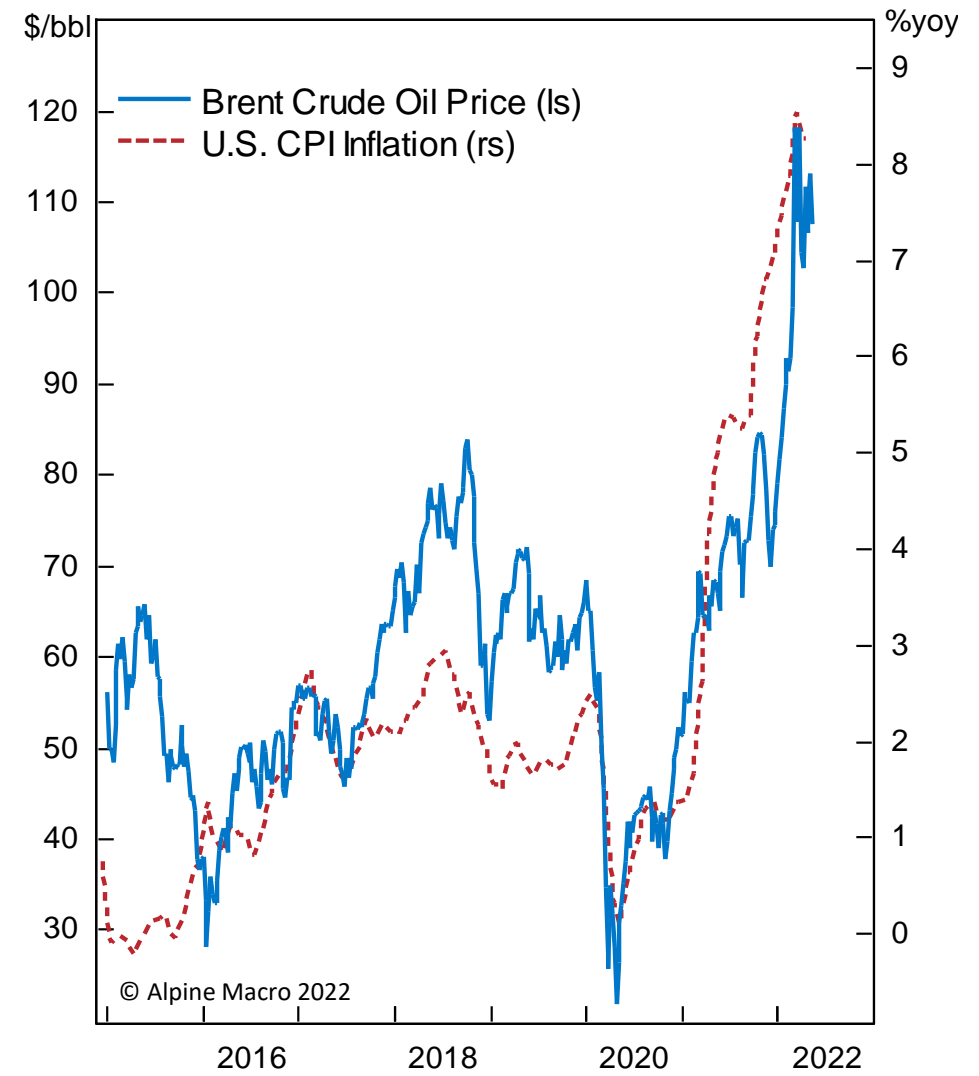
# Growth Tax Is Calling For A Recession

# Real Disposable Income Is Falling



U.S.:
- Growth Tax* (Inverted; ls)
- ISM Manufacturing PMI (rs)
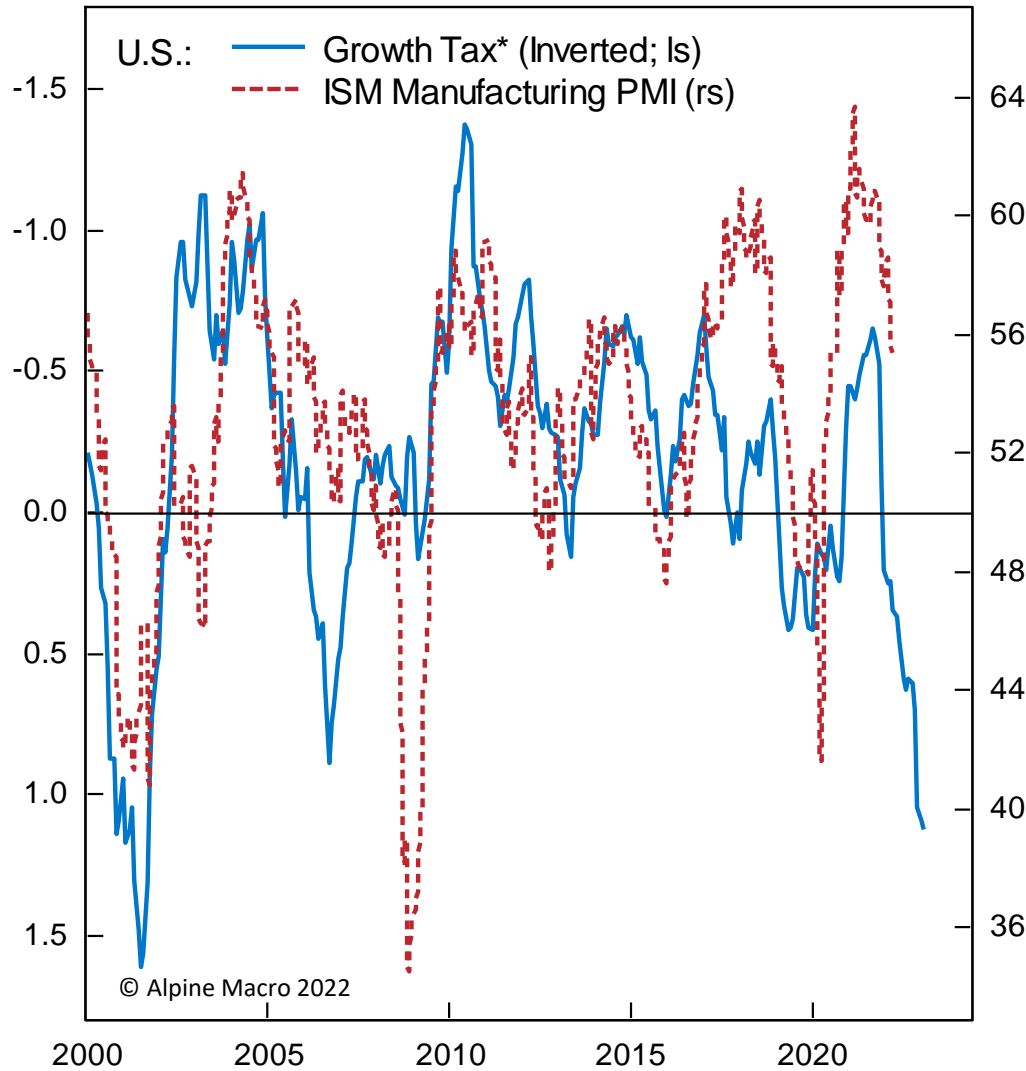
*Based on the dollar, Treasury yield curve and commodity prices, standardized and advanced by 9 months

© Alpine Macro 2022

U.S.:
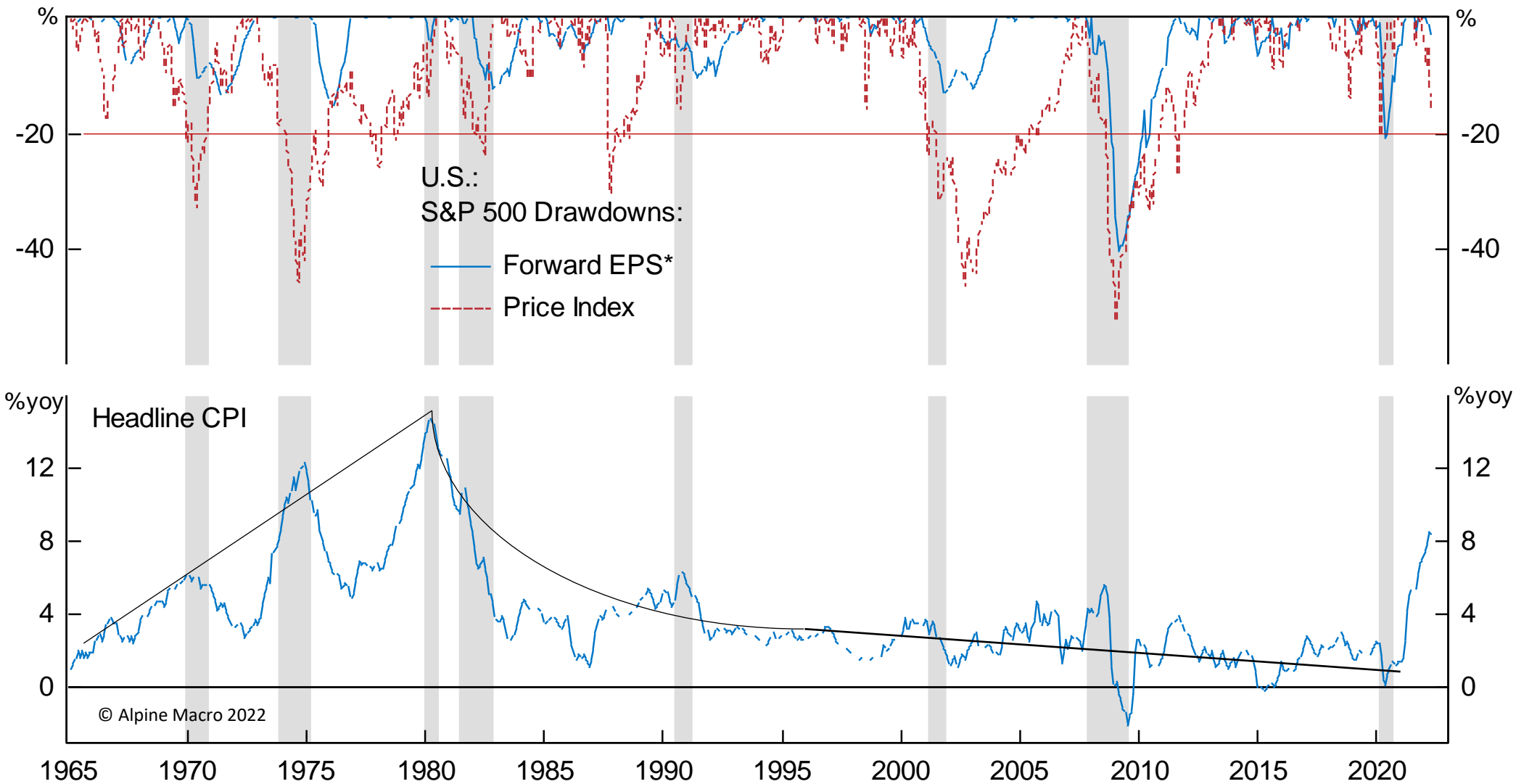- Real Personal Disposable Income
- Real PCE

© Alpine Macro 2022

ALPINEMACRO
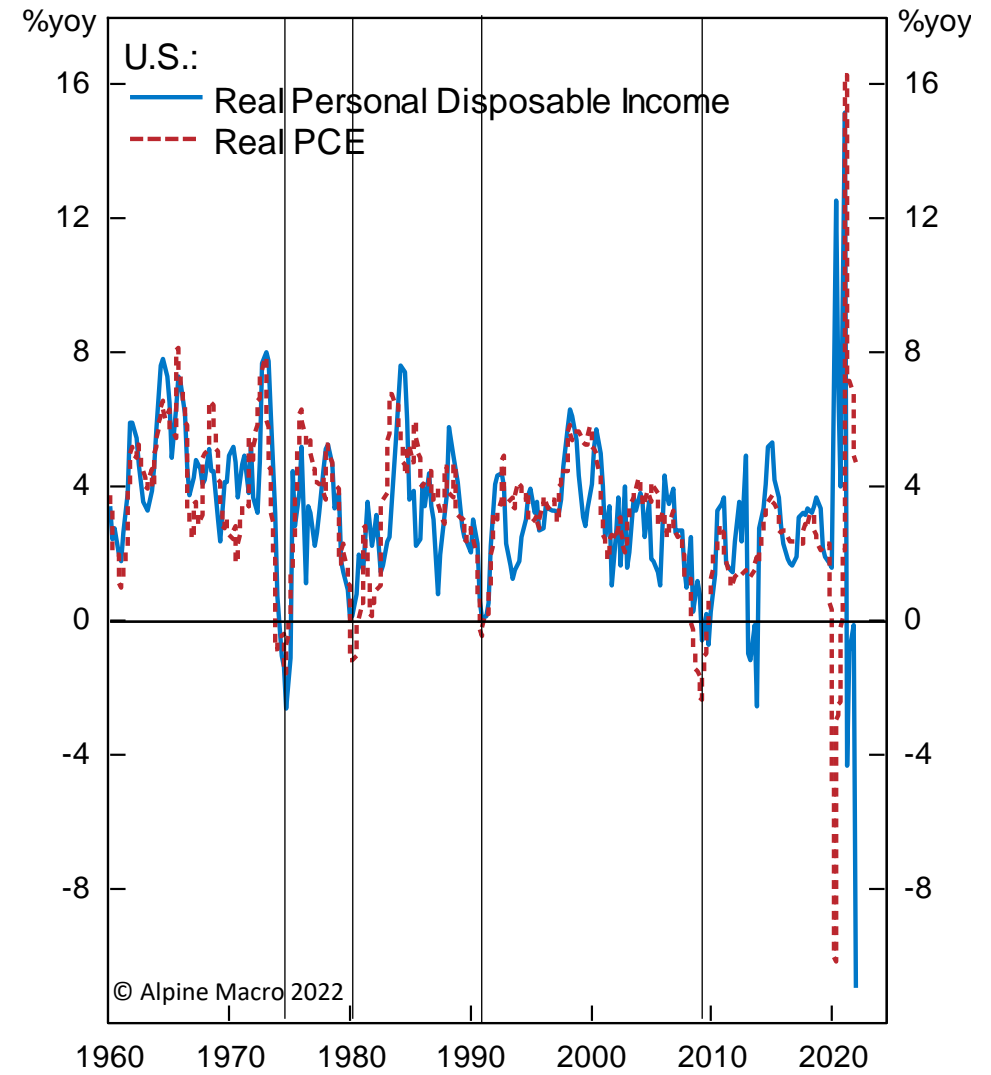
## The Fed Is Getting More Aggressive

**Fed Funds Futures Forward Curves:**
- 05/04/2022*
- 03/16/2022*
- 02/23/2022
- 09/22/2021*

© Alpine Macro 2022

*Date of FOMC Meetings

Source: Bloomberg
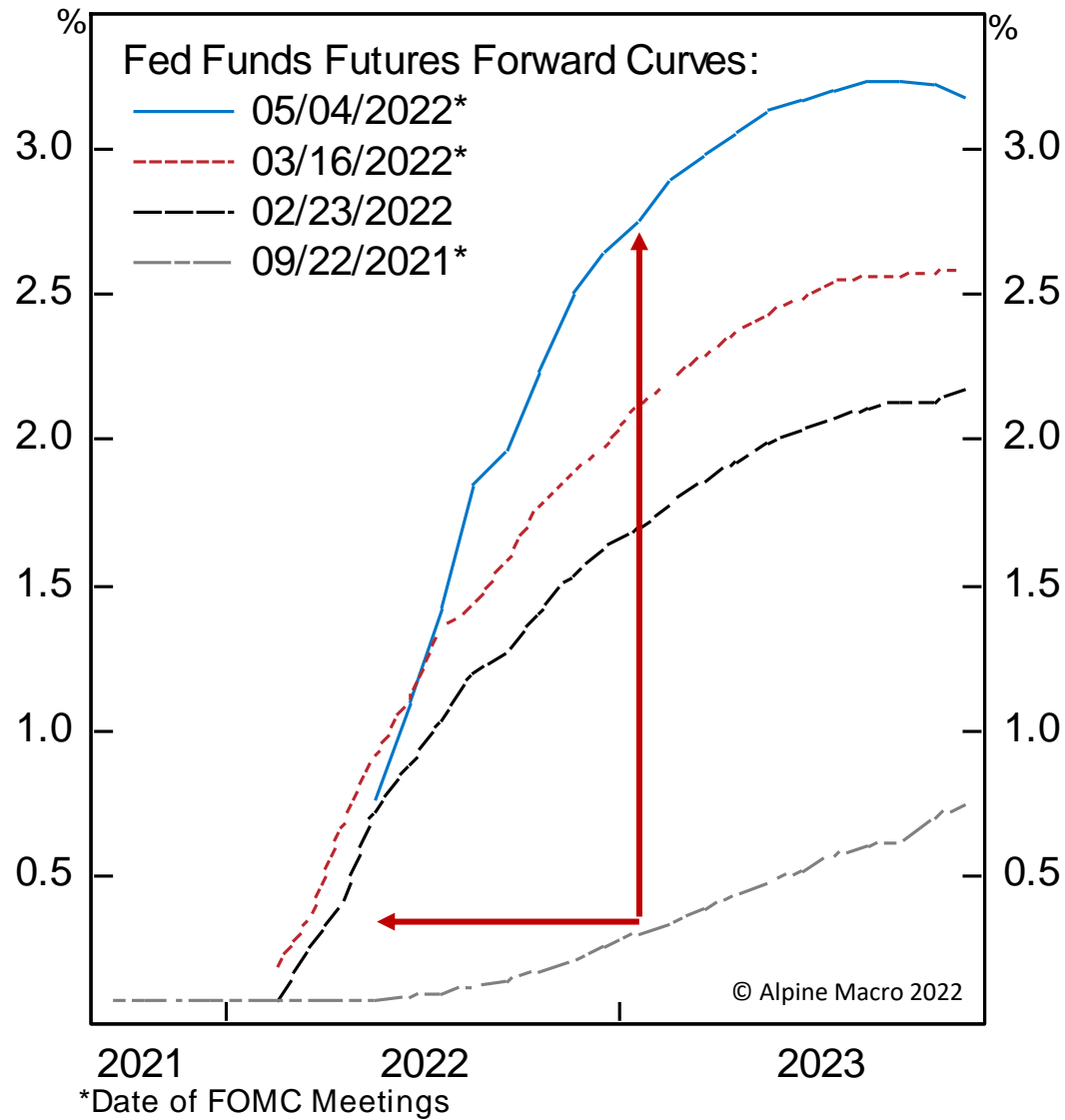
## But The Bond Market Disagrees

**U.S.:**
- 10-2 Year Treasury Curve
- USD OIS 10-2 Year Spread, 1-Year Forward

© Alpine Macro 2022
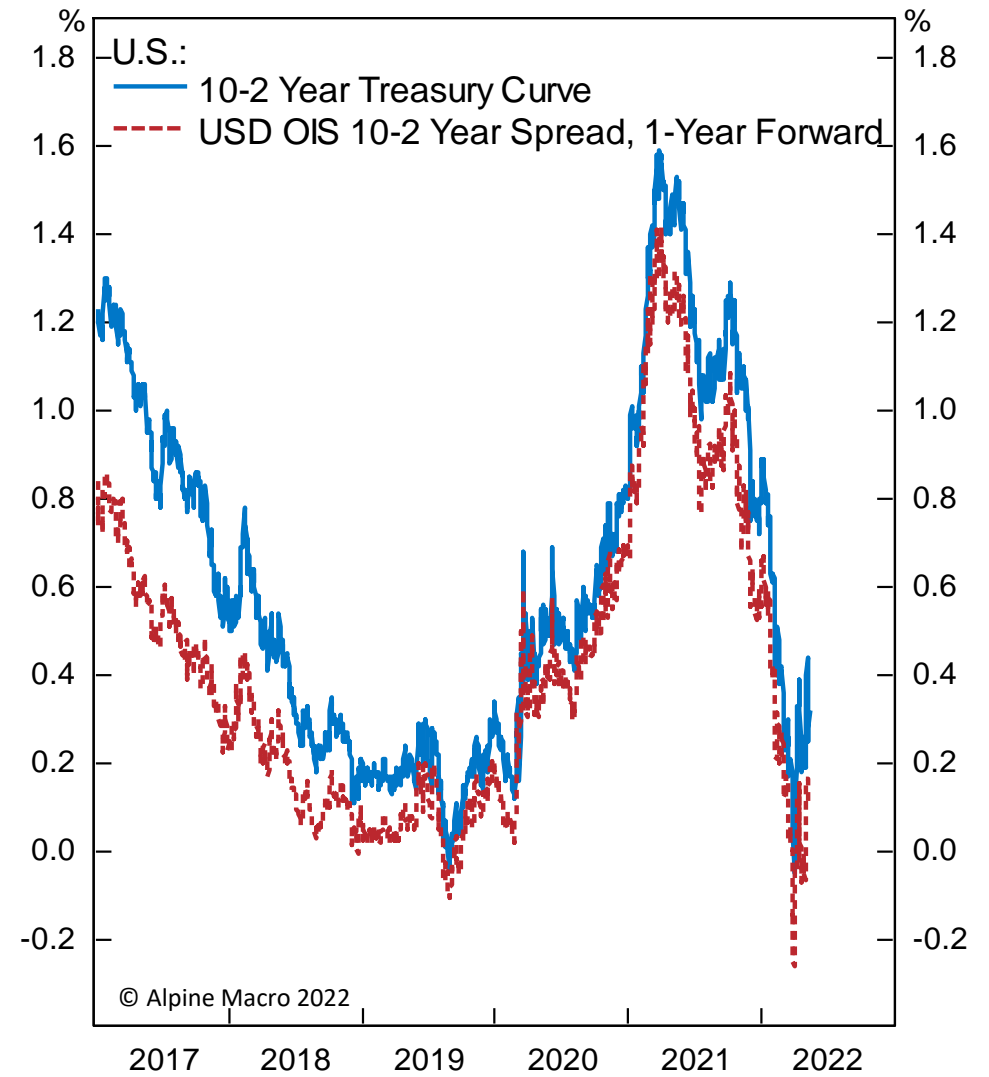
# Earnings Recessions In Different Inflation Regimes



U.S.:
S&P 500 Drawdowns:
— Forward EPS*
--- Price Index

Headline CPI

© Alpine Macro 2022

*Based on trailing EPS before 1979
Note: Shading denotes U.S. recession

ALPINEMACRO

# How Much Can The Fed Drive Up Rates?



**Real Fed Funds Target Rate***

R*

-1.4%

**10-2 Year Treasury Yield Curve**

© Alpine Macro 2022

1980  1985  1990  1995  2000  2005  2010  2015  2020

*Deflated by 5-year, 5-year breakeven inflation (core PCE inflation prior to 2000)
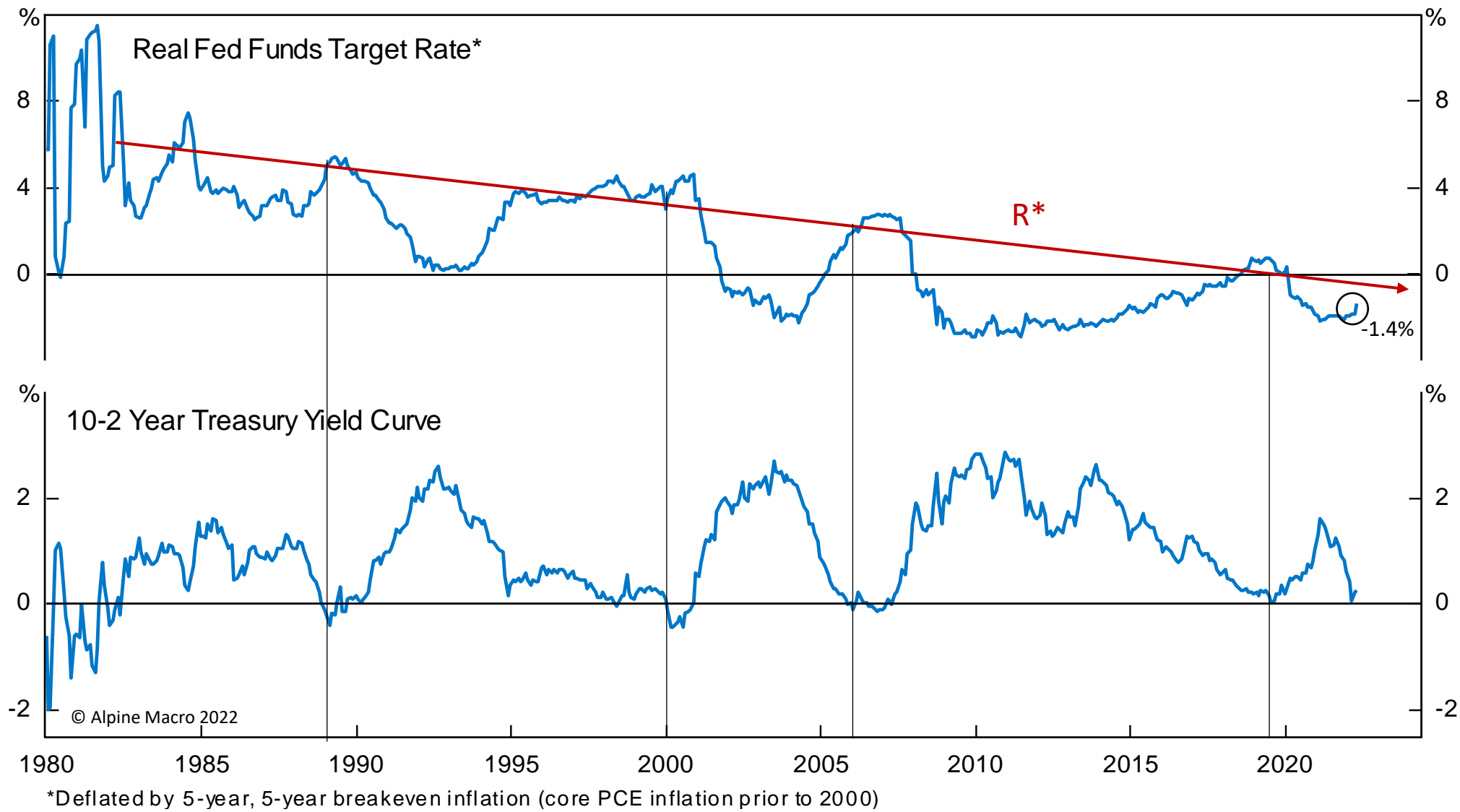
# Some Market Indicators For Inflation: DXY And Gold



U.S.:
Broad Trade Weighted Dollar Index* (ls)
Headline CPI Inflation (rs)

Rising Inflation always comes with a weakening dollar, and vice versa

© Alpine Macro 2022
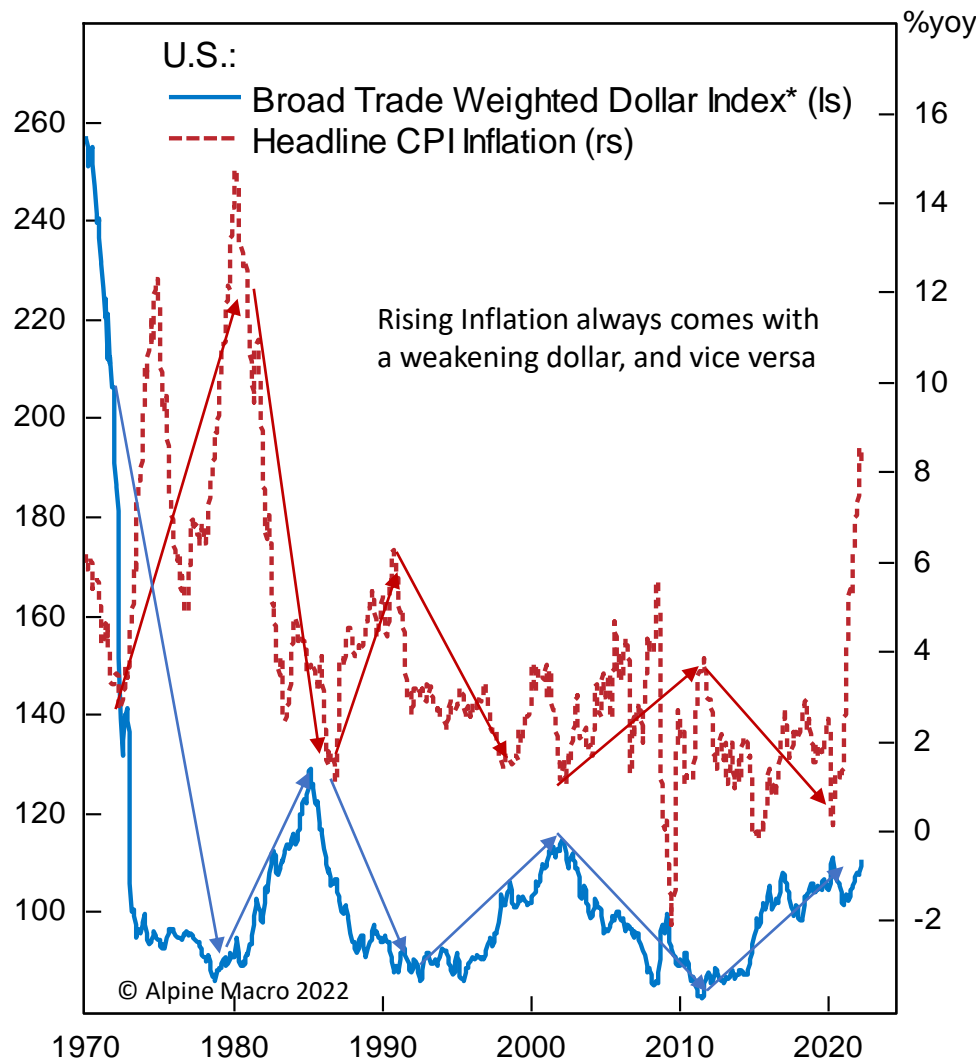
*Note: Dollar is denominated in gold prior to March 1973
source: Federal Reserve

U.S. CPI Inflation (ls)
Gold 2-Year Price Change* (rs)
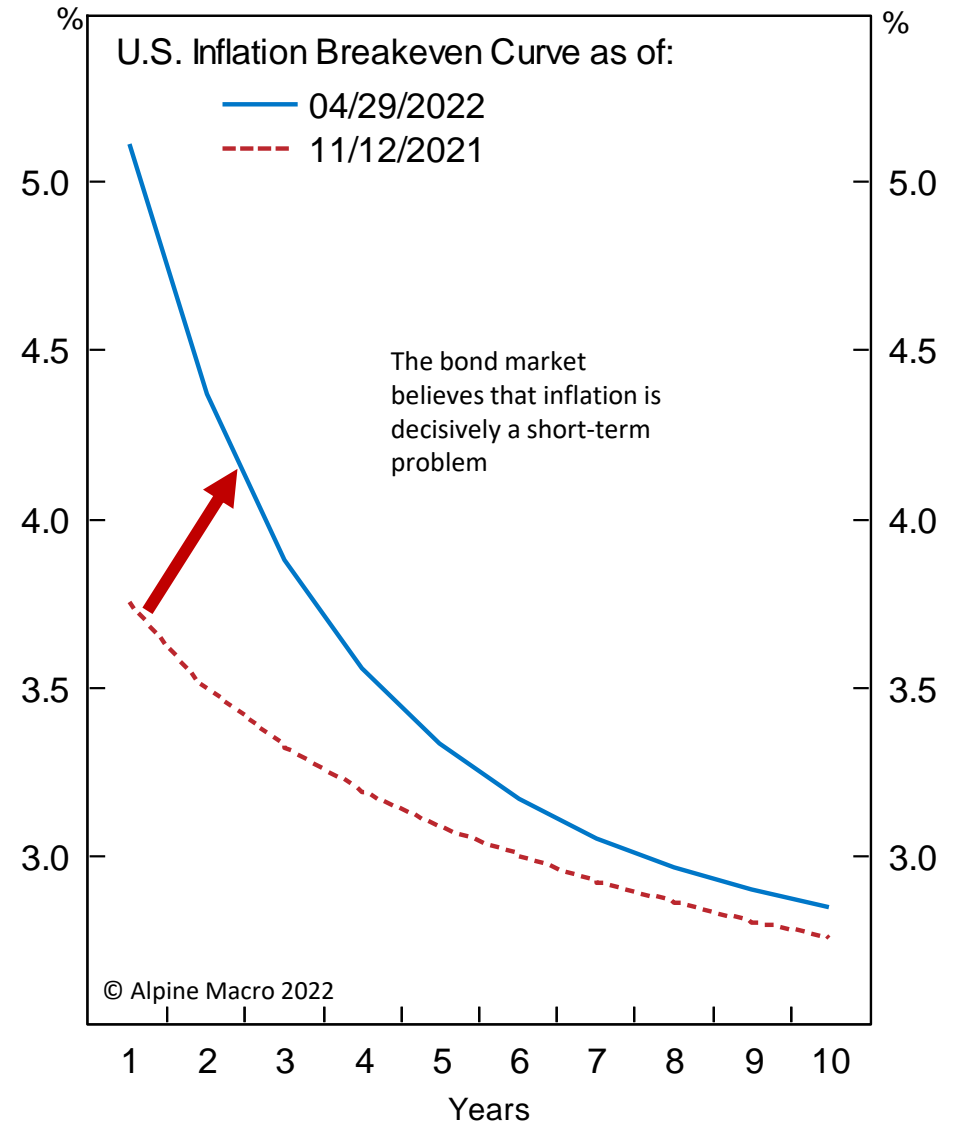
© Alpine Macro 2022
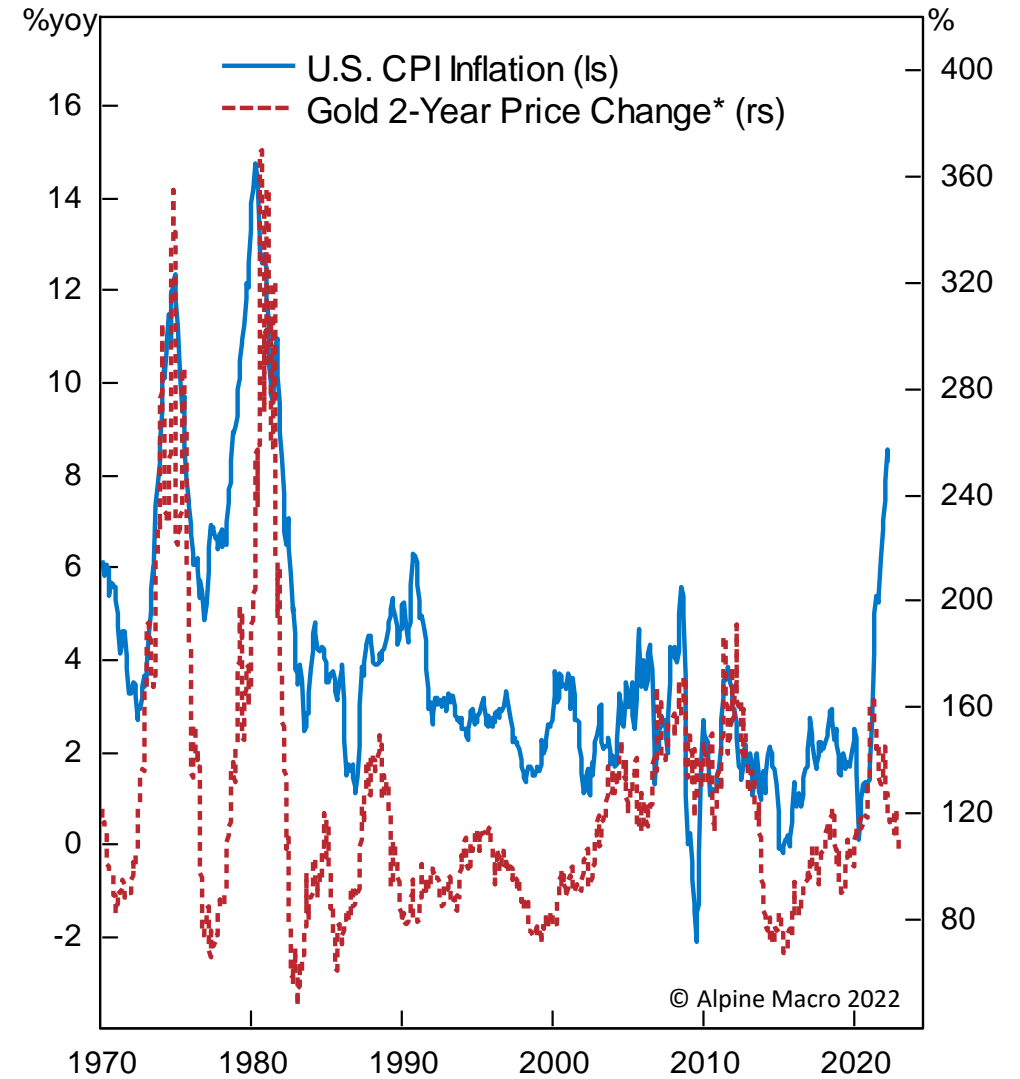
*Advanced by 8 months

# Inflation Expectations Are Stable
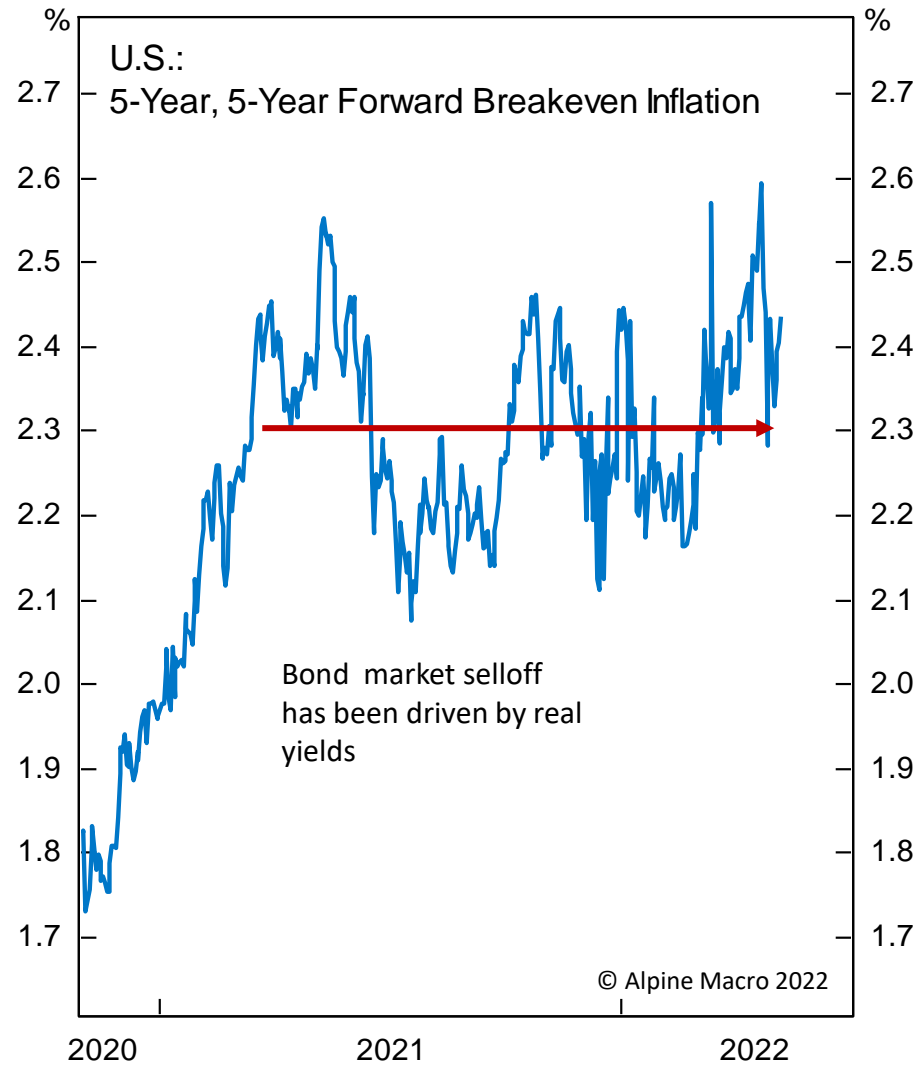
# Inflation Breakeven Curve: Negatively Sloped



U.S.:
5-Year, 5-Year Forward Breakeven Inflation

Bond market selloff
has been driven by real
yields

© Alpine Macro 2022

U.S. Inflation Breakeven Curve as of:
— 04/29/2022
---- 11/12/2021

The bond market
believes that inflation is
decisively a short-term
problem

© Alpine Macro 2022

Years

# The European Experience
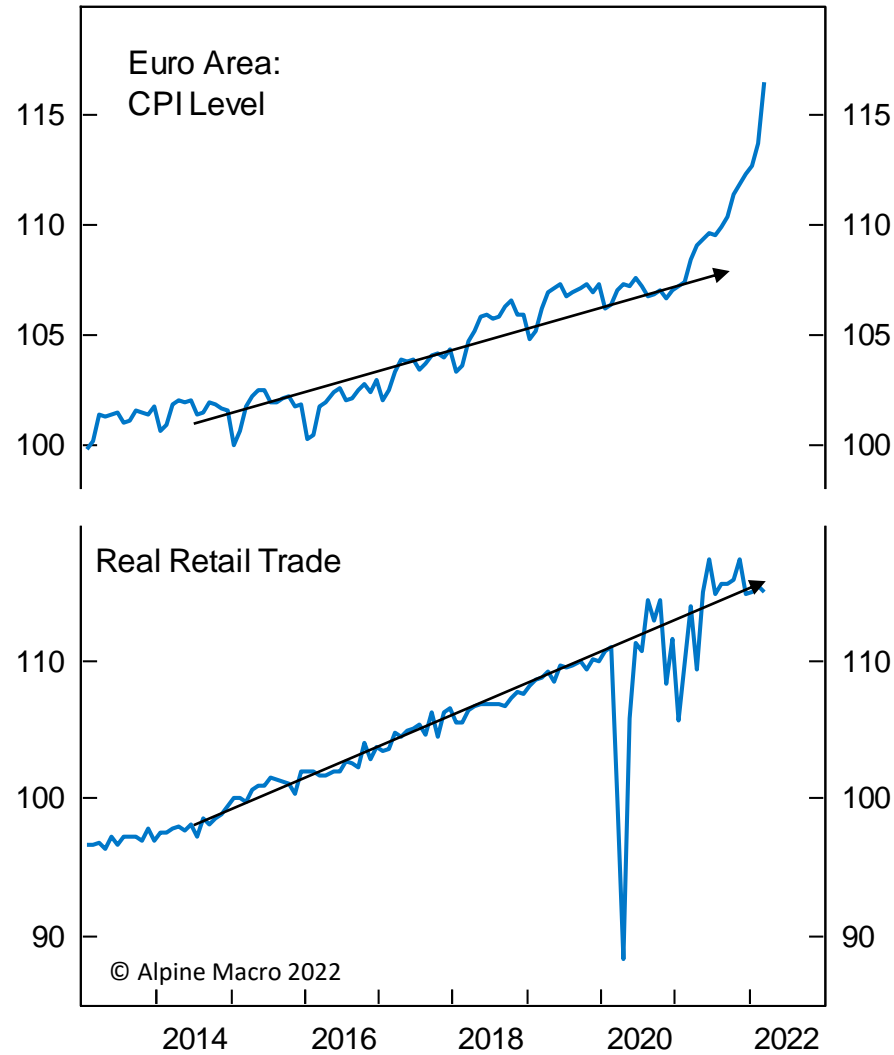
# Postwar Supply Disruptions And Inflation Spike



Euro Area: CPI Level

Real Retail Trade

© Alpine Macro 2022

Note: Both series rebased to Jan 2015 = 100

U.S.: Headline CPI

Manufacturing Production (ls)

Real PCE Level (rs)

© Alpine Macro 2022

ALPINEMACRO
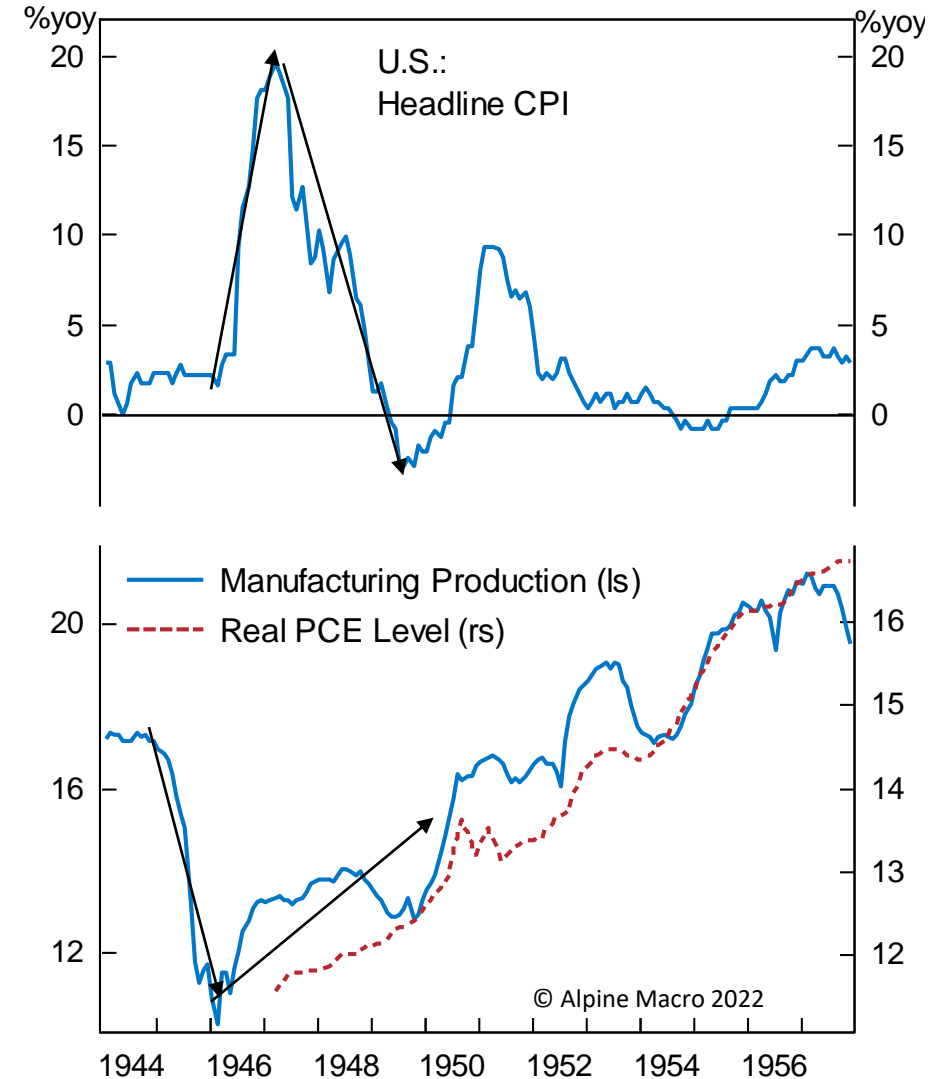
## Go long Defense & Aerospace Sector



Aerospace and Defense Equities
Relative To Broad Market:

—— U.S.* (ls)
----- Euro Area** (rs)

© Alpine Macro 2022
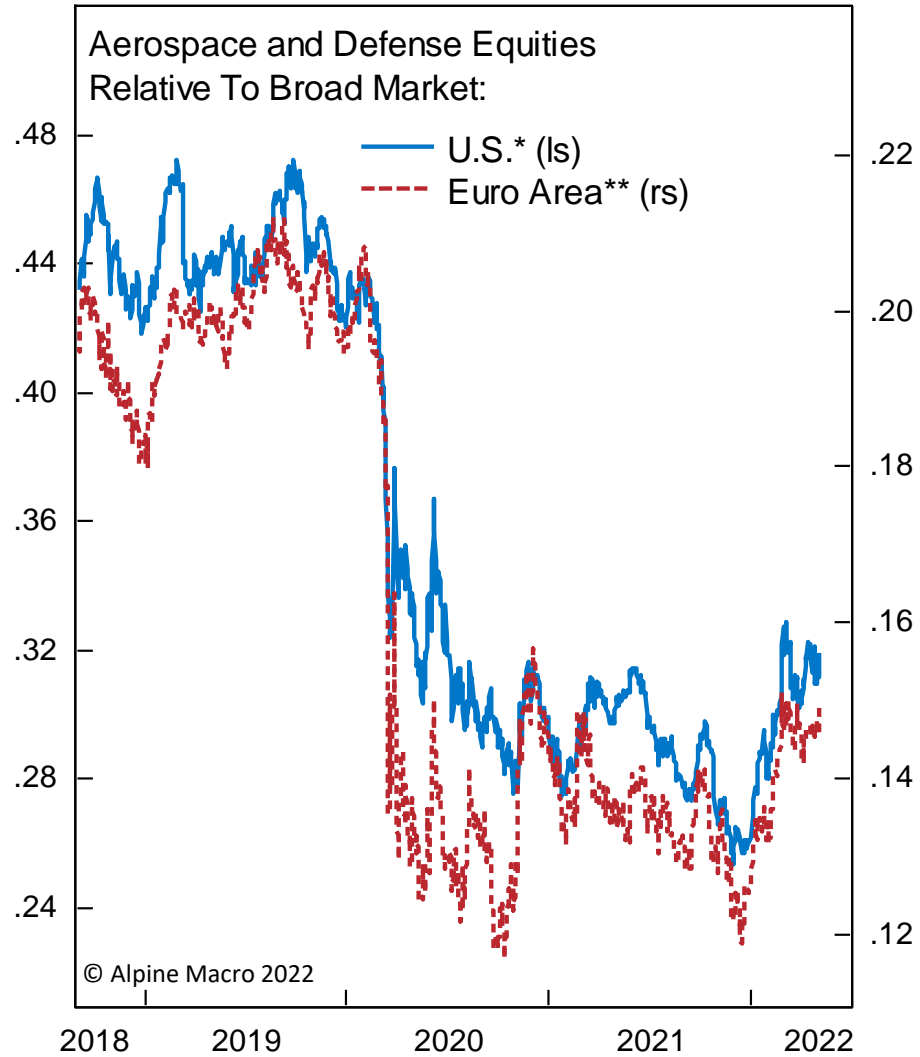
*S&P 500
**MSCI Mid and Large Cap

## Stay Long Defensive Sector During Shakeout
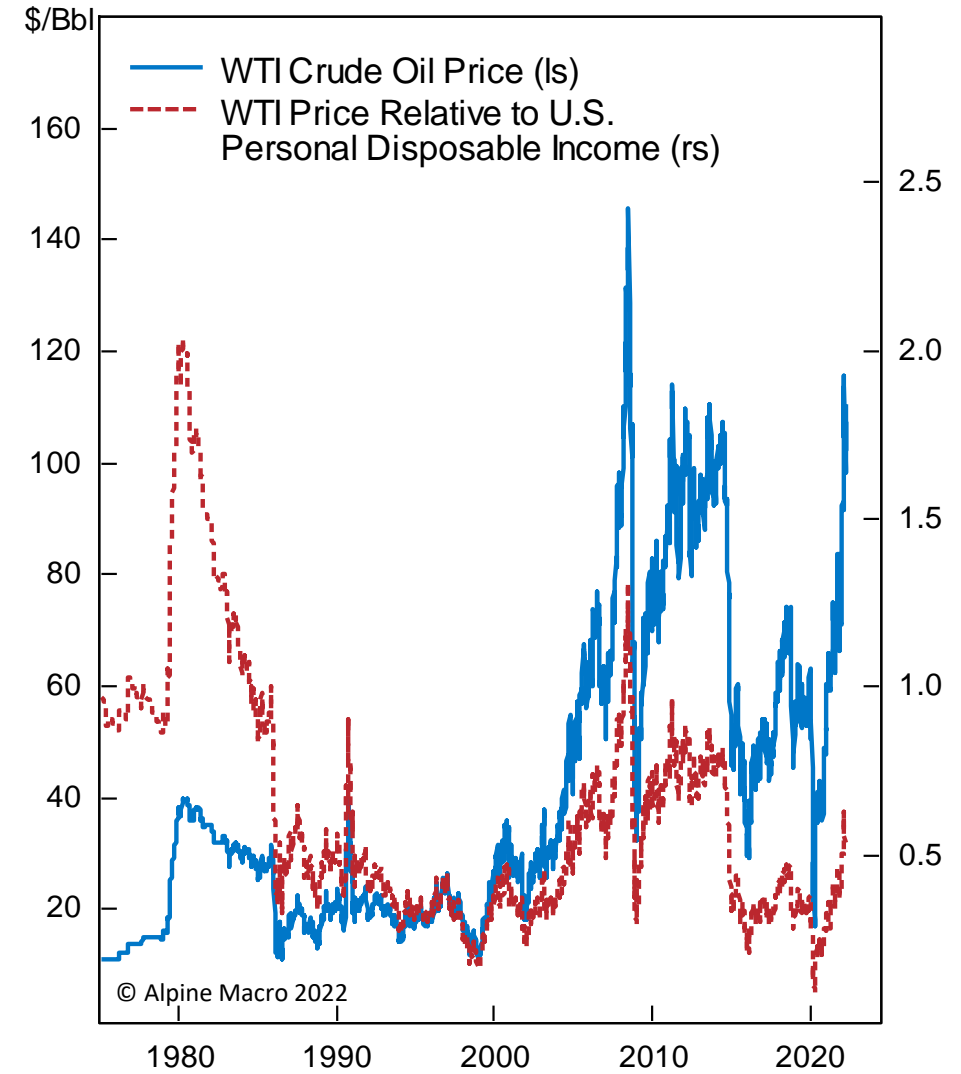


Defensive vs. Growth*

© Alpine Macro 2022
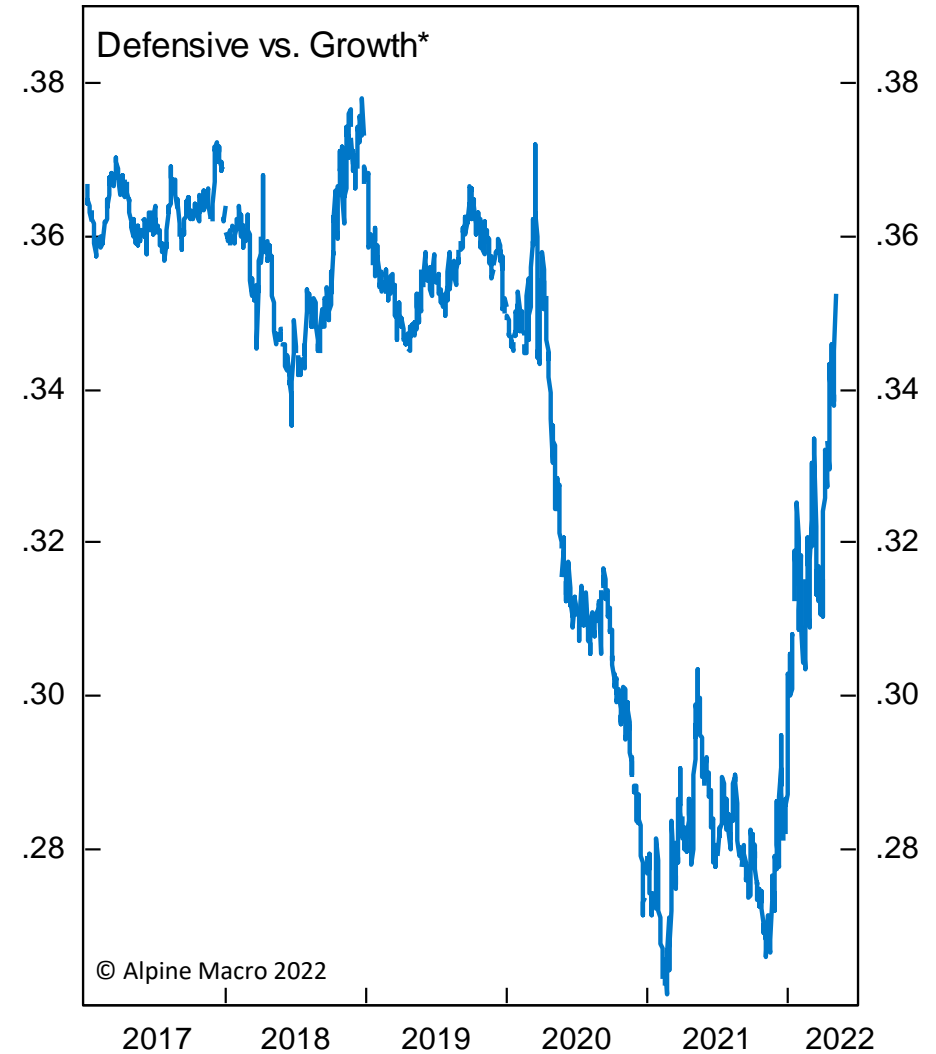
*Invesco Defensive Equity (ETF: DEF) divided by
Vanguards Information Technology (ETF: VGT)

ALPINEMACRO

# Oil Has Parted Ways With DXY
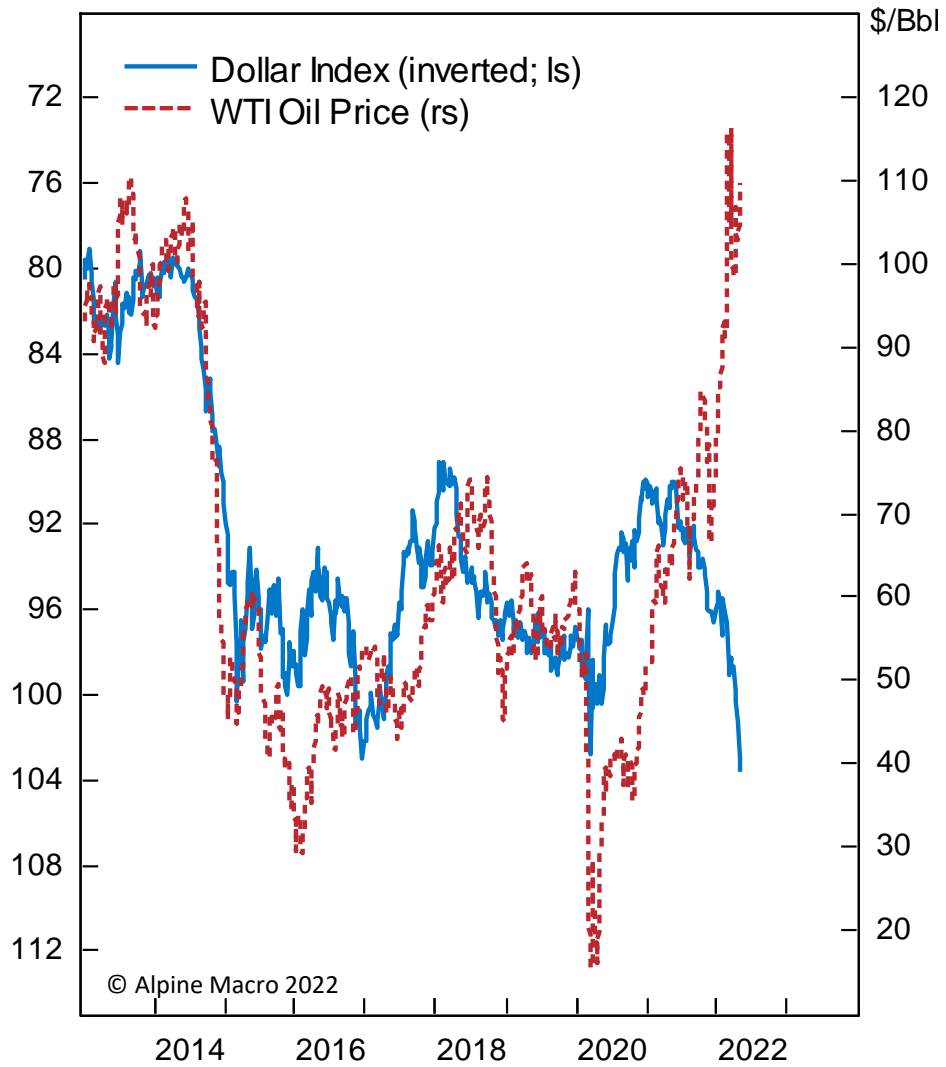
# Oil Prices vs Income: A Long-Term Perspective



© Alpine Macro 2022

# A 10% Drop In Treasury Total Returns Usually Precedes A Major Rally In Bonds



U.S.:
10-Year Treasury Yield

10-Year Treasury Total Return
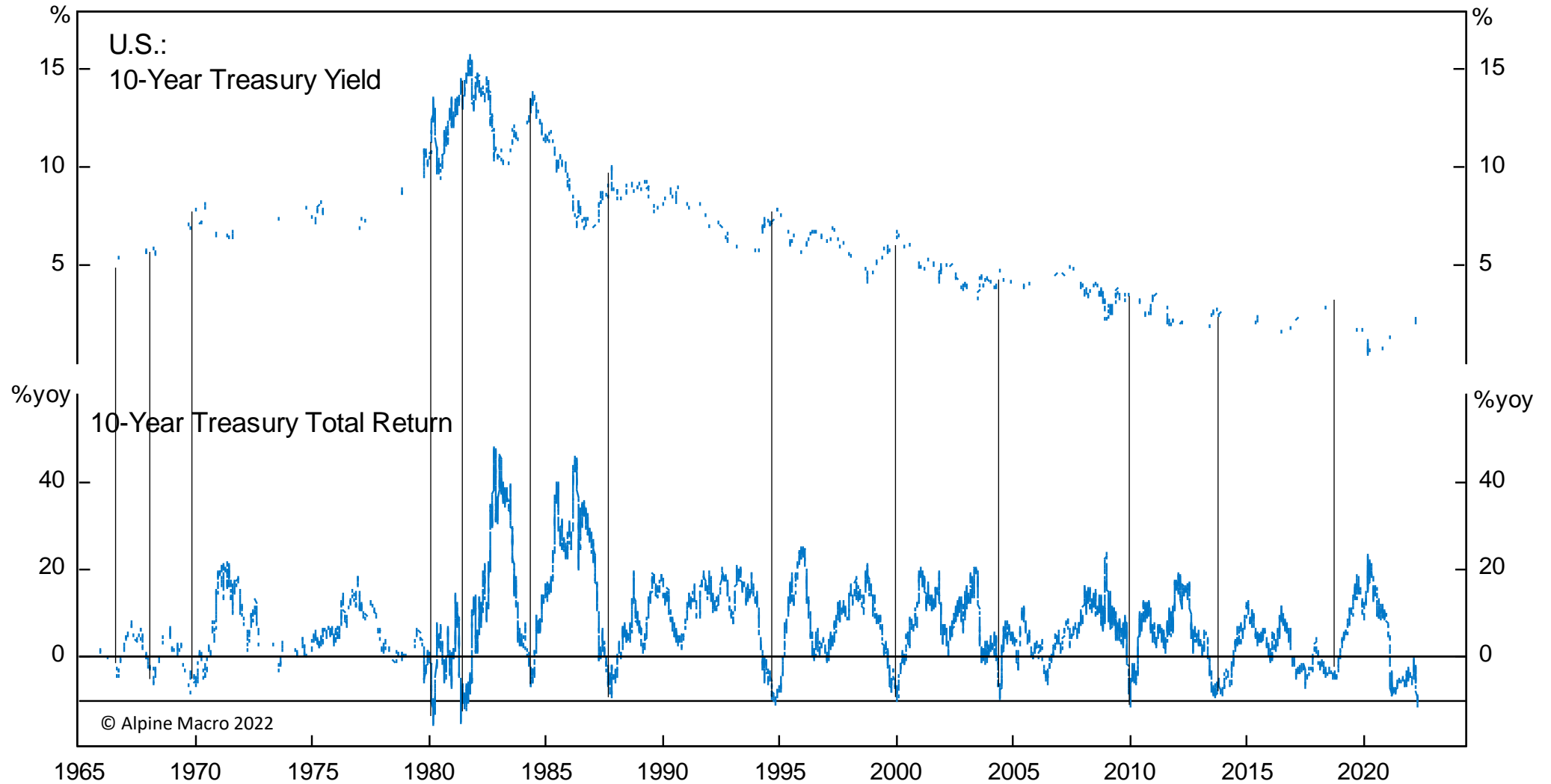
© Alpine Macro 2022

# Bond Model And Market Positioning

# Gibson's Paradox Still Prevails



Left chart legend:
- U.S. 10-Year Treasury Yield
- Fair Value*
- Fair Value +/- One Sigma
- Fair Value +/- Two Sigmas

Net Speculative Long Tresaury Positions as % of Open Interest**

© Alpine Macro 2022

*Based on inflation rate, short term interest rate and non-accelerating inflation rate of unemployment (NAIRU)

**Shown as 4-week moving average; source: Commodity Futures Trading Commission (CFTC)

Right chart legend:
U.S.:
- S&P 500 (ls)
- Long-Term Bond ETF* (inverted; rs)

© Alpine Macro 2022

*IShares 20+ Year Treasury Bond ETF

ALPINEMACRO

# ALPINEMACRO
## A Unique Mind On The Markets

**Alpine Macro** was founded in October 2017 as an independent global investment research firm based in Montreal, Canada. The company focuses on top-down analysis of major secular and cyclical trends in the global economy and financial markets, providing forecasts on major moves in asset prices and recommendations on asset allocation and investment strategy.

## Alpine Macro's Strategists

**Chen Zhao**
Chief Global Strategist

**Anthony Boeckh**
Editor-in-Chief

**David Abramson**
Chief U.S. Strategist & Director of Research

**Caroline Miller**
Chief Asset Allocation Strategist

**Yan Wang**
Chief EM & China Strategist

**Harvinder Kalirai**
Chief Fixed Income & Currency Strategist

**Mark McClellan**
Chief U.S. Bond Strategist

For more information on Alpine Macro's research and service visit us at: **alpinemacro.com**

Any other questions or inquiries: **info@alpinemacro.com** or **+1 514-558-1414**

ALPINEMACRO