



# Variant Perception

and Macro Voices

May 2019

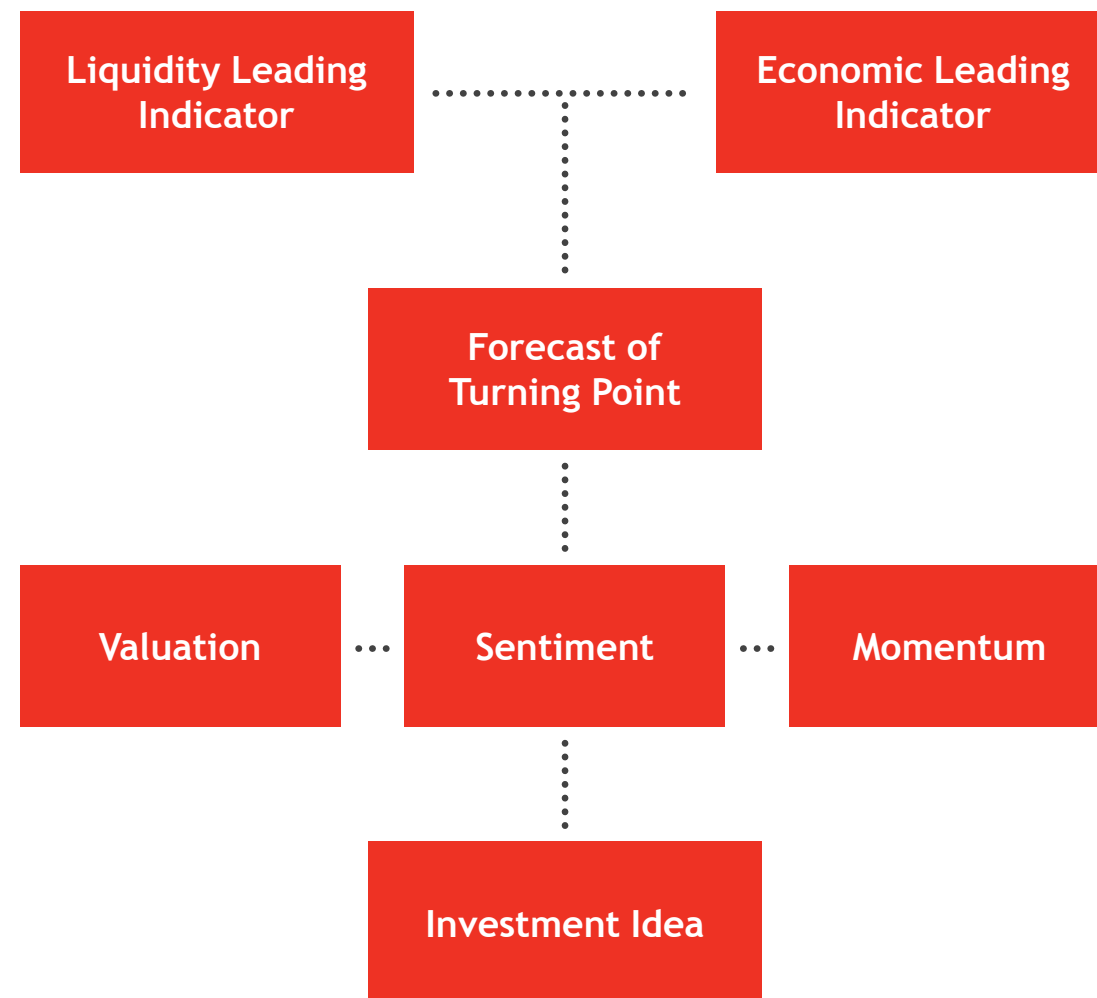
Simon White - Managing Editor





# DEVELOPING A VARIANT PERCEPTION

Variant Perception's data-driven approach helps decision-makers identify the most asymmetric trades and investments. We've built a framework to identify major turning points and extremes in markets.







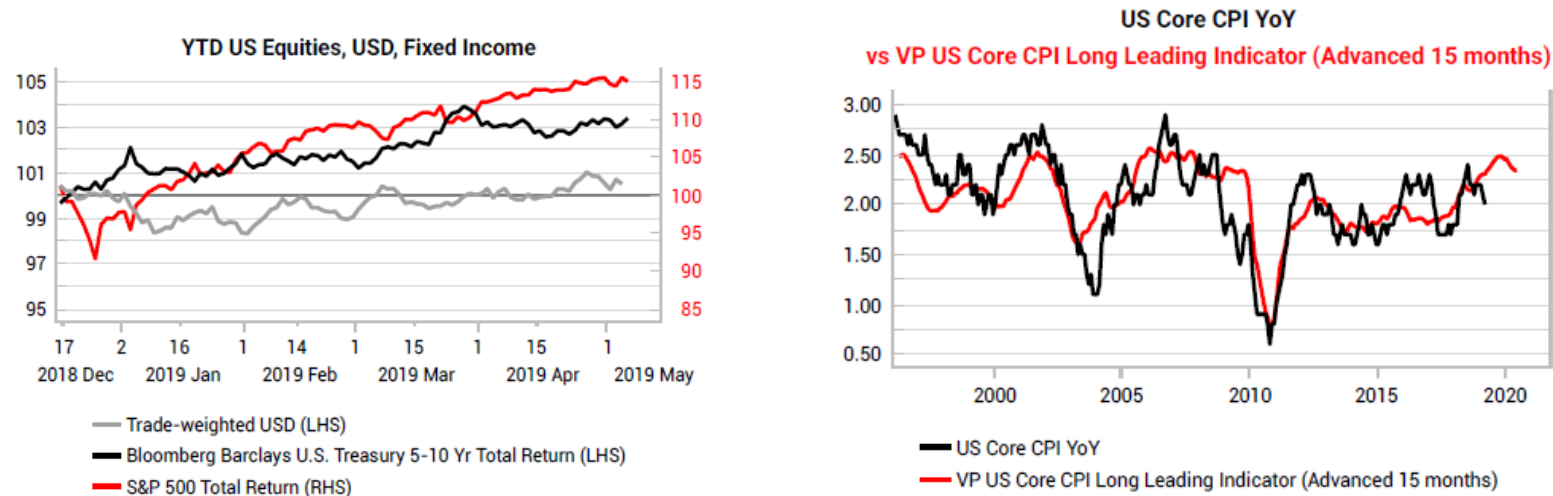
# Top Themes

US equities, bonds, the USD, credit and China



# Something's got to give

US asset markets are pricing in disinflationary world-beating US growth, but this is not supported by leading indicators.

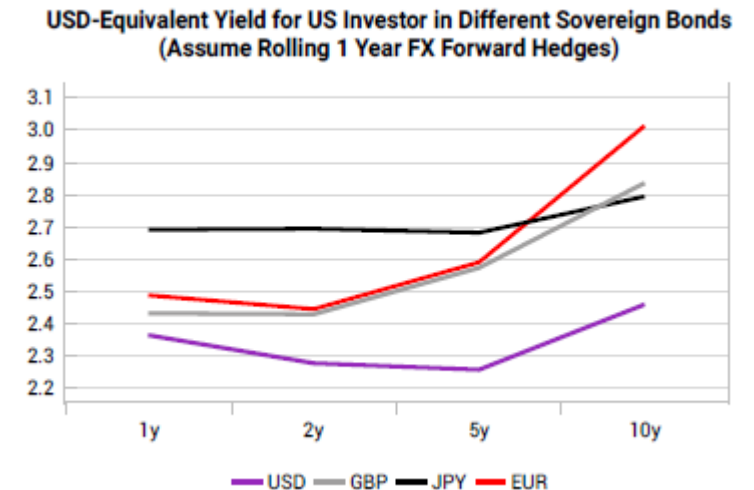
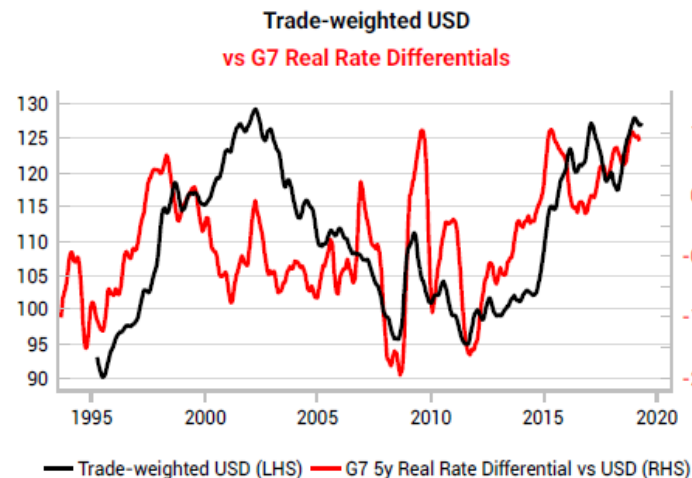
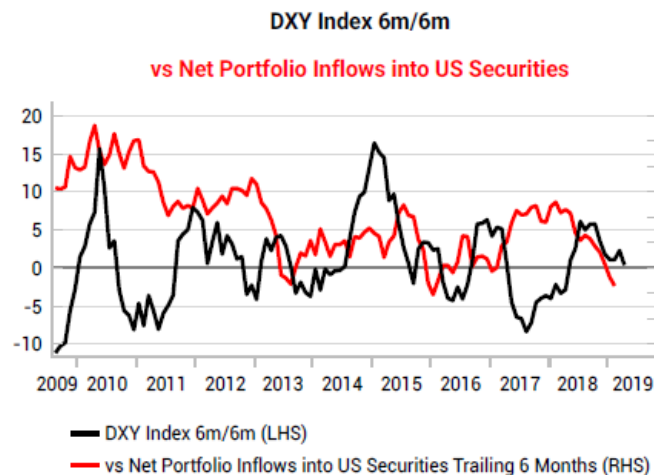


Source: Bloomberg, Morgan Stanley, Macrobond and Variant Perception

# Almost all indicators point to modest USD weakness

Growth and interest-rate differentials, as well as inflows to the USD, all suggest the dollar is topping and should soon begin trending lower.

Some FI inflows to US are being left unhedged, but this only stores up more dollar weakness later.

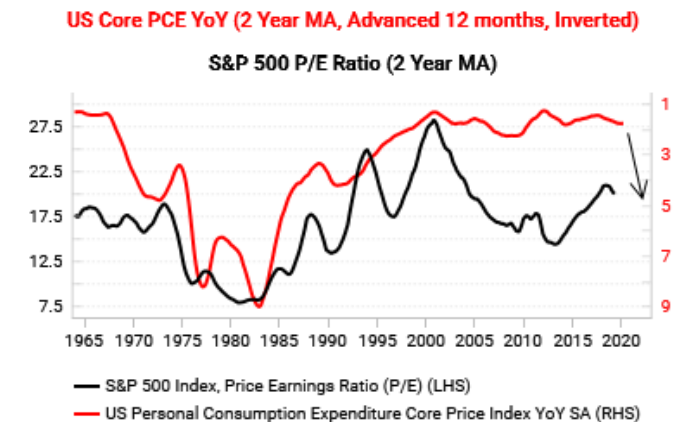
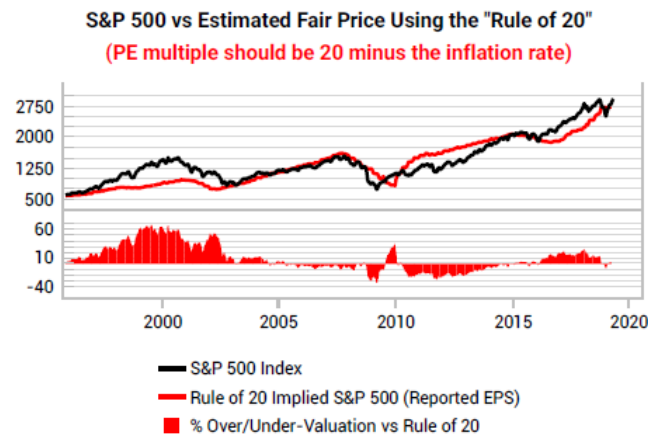
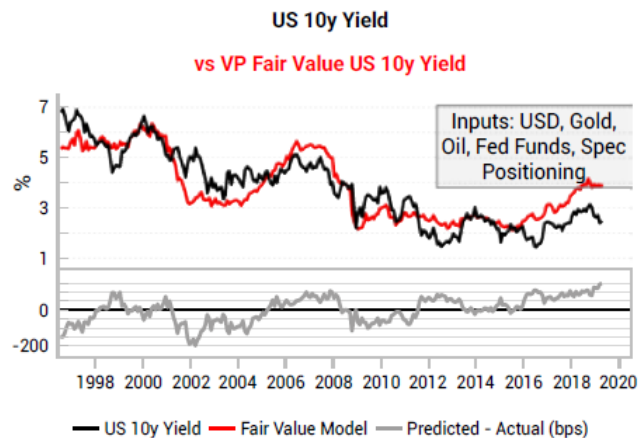




# US equities and bonds have limited upside too

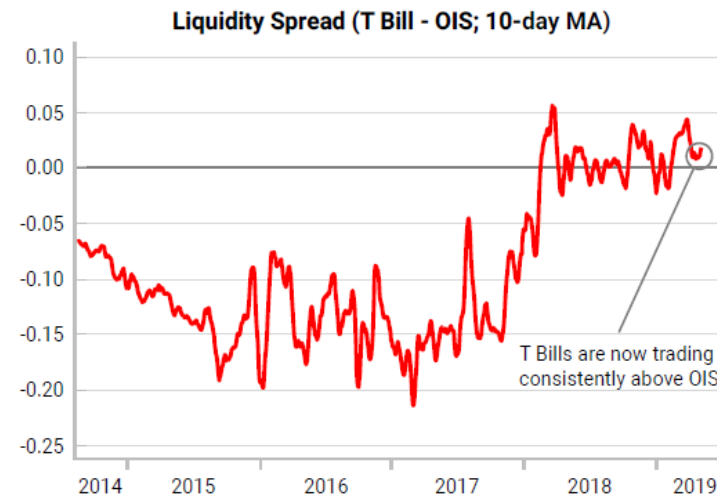
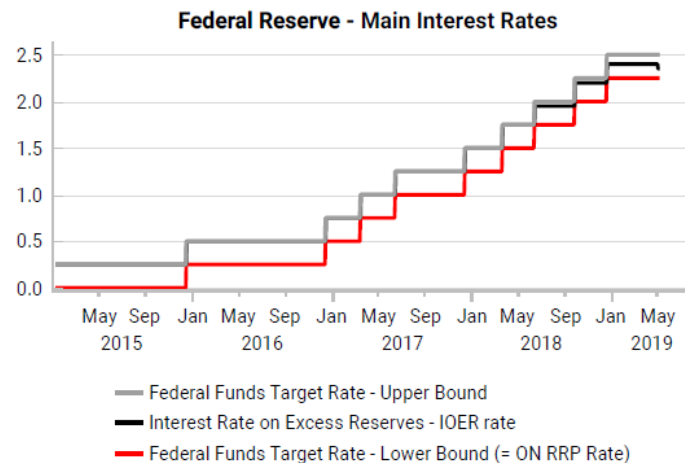
US bonds look rich to fair value, and equities seem fairly valued and we don't see them as having much upside.

Economic leading indicators need to markedly change direction, otherwise bonds, equities or the USD should be lower.



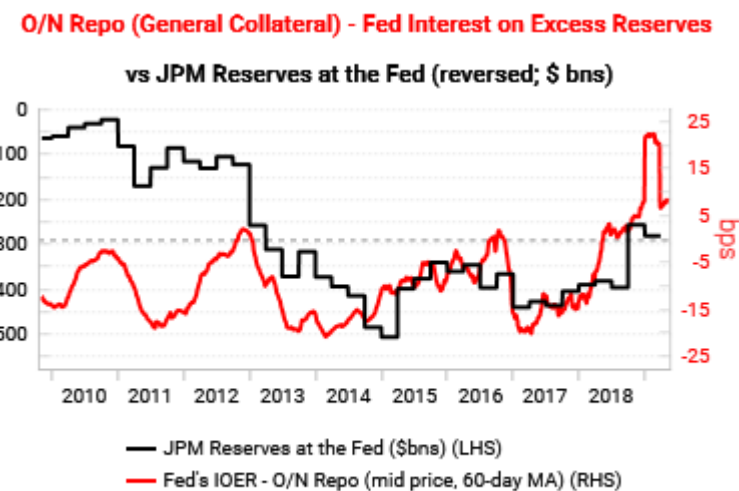
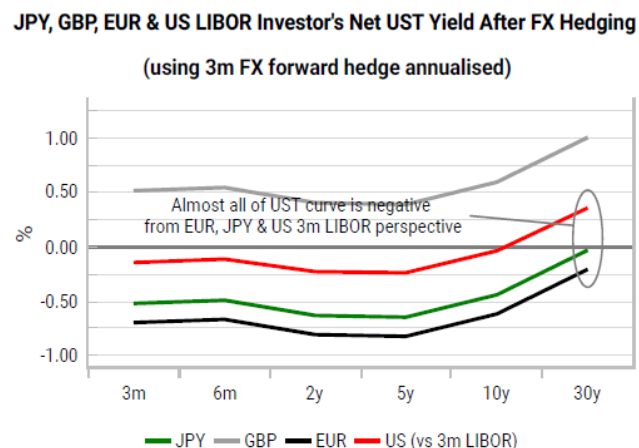
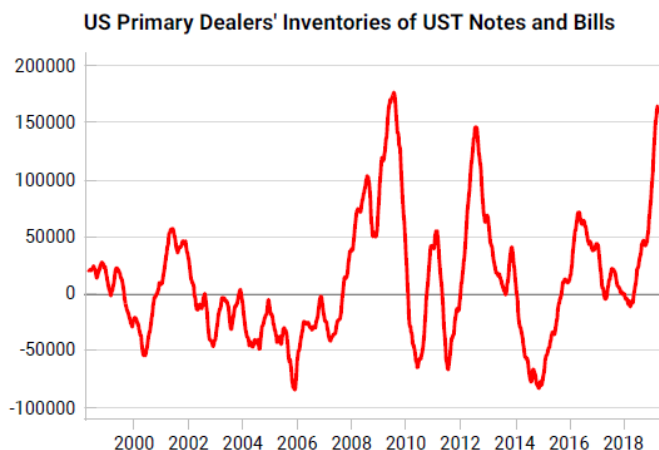
# Not just a “technical” adjustment

The Fed’s cut to its IOER – for the first time outside a target-rate cut – is a harbinger for the growing tension between more activist fiscal authorities and their central banks, who will have to become increasingly pliant.



# The collateral glut from fiscal stimulus

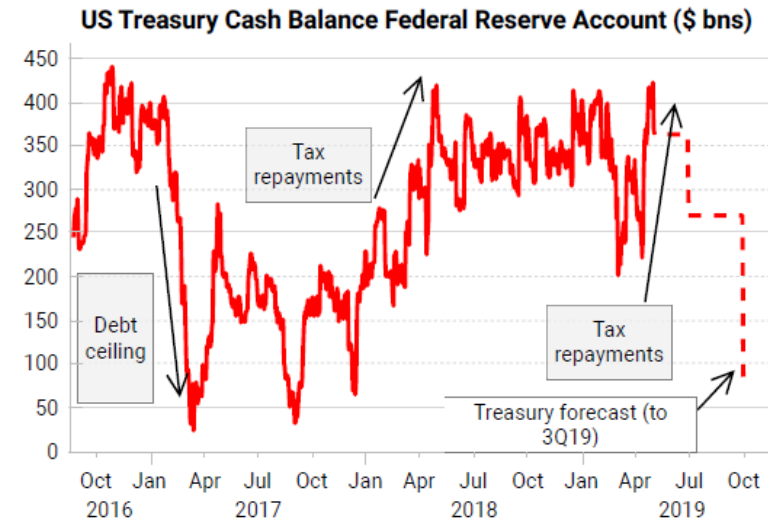
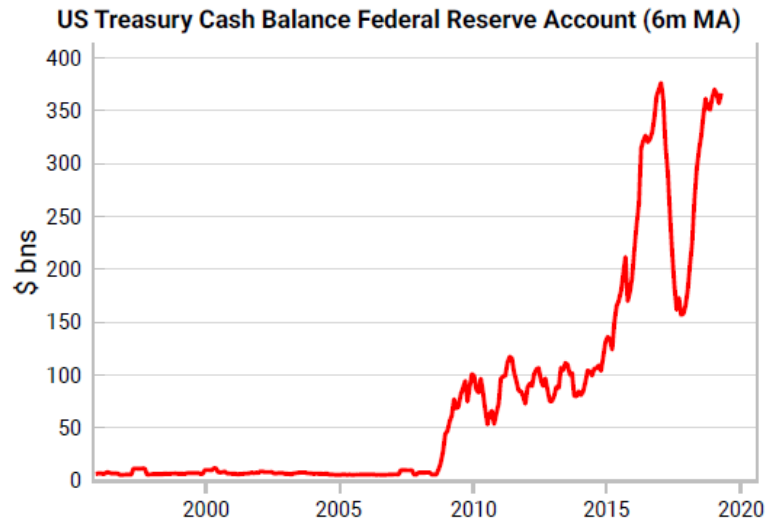
Too much safe-asset collateral relative to Fed reserves is pushing up the Fed Funds rate. The Fed needed to cut the IOER to prevent a stealth rate hike – keeping their political masters happy – despite the fact it was fiscal policy that dragged rates higher.





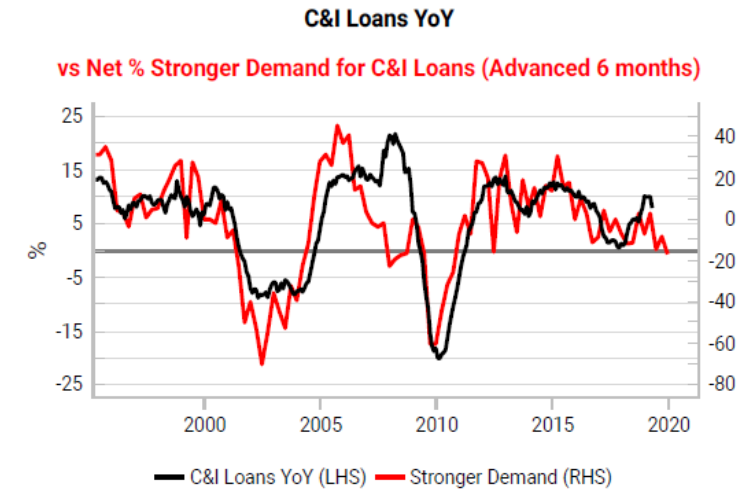
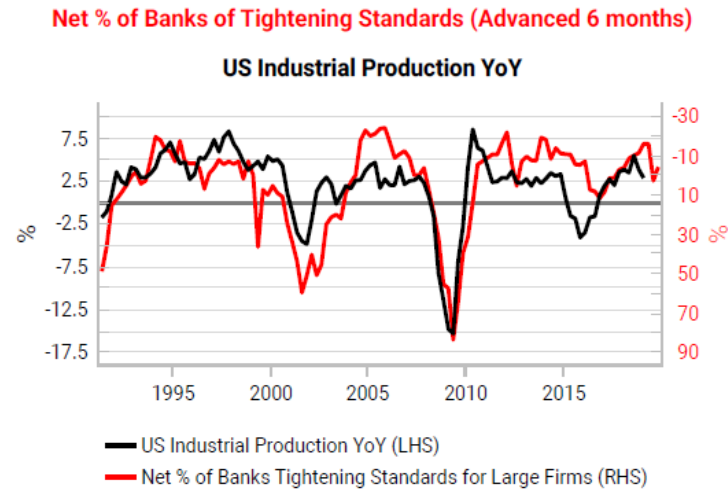
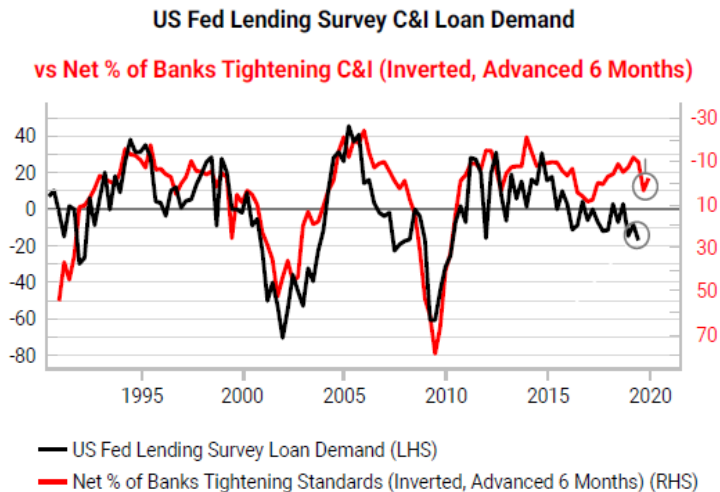
# The Treasury's account at the Fed

The Treasury is also having more influence on monetary policy due to the increased average size of its account at the Fed.



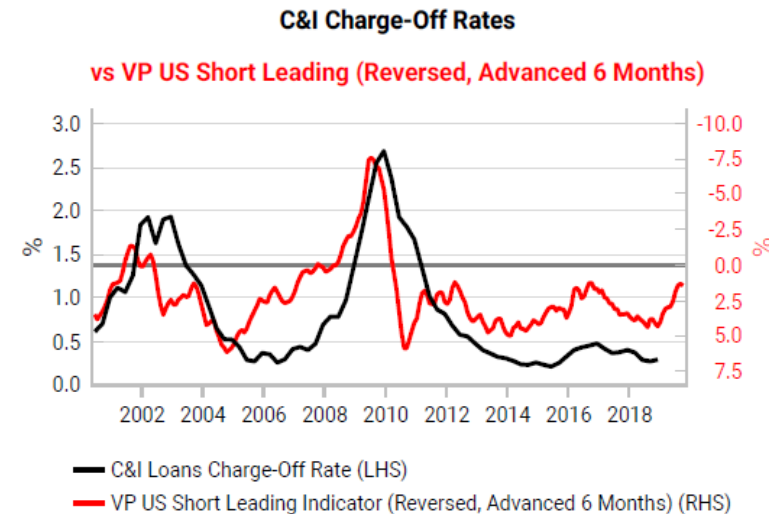
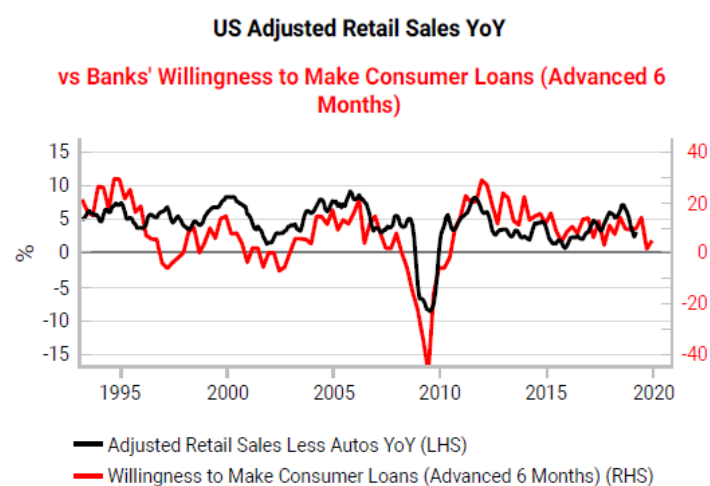
# Lending conditions little improved in latest Fed survey

The Fed's pivot has not been successful in loosening bank-lending conditions or increasing demand for loans.



# Some of tighter bank-credit's implications

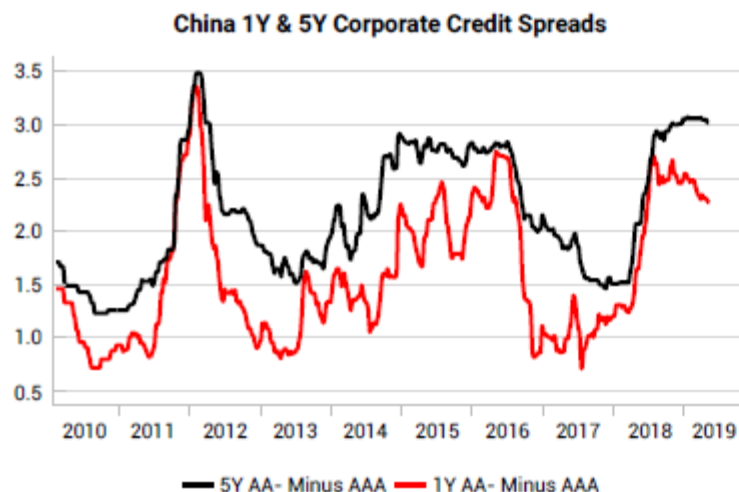
Banks' reduced willingness to make consumer loans points to weaker retail sales. Also, lending standards point to fewer buybacks, which have been a major support for the market in recent years.





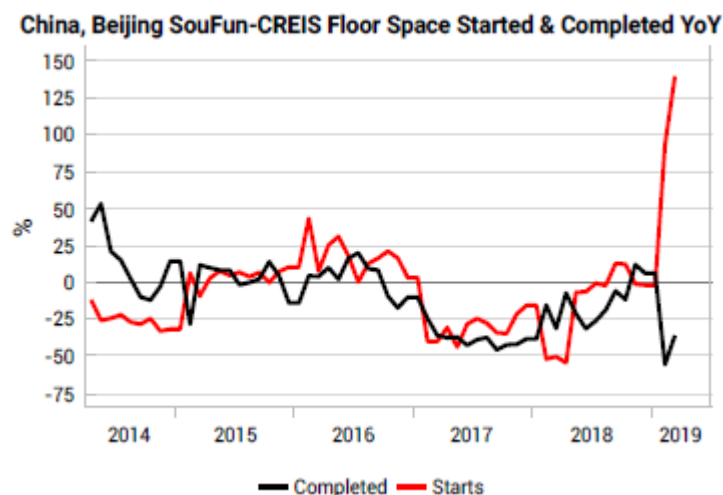
# China's liquidity incrementally improves

China's easing shows further signs of making at least modest improvements to the liquidity picture in China.



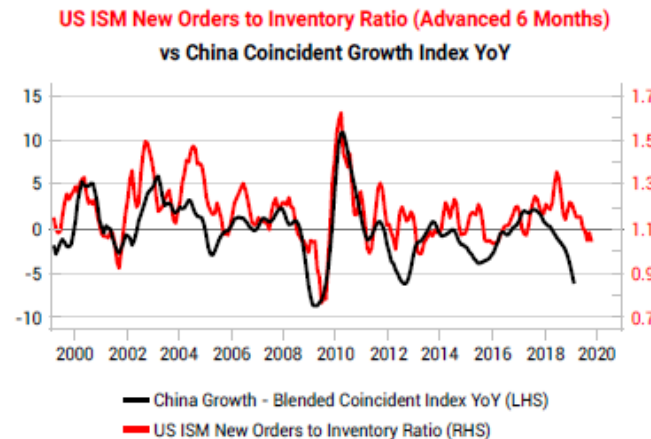
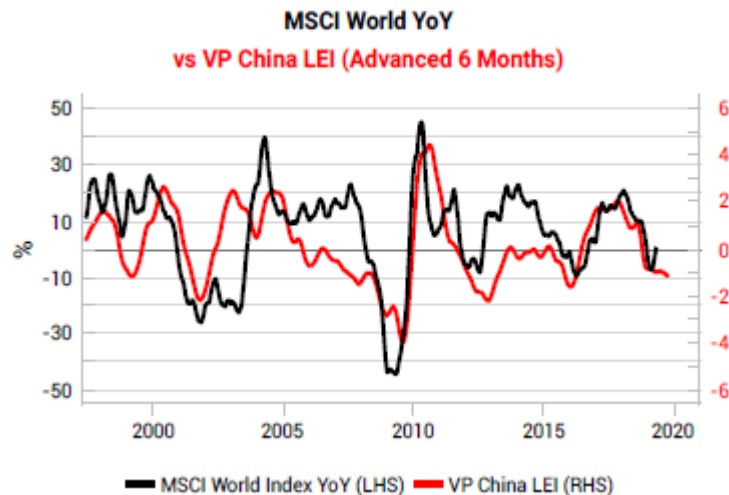
# China's growth looks to have turned a corner

Easier liquidity in China beginning to support growth, as well as housing and other interest-rate sensitive sectors.



# But, external headwinds will remain a growth impediment

Slowing US manufacturing, the lagged effects from the global rate-hike cycle, and ongoing trade tensions will all keep a lid on the level of improvement in China's growth.





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