

A large gorilla is the central focus of the image, standing on a wooden platform. It is looking towards the left side of the frame with a serious expression. The gorilla's dark fur is detailed, and its large, muscular build is evident. The background consists of a weathered wooden wall and some hanging branches, suggesting an enclosure or a naturalistic habitat.

The 800-Pound Gorilla in the Market: a Decade of Negative Real Returns

August 2020

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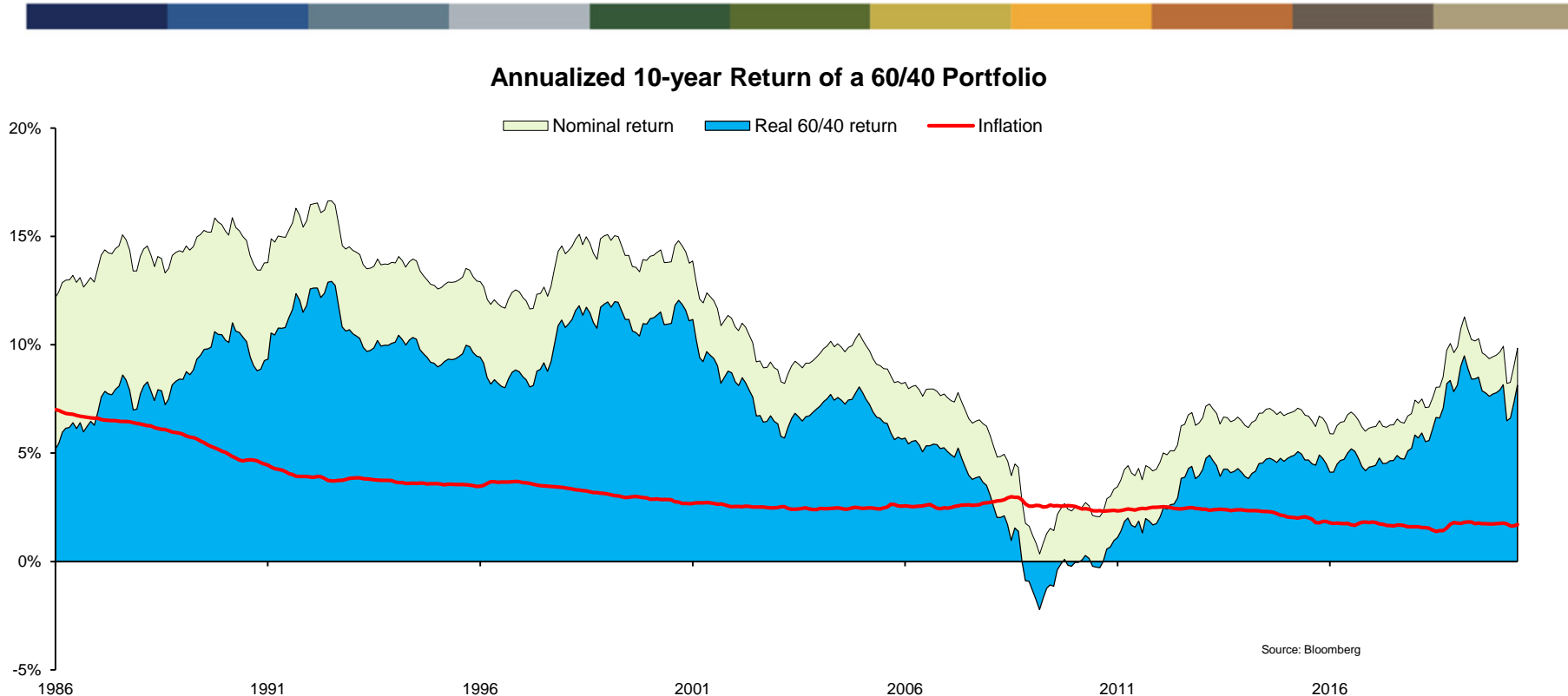
Agenda



- The Nuclear Winter of the 60/40 Portfolio
- The Six Horsemen of Inflation
- Why It Has Not Happened Yet
- What To Do About It
- Other Unrelated Investment Ideas

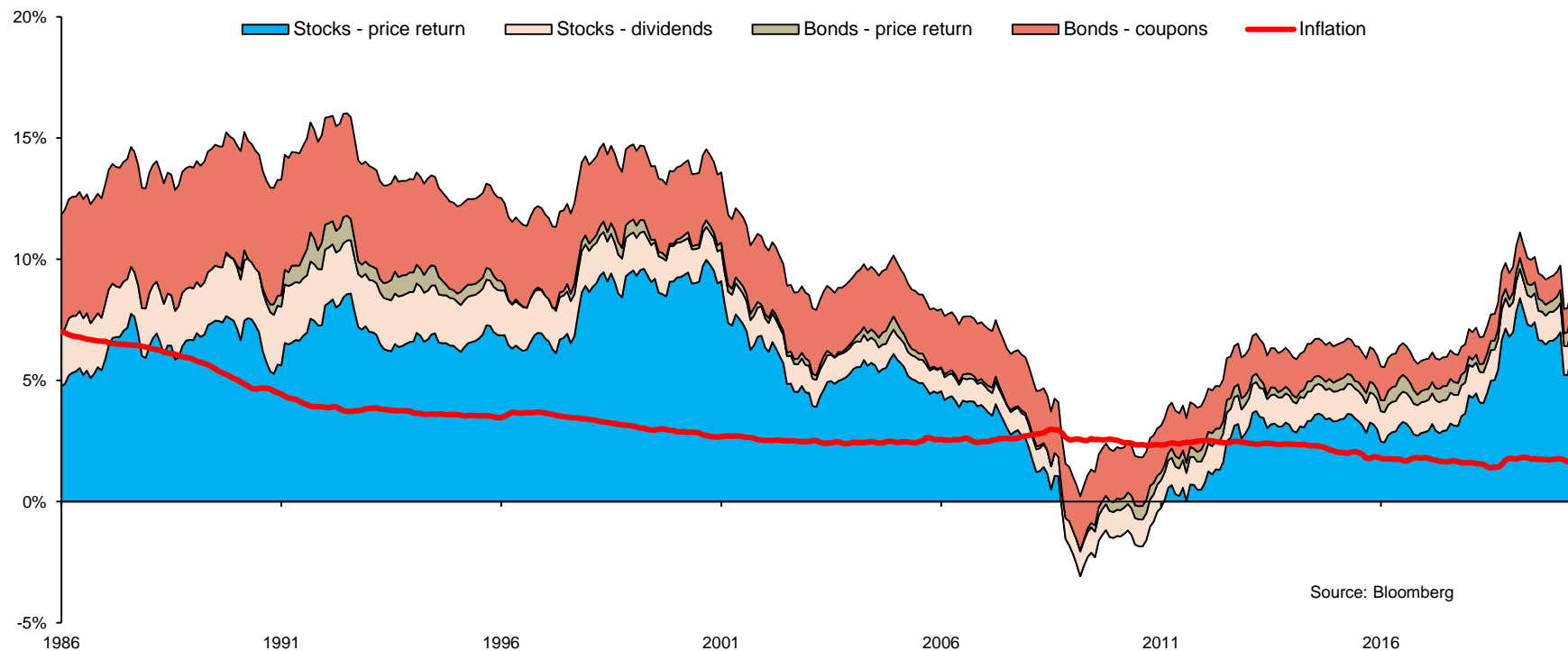
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The Nuclear Winter of the 60/40 Portfolio



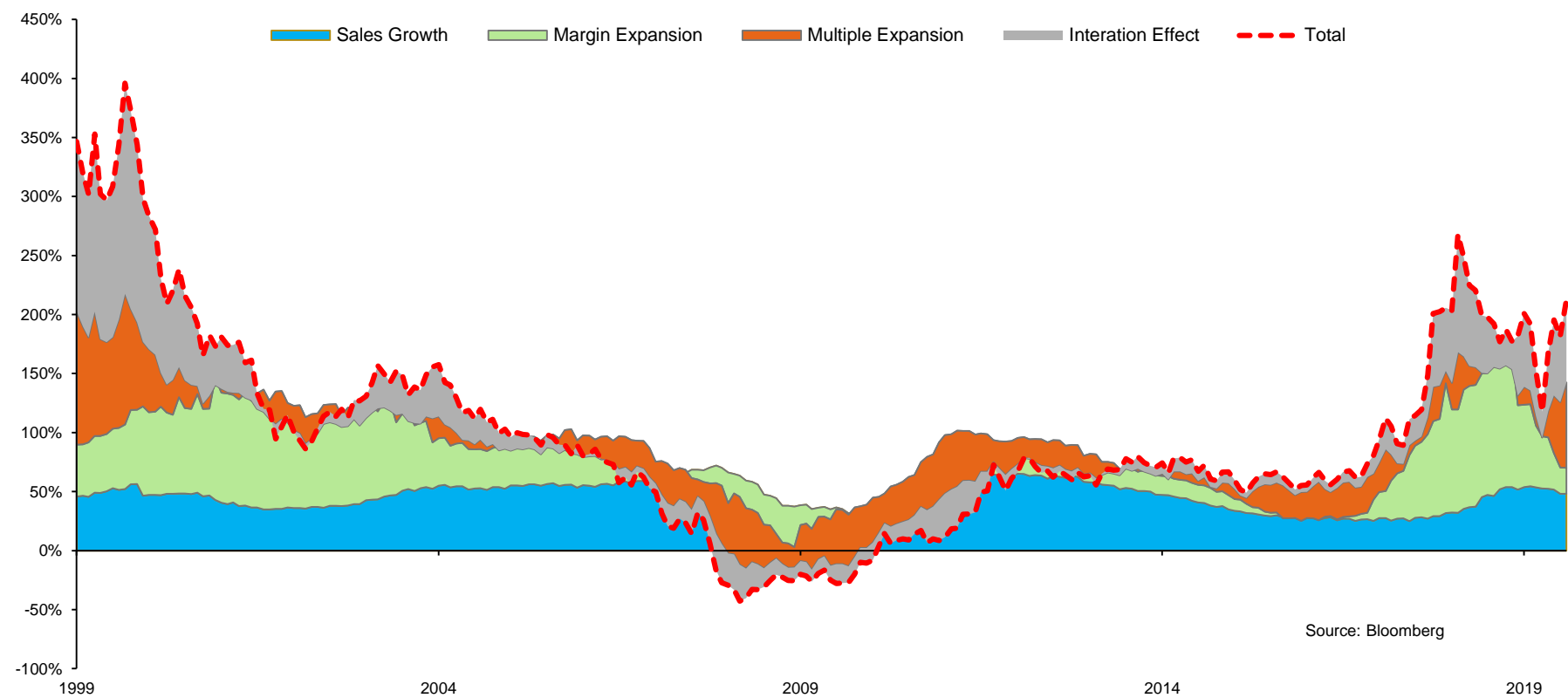
The Nuclear Winter of the 60/40 Portfolio

Contributions to the Annualized 10-year Return of a 60/40 portfolio



The Nuclear Winter of the 60/40 Portfolio

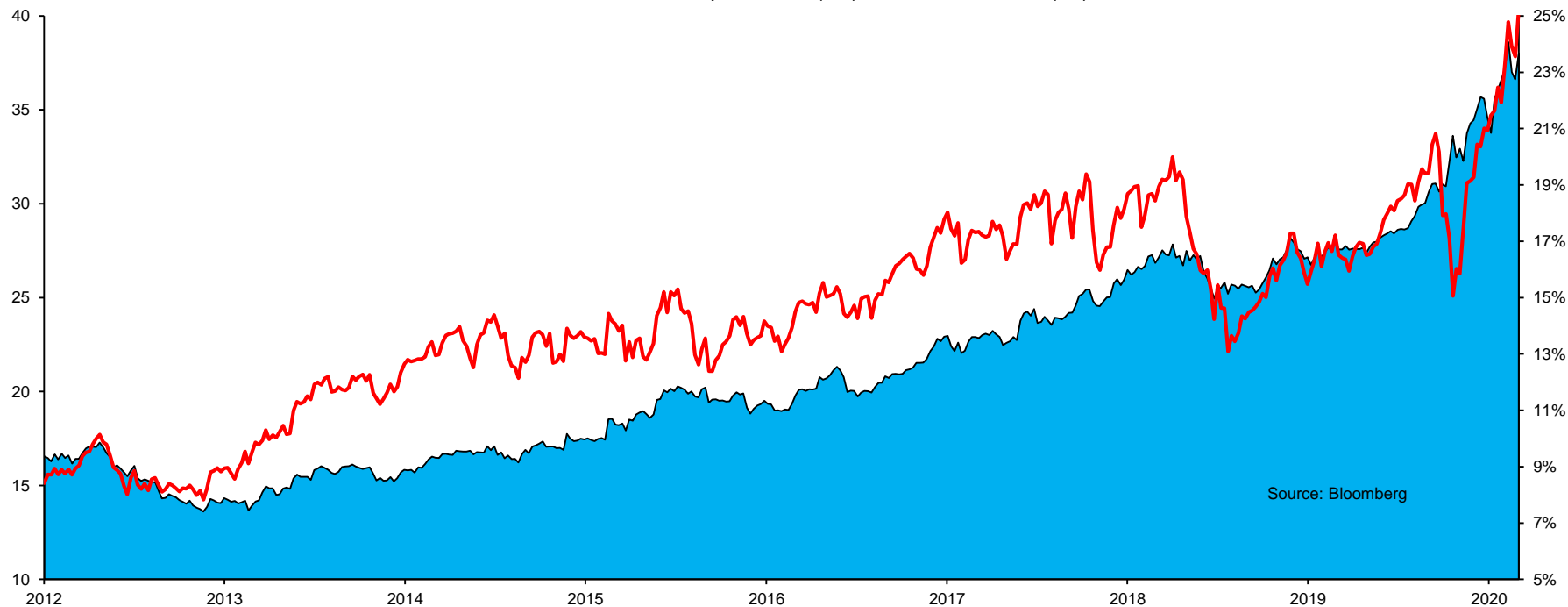
Contributions to the S&P 500 Index 10-Year Return



The Nuclear Winter of the 60/40 Portfolio

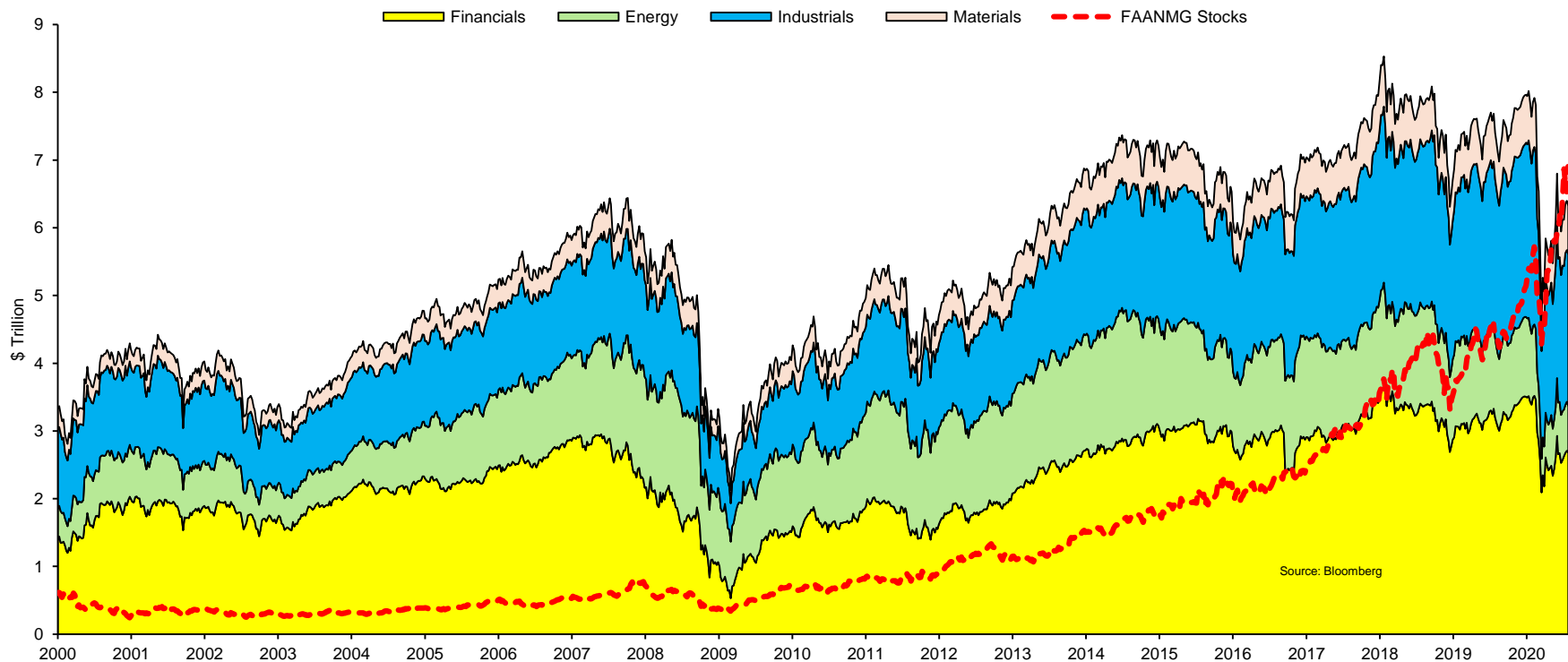
The Extraordinary Rise of the FAANMG Stocks

Share of S&P 500 Capitalization (RS) P/E Ratio (LS)



The Nuclear Winter of the 60/40 Portfolio

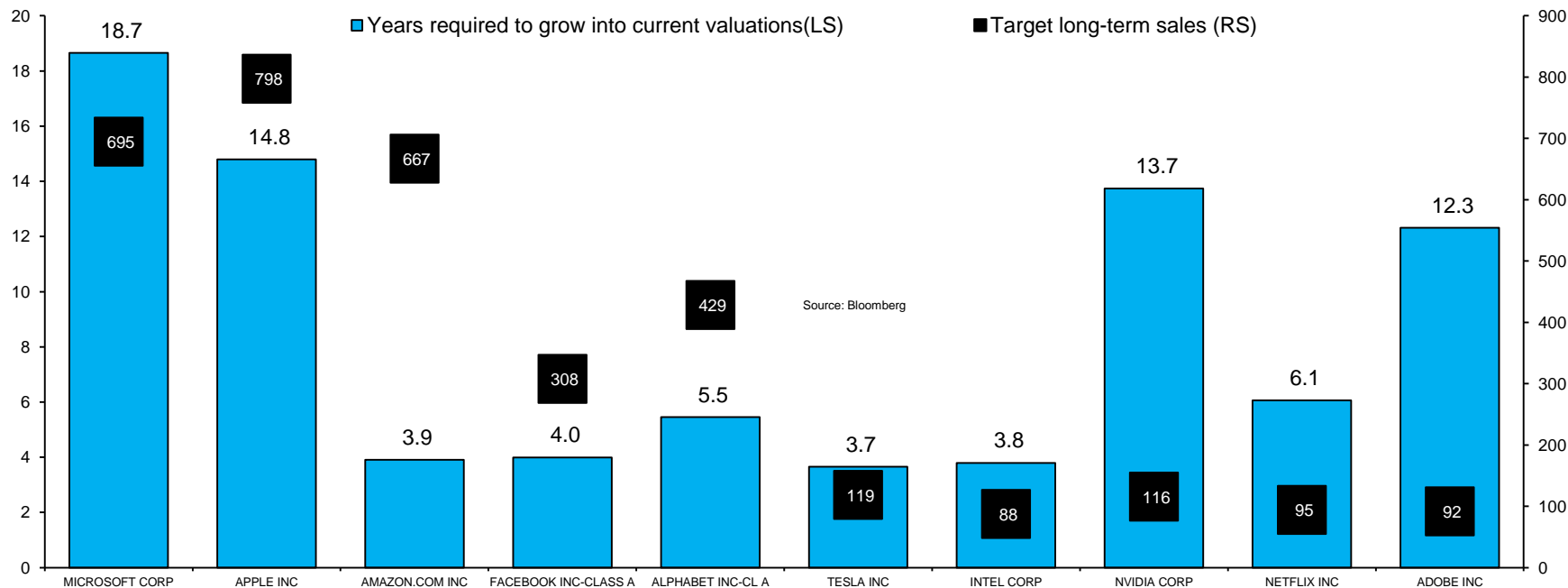
Market Cap of the Energy, Financial, Industrial & Material Sector vs the FAANMG Stocks



The Nuclear Winter of the 60/40 Portfolio

How Long Big Tech Needs to Grow into a Normal Valuation*

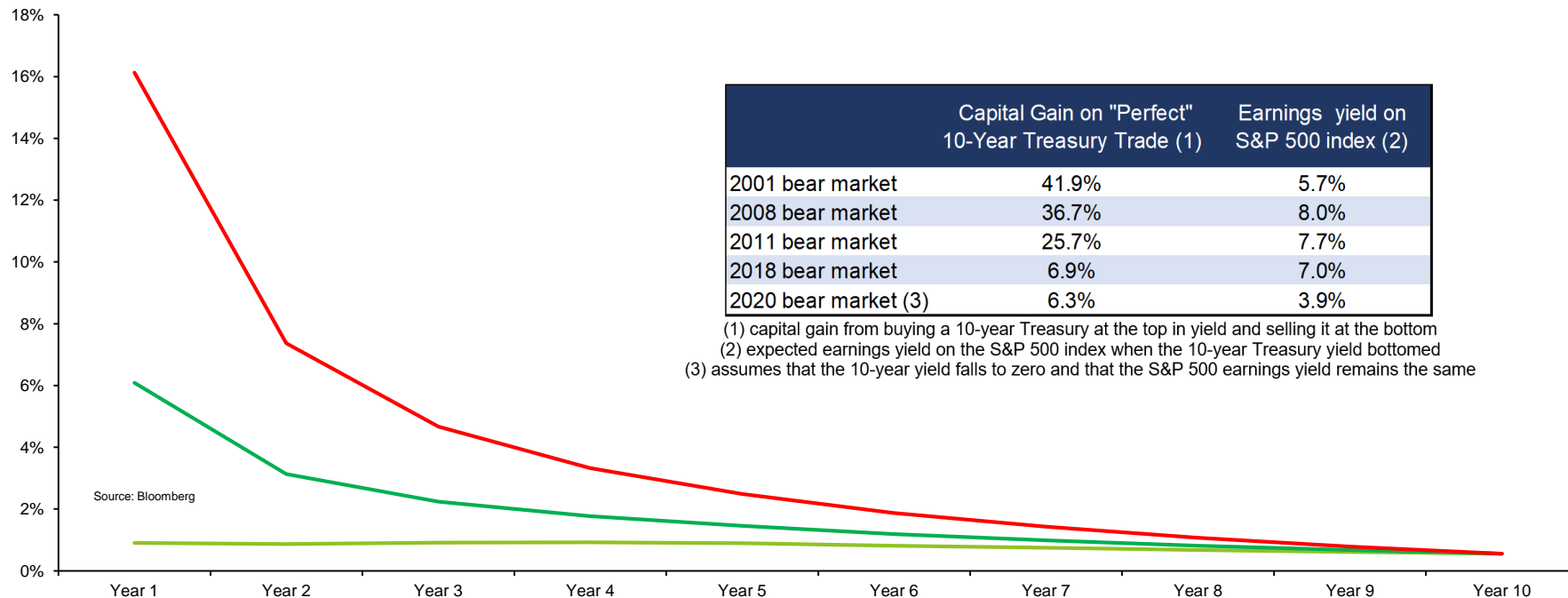
*Normal valuation = 2.3 times forward sales



The Nuclear Winter of the 60/40 Portfolio

Return of a 10 Year Treasury Note under Different Yield Curve Scenarios

— Current Curve — 10-year at zero — 10-year falls to minus 1%



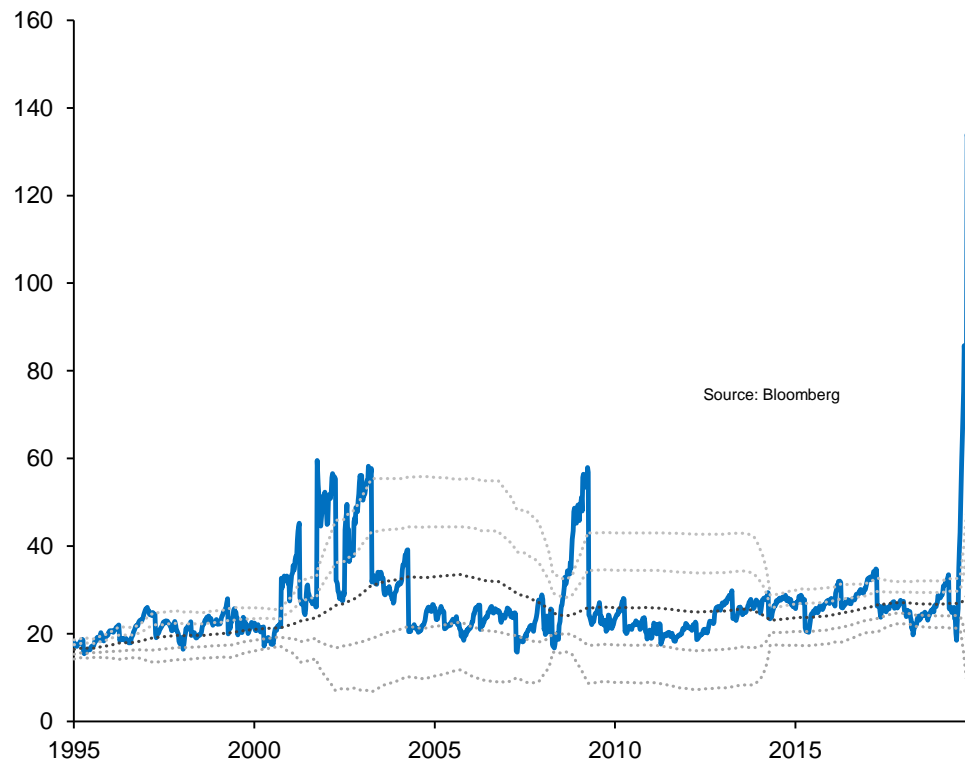
	Capital Gain on "Perfect" 10-Year Treasury Trade (1)	Earnings yield on S&P 500 index (2)
2001 bear market	41.9%	5.7%
2008 bear market	36.7%	8.0%
2011 bear market	25.7%	7.7%
2018 bear market	6.9%	7.0%
2020 bear market (3)	6.3%	3.9%

(1) capital gain from buying a 10-year Treasury at the top in yield and selling it at the bottom
(2) expected earnings yield on the S&P 500 index when the 10-year Treasury yield bottomed
(3) assumes that the 10-year yield falls to zero and that the S&P 500 earnings yield remains the same

The 6 Horsemen: Asset Price Bubbles

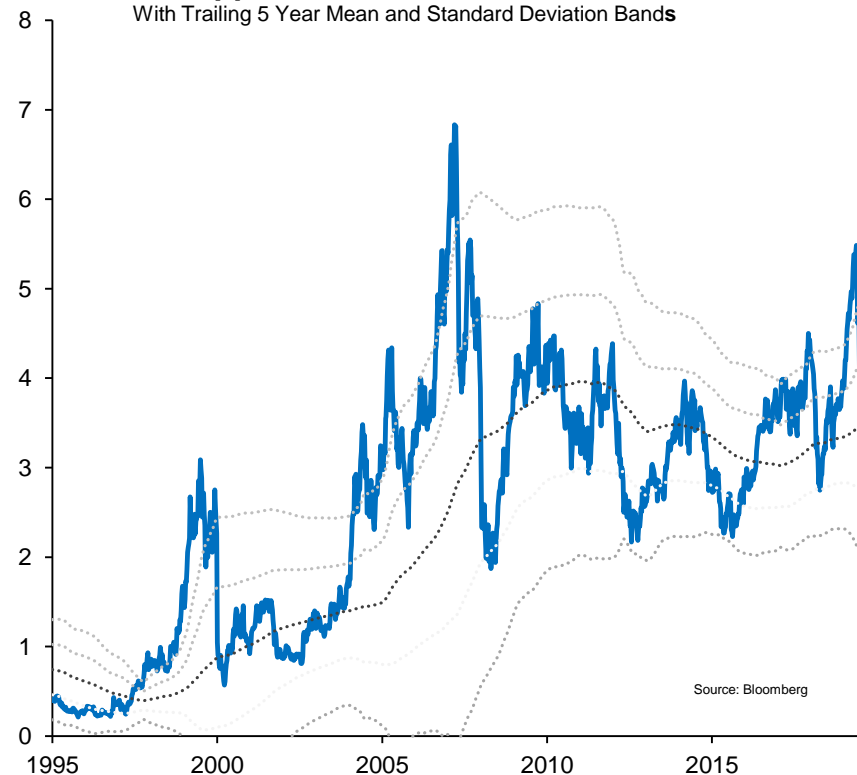
Russell 2,000 Index Price-to-Expected Earnings Ratio

With Trailing 5 Year Mean and Standard Deviation Bands



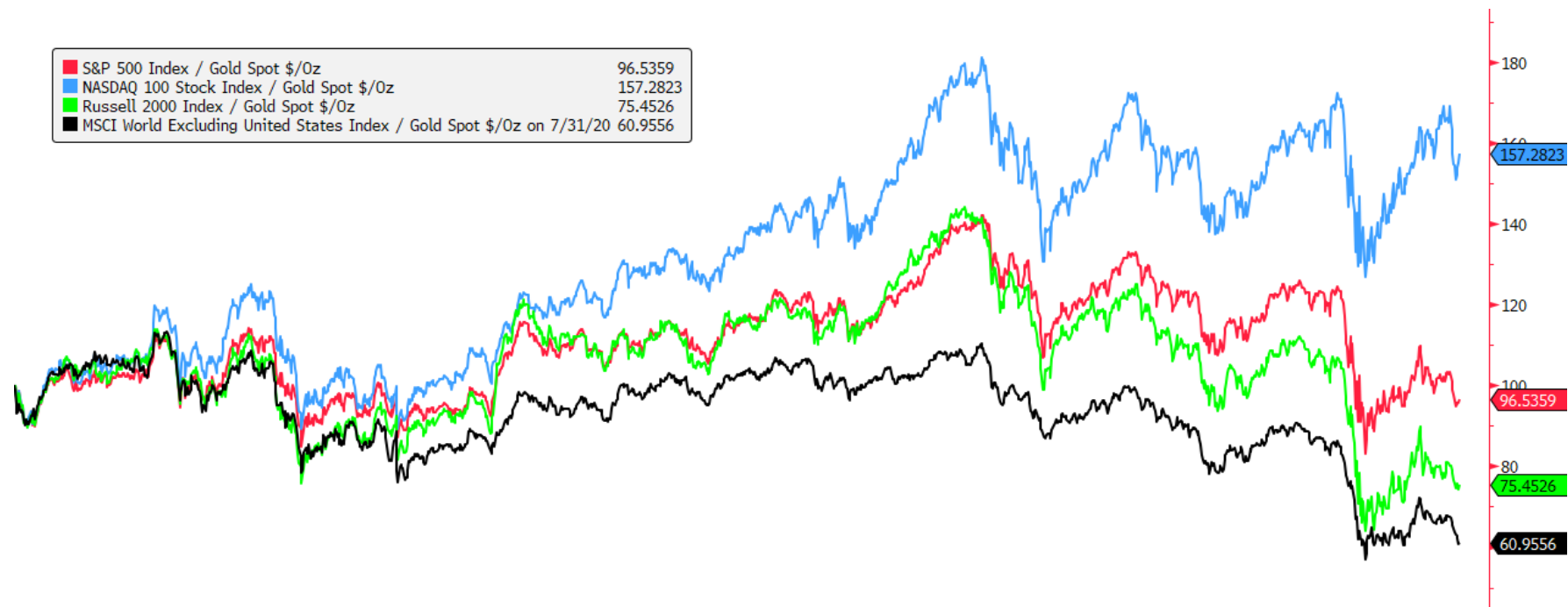
Apple's Price-to-Sales Ratio

With Trailing 5 Year Mean and Standard Deviation Bands



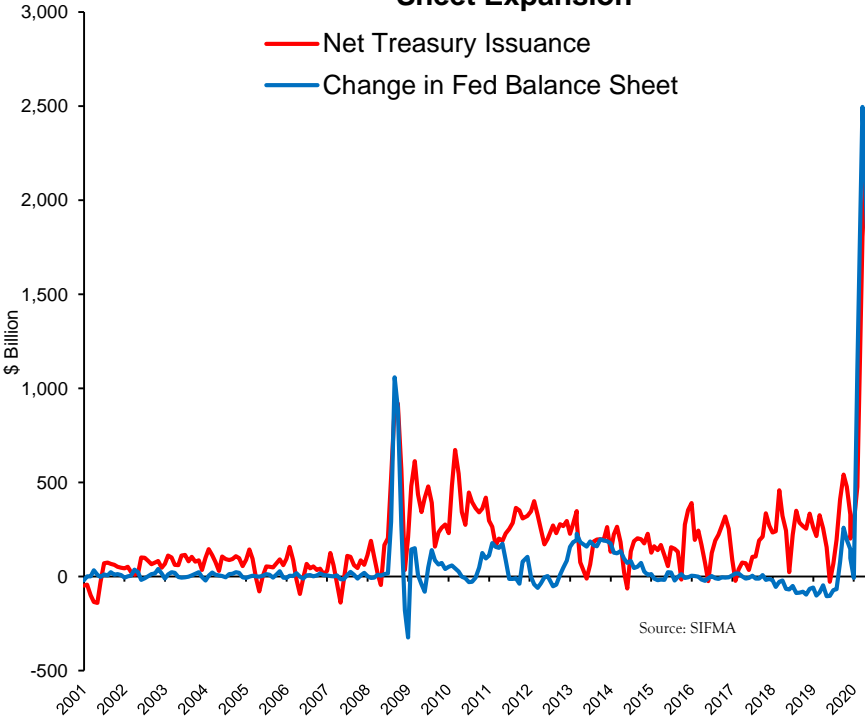
The 6 Horsemen: Asset Price Bubbles

Major Indices Performance in Gold Terms

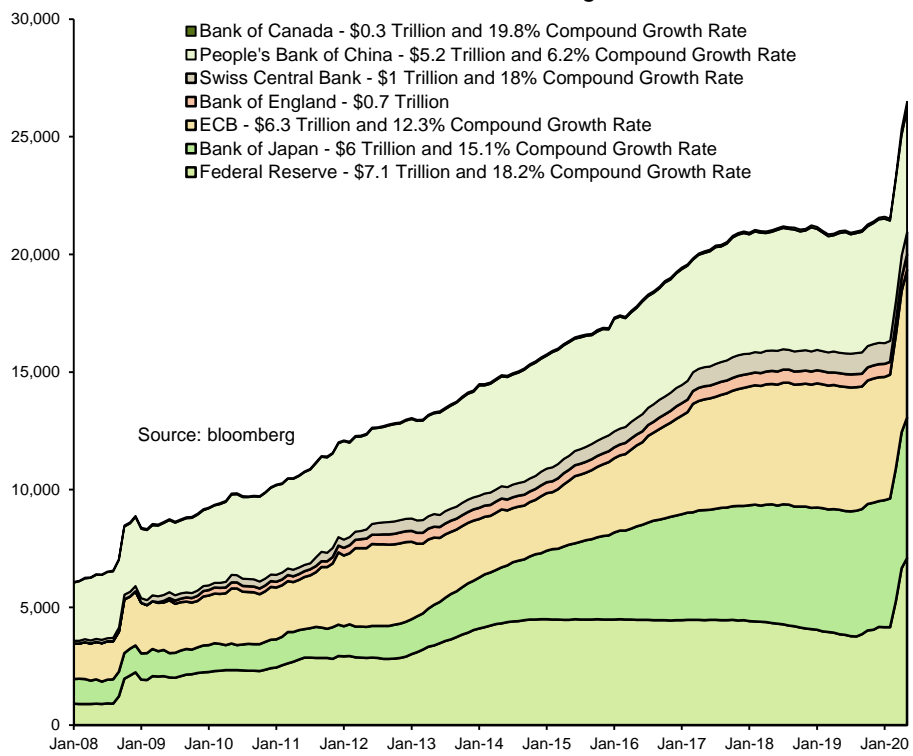


The 6 Horsemen: the Great Central Bank Bubble

3-Month Treasury Issuance and Fed Balance Sheet Expansion

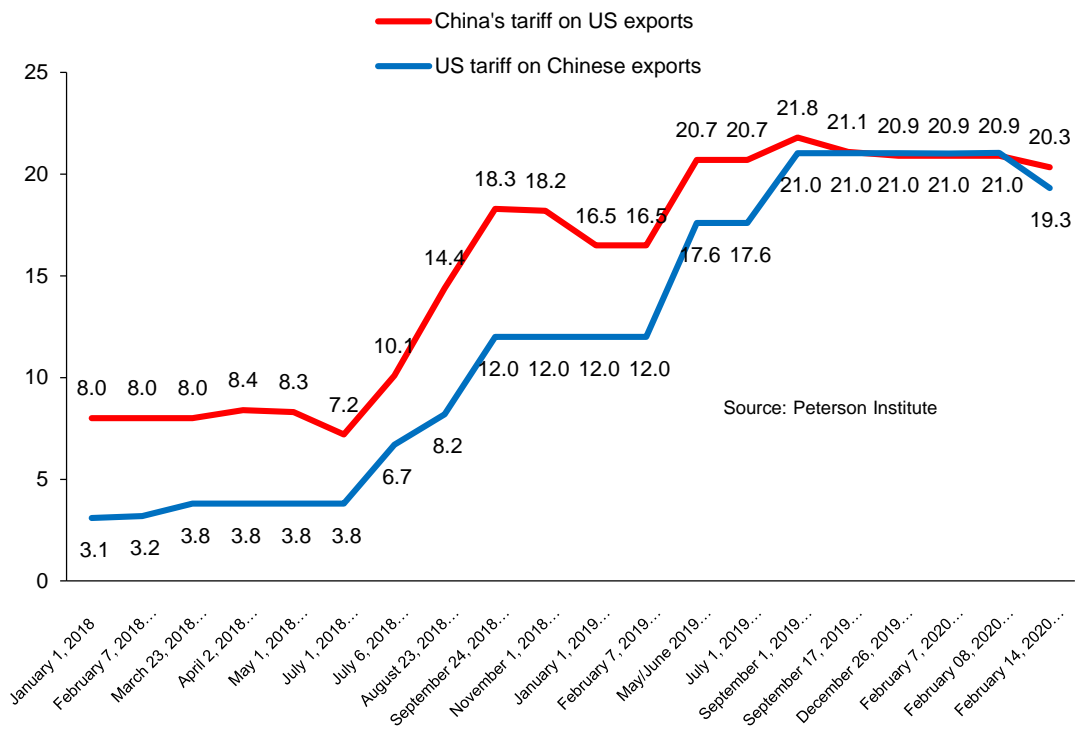


Global Central Banks Balance Sheets
\$ billion, at latest exchange rate



The 6 Horsemen: Protectionism & Soaring Costs

Tariffs on U.S. - China Trade



EU Set to Tighten Rules on Foreign Investment to Fend Off China

By Jonathan Stearns
November 17, 2018, 9:00 PM PST Updated on November 18, 2018, 9:00 PM PST

- ▶ EU negotiators due to meet Nov. 20 in bid for deal on new law
- ▶ Breakthrough sought on information exchanges among governments

LISTEN TO ARTICLE
▶ 4:12

The European Union is hammering out the first bloc-wide rules to prevent foreign investments from threatening national security, as Chinese acquisitions foster political unease.

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Trump Suspends Visas Allowing Hundreds of Thousands of Foreigners to Work in the U.S.

The move is fiercely opposed by business leaders, who say it will block their ability to recruit critically needed workers from countries overseas.

THE CORONAVIRUS CRISIS

Australia, New Zealand Closing Borders To Foreigners In Bid To Contain Coronavirus

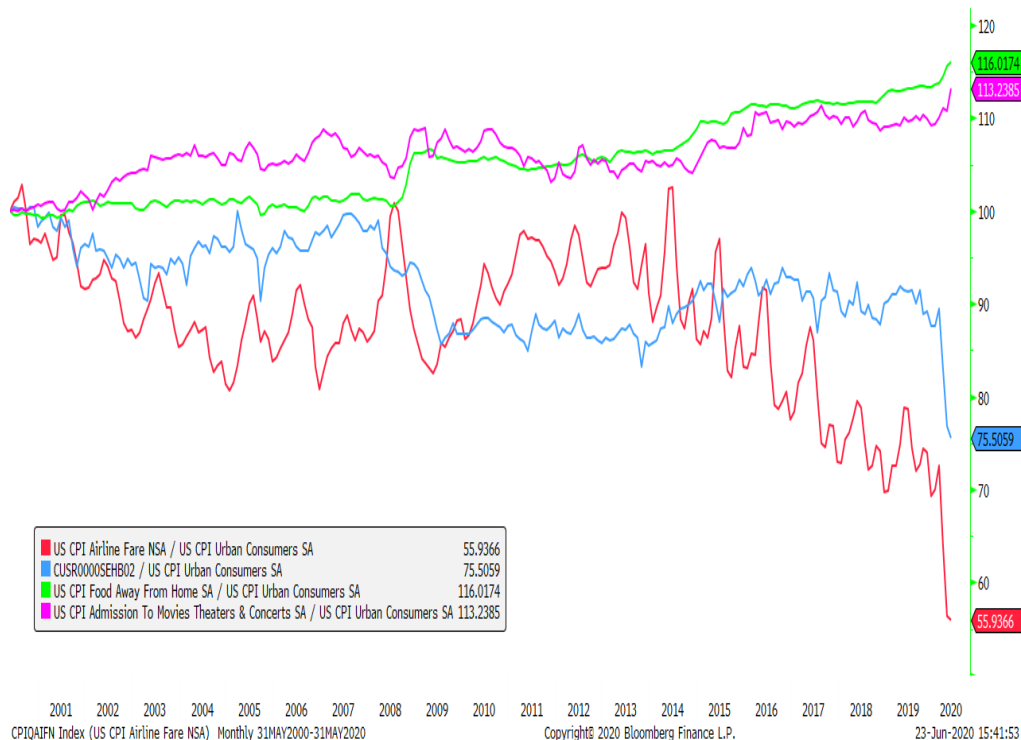
March 19, 2020 - 10:11 AM ET



COLIN DWYER

The 6 Horsemen: Protectionism & Soaring Costs

Components of the CPI Index



Future of the middle seat?



Universal Movement hopes the seat will make passengers feel more at ease while flying.

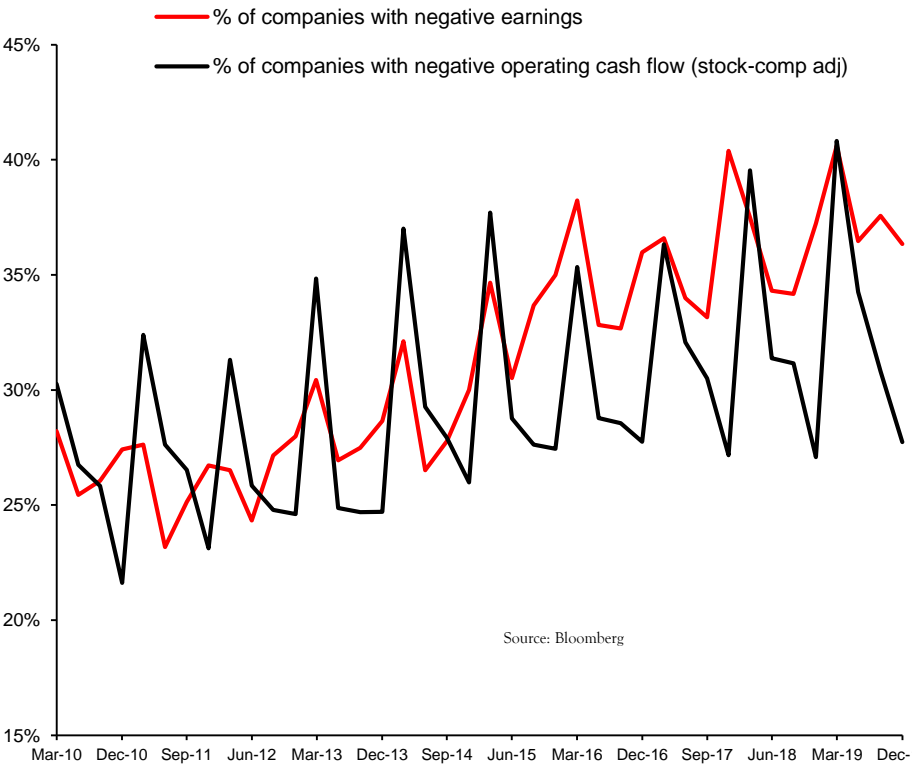
2020 Airlines bankruptcy filings (so far)

- Flybe (UK)
- Trans State Airlines (US)
- Compass Airlines (US)
- Virgin Australia
- Avianca (Colombia)

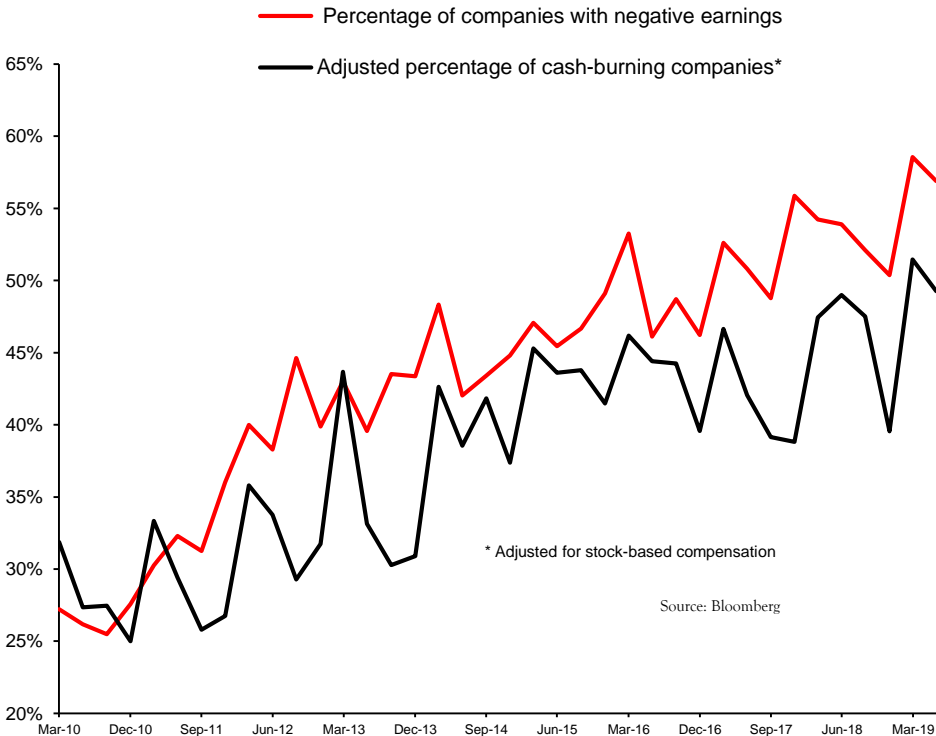
The 6 Horsemen: Debt



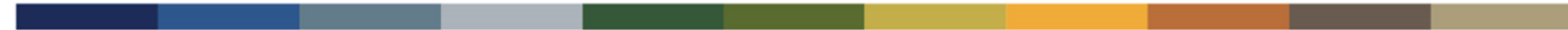
Small Caps with Negative Earnings and OCF



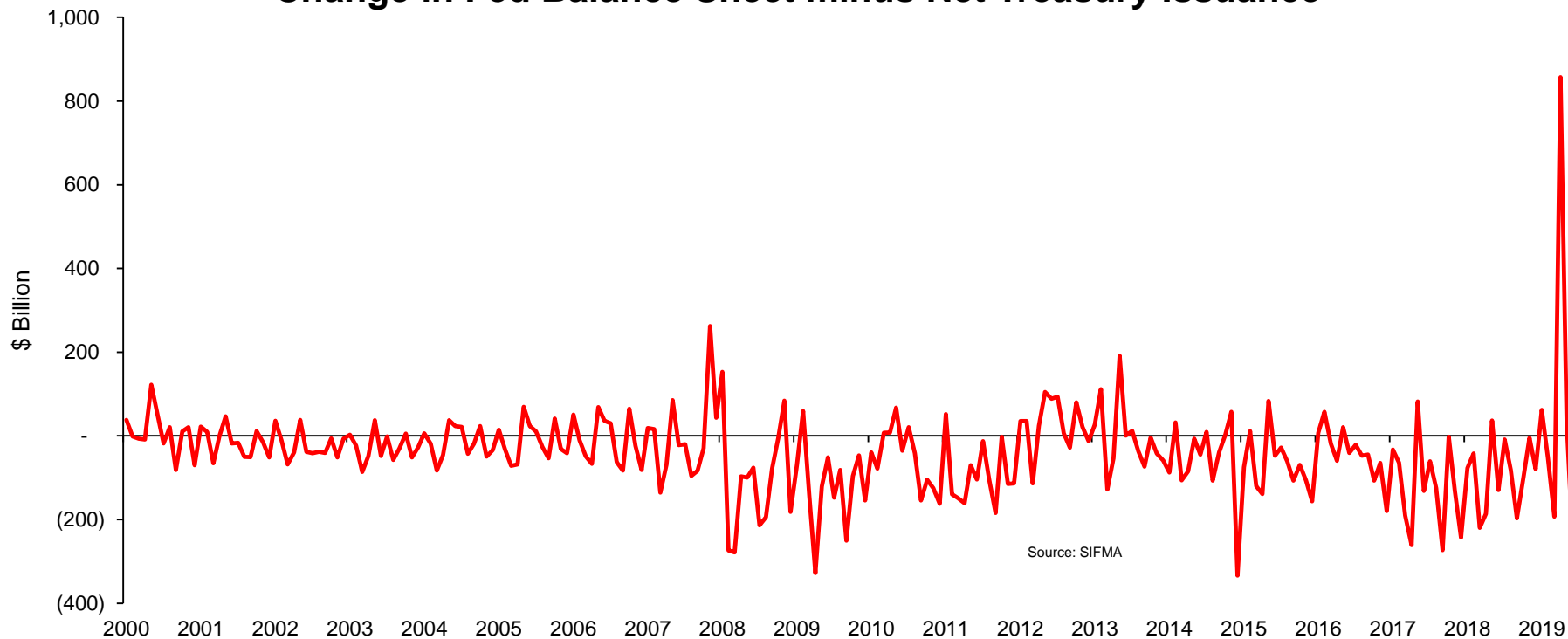
Bay Area Companies with Negative Earnings and OCF



The 6 Horsemen: Debt

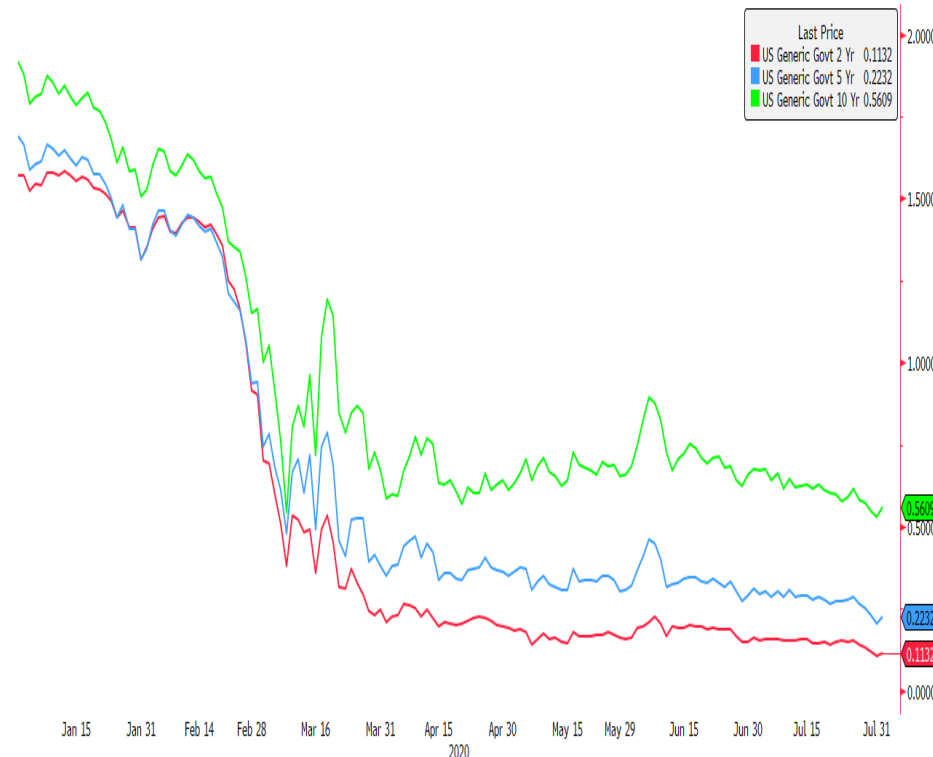


Change in Fed Balance Sheet minus Net Treasury Issuance



The 6 Horsemen: Manipulated Prices

The Repression of U.S. Treasury Yields

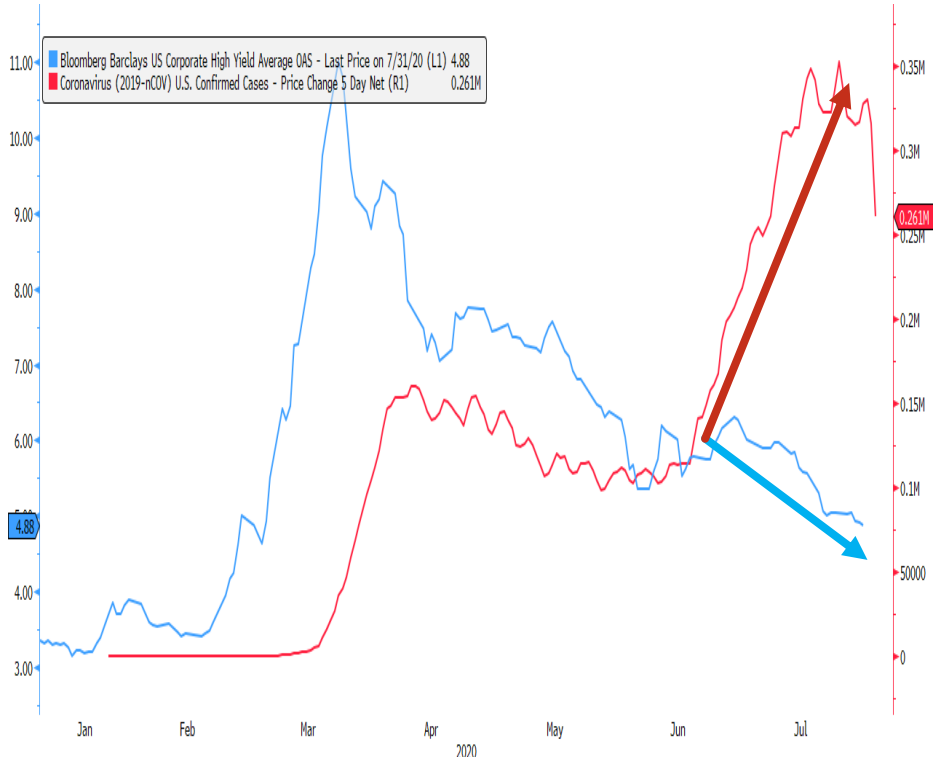


USGG2YR Index (US Generic Govt 2 Yr) JUSTUSKEYIELDS Daily 31DEC2019-03AUG2020

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Junk Bond Spreads versus New Covid-19 Cases



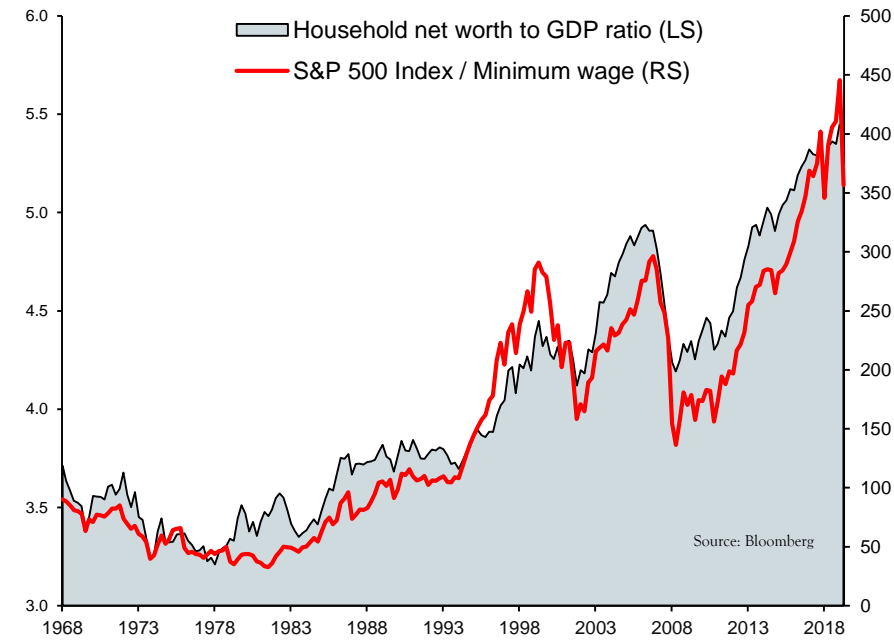
NCOVUSCA Index (Coronavirus (2019-nCoV) U.S. Confirmed Cases) CovidvsHYOAS Daily

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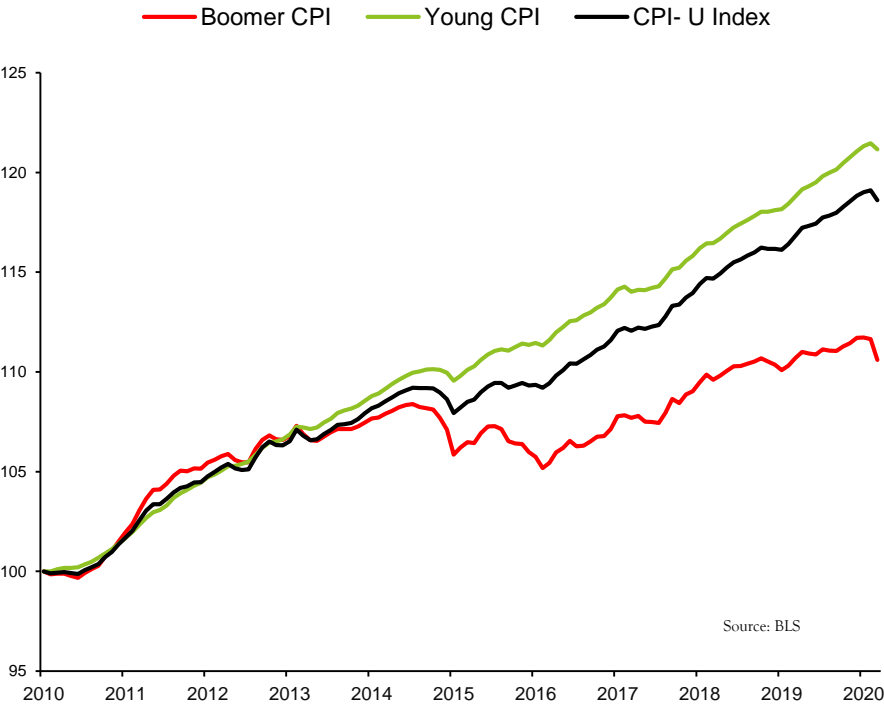
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Political Unrest & Generational Crisis

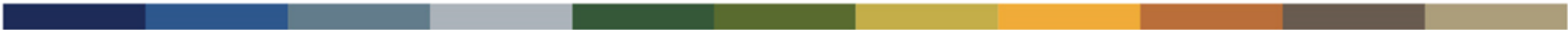
Two Wealth-to-Income Ratios



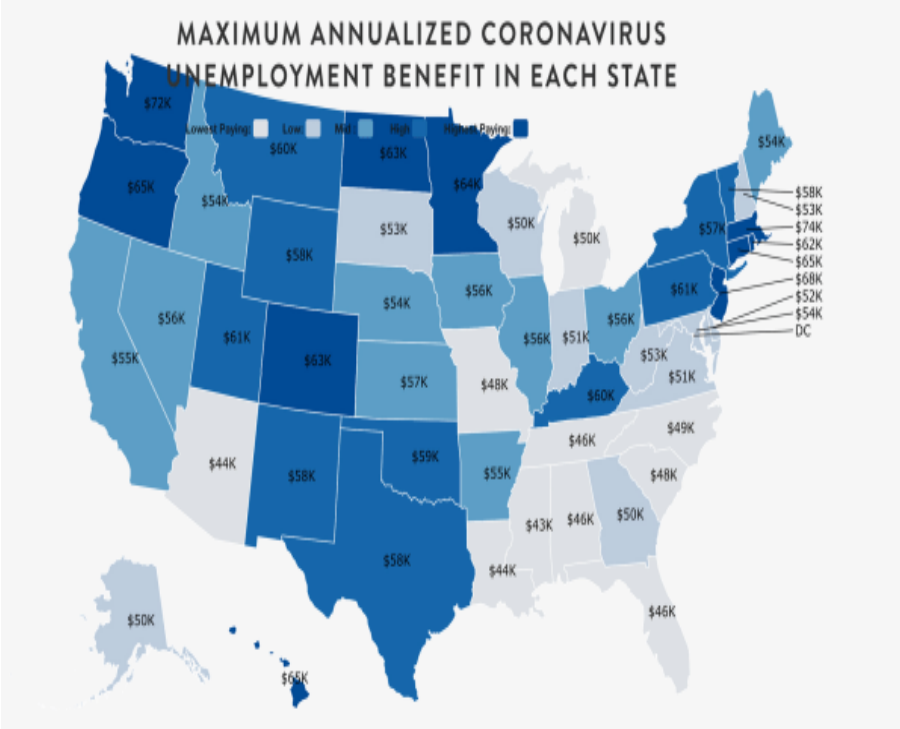
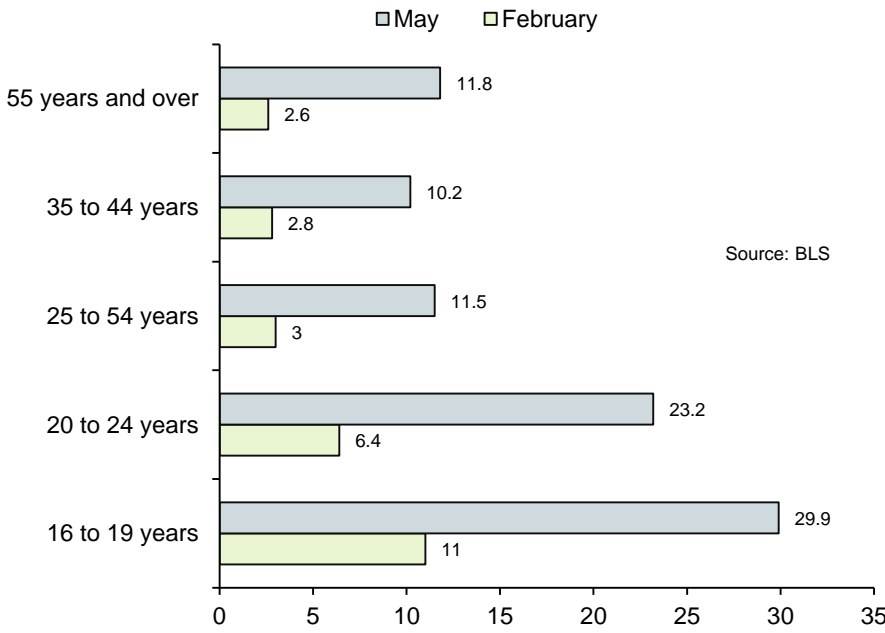
Age-Adjusted Consumer Price Indices



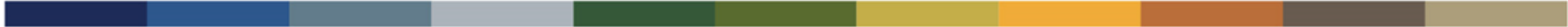
Political Unrest & Generational Crisis



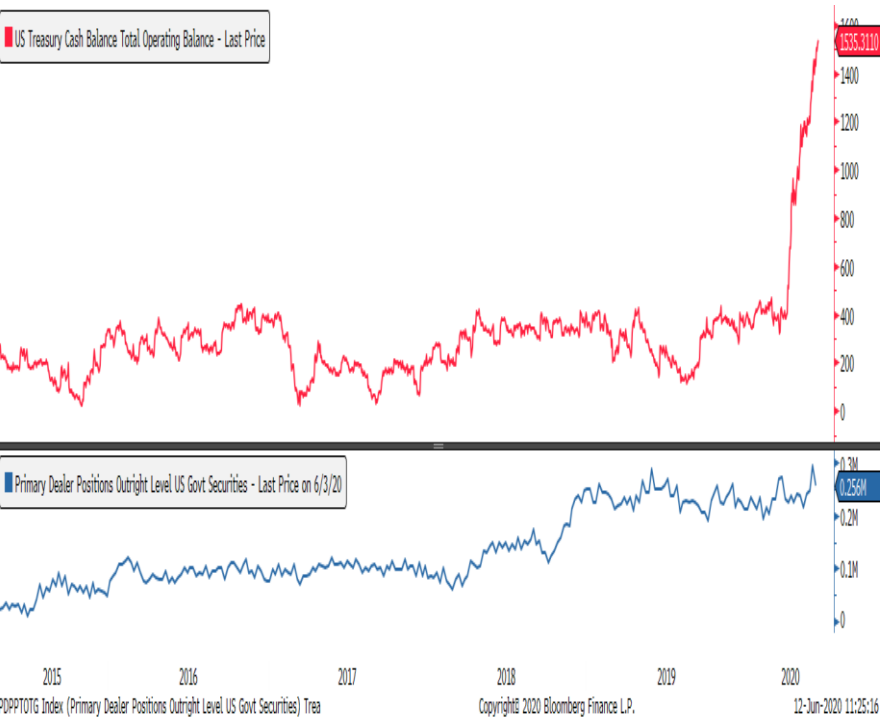
Unemployment Rate by Age - the COVID-19 Shock



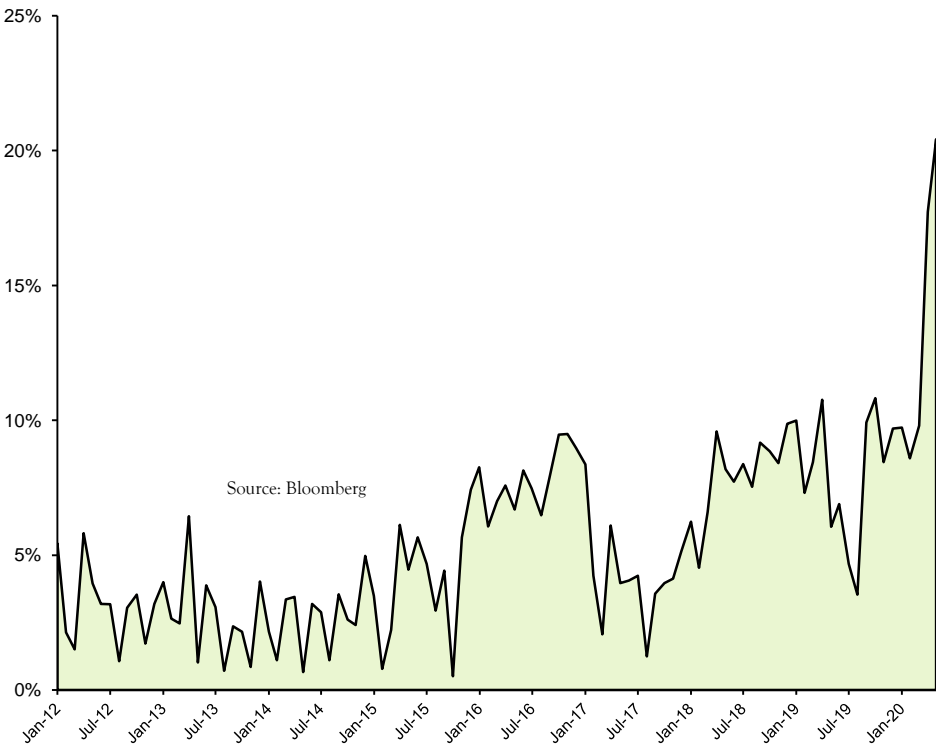
Why Inflation Has Not Happened Yet: the 3 Clogs



Treasury's Cash Balance Primary Dealers Inventories

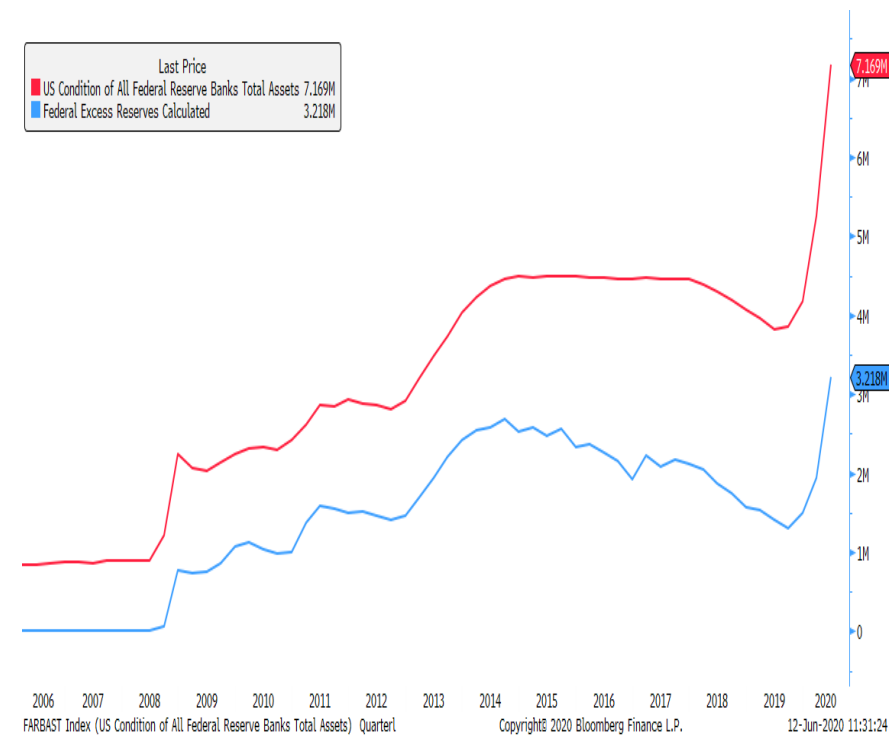


Treasury General Account as a % of Fed Balance Sheet

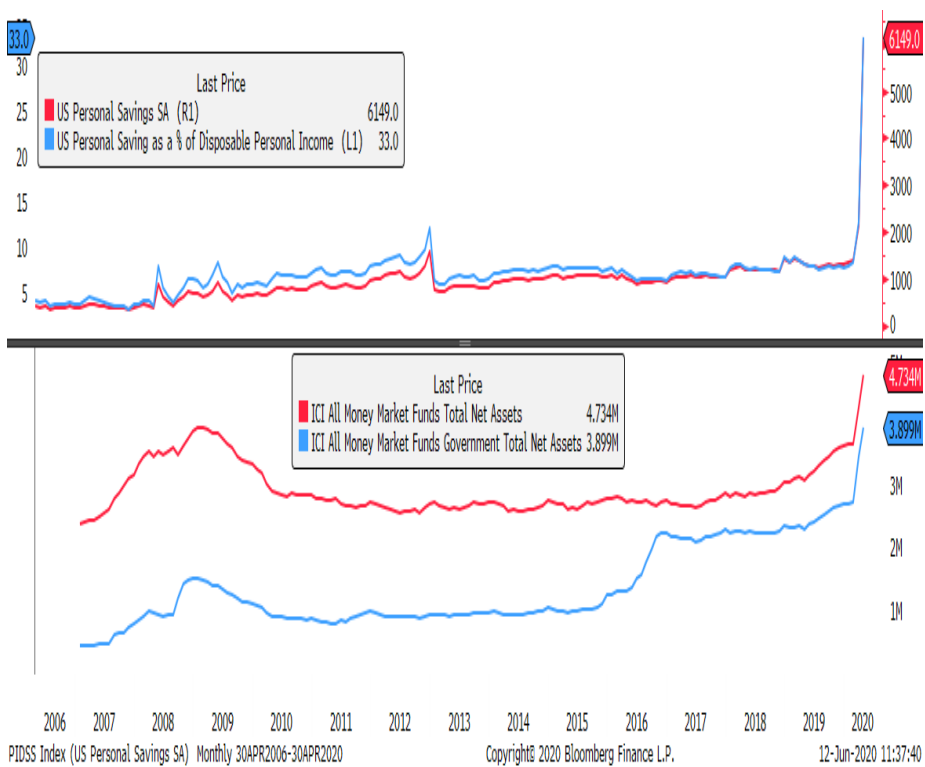


Why Inflation Has Not Happened Yet: the 3 Clogs

Fed Balance Sheet Banks' Excess Reserves

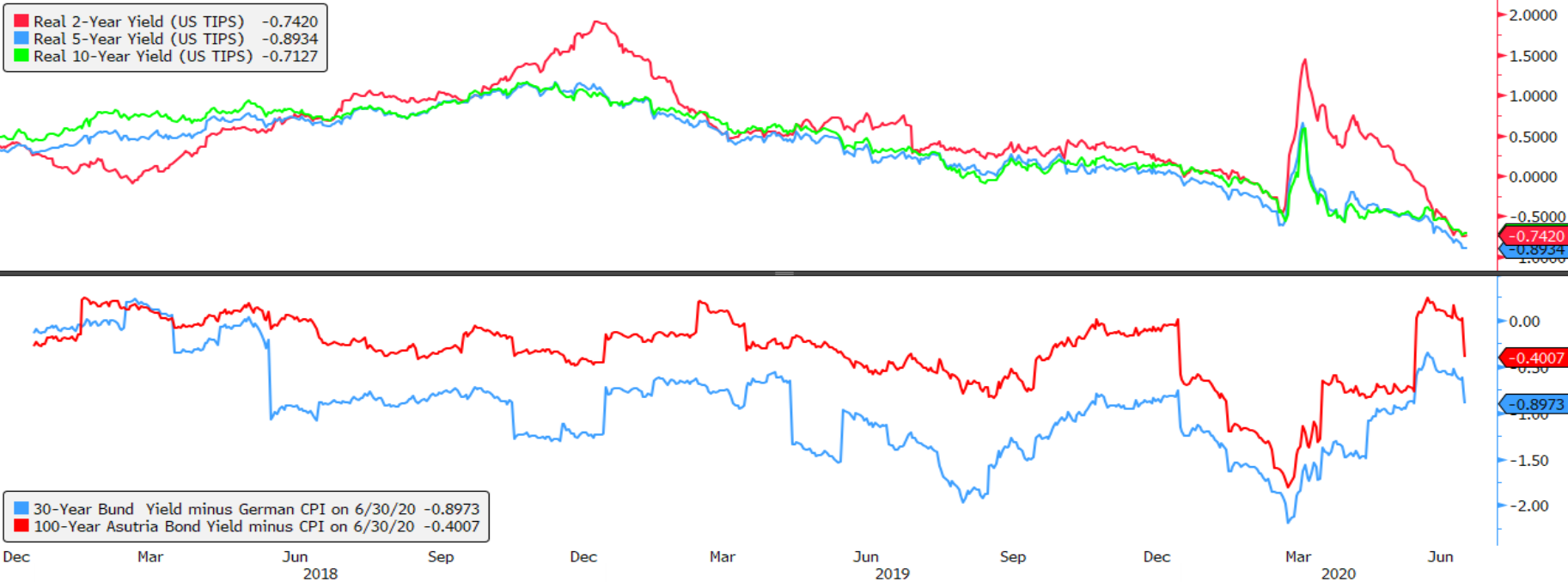


Savings rate and Money Market Funds' Assets



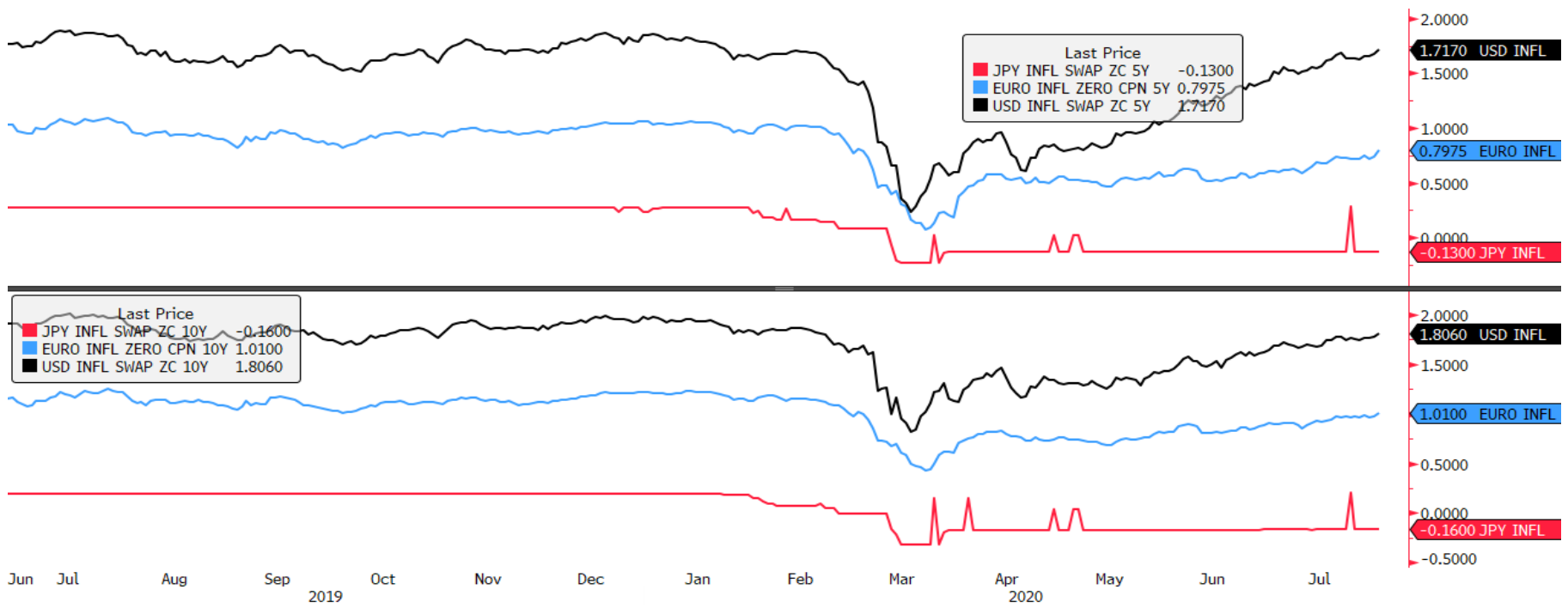
What To Do About It? Gold and Precious Metals

The Case for Gold *at Any Price*: Real Yields in the U.S. and Europe



What To Do About It? Inflation Swaps

5 and 10-Year Inflation Swaps in Europe, the U.S., and Japan



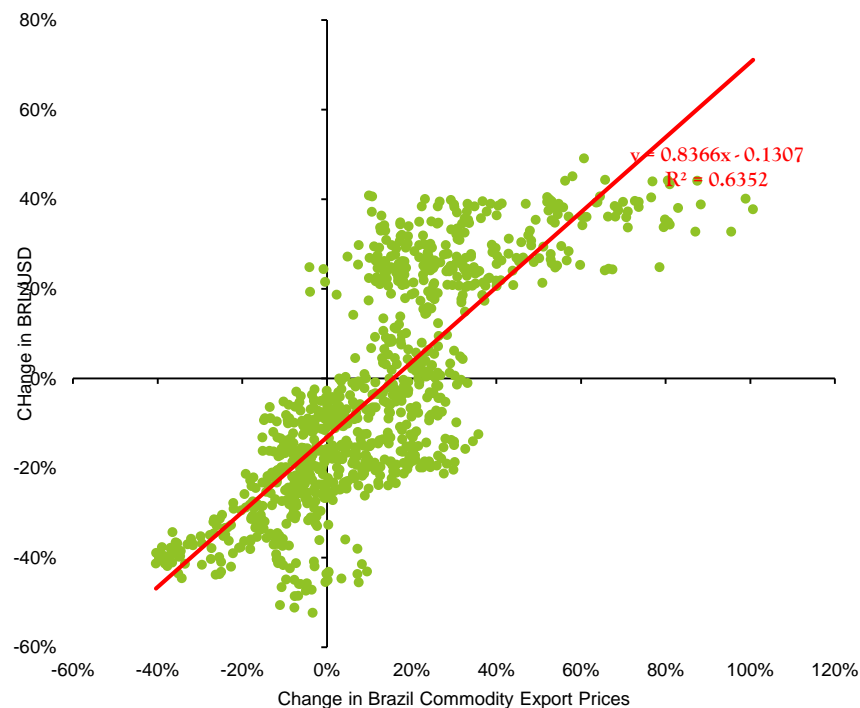
JYSWITS Currency (JPY INFL SWAP ZC 5Y) INFLATIONSWAPS Daily 27JUN2019-03AUG2020

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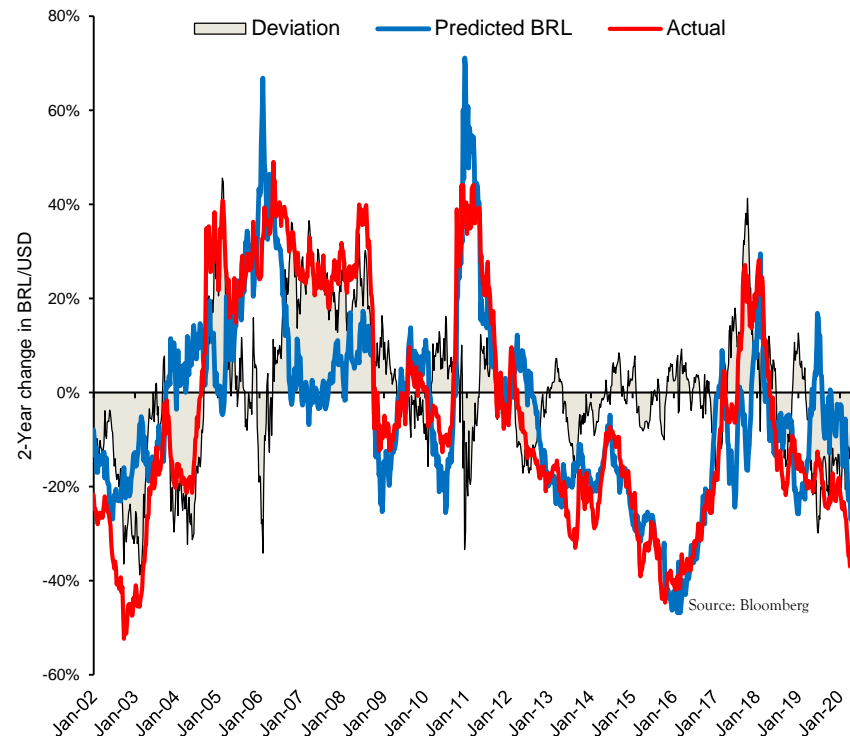
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What To Do About It? Latin American Stocks

2 Year Change in Brazil Commodity Export Prices versus Brazilian Real

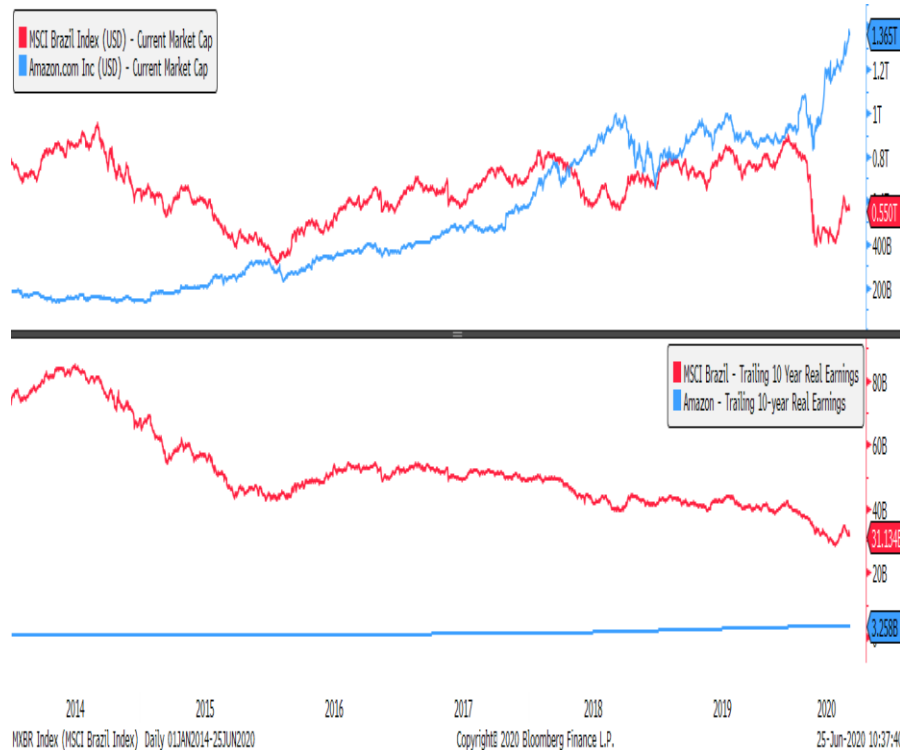


BRL/USD versus Commodity Export Price Model

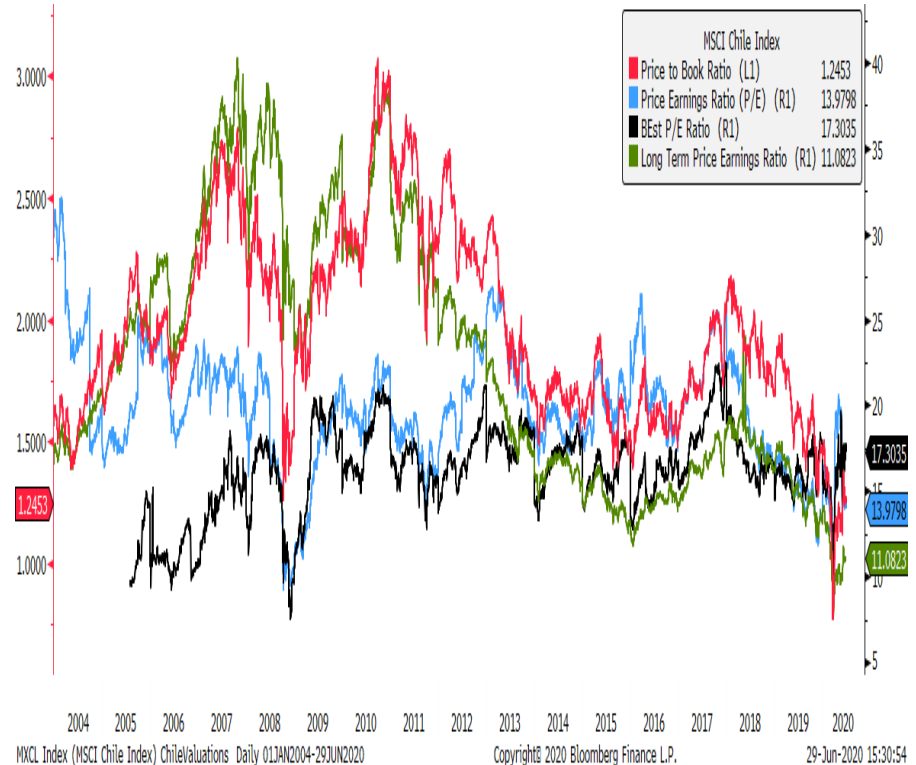


What To Do About It? Latin American Stocks

Amazon or the Amazon?

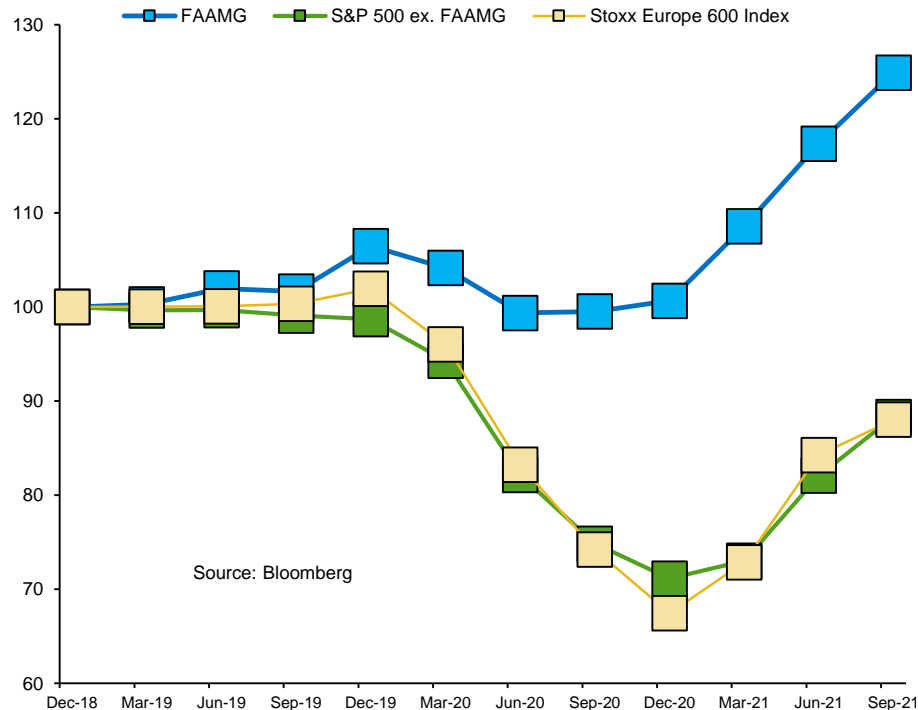


Valuation of Chilean Stocks

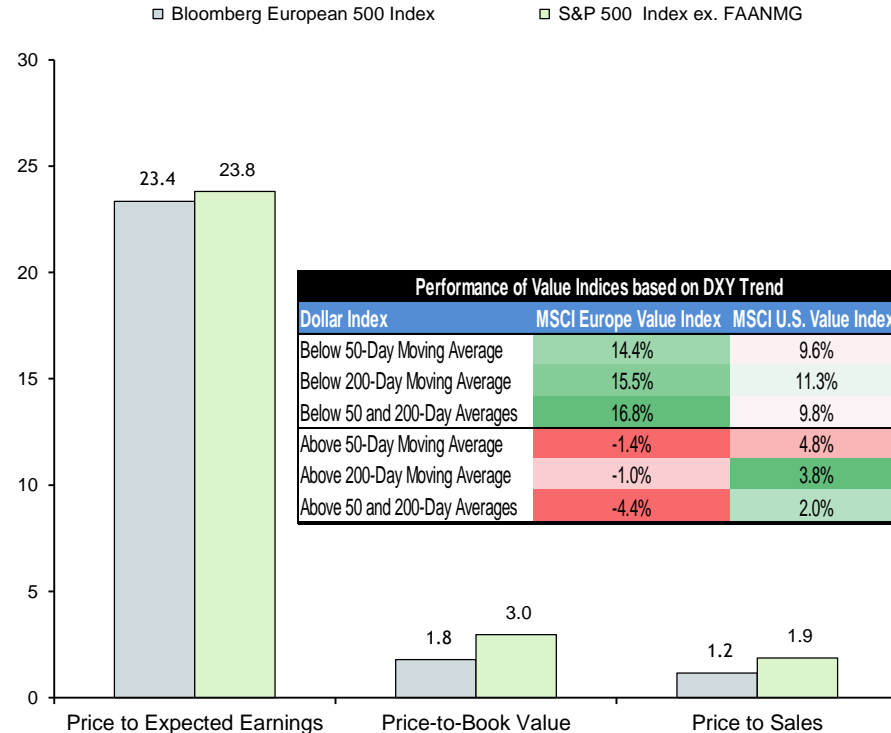


What To Do About It? Go to Europe for Value

EPS of European and U.S. Stocks

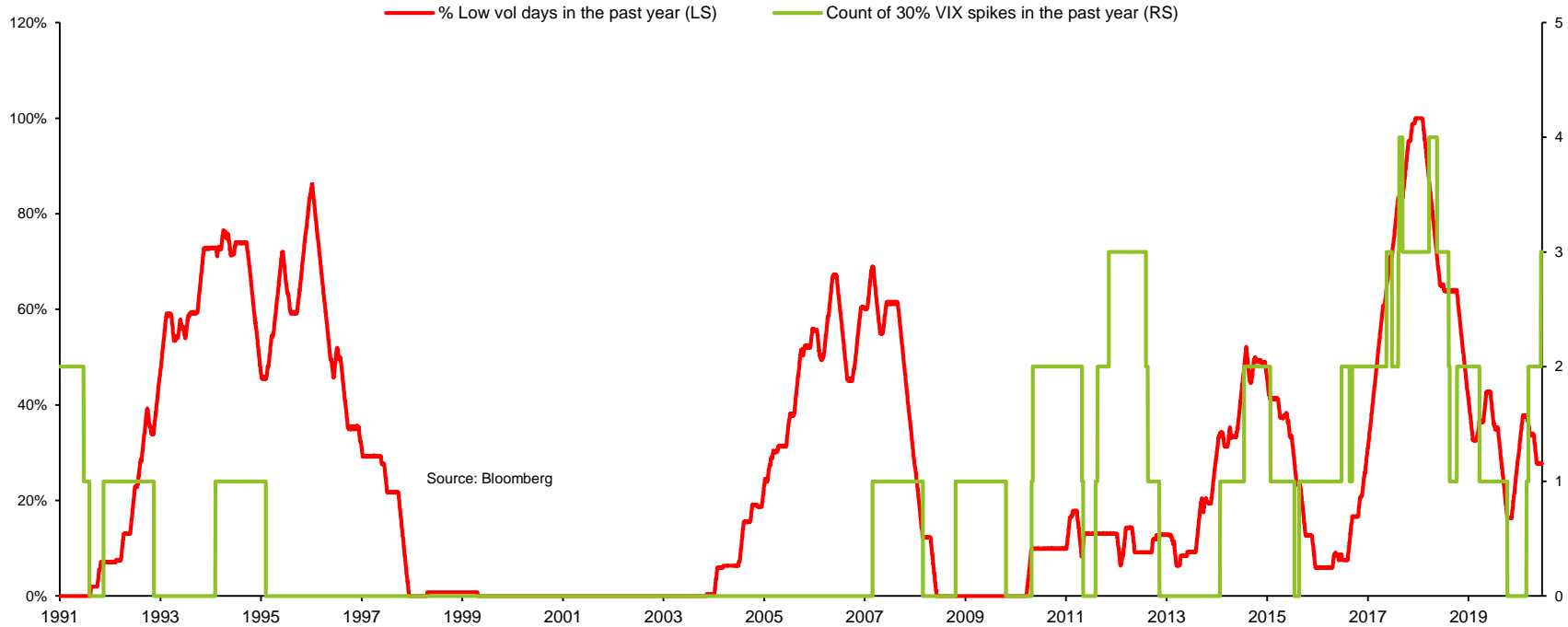


Forward Valuation of European and U.S. Stocks



Other Investment Ideas – Financial Repression

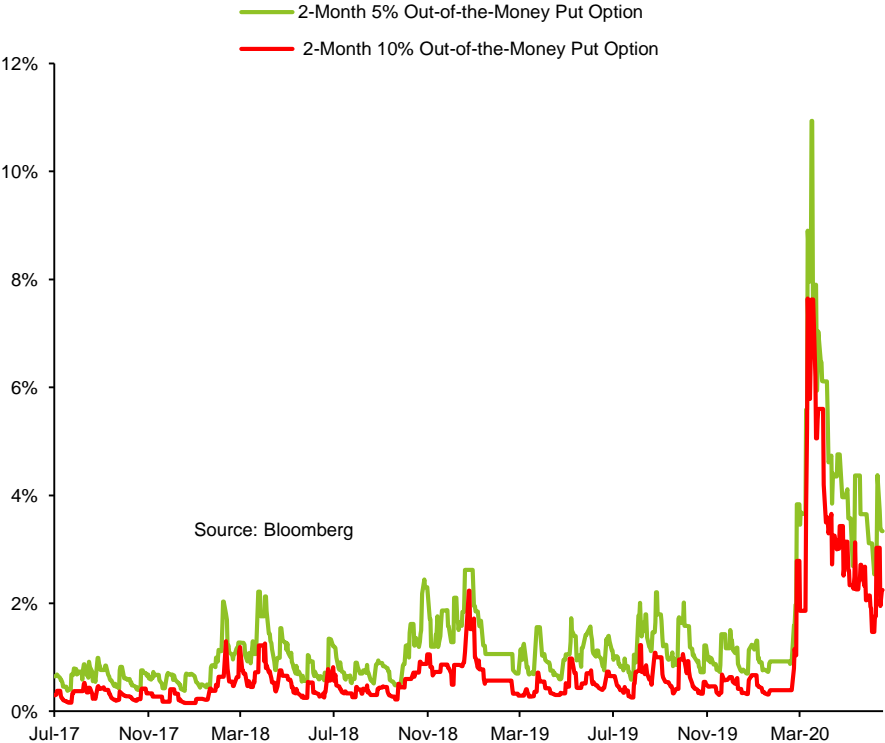
Low-Vol Days versus VIX Spikes



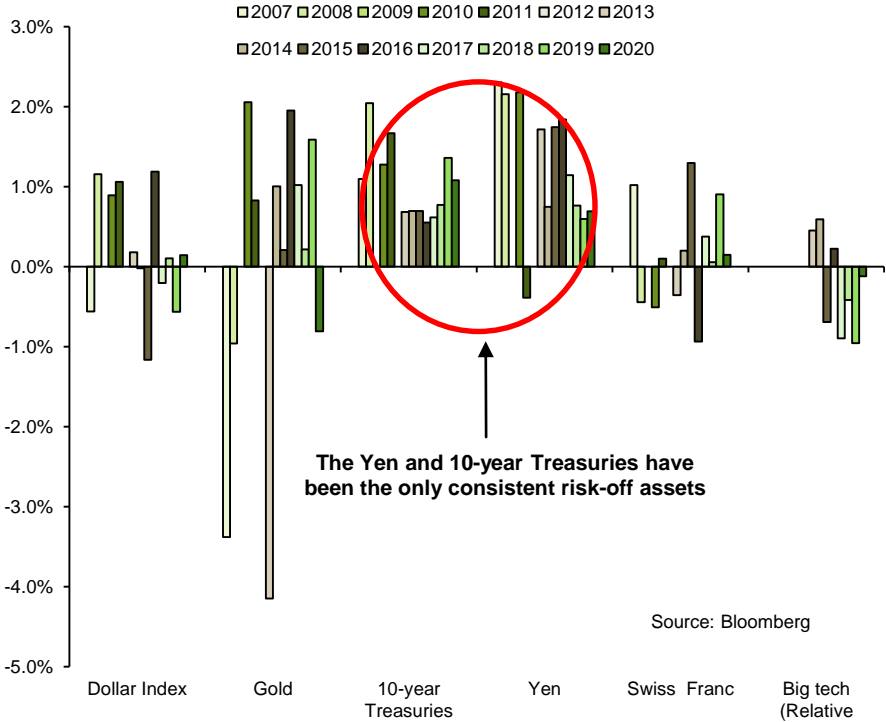
Other Investment Ideas – Financial Repression



Option Premia on Put Spreads on the S&P 500 Index



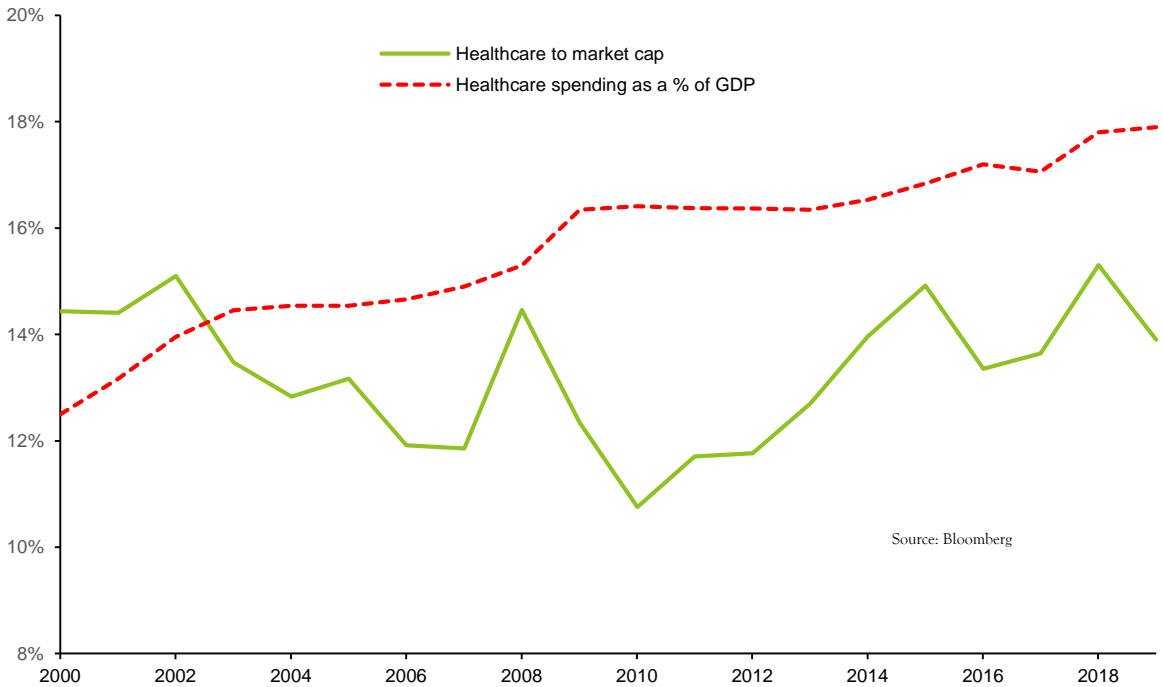
Average Performance of Risk Off Assets on Volatility Spikes



Source: Bloomberg

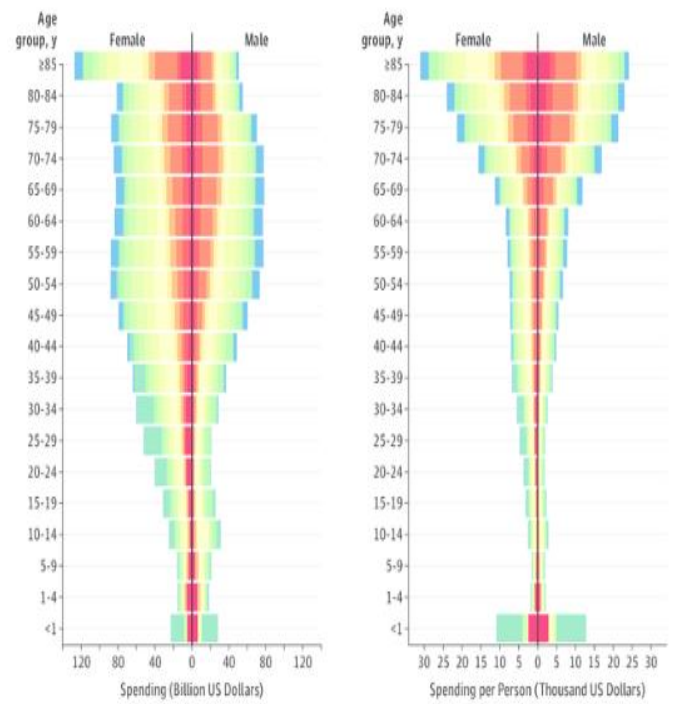
Other Investment Ideas – Healthcare

Healthcare Sector as a Share of S&P 500 Capitalization and GDP



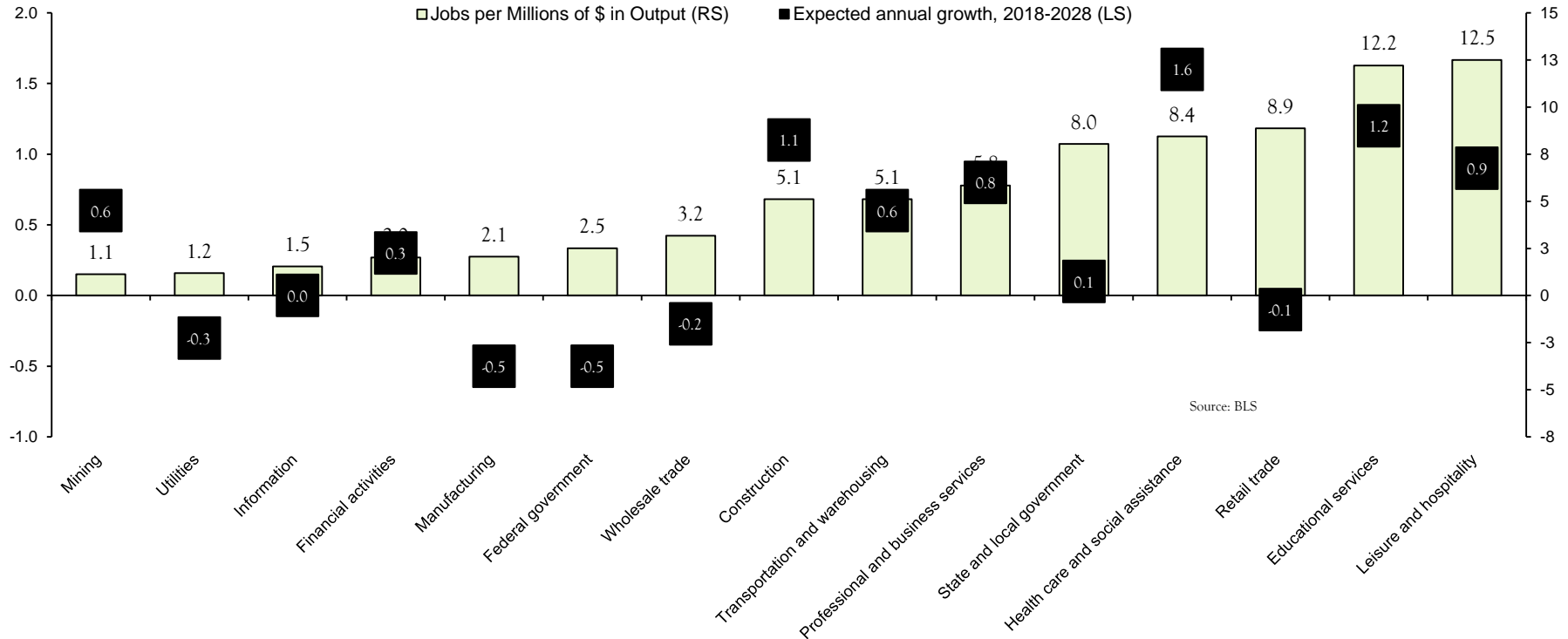
Source: Bloomberg

Healthcare Spending by Age



Other Investment Ideas – Healthcare

Jobs / Output Ratio and expected Growth in Employment Across Industries



Other Investment Ideas – Healthcare

INTL FCStone U.S. Sector Scorecard as of Aug 3, 2020

	Fundamentals		Valuations		Technicals		Blended Sector Rank
	Growth	Quality	Absolute	Relative	Risk	Momentum	
Consumer Discretionary - XLY	5.6	6.3	9.8	9.6	7.0	1.5	8.0
Consumer Staples - XLP	6.2	4.3	5.6	5.2	2.5	5.5	3.0
Energy - XLE	7.4	11.0	4.8	5.0	8.5	11.0	11.0
Financials - XLF	5.4	7.3	2.2	2.0	8.0	8.5	4.0
Health care - XLV	2.8	4.3	5.8	3.2	3.3	6.3	1.0
Industrials - XLI	9.2	6.3	6.8	8.0	6.5	7.5	10.0
Information Technology - XLK	3.4	1.3	9.0	5.2	6.3	2.0	2.0
Materials - XLB	6.4	8.3	5.4	5.6	6.5	4.5	7.0
Real Estate - VNQ	6.0	6.0	7.8	7.0	7.3	7.8	9.0
Communications Services - XLC	5.8	4.3	6.2	7.2	4.8	5.3	5.0
Utilities - XLU	7.8	6.3	2.6	8.0	4.8	6.3	6.0

Conclusions


- The FAANMG cannot “grow into their valuations” and there is not good scenario for bonds
- Traditional 60/40 portfolios should post a decade of negative returns
- The six horsemen of inflation are here! Asset price bubbles, out-of-control money supply growth, protectionism, excessive debt, generational unrest, and manipulated prices.
- Inflation has not risen yet because of three clogs: the Treasury has not spend its cash, the savings rate has spiked due to the shutdowns, and banks are sitting on excess reserves
- The three clogs will clear, especially in an election year!
- The West generational crisis will lead to *generational* inflation
- Gold, precious metals, CPI swaps, and Latin American assets are cheap hedges against inflation
- Profit from financial repression with put spreads and the Japanese Yen
- The growth/value trade is best expressed as U.S. vs Europe: Europe will lead in a value rebound
- Healthcare is “the next big thing” obviously!

Thank you!

Questions & Comments

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Vincent is the global macro strategist for INTL FCStone Financial Inc, BD Division, where he authors weekly commentary on asset allocation, flows, Europe equities and quantitative topics. Prior to joining INTL FCStone Financial Inc., Vincent served as Europe Strategist for Ned Davis Research Group where he started the firm's European product. Vincent authored weekly publications on European markets, and designed proprietary trading models that combined fundamental, technical and macro indicators to identify major investment themes and market trends.

In November 2013, Vincent was awarded the Euromoney Padraic Fallon Editorial Prize for his in-depth study of the investment opportunities offered by the European debt crisis.

Prior to joining Ned Davis Research, Vincent was the Executive Vice President of TrimTabs Investment Research, where he headed the firm's quantitative research. At TrimTabs, Vincent authored weekly research reports on flows, sentiment, and European capital markets.

Vincent designed and traded large and profitable strategies based on supply and demand indicators for top-tier hedge funds.

He has been frequently quoted in the Financial Times, Wall Street Journal, Bloomberg, Forbes Magazine, and Barron's. Vincent was a subject matter expert on asset allocation for the level 3 of the CFA exam at the American College and he teaches Ethical and Professional Standards and Private Wealth Management for the CFA Society of San Francisco. Vincent was an adjunct professor in finance at Golden Gate's University Executive MBA program and currently teaches ethics at Saint Mary's College Master's in Finance program.

Vincent is a CFA charterholder. He completed a dual master's degree at Sciences-Po Paris (Cum Laude) and Columbia University and speaks English, French, Italian, and Indonesian.