

# Reduced left and right tails

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Reduced left tail: inflation not high enough for hikes

Reduced left tail: micro business risks likely peaked

Reduced right tail: housing headwinds persist

US election: swing state economic conditions favor democrats

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This monthly Macro Snapshot report blends the output from VP's key Tactical (1-3m), Cyclical (6-12m) and Structural (2-3y+) models. Clients can see our most important asset allocation charts on our live [Desert Island dashboard](#). Our full Asset Allocation output can be viewed [here](#).

# Reduced left tails: Fiscal + consumer, reduced right tail: labor slow burn

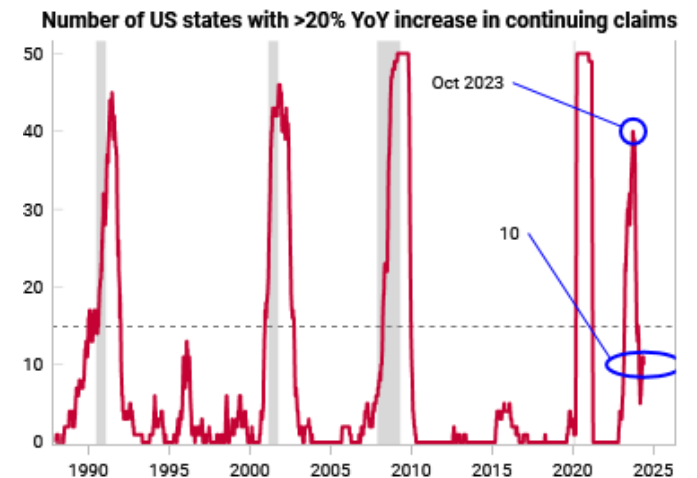
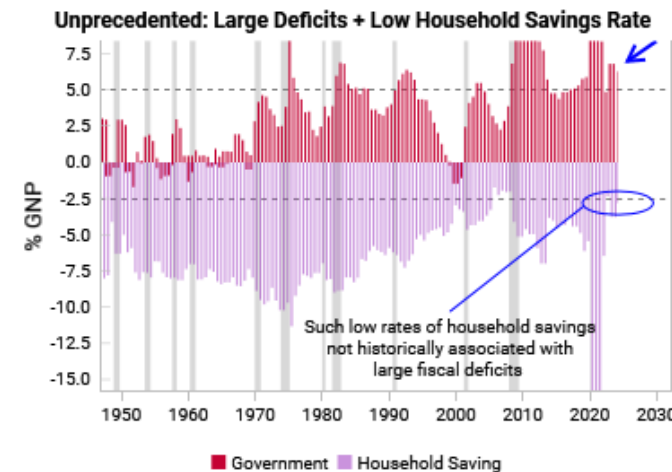
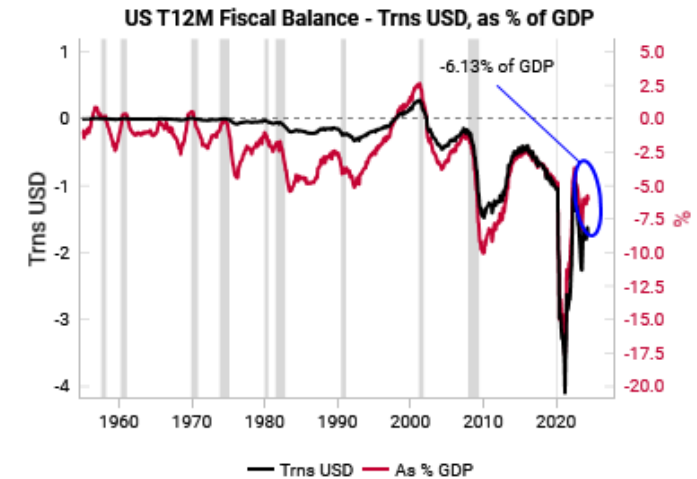
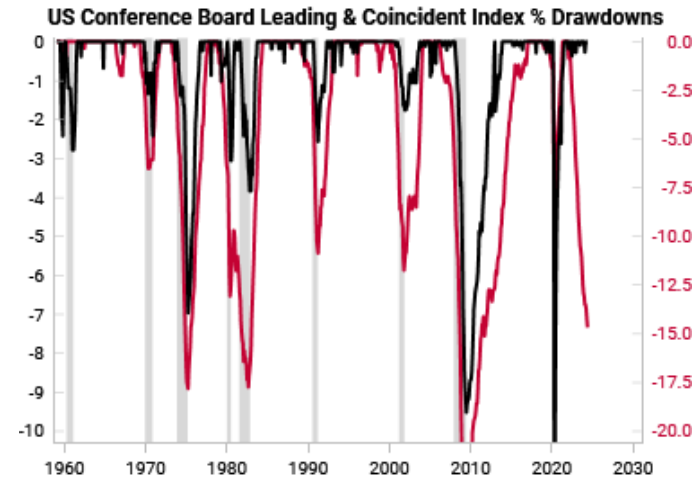
We have written extensively this year about the dynamics between fiscal, labor, and the consumer.

Since our February Snapshot, [Fiscal: Sisyphus or Hercules](#), it has been our view that **large fiscal deficits** have been a **key support for the US economy** and help explain the resilient coincident data versus weak leading data over the past two years (top left chart). **Large deficits persist today** (top right chart) **reducing left tail risk in the economy**.

The Kalecki-Levy profit decomposition shows how **low rates of consumer savings** have additionally **supported profits** (bottom left chart). Our [June consumer report](#) shows how unlevered consumers, retiring boomers, and improving retail LEIs create an **attractive cyclical and structural setup for consumption growth, further reducing left tail risk**.

Our June [US labor report](#) analyzes how the continued signs of a **slowing labor market** are **undeniable** (reducing right tail risk), but the window for generating further negative feedback loops looks to be closing as a profit recovery gains steam (reducing left tail risk).

The rest of the report explores other aspects of reduced right and left tail risks in the US economy.



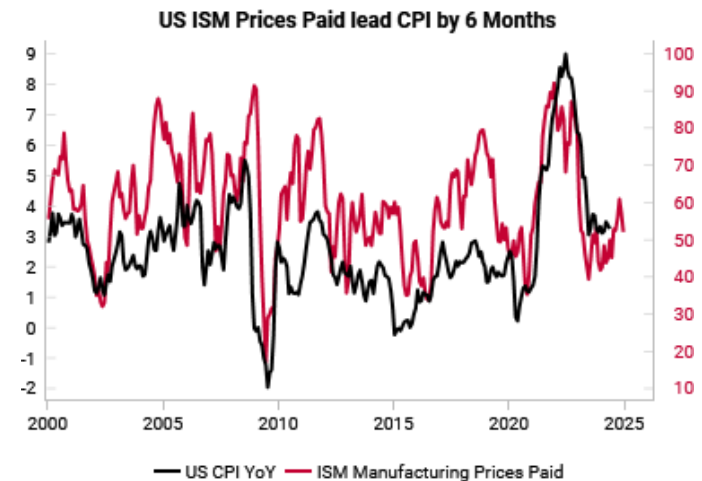
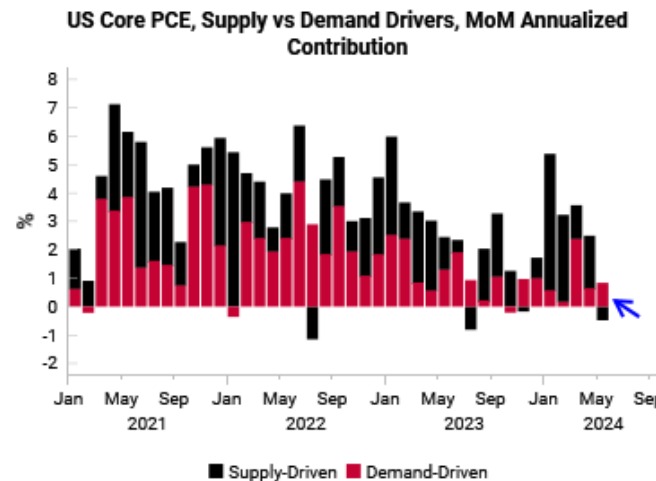
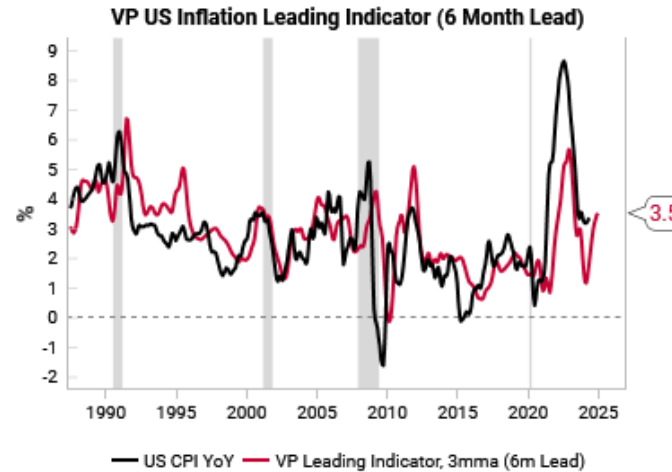
# Reduced left tail: inflation not high enough for hikes

Our US inflation LEI ticked up slightly in June (top left chart), reiterating that an **inflation “mini scare”** may persist a little longer, but **not enough to force the Fed into hikes**.

**Inflation expectations** also appear to be **anchored**, with the University of Michigan 1y ahead inflation expectations survey ticking down in May (top right chart).

The latest SF Fed data shows **supply driven inflation** was **negative MoM** in May, while **demand driven inflation** also **cooled** (bottom left chart). This further corroborates our inflation “mini scare” thesis and indicates any **slowdown in growth will also drag inflation lower, reducing stagflation risks**.

ISM prices paid also fell in June and tends to lead headline CPI by 6 months (bottom right chart).



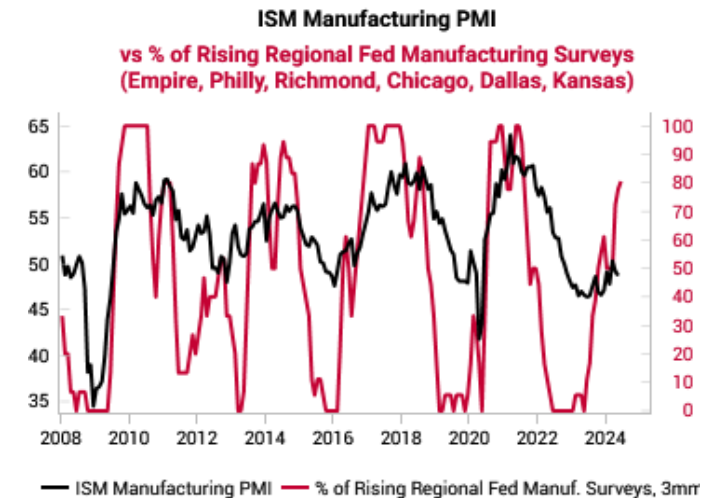
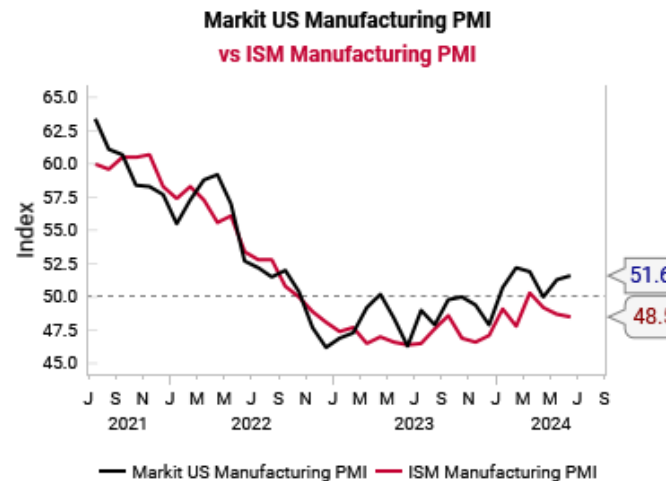
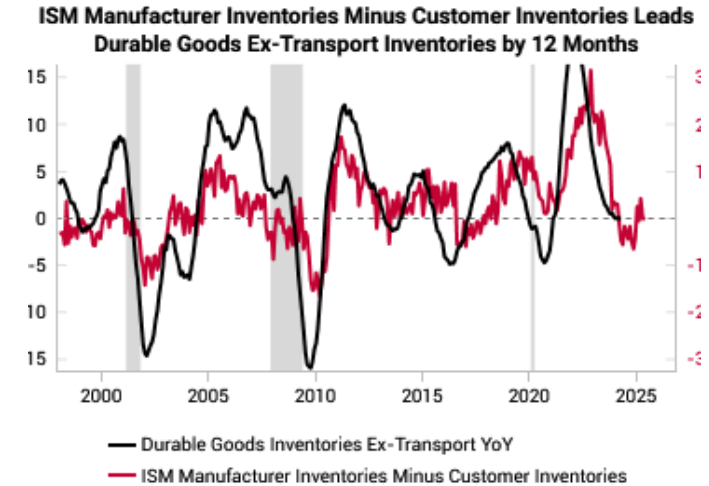
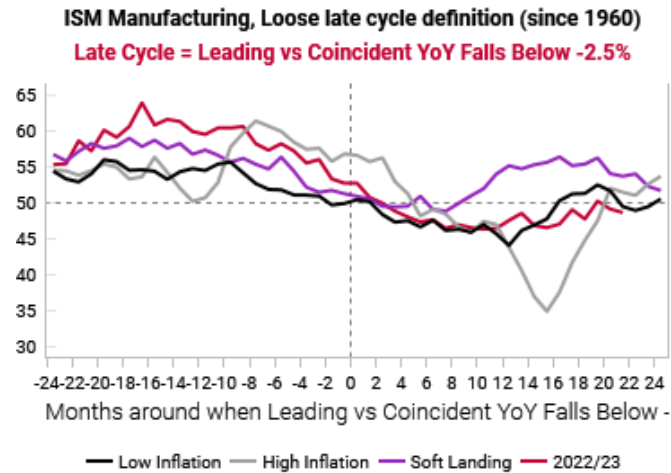
# Reduced left tail: manufacturing recovery

We have seen a localized recession in US manufacturing, with ISM manufacturing having moved in line with past recessions over the past 20 months (top left chart). The **cyclical manufacturing outlook** continues to improve, **reducing left tail risk** in the economy.

**Covid-distorted bullwhip effects are over.** Customer inventories have recovered relative to supplier inventories, **enabling a normal inventory cycle** (top right chart).

The positive impacts of an inventory cycle normalization are evident in PMI data, with the S&P global manufacturing PMI holding above 50 so far in 2024 (bottom left chart).

Our diffusion of **regional Fed manufacturing surveys** also shows a **broad trend of improvement**, with over 80% of regional Fed manufacturing surveys now positive YoY (bottom right chart).



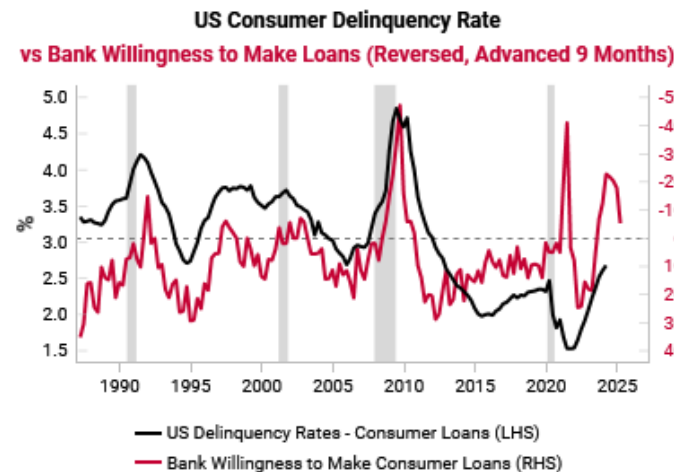
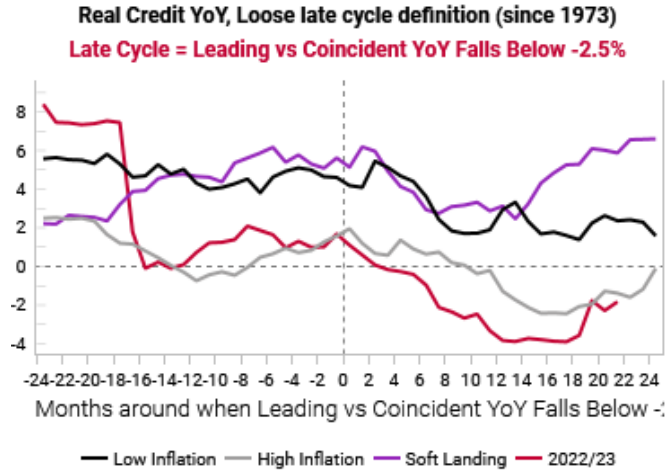
# Reduced left tail: credit recession happened, effective mortgage rate at 3.8%

The localized recession in credit has happened. Today, a **nascent credit recovery appears underway** as real credit growth is bottoming amidst easing lending standards (top left chart).

Banks continue to **ease lending standards for large and medium firms**, with only 15% of banks reporting tighter lending conditions QoQ for commercial and industrial loans. Increase in loan supply tends to lead demand by 6 months (top right chart).

**Consumer lending standards are also starting to loosen** (bottom left chart), suggesting consumer delinquencies are set to peak soon and roll over.

Another **support for credit growth is low effective mortgage rates**. While first-time home buyers face a mortgage rate in excess of 7%, the effective mortgage rate on the existing stock of mortgages remains at only 3.8% (bottom right chart).



# Reduced left tail: micro business risks likely peaked

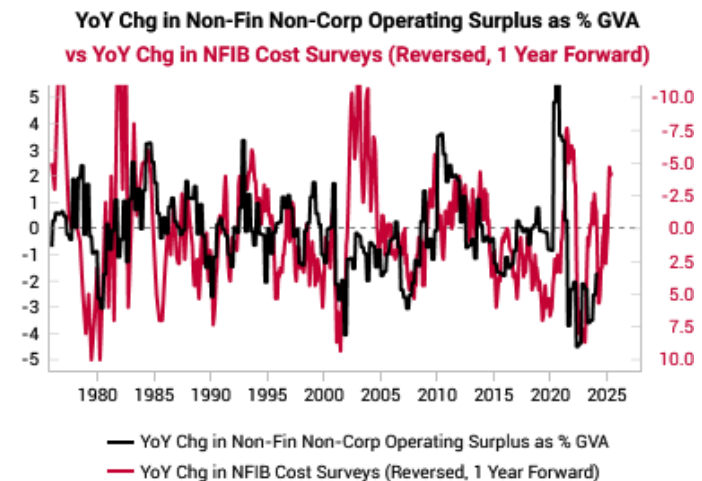
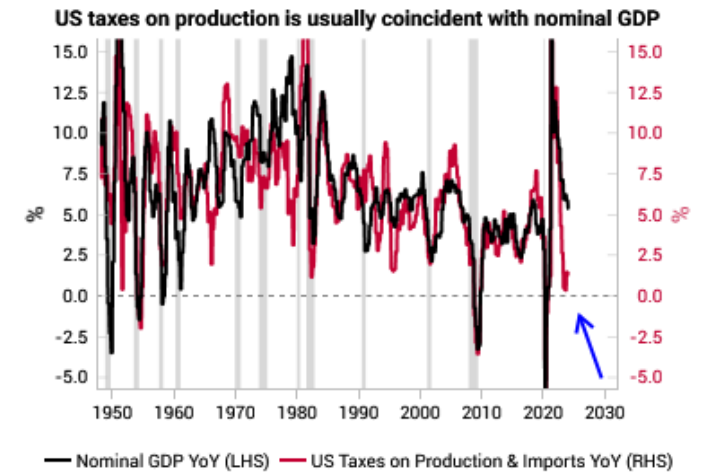
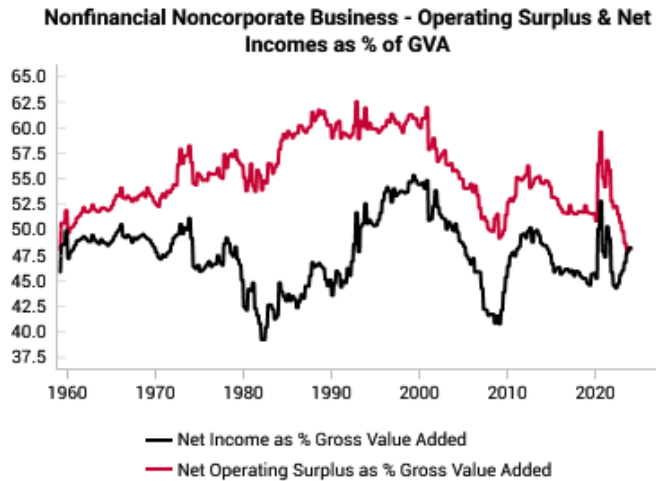
**Non-financial non-corporate** (i.e. sole proprietorships, partnerships) **operating margins collapsed** last year, as expected in a recession, but **net profit margins** have **held up** (top left chart).

Abnormally **low government tax collection** likely **explains the difference**. Production taxes have historically been very correlated with nominal GDP growth, but have diverged post-Covid (top right chart)

This is another factor that likely **explains the elevated micro-business job openings** (bottom left chart).

**NFIB surveys** are starting to show some **relief on costs**, which should help **improve operating margins** (bottom right chart).

This suggests **micro business risks have likely peaked**, albeit contingent on continued fiscal generosity.



# Reduced right tail: housing headwinds persist

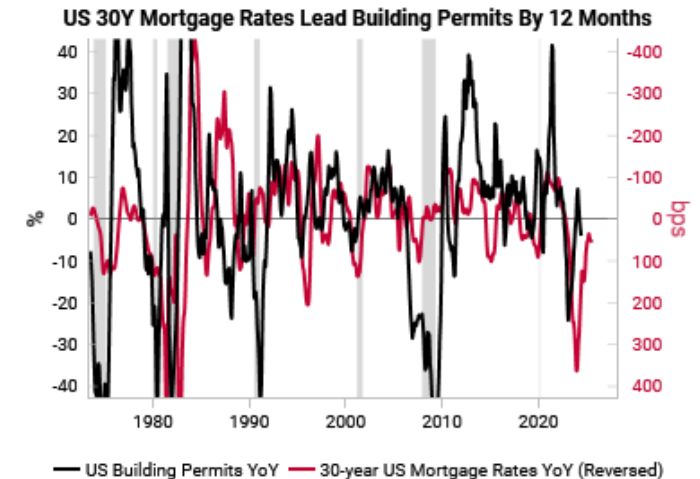
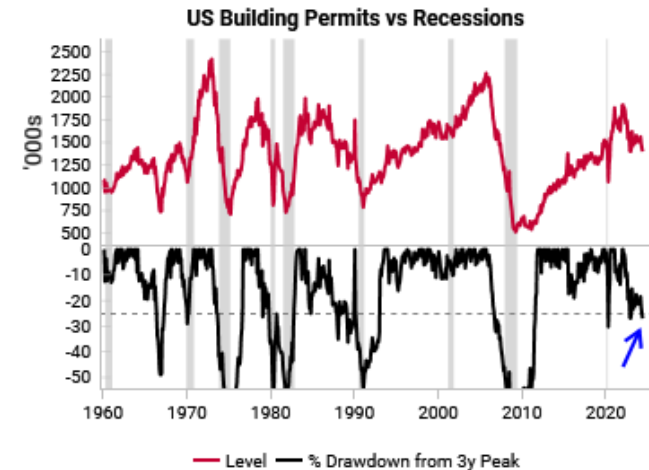
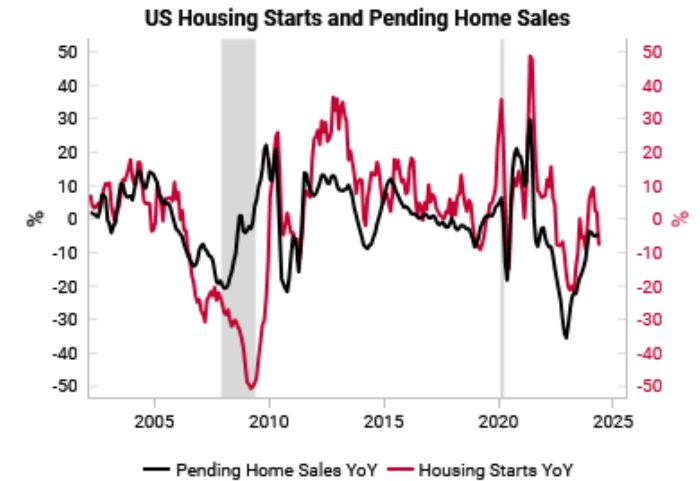
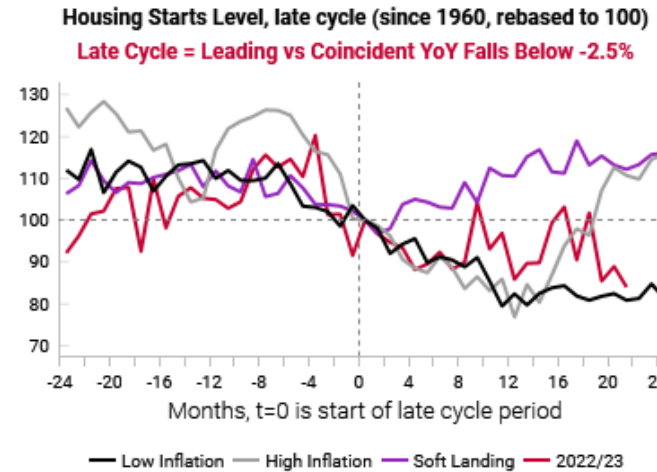
**Housing data is concerning.** Housing starts have returned to recessionary levels (top left chart) and have fallen back to **negative territory YoY**.

**Pending home sales YoY growth is still negative.** The uptrend seen throughout 2023 appears to have officially stalled out (top right chart).

**Building permits** remain well below pre-pandemic highs and are back to levels historically associated with recessions (bottom left chart).

[Supply tightness](#) has not changed since the pandemic, shown by multi-year low levels of existing US homes.

However, **mortgage rates likely need to fall for building permits to gain momentum.** Historically, changes in 30y mortgages lead building permits by 12 months (bottom right chart).





# Reduced right tail: growth LEI sideways, GDPNow higher lows

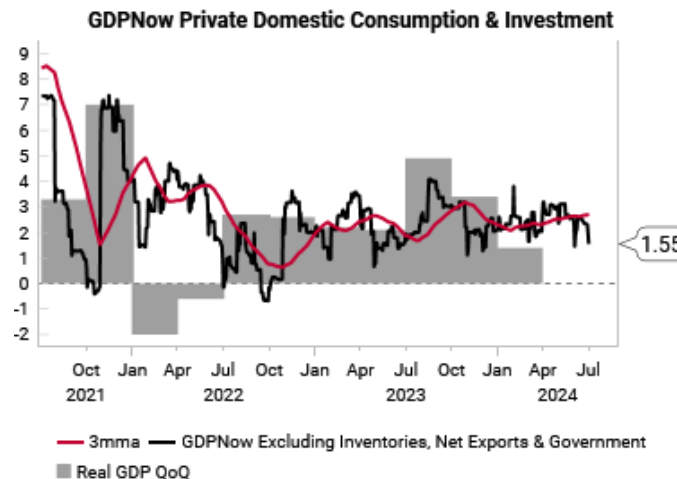
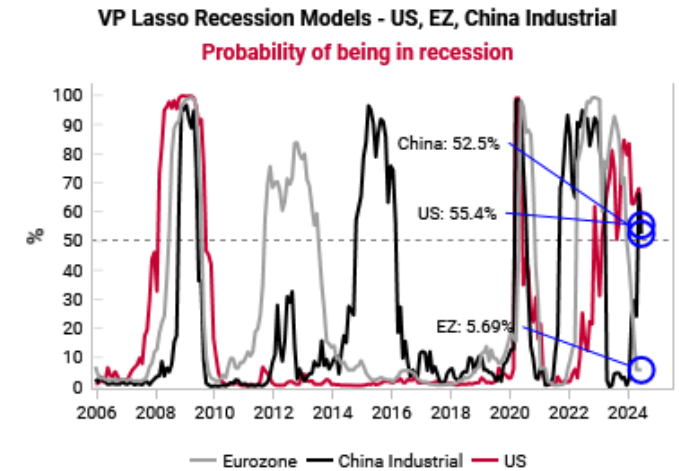
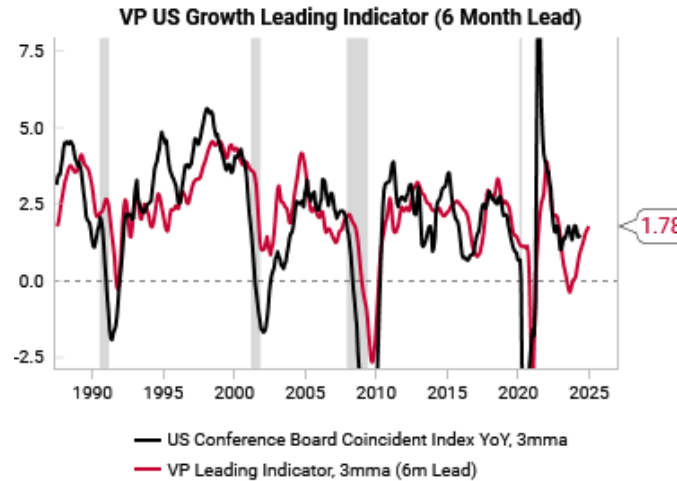
Our **US growth LEI** ticked **higher** in June, with the point estimate rising to a modest 1.8% (top left chart).

The **US recession probability** has also been **trending lower** throughout 2024 and is now approaching non-recessionary territory (top right chart).

The **non-volatile components of GDPNow** – private consumption and investment – are continuing the **gentle pattern of higher lows and higher highs**, as shown by the 3-month moving average (red line, bottom left chart).

Our recent consumer report covered the bullish structural setup for US consumption. Cyclically, our **leading indicator for US retail sales** has been **surging**, supported by easing credit standards for consumers and still resilient labor data.

Overall, the **US growth picture is still benign, but not bonanza**.



# US election: swing state economic conditions favor democrats

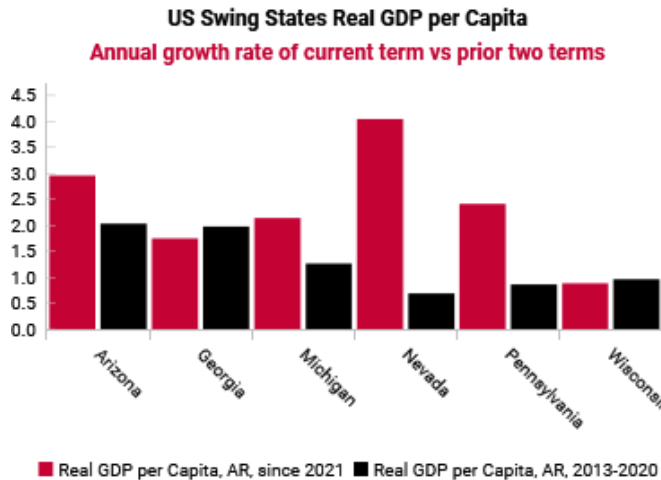
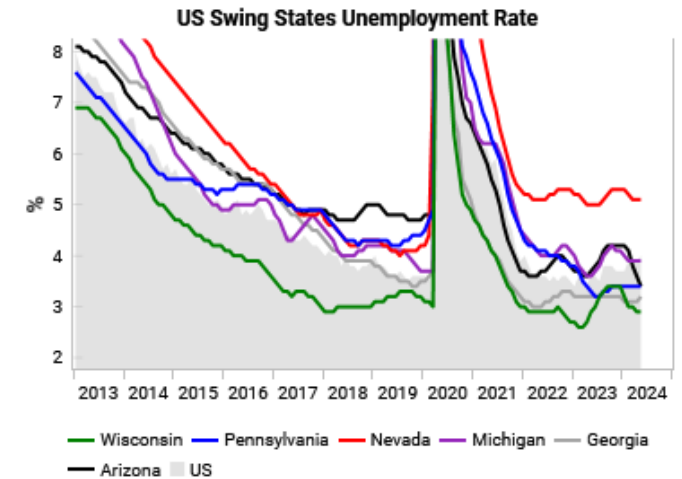
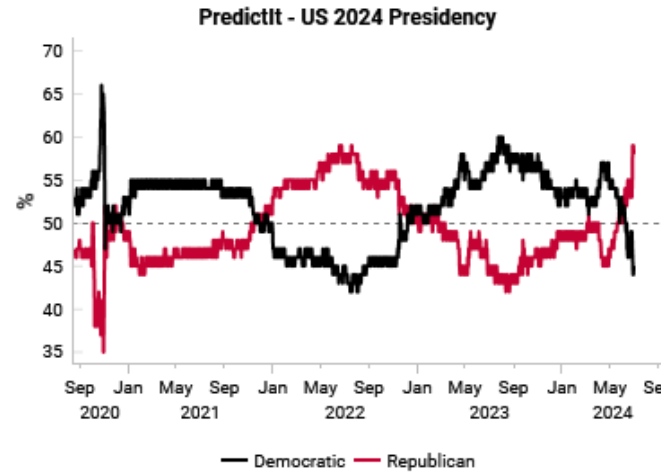
As a reminder, we do not profess to be political gurus. Our approach is to look for historical analogies to contextualize today's environment.

Following last weeks debate, PredictIt polls show Republicans now as the clear favorite (top left chart). Our US election framework ([link](#)) analyzes **13 nationwide conditions** to determine if voters are happy with the past 4 years and are likely to vote for the incumbent party.

In the US, [swing states](#) often determine elections. We can apply **TWO** out of thirteen conditions from our framework, the short-term and long-term economic conditions, to get a sense for how swing states may tilt.

Short-term, **Nevada is the only swing state with higher unemployment than the US** as a whole (top right chart). Long-term, only **Georgia and Wisconsin have seen real GDP per capita growth decline under Biden vs the prior two terms** (bottom left chart).

These two economic conditions suggest **Democrats** will take AZ, MI, PA, and likely NV, leading to a **victory in November** (the Democrats would still have >270 electoral votes without NV based on our framework).



| State                            | Electoral Votes | To Democrats | To Republicans |
|----------------------------------|-----------------|--------------|----------------|
| Arizona                          | 11              | 11           | 0              |
| Georgia                          | 16              | 0            | 16             |
| Michigan                         | 15              | 15           | 0              |
| Nevada                           | 6               | 6            | 0              |
| Pennsylvania                     | 19              | 19           | 0              |
| Wisconsin                        | 10              | 0            | 10             |
| <i>Implied Swing State Votes</i> |                 | 51           | 26             |
| <i>Consensus Electoral Votes</i> |                 | 226          | 235            |
| <b>Total Electoral Votes</b>     |                 | <b>277</b>   | <b>261</b>     |

# Equities: earnings outlook benign, liquidity moderate headwind

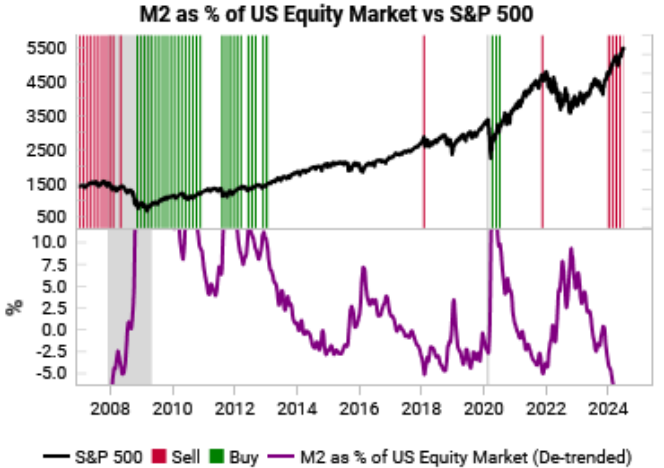
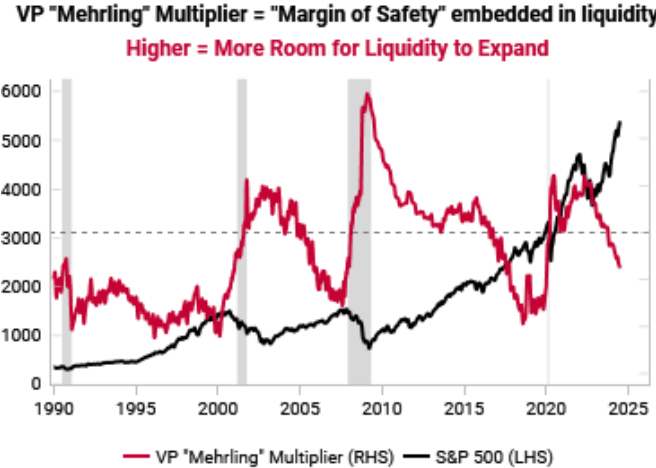
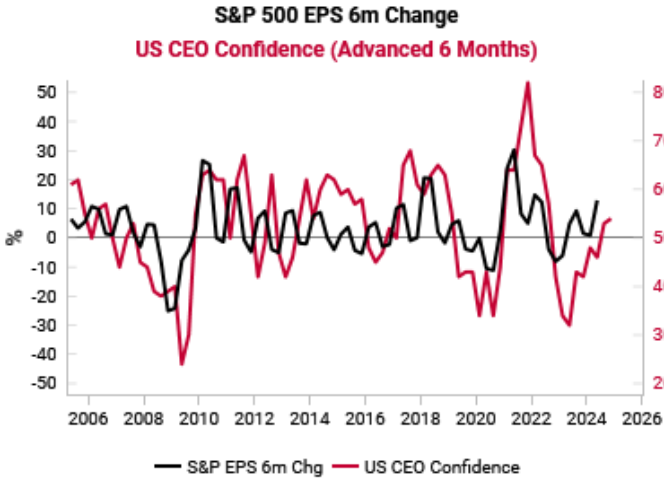
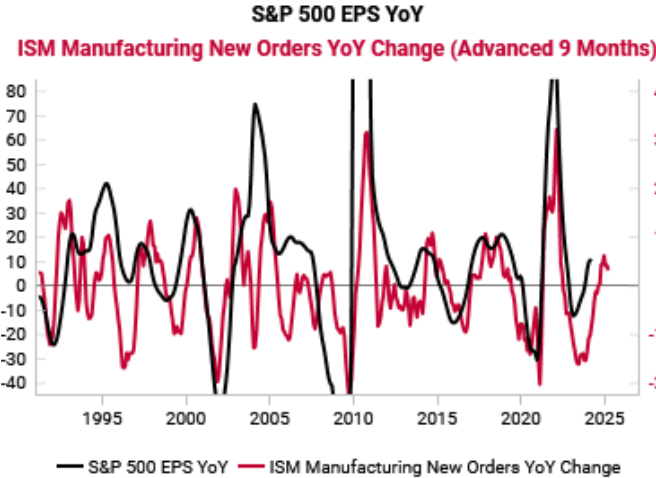
The **earnings outlook** for **US equities** in 2H24 remains **benign**.

ISM manufacturing new orders suggests **positive** but **sideways earnings growth** through the rest of 2024 (top left chart).

**CEO confidence** continues to **trend higher**, which historically **leads S&P 500 EPS by 6 months**.

The **VP “Mehrling” Multiplier**, which measures the margin of safety embedded in liquidity, continues to suggest **moderate headwinds** for **risk assets** (bottom left chart).

A simpler way to show the “level” of liquidity is to track US M2 as a % of US equity market capitalization (bottom right chart). The stock of M2 has fallen relative to rising market caps, which has historically warned of liquidity headwinds.



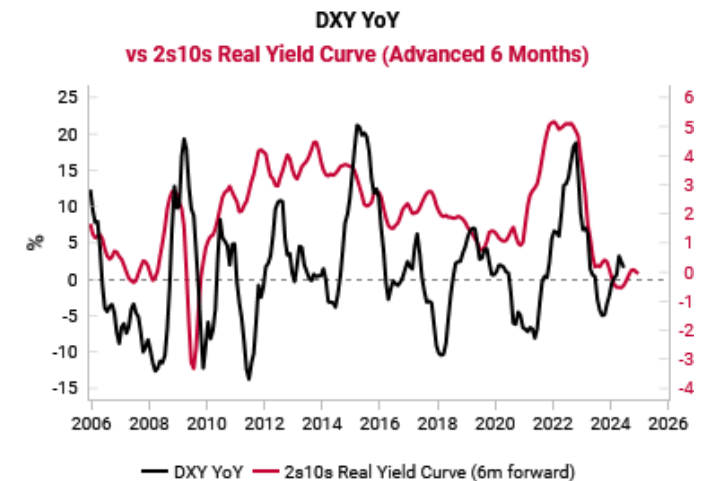
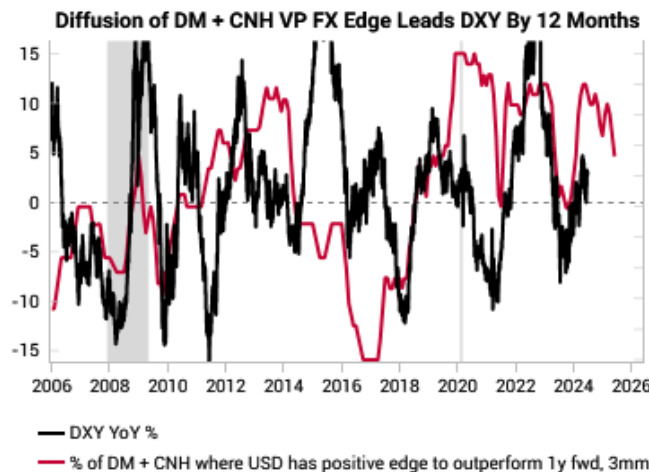
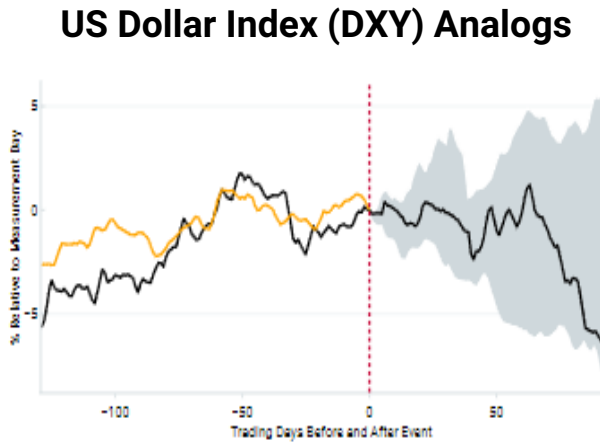
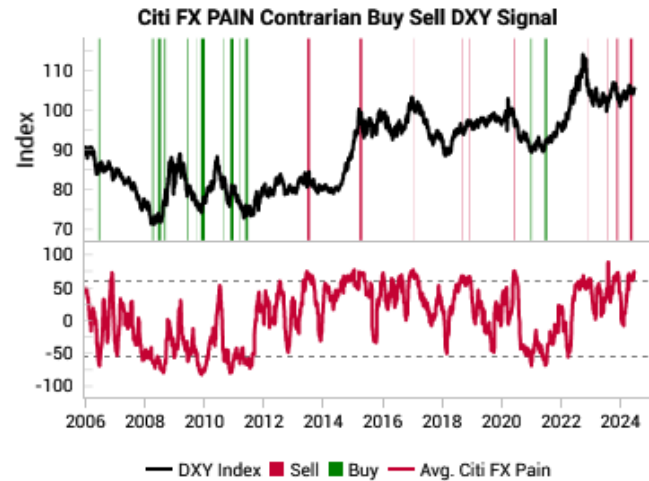
# US Dollar: sideways, tactical and cyclical not aligned

**Tactical indicators** and short-term positioning show that the **USD is vulnerable to sell-off**.

The Citi FX Pain indices (top left chart) are proxies for positioning and show contrarian long USD positions now (top left chart).

The **analog** for the **US dollar** – which uses Dynamic Time Warping to find "base case" forward return expectations for asset prices based on the past (see [whitepaper](#)) – suggests the dollar is **biased lower** (top right chart).

**Cyclically**, the diffusion of our **FX edge** models still retains a **medium-term bullish USD** bias for now (bottom left chart), while the 2s10s real yield curve suggests a sideways USD (bottom right chart).



# Commodities: cyclical/structural winners, tactical outlook improving

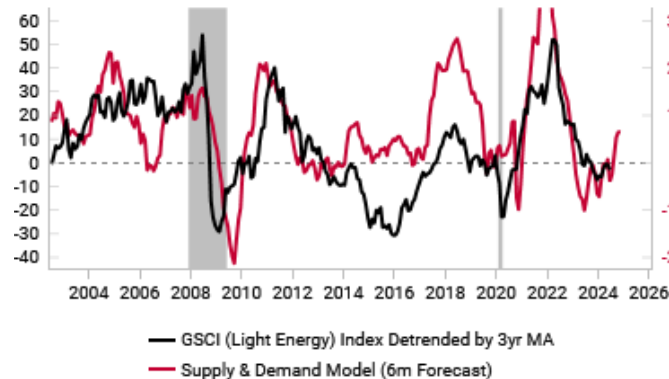
Nothing has changed regarding our cyclical and structural bullish view for real assets and commodities.

Our **commodity supply-demand model remains positive** (top left chart), and roughly **60% of our growth leading data inputs** are still **improving QoQ** ([link](#)). These are all **bullish** cyclical signs for **commodity prices**.

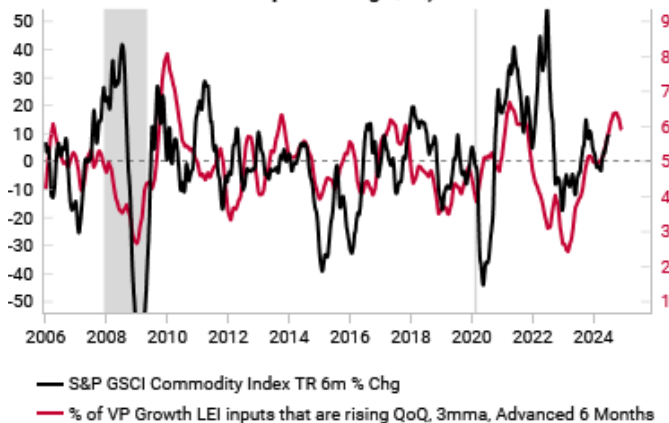
Tactically, the **net diffusion of all active VP tactical signals on commodities has flipped positive** (bottom left chart). This model is a count of all the various individual commodity trading signals we have, which we use to get a broad sense of direction a given asset class is tactically moving. At present, the interpretation is **the recent industrial-led sell-off may be close to exhausting**.

Within commodity equities, **US energy (XLE)** is now approaching its trailing 1y VWAP support level (bottom right chart).

Commodity Supply-Demand Model (6m Forward Forecast)  
Demand = Median VP Growth LEI  
Supply = VP Capital Cycle: Energy + Metals & Mining Capex to Assets



VP Growth LEI Input Diffusion Leads Commodities By 6 Months (% Inputs Rising QoQ)



GSCI Commodity Index vs Net Active % Signals



US Energy Rolling VWAP



# VP Country Growth LEI Heatmap

We are actively building various heatmaps and dashboards to help clients visualize macro & sector trends and improve asset allocation processes. Please let us know any feedback you have.

All values are the 10y percentile rank of our updated 4.0 leading growth indicators ([link to Leading Indicators 4.0 whitepaper](#)).

We use a red/green color scale to flag outliers.

Values >65<sup>th</sup> percentile have a green color scale, while values <35<sup>th</sup> percentile have a red color scale. Values between the 35<sup>th</sup> and 65<sup>th</sup> percentile are neutral (white).

This heatmap can be viewed on the [VP Country Leading Indicators dashboard](#) on the VP portal.

VP Country Growth Leading Indicator Heatmap (10 Year Percentiles)

| Region            | Country        | 6/24 | 5/24 | 4/24 | 3/24 | 2/24 | 1/24 | 12/23 | 11/23 | 10/23 | 9/23 | 8/23 | 7/23 |
|-------------------|----------------|------|------|------|------|------|------|-------|-------|-------|------|------|------|
| G3                | US             | 54   | 50   | 48   | 46   | 44   | 38   | 33    | 31    | 24    | 18   | 17   | 12   |
|                   | China          | 7    | 27   | 39   | 54   | 46   | 29   | 32    | 48    | 59    | 66   | 77   | 69   |
|                   | Eurozone       | 24   | 20   | 18   | 15   | 10   | 6    | 5     | 3     | 0     | 0    | 1    | 0    |
| DM Europe         | France         | 45   | 56   | 61   | 41   | 29   | 27   | 29    | 24    | 14    | 5    | 3    | 3    |
|                   | Germany        | 33   | 32   | 27   | 25   | 24   | 22   | 12    | 12    | 11    | 8    | 7    | 5    |
|                   | Italy          | 36   | 32   | 29   | 24   | 24   | 23   | 16    | 12    | 11    | 8    | 8    | 5    |
|                   | Norway         | 38   | 25   | 25   | 27   | 30   | 24   | 20    | 21    | 24    | 29   | 24   | 14   |
|                   | Spain          | 49   | 45   | 41   | 29   | 28   | 18   | 3     | 2     | 0     | 0    | 0    | 6    |
|                   | Sweden         | 32   | 28   | 28   | 29   | 21   | 15   | 8     | 12    | 7     | 14   | 16   | 24   |
|                   | Switzerland    | 22   | 18   | 15   | 11   | 8    | 8    | 4     | 5     | 6     | 9    | 9    | 10   |
| DM Other          | UK             | 21   | 16   | 13   | 11   | 10   | 7    | 6     | 6     | 7     | 6    | 7    | 9    |
|                   | Australia      | 15   | 14   | 11   | 6    | 4    | 1    | 0     | 1     | 1     | 0    | 0    | 2    |
| Asia Ex-Jap/China | Canada         | 34   | 34   | 31   | 25   | 22   | 13   | 7     | 13    | 16    | 15   | 13   | 11   |
|                   | Japan          | 57   | 43   | 38   | 50   | 50   | 43   | 47    | 58    | 64    | 64   | 62   | 56   |
|                   | India          | 86   | 87   | 91   | 91   | 90   | 87   | 78    | 78    | 72    | 66   | 69   | 50   |
|                   | Indonesia      | 23   | 20   | 18   | 15   | 10   | 4    | 0     | 5     | 11    | 5    | 7    | 8    |
|                   | Malaysia       | 37   | 58   | 59   | 38   | 24   | 16   | 13    | 11    | 12    | 10   | 6    | 3    |
|                   | Philippines    | 14   | 11   | 8    | 6    | 2    | 0    | 0     | 1     | 3     | 7    | 8    | 9    |
|                   | Singapore      | 58   | 65   | 61   | 66   | 58   | 46   | 42    | 42    | 32    | 22   | 21   | 18   |
| Latam             | South Korea    | 28   | 29   | 35   | 31   | 24   | 23   | 27    | 34    | 42    | 35   | 29   | 18   |
|                   | Taiwan         | 30   | 29   | 33   | 36   | 32   | 42   | 51    | 63    | 74    | 73   | 66   | 57   |
|                   | Thailand       | 25   | 28   | 27   | 31   | 29   | 7    | 1     | 9     | 6     | 3    | 8    | 8    |
|                   | Argentina      | 86   | 83   | 82   | 82   | 89   | 92   | 93    | 93    | 92    | 85   | 72   | 52   |
|                   | Brazil         | 74   | 76   | 77   | 76   | 72   | 66   | 64    | 62    | 61    | 60   | 55   | 56   |
| CEEMEA            | Chile          | 40   | 46   | 48   | 49   | 40   | 23   | 17    | 18    | 17    | 16   | 13   | 9    |
|                   | Colombia       | 33   | 23   | 20   | 18   | 14   | 8    | 13    | 15    | 10    | 8    | 7    | 5    |
|                   | Mexico         | 87   | 90   | 90   | 87   | 71   | 83   | 86    | 92    | 90    | 75   | 64   | 54   |
|                   | Czech Republic | 44   | 40   | 39   | 39   | 36   | 26   | 24    | 24    | 29    | 34   | 35   | 36   |
|                   | Hungary        | 14   | 13   | 13   | 12   | 10   | 7    | 4     | 5     | 3     | 2    | 2    | 4    |
|                   | Poland         | 89   | 84   | 78   | 65   | 62   | 26   | 10    | 13    | 10    | 7    | 3    | 1    |
|                   | Russia         | 12   | 25   | 25   | 21   | 34   | 76   | 87    | 94    | 95    | 96   | 93   | 55   |
| CEEMEA            | Saudi Arabia   | 65   | 64   | 65   | 59   | 55   | 54   | 52    | 52    | 50    | 46   | 38   | 21   |
|                   | South Africa   | 51   | 79   | 81   | 61   | 29   | 16   | 13    | 8     | 10    | 9    | 6    | 0    |
|                   | Turkey         | 41   | 32   | 30   | 30   | 33   | 32   | 22    | 15    | 11    | 28   | 68   | 72   |

# VP Country Inflation LEI Heatmap

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|-------------------|----------------|------|------|------|------|------|------|-------|-------|-------|------|------|------|
| G3                | US             | 88   | 89   | 89   | 87   | 87   | 84   | 83    | 80    | 71    | 46   | 25   | 16   |
|                   | China          | 1    | 8    | 9    | 19   | 14   | 5    | 15    | 29    | 63    | 66   | 36   | 17   |
|                   | Eurozone       | 78   | 75   | 69   | 61   | 48   | 29   | 33    | 39    | 42    | 34   | 34   | 39   |
| DM Europe         | France         | 66   | 68   | 73   | 70   | 71   | 68   | 66    | 75    | 76    | 66   | 54   | 67   |
|                   | Germany        | 50   | 45   | 43   | 45   | 51   | 66   | 71    | 71    | 66    | 52   | 45   | 54   |
|                   | Italy          | 76   | 52   | 28   | 24   | 15   | 5    | 5     | 4     | 3     | 3    | 0    | 0    |
|                   | Norway         | 79   | 82   | 84   | 84   | 81   | 85   | 87    | 89    | 87    | 86   | 89   | 91   |
|                   | Spain          | 79   | 79   | 76   | 74   | 72   | 70   | 67    | 66    | 66    | 59   | 48   | 49   |
|                   | Sweden         | 77   | 76   | 76   | 70   | 76   | 76   | 57    | 55    | 41    | 21   | 8    | 51   |
|                   | Switzerland    | 78   | 75   | 66   | 64   | 57   | 45   | 29    | 24    | 21    | 13   | 12   | 14   |
| DM Other          | UK             | 57   | 58   | 55   | 56   | 56   | 57   | 55    | 50    | 43    | 32   | 25   | 32   |
|                   | Australia      | 90   | 94   | 96   | 100  | 98   | 95   | 92    | 92    | 91    | 90   | 86   | 87   |
|                   | Canada         | 76   | 76   | 65   | 61   | 51   | 48   | 47    | 33    | 14    | 10   | 3    | 8    |
|                   | Japan          | 83   | 80   | 82   | 79   | 75   | 77   | 81    | 90    | 96    | 89   | 78   | 76   |
| Asia Ex-Jap/China | India          | 56   | 56   | 60   | 63   | 66   | 68   | 69    | 66    | 68    | 67   | 64   | 62   |
|                   | Indonesia      | 37   | 42   | 39   | 34   | 15   | 1    | 0     | 0     | 4     | 3    | 8    | 12   |
|                   | Malaysia       | 18   | 17   | 15   | 14   | 13   | 9    | 7     | 5     | 4     | 3    | 1    | 0    |
|                   | Philippines    | 62   | 61   | 58   | 55   | 54   | 42   | 36    | 49    | 47    | 29   | 23   | 24   |
|                   | Singapore      | 90   | 84   | 82   | 87   | 89   | 82   | 71    | 54    | 45    | 29   | 17   | 17   |
|                   | South Korea    | 68   | 66   | 64   | 60   | 53   | 34   | 34    | 24    | 22    | 5    | 1    | 0    |
|                   | Taiwan         | 99   | 97   | 96   | 92   | 85   | 78   | 76    | 55    | 23    | 3    | 2    | 0    |
| Thailand          | 28             | 18   | 13   | 6    | 4    | 2    | 0    | 0     | 0     | 0     | 0    | 1    |      |
| Latam             | Argentina      | 99   | 100  | 100  | 100  | 100  | 100  | 100   | 100   | 100   | 100  | 99   | 97   |
|                   | Brazil         | 48   | 46   | 41   | 30   | 18   | 9    | 8     | 6     | 4     | 3    | 0    | 0    |
|                   | Chile          | 81   | 85   | 85   | 82   | 76   | 71   | 68    | 53    | 56    | 63   | 51   | 49   |
|                   | Colombia       | 50   | 50   | 34   | 24   | 10   | 0    | 4     | 24    | 36    | 19   | 44   | 71   |
|                   | Mexico         | 69   | 67   | 66   | 61   | 56   | 40   | 42    | 38    | 30    | 19   | 8    | 4    |
|                   | Czech Republic | 77   | 76   | 71   | 74   | 80   | 69   | 64    | 23    | 5     | 2    | 1    | 0    |
| CEEMEA            | Hungary        | 44   | 30   | 19   | 5    | 3    | 3    | 8     | 9     | 3     | 4    | 16   | 26   |
|                   | Poland         | 82   | 79   | 76   | 76   | 63   | 63   | 66    | 48    | 29    | 26   | 19   | 24   |
|                   | Russia         | 68   | 56   | 52   | 58   | 60   | 56   | 44    | 38    | 33    | 28   | 12   | 1    |
|                   | Saudi Arabia   | 82   | 82   | 82   | 81   | 79   | 78   | 77    | 73    | 71    | 67   | 64   | 52   |
|                   | South Africa   | 16   | 21   | 21   | 20   | 15   | 8    | 3     | 3     | 2     | 0    | 0    | 3    |
|                   | Turkey         | 86   | 92   | 94   | 92   | 90   | 89   | 89    | 91    | 91    | 89   | 87   | 82   |



**CONTACT US**

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