

Steen Jakobsen

Datum

Something is Broken, what is it ?

August 14th, 2024

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Steen Jakobsen, Denmark, 2024

Macro Framework

The Macro trends is now **Global Divergence vs Convergence**.

We are in broad-based consolidation.. We are also so far-away from mean-expected return that inside next 2 month a peak could be in. Election years tends to peak into August! **The combination of August peak in elections years and 1st cut the most negative for market makes August into September the EXIT time for me in market.**

Real economy is **too small** for the aspiration of: Fiscal deficit, Green transformation, Ai, decarbonization and capacity in electricity.

S&P is 90% intangibles vs 10% tangible. The 10% needs to grow to 25-30% leading commodity, infrastructure and tangible asset to outperform (Cyber, gold, silver, metals, ships)

Economy is in **accelerated** slow-down mode based on: Nominal growth lower than cost of capital. This leads to either rate-cutting cycle or consumer spending down (Unemployment up)

Central banks moving to **synchronized rate cuts**. Higher for longer is yet another policy mistake

Macro & Strategy Headlines

- NEW PARADIGM: **Bank of Japan normalizing decades of easy monetary policy.**
- NEW FOMC: Fed will announce 50 bps at **Jackson Hole** (22nd August- 24th August)
- NEW Trade: Long Commodities (DBC ETF) on Fed cuts, oversold, and stimulus..
- NEW Trade: Short US\$ - 1.1000 EUR broken...

Scenario's from here: We had a big VaR reduction move but:

1. Middle East risk remains. Iran will attack.
2. The JPY normalization will continue (sell close to 150 USJY)
3. Earnings results although beating (on lowered expectations) is still mostly in single digit growth setting up risk to forward earnings. The IT sector massive spend CAN'T be justified on earnings (Top line growth, margins and return on invested capital – the three key measures. IF the last one (i.e. spending on CAPEX) have negative return then the overall appeal of company falls. (Think Meta and Zuckerberg's clueless bet on metaverse and how investor penalized him.
4. Hard and Soft data continues to come down.,....
- 5.US Election – With Harris vs. Trump we have gone from a “living dead” fighting a moron, to a liberal Democrat who believes in taxes, wokeness and continuing the Biden/Obama terrible economic policies, so basically a Social democrat vs. The Green Haired Monster. Big Government vs. Non-Governance. The loser: Accountability and average consumers through government crowding out private capital.

Tactically: VERY long fixed income: < 5yr

The next FOMC meeting is in:

36

DAYS

08

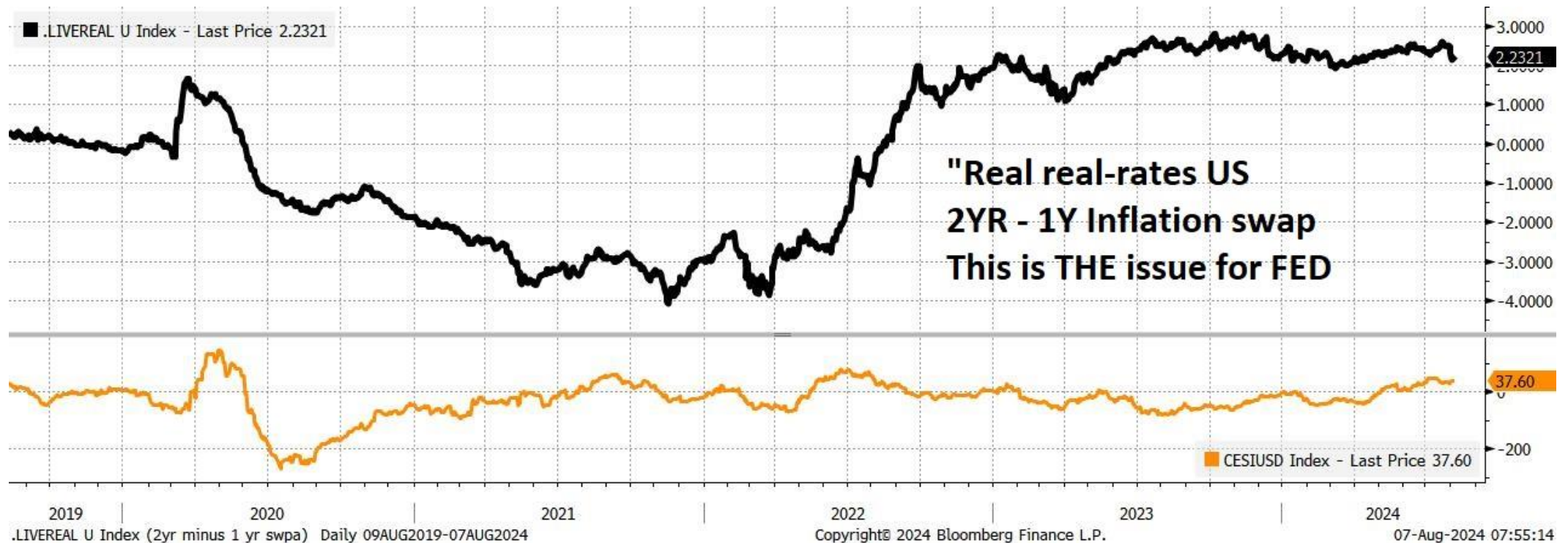
HRS

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MIN

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SEC



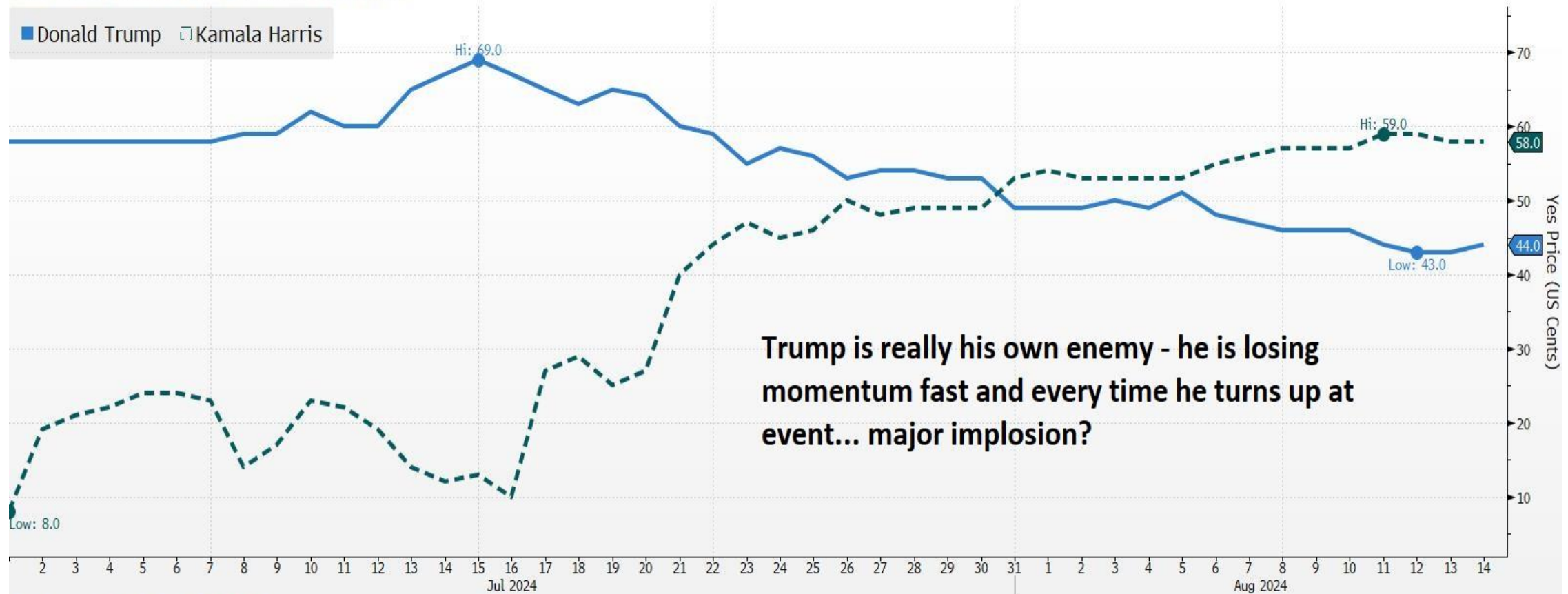
US Election

Trump is doing everything he can to lose..

2024 Presidential Race Odds

Harris surpasses Trump in betting market

■ Donald Trump □ Kamala Harris



Trump is really his own enemy - he is losing momentum fast and every time he turns up at event... major implosion?

Source: PredictIt.org

Inflation under control - check Recession Next?

1-Year US inflation Swaps

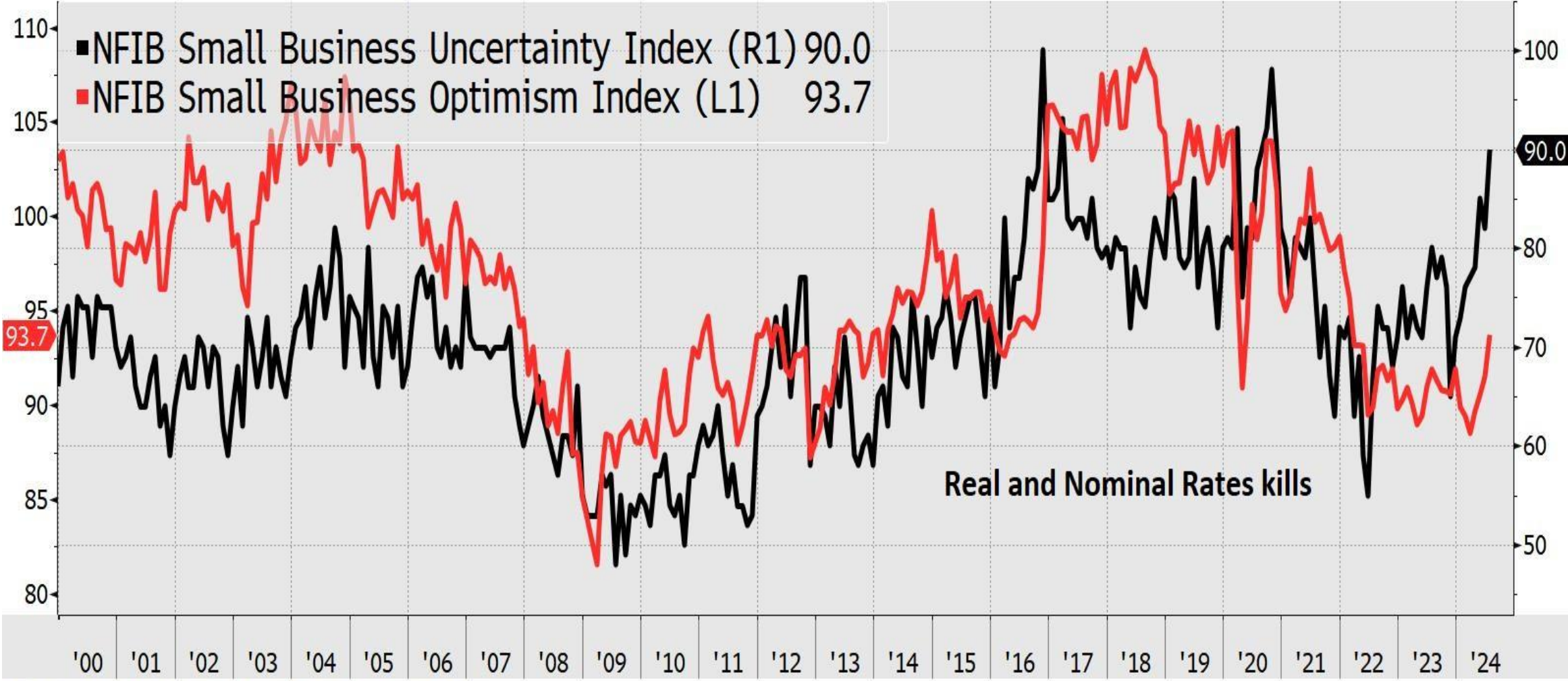
Wow - already at 200 bps



SME USA in trouble?

Recession Next?

US Small Business Uncertainty Elevated



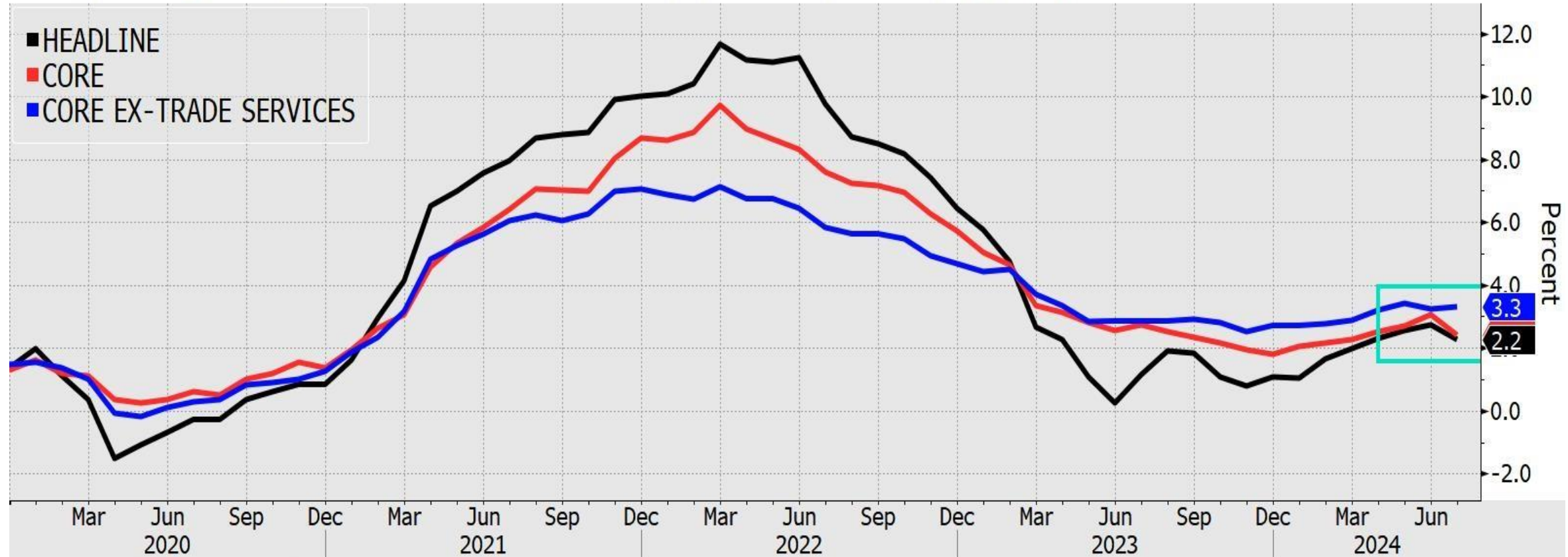
Source: Nat'l Fed. of Ind. Business

Producer Price Index

Trend break from higher..

Trend, Interrupted

Producer prices reverse a several month trend of higher prices



Source: Bureau of Labor Statistics

FDIUFDO Index (US PPI Final Demand YoY NSA) PPI Headline/Core Monthly 31DEC2019-31JUL2024

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Treasury Sec. Yellen been floating markets with liquidity
Now reversing...

Treasury's been supporting markets



Source: US Treasury

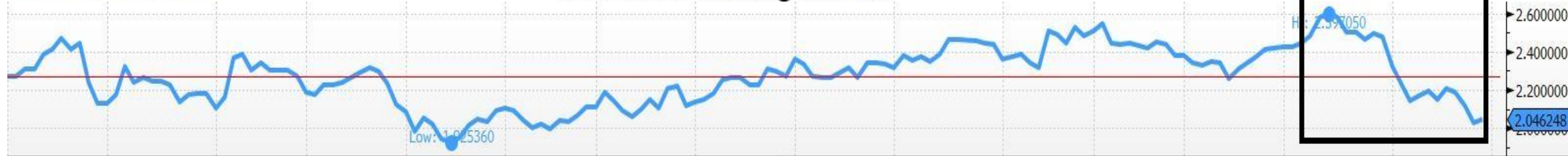
Steen 4-Factor Monetary Model

Real Rates, Bond Vol, Dollar and FOMC

Steen's 4-Factor Model - Monetary Conditions

Blue-dash line is Average 1Y

Real Rates coming down..



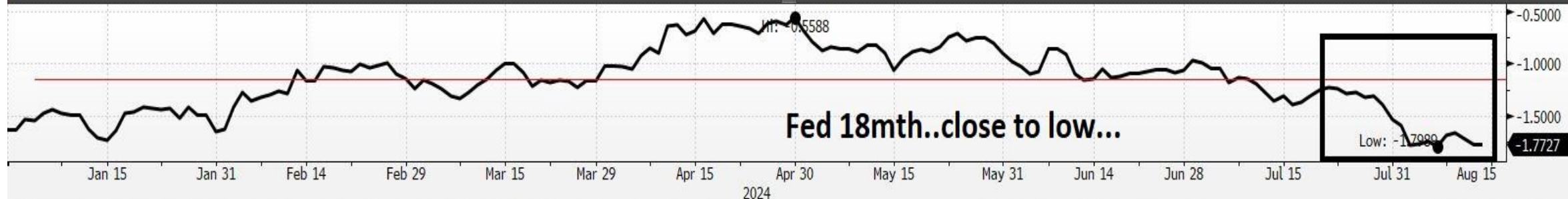
Bond vol remains high..



Dollar Index v. weak



Fed 18mth..close to low...

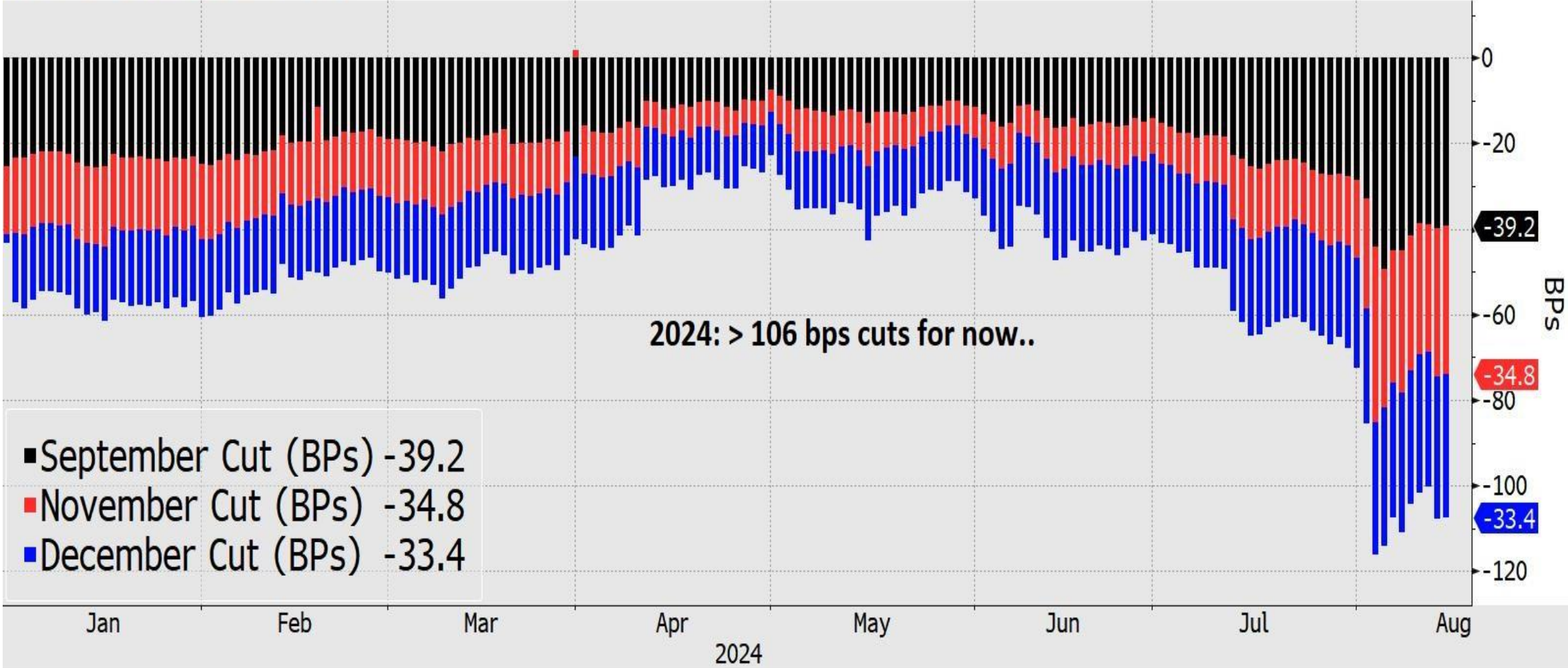


FOMC > 100 bps for 2024

Market is driving the agenda

Aggressive Fed Cuts Priced

Markets see 100BPs in cuts this year

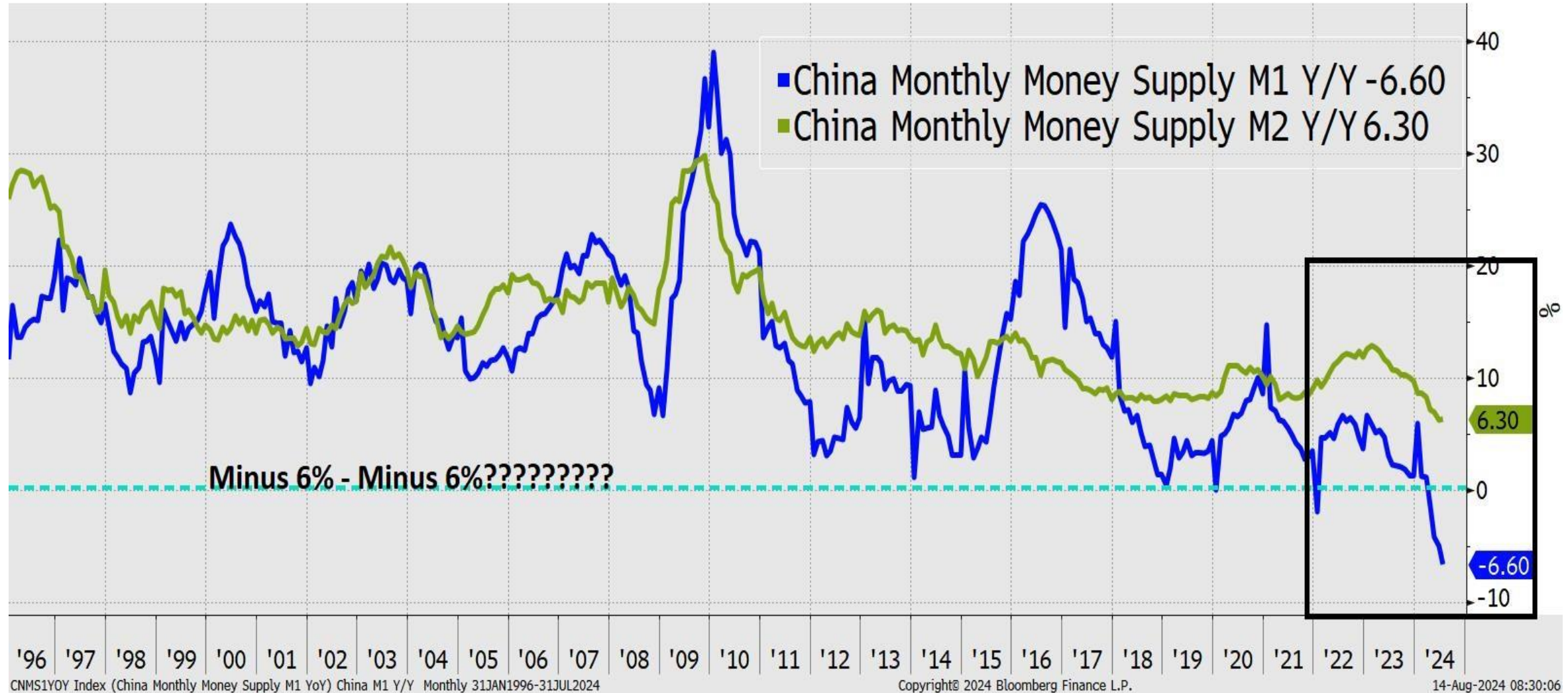


Source: Bloomberg

BROKEN: China

M1 is MINUS 6%!!!!

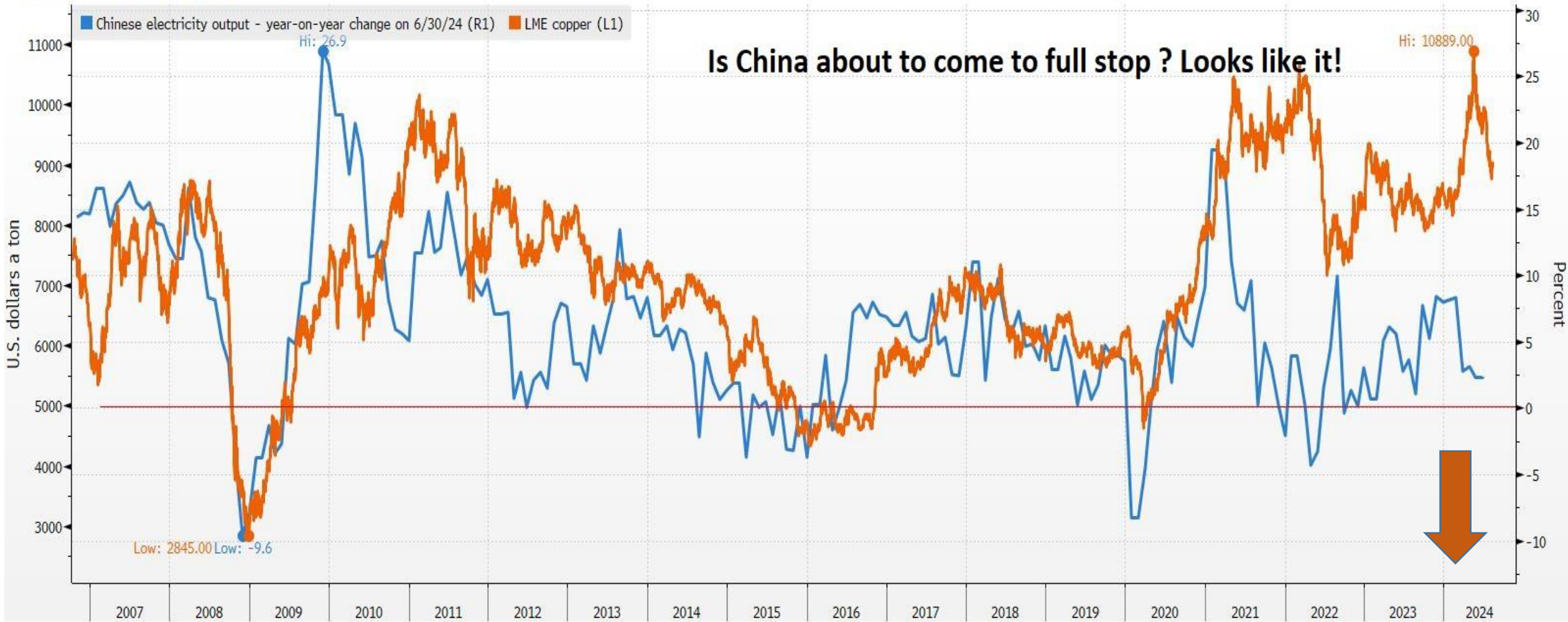
China M1 Shrinks at Fastest Pace on Record



BROKEN: China

Warning signals coming in fast & furious

Electric Shock China looks very vulnerable



Source: LME, Bloomberg

CZINELEC Index (China Industrial Output YoY - Electricity) Electricity vs Copper Daily 07OCT2006-14AUG2024

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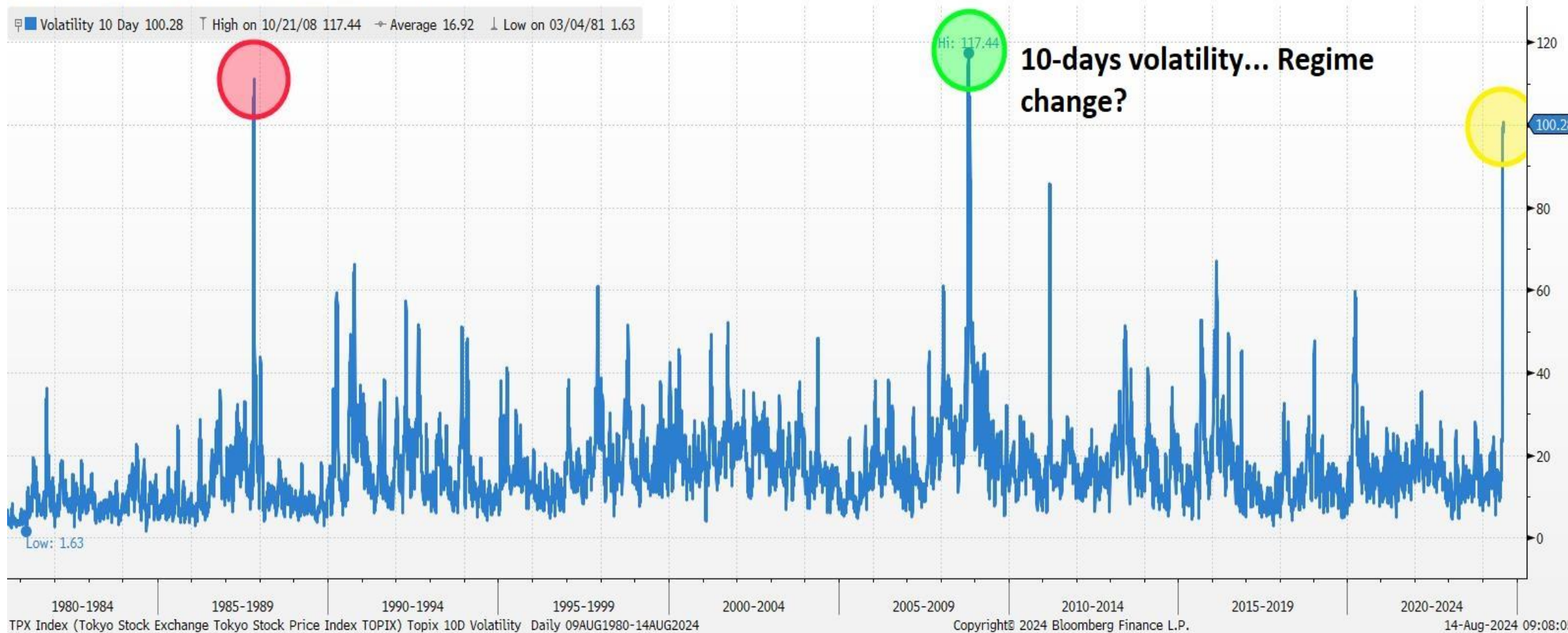
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BROKEN: Japan's monetary transmission

Vol at 1980s high...

Japan Volatility Explodes

10-day gauge at highest since GFC, bubble burst



BROKEN: Japan's monetary transmission

BOJ got nervous retest 150?

Japan 10-Year Yields

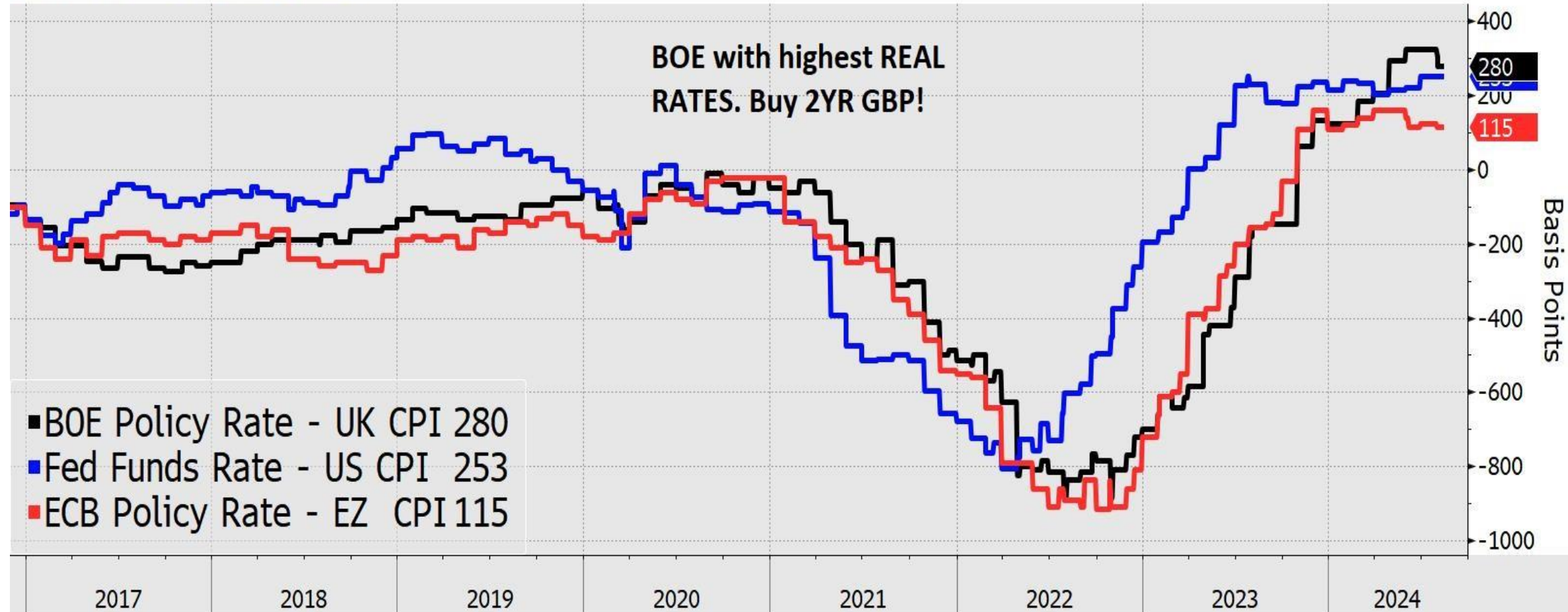


BROKEN: UK Real Rates highest !

Long Short Gilts

Real Policy Rates

Bank of England's restrictive real rate



- BOE Policy Rate - UK CPI 280
- Fed Funds Rate - US CPI 253
- ECB Policy Rate - EZ CPI 115

Source: Bloomberg

UKRBASE Index (UK Bank of England Official Bank Rate) Real policy rates Daily 30NOV2016-14AUG2024

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SPX "on again" ...Long # of stocks > 200 SMA > 70%

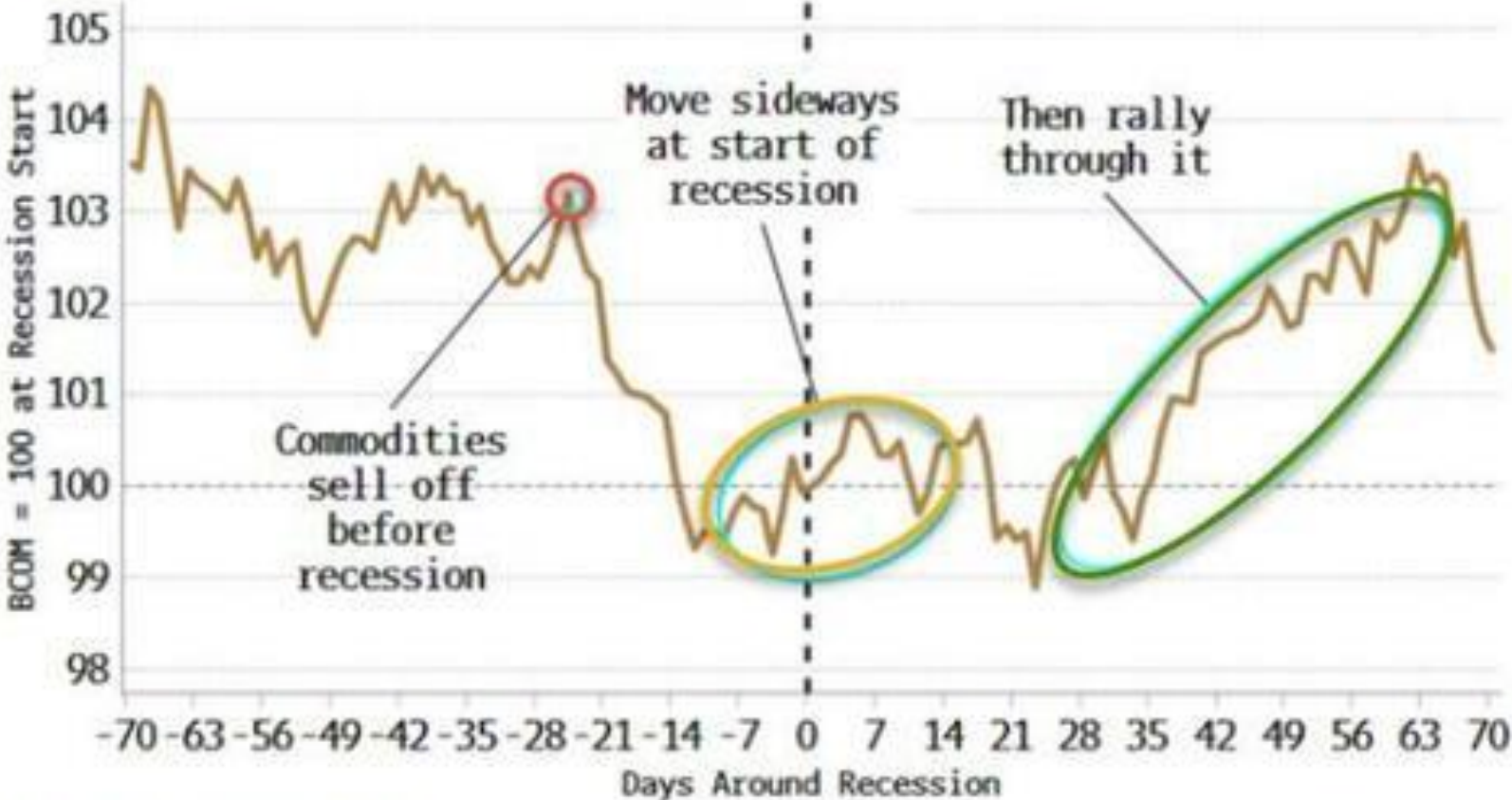
% member > 200 D SMA



Commodities big upside?
FED cutting is “normally” good for Commodities

Commodities Rally Through a Recession

— Bloomberg Commodity Index (BCOM), Mean Through Recessions From 1960

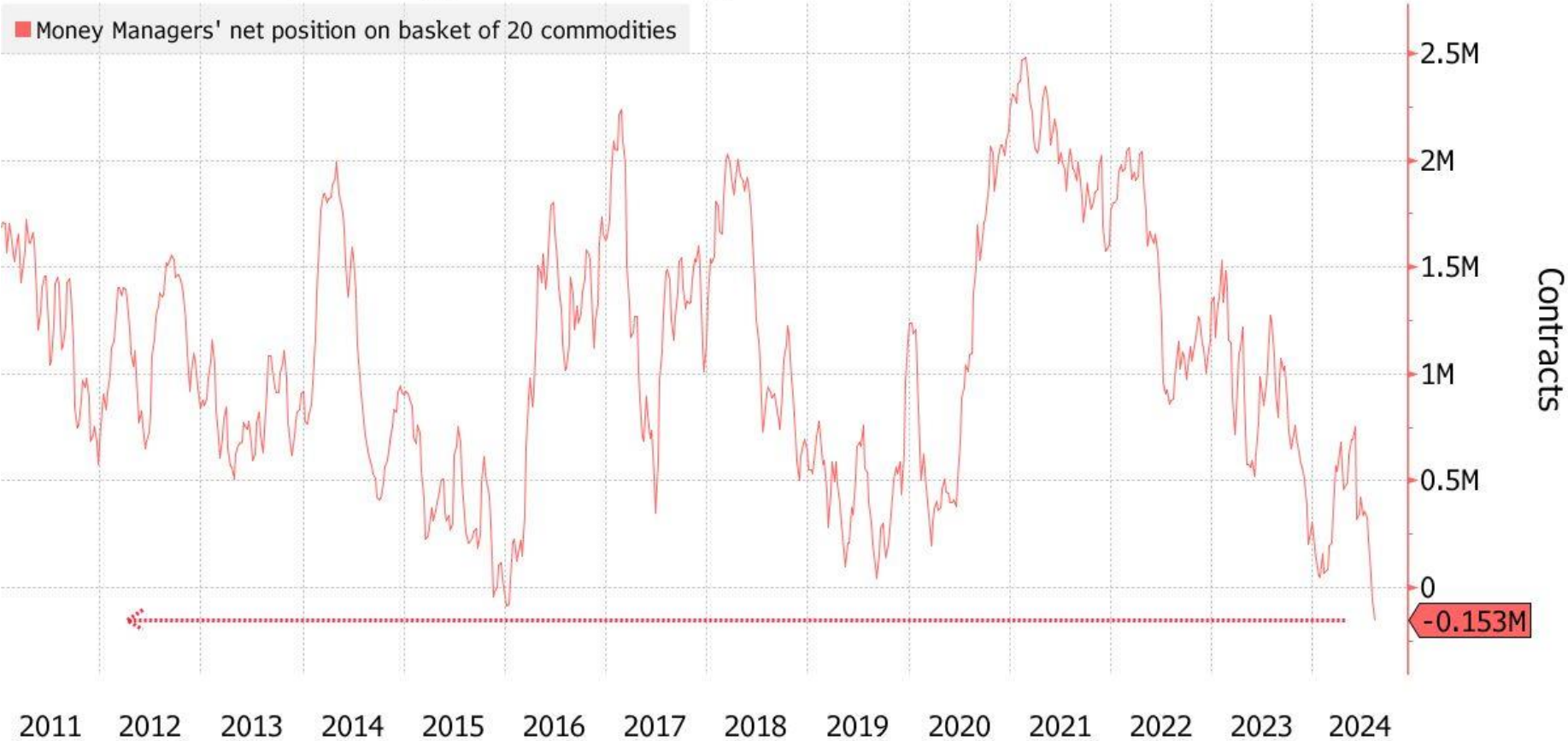


Source: Bloomberg; Macrobond

Commodities big upside?
FED cutting is “normally” good for Commodities

Hedge Funds Boost Bearish Commodity Bet

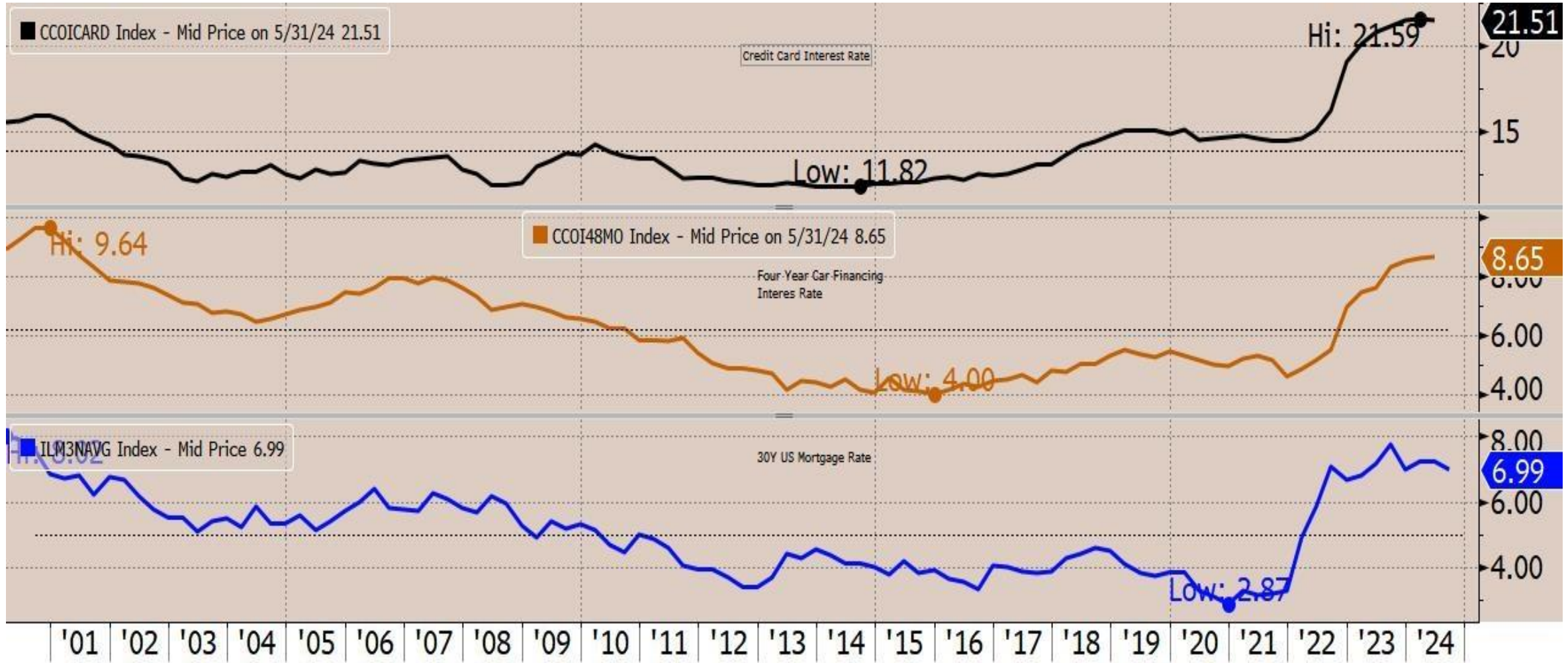
Investors have piled biggest net-short position since at least 2011



Source: CFTC, Bloomberg

Bloomberg

US Consumer is tired..
Credit on: Credit Cards, Cars and Mortgages



Global Growth = Copper
412 is neutral – Trading? 399.50

Global Growth - Copper Still trading weak.. ie. lower growth

| | |
|---------------------------|--------|
| ■ Last Price | 406.10 |
| T High on 05/20/24 | 519.85 |
| + Average | 399.40 |
| ↓ Low on 10/23/23 | 351.95 |
| ■ SMAVG (50) on Close>>1 | 433.67 |
| ■ SMAVG (200) on Close>>1 | 412.02 |

