



PINETREE MACRO

Brave New World

Edition 4

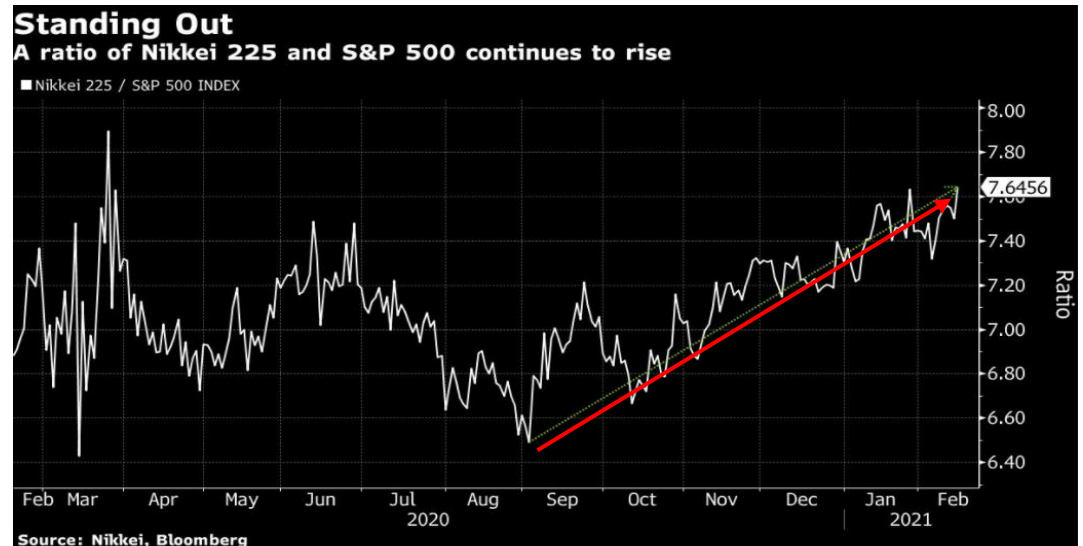
Nikkei surfaces back to levels seen 30 years ago

- Nikkei still needs to gain almost 30% to surpass its record highs last seen in 1989; before the index went on to lose more than half its value.
- Japanese equity markets are trading at a lower PE multiple than S&P 500, despite their stronger earnings & lower interest rate. The Topix trades at 14 times forward earnings, compared to 21 times for the S&P 500.
- The recent changes on the political front (PM Yoshihide Suga resignation) could help step up the markets further as a new administration brings prospects of spending boost and targeted reforms



On Valuation front four tech firms — Apple, Alphabet, Amazon and Facebook — with a combined market cap of \$7.3tn are now worth more than all 2,187 companies that make up the Topix stock market in Tokyo
(Source: Insider weekly)

There are Japan focused ETFs listed in the US with exposure to listed companies operating in Japan (available for investment by Indian citizens)



Energy – The Shortfall that no one is talking about, the shortfall that is getting serious

- Regions like North Asia, Europe and China compete over finite supply of fuels like coal & natural gas used to heat household & power factories. This has pushed the price of natural gas & electricity to record levels fueling inflation and threatening to stall the economic recovery; just when businesses reopen and people return to office.
- Demand for heating will jump when temperatures turn colder over the next few months, which could trigger power rationing.
- Utility companies are passing on price rise to consumers, at the same time everything from food to transportation costs are also rising due to supply chain issues; creating challenging environment for politicians trying to gather support for energy transition.

Global Energy Crunch Leaves China Facing More Power Shortages

Bloomberg News
16 September 2021, 07:45 GMT+5:30

► China poised for winter power deficit despite preparation

Markets

Europe's Power Crunch Deepens as Ireland Warns of Blackout Risk

By [Will Mathis](#) and [Rachel Morison](#)
9 September 2021, 21:19 GMT+10 Updated on 9 September 2021, 23:11 GMT+10

- An interconnector connecting Ireland to Britain was stopped
- Limited gas availability is driving up prices ahead of winter

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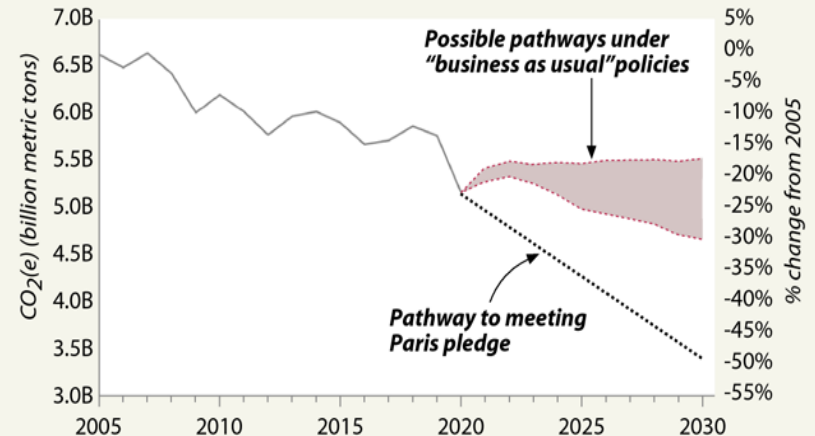
Rising energy prices is inflationary, so unless we see these prices falling; the entire argument of calling inflation 'transitory' goes for a toss.

There are Energy focused ETFs listed in the US with focus on companies involved in exploration/production & distribution (available for investment by Indian citizens)

GHG Cuts Needed to Meet Biden Goal

Strong policy will be needed to put the United States on a path to meeting President Joe Biden's pledge under the Paris accord to cut greenhouse gas pollution 50 percent by 2030. Without action, emissions are on track to remain stable or fall slightly, depending on economic factors and energy prices.

U.S. GREENHOUSE GAS EMISSIONS UNDER CURRENT POLICY In net billion metric tons of CO₂(e) and percent change from 2005



SOURCE: Rhodium Group

Inside Climate News



Real Assets vs Financial Assets ratio the lowest since atleast 1925

- Last two bottoming's in 1999 & late 1960s, corresponded to the start of major commodity bull markets & upward inflation pressure.
- Real assets are positively correlated with inflation and interest rates, unlike financial assets like stocks and bonds. These assets have seen lower returns and lower volatility over the past 5 & 10 years as inflation fell to the lowest average levels seen since 1960s.

- **Pumping of trillions of dollars into the economy has led to secular turning point on Inflation.**
- **An uptick in inflation may lead to rising rates which will weigh on stock returns for the next decade.**
- **Will we see the traditional 60:40 Equity Debt allocation changing in this scenario? Lets watch...**

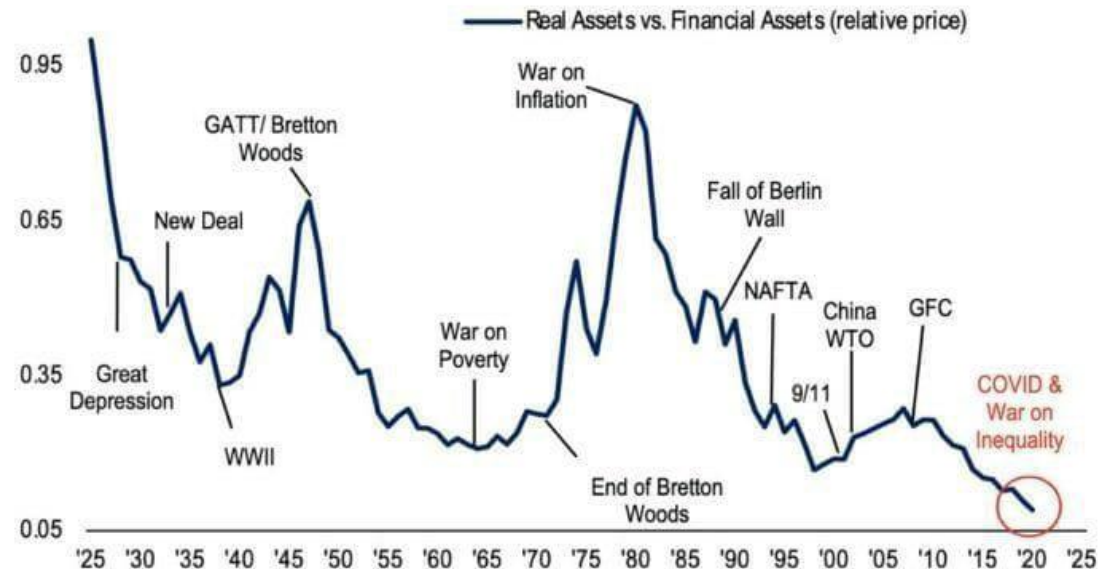
JPMORGAN: "Global house prices rising at fastest pace in 40 years, with little sign of stopping .. As of 2Q21, house prices are tracking 13% above pre-pandemic levels."

High steel prices have manufacturers scrounging for supplies – 9/15/21

<https://www.wsj.com/articles/high-steel-prices-have-manufacturers-scrounging-for-supplies-11631698202>

Exhibit 1: All-time lows...real assets relative to financial assets since 1925

Real assets (Commodities, Real Estate, Collectibles) vs. Financial Assets (Large Cap Stocks, Long-term Govt Bonds) since 1925



Source: BofA Global Investment Strategy, Global Financial Data, Bloomberg, USDA, Savills, Shiller, ONS, Spaenjers, Historic Auto Group.

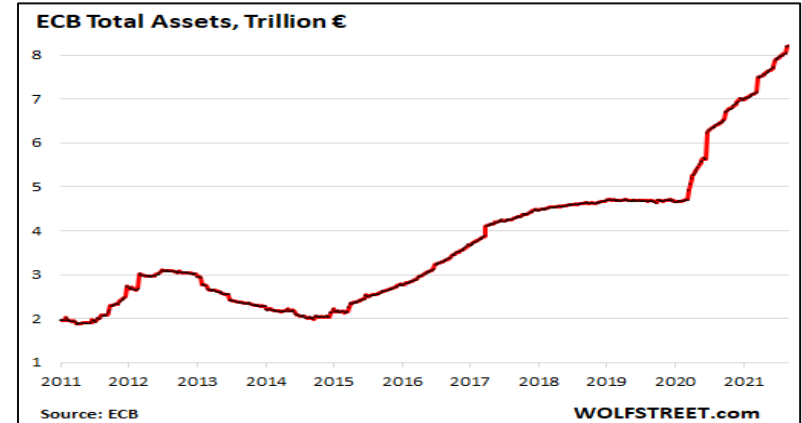
Note: Real Assets (Commodities, Real Estate, Collectibles) vs. Financial Assets (Large Cap Stocks, Long-term Govt. Bonds)

BofA GLOBAL RESEARCH



The process of ending massive money printing has started

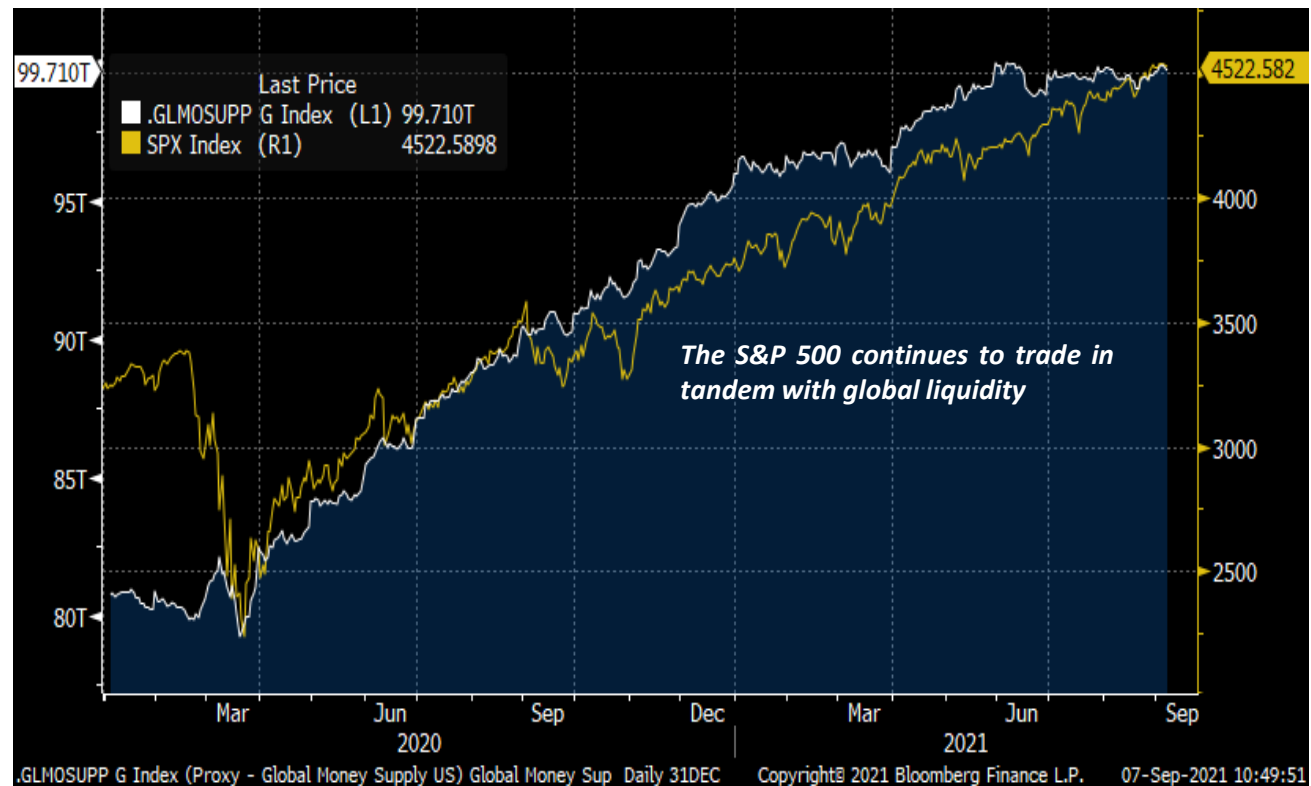
- ECB is the second giant to taper. While, it is way behind the Bank of Japan, the Bank of Canada, the Bank of England, the Reserve Bank of New Zealand, and the Reserve Bank of Australia; but, still ahead of the Fed.
- This is in line with the consensus among central banks, that QE needs to end before interest rates can be hiked, on the rationale that QE pushes down long-term rates, while raising policy rates pushes up short-term rates, which would wreak havoc on the yield curve.



What's taking the Fed so long and when will it stop QE & hike rates? This Week FOMC gave us a clue.

Having said that, is hard to miss the positive correlation between Equity markets & Global liquidity since the beginning of present series of QE.

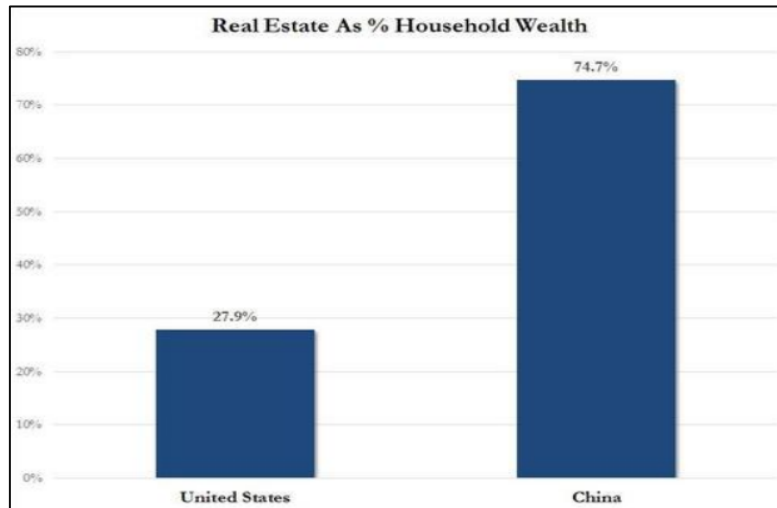
It is so easy to see the bubble but waiting for it to unwind takes years & it is the waiting that is the hardest part



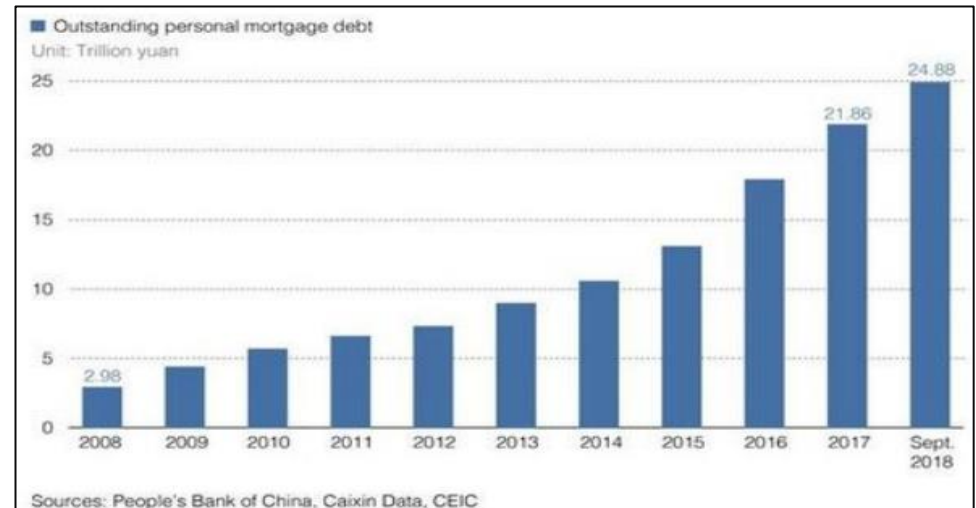
Evergrande: First casualty of rising costs?

- China has been in a property bubble for years, with home price to income ratios over 30x (*this ratio is 4x in U.S.*) & development of numerous vacant (*ghost*) cities around the country leading the value of Chinese real estate climbing to ~\$52 trn.
- Real estate has been the go-to investment for retail investors (~70% of portfolio composition) in China for decades with 90% home ownership rate.
- Crisis begin as Chinese government tightened leverage restrictions on its exuberant property market. The second casualty factor was immense increase in construction material costs due to rising inflation led by supply shortages.
- Chinese property developers have thin profit margins and use tremendous debt, so any surprise increases to supply prices makes it impossible for them to break even.

- *How will Chinese leadership react to this & whether or not the effect of this will spread to global markets.*
- *Chinese smart money has led foreign investments in U.S homes over past decade with more recently aggressive buying seen in U.S Farmland.*



(Source : Zero Hedge)



Team



Mr. Ritesh Jain

Director

Master of Business Economics (MBE)
Executive MBA - Haskayne School
(Calgary)

He has held many senior leadership roles including CIO – BNP Paribas Mutual Fund, where he was responsible for managing US\$1.2 billion of AUM and also has served as the CIO of Tata Mutual Fund, where he was responsible for managing AUM of 6 billion.

In 2019, LinkedIn rated him among the top three influencers in the world of Economy and Finance. He is also a recipient of numerous national and international awards in the field of fixed income and equity investments.



Ms. Chanchal Agarwal

Head - Products

Chartered Accountant
CFA Charterholder

She brings with her about 12 years of Industry experience spanning across verticals like Family Office Investment Advisory, Equity management, Investment banking, etc.

In 2020, AIWMI recognized her amongst the 'Top 100 women in Finance'. She has featured in the Audio talk series 'Show me the Money' by Meghna Pant (available on Audible Suno). Her article reflecting on 'What stops women from investing' was published in The Hindu Newspaper.



Thank You

Get In Touch

Registered Office

PineTree Macro Pvt Limited
102, 104 & 210 Lords, 7/1, Lord Sinha
Road, Kolkata, India - 700 071

To read more visit -

LinkedIn – Pine Tree Macro
Twitter - @PineTreeMacro

Write to us

info@pinetreemacro.com



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