PineTree Macro

Anantam International SPC Fund managed by Aparna Investment Management

Brave New World

CFA Society India

11th November'2022

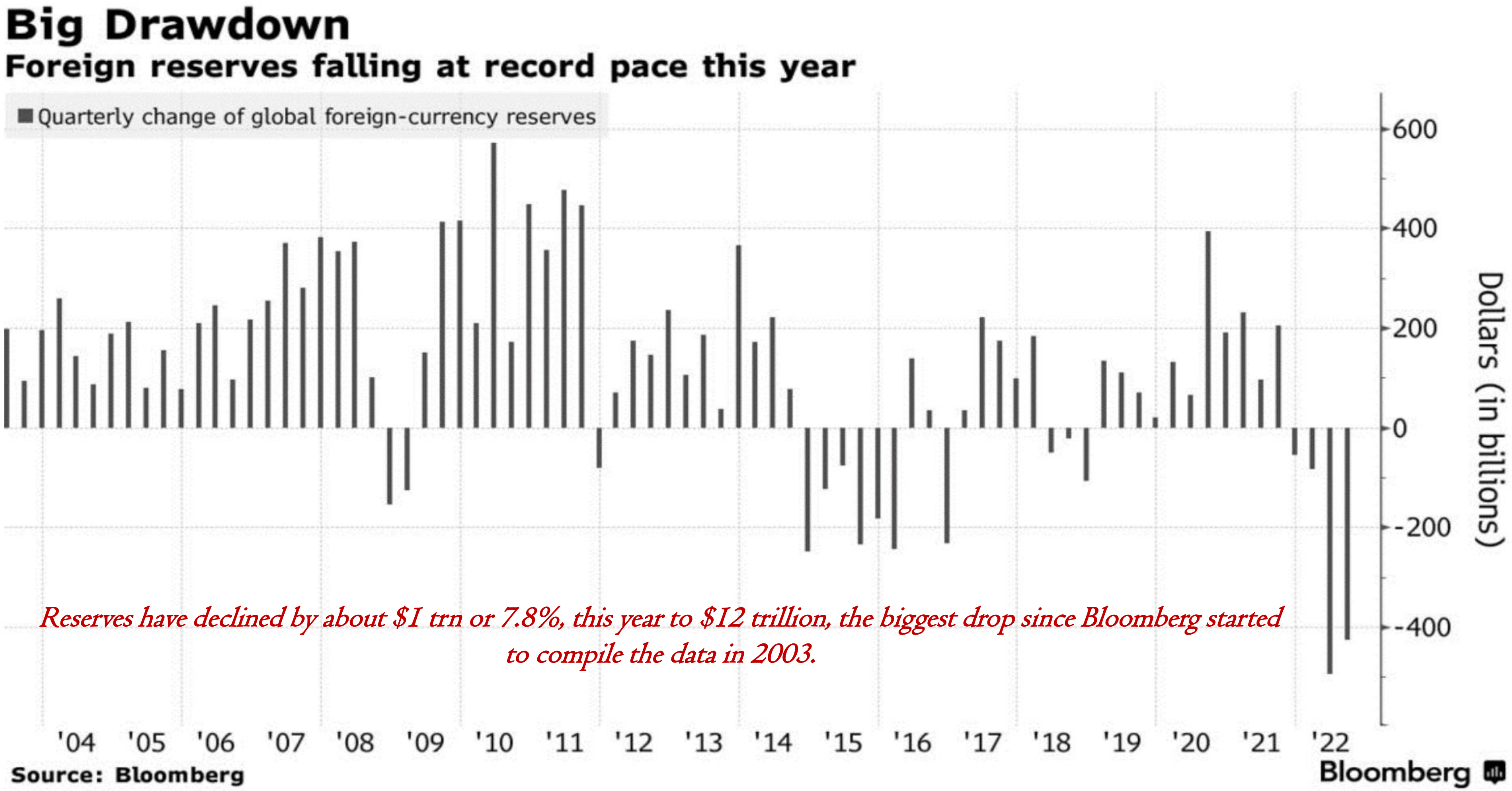
"The major thing we look at is liquidity as a combination of an economic overview and how the Fed is responding to that economic situation."

*- Stanley Druckenmiller, 1988**

Market returns & Liquidity (capital flows) correlation

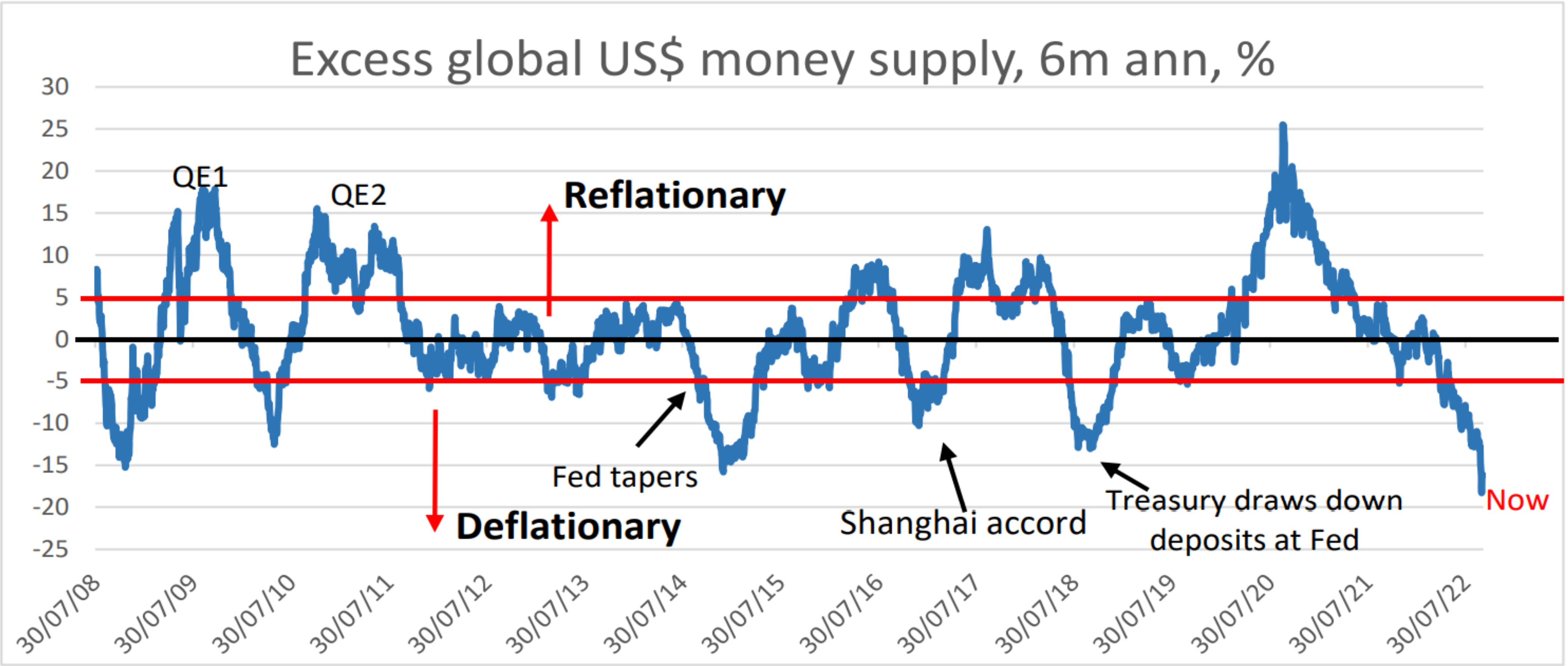
"Earnings don't move the overall market; it's the liquidity that drives markets."

but…..The Global liquidity is shrinking



Reserves have declined by about $1 trn or 7.8%, this year to $12 trillion, the biggest drop since Bloomberg started to compile the data in 2003.

‘Liquidity’ matters more than Fundamentals

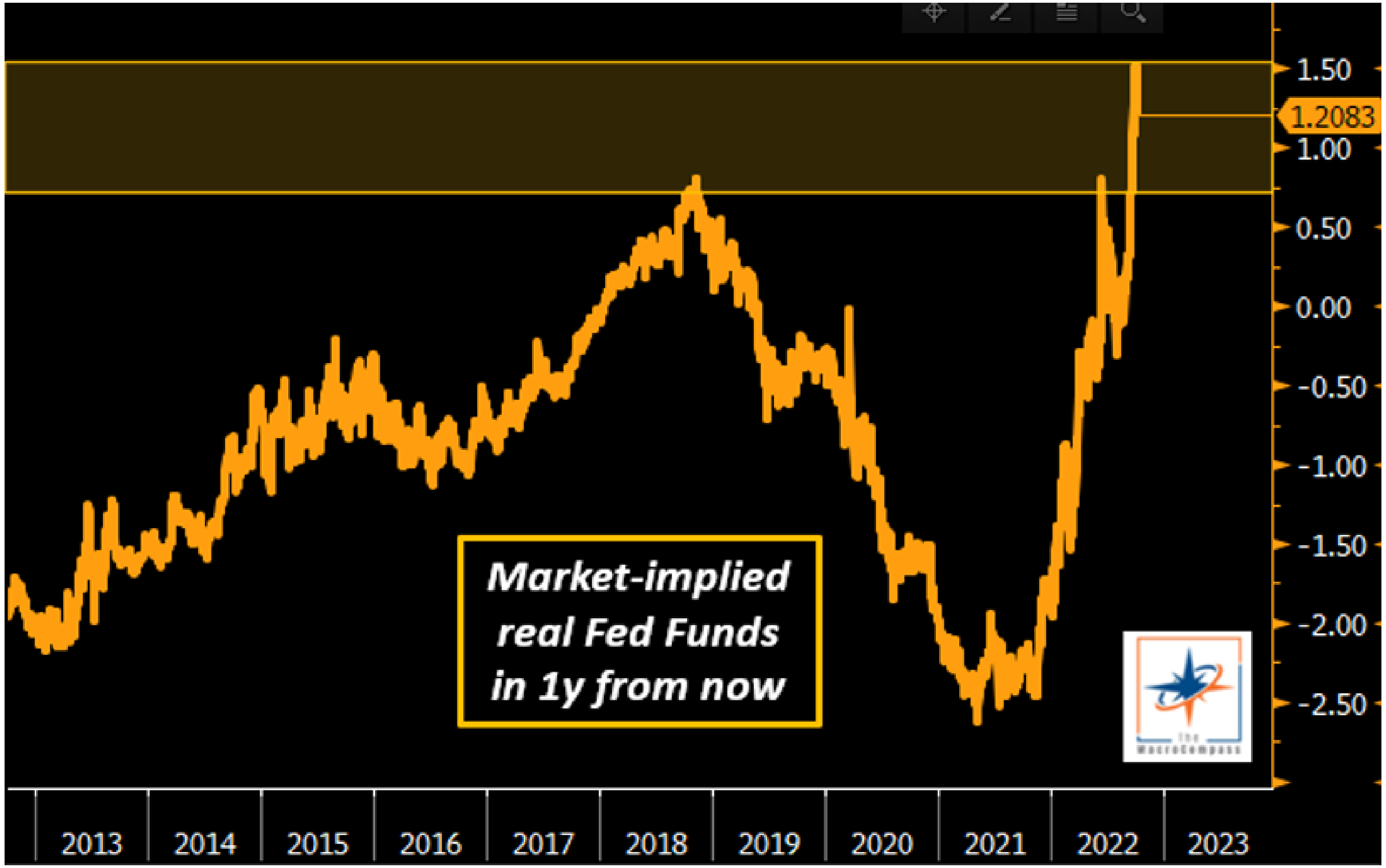


Source; The MacroStrategy Partnership, Bloomberg

It indicates the funds available to finance commodities, finance global trade and investment in fixed capital formation is now at its worst on record

What (who) shrunk the Liquidity?

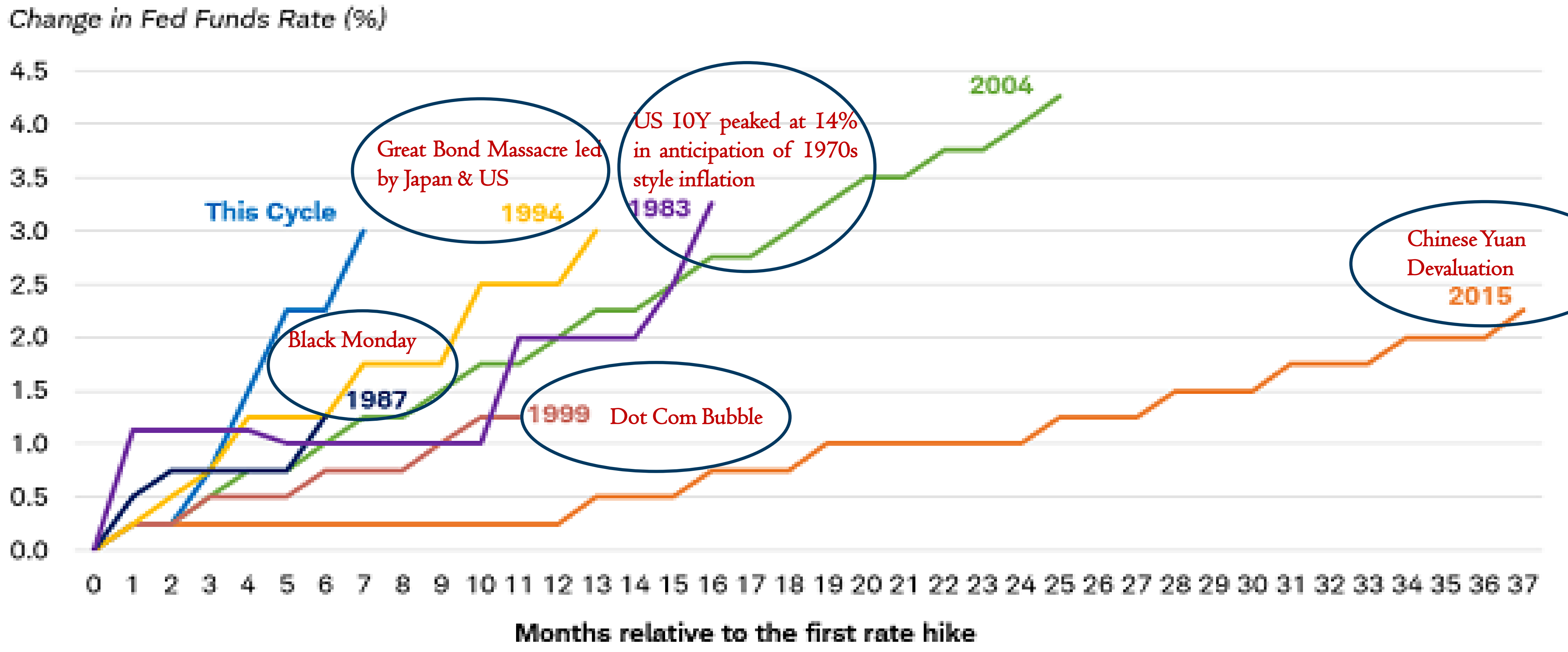
Pay Attention to the Powell Credibility Indicator (PCI)



Given how bad the inflation setup is, to preserve his credibility Powell needs to convince markets that *real* Fed Funds will sit in the +1% area (very tight).

PCI measures market-implied real Fed Funds in one year from now.

…with Fastest tightening 'ever'…

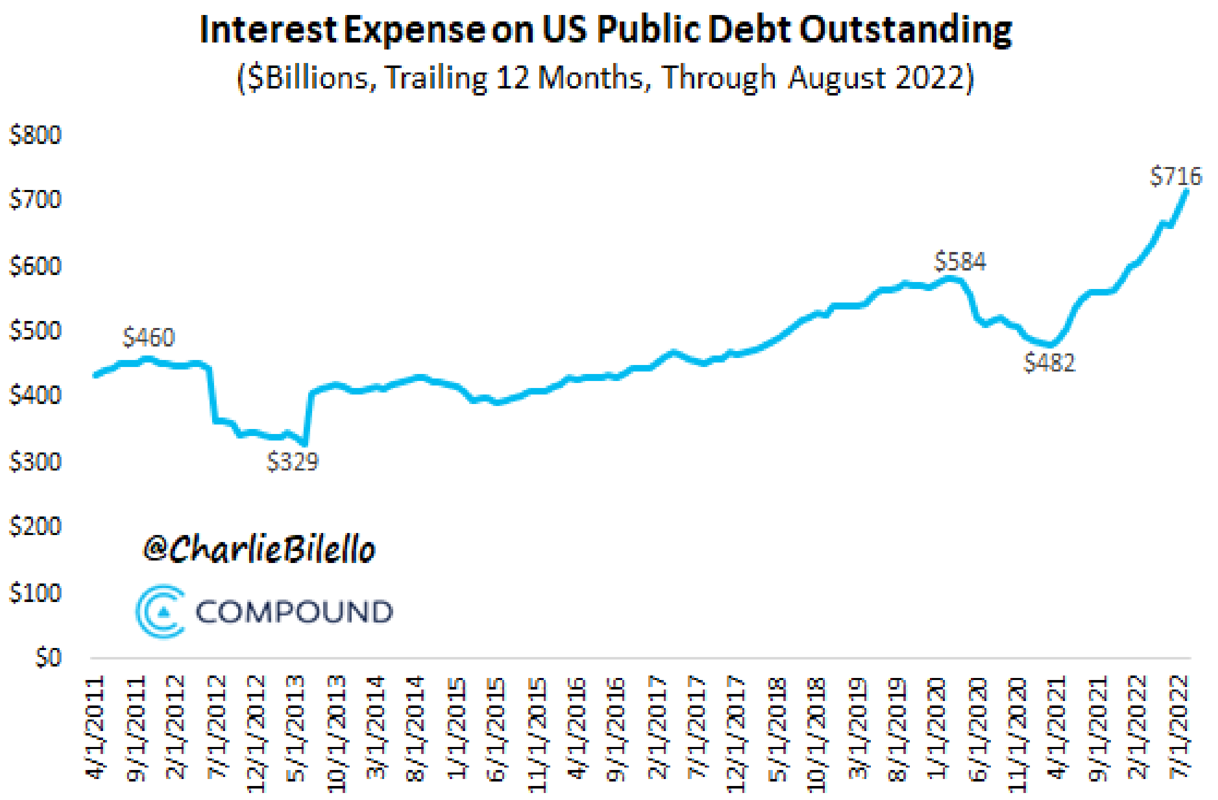


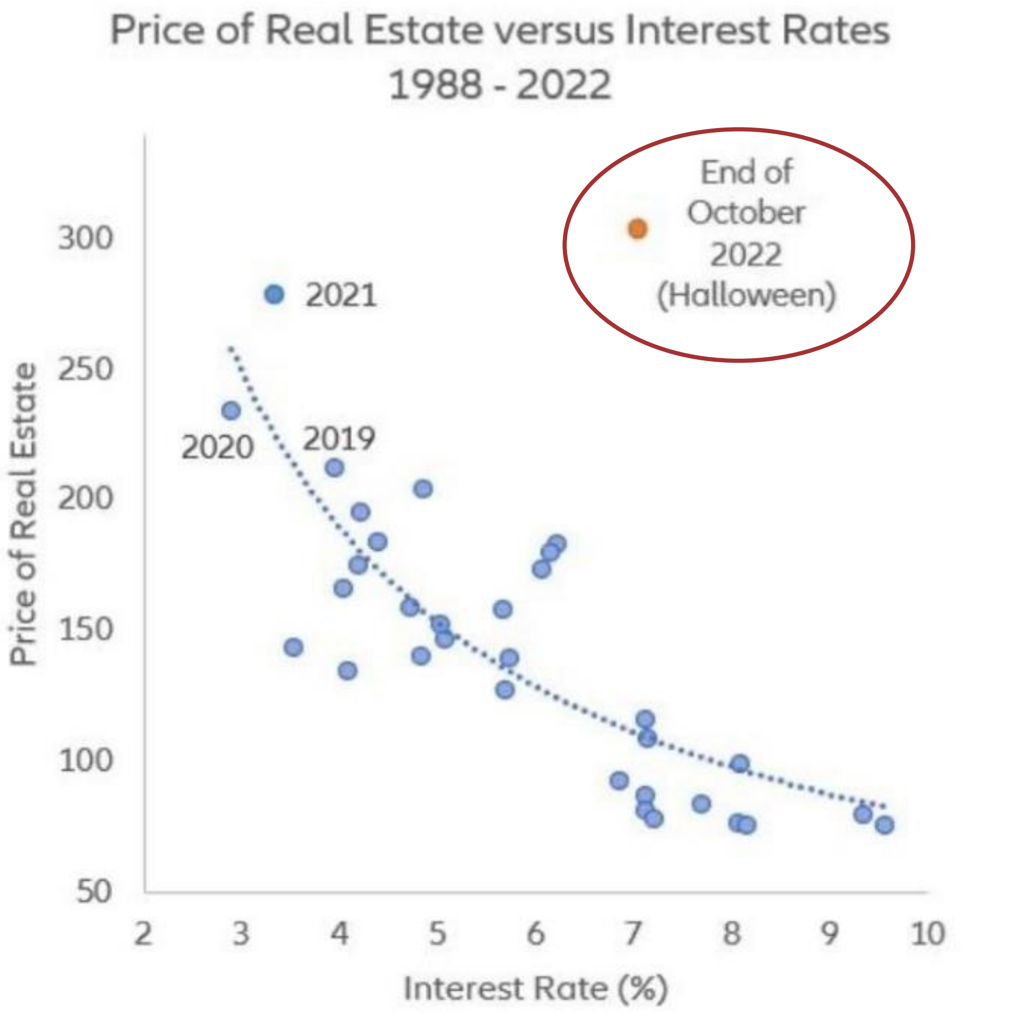
Note: Data is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee (FOMC) as part of its monetary policy.

Source: Bloomberg. Federal Funds Target Rate - Upper Bound (FDTR Index), using monthly data. **Past performance is no guarantee of future results.**

Will they end up 'breaking' something?

....which is leading to Ballooning Interest Costs





Interest expense on Public Debt will soon surpass $1 trillion on an annual basis and become the largest line item in the budget.

Price of Real Estate: S&P CoreLogic Case-Shiller U.S. Index.
Interest Rate: US 30 Year Fixed Mortgage Rate.

What happens when liquidity Shrinks?

Another Blow

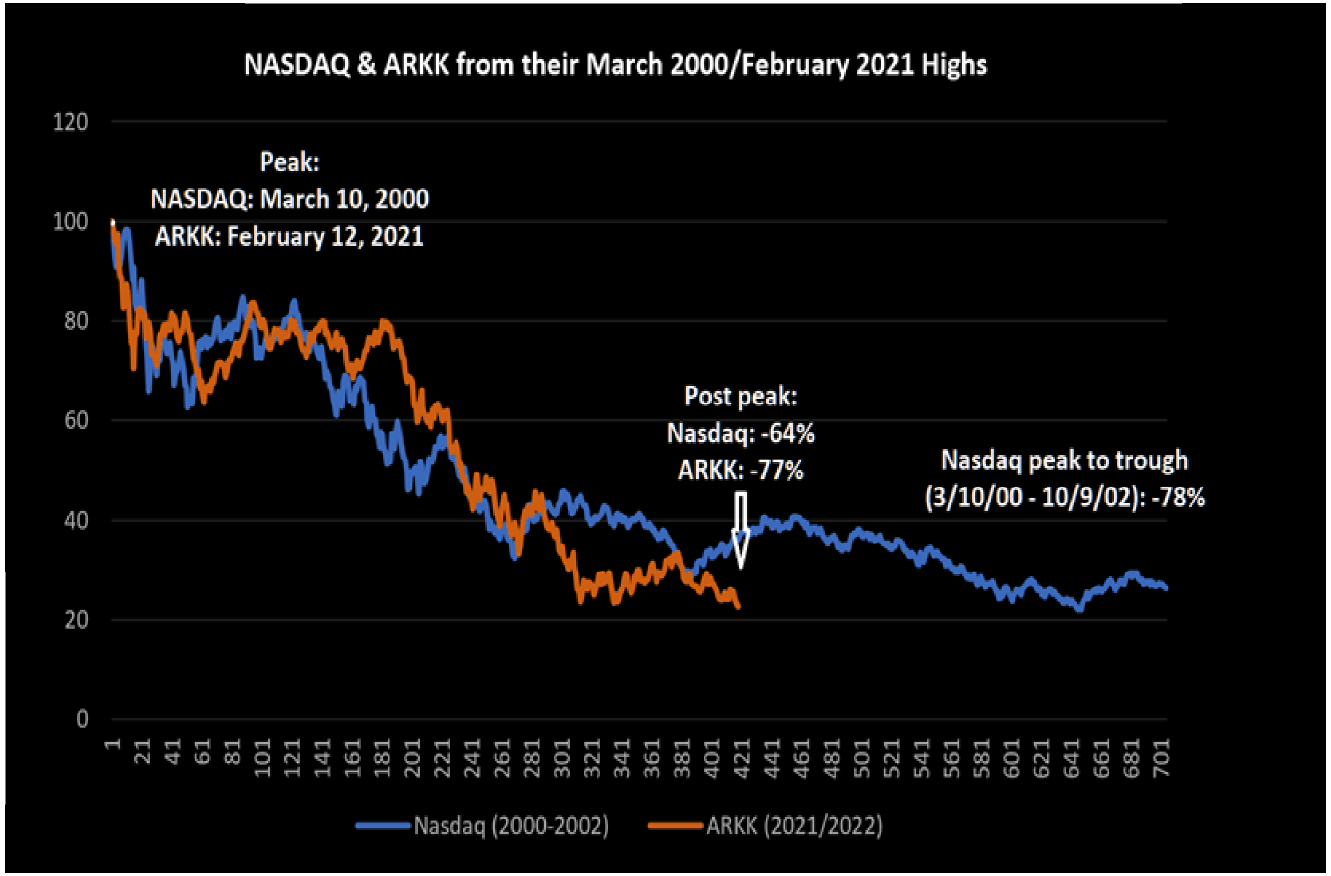
FTX-Binance saga leaves Bitcoin around lowest level since November 2020

Source: Bloomberg

Bloomberg

SoftBank Reports Record $23.4 Billion Loss as Holdings Fall

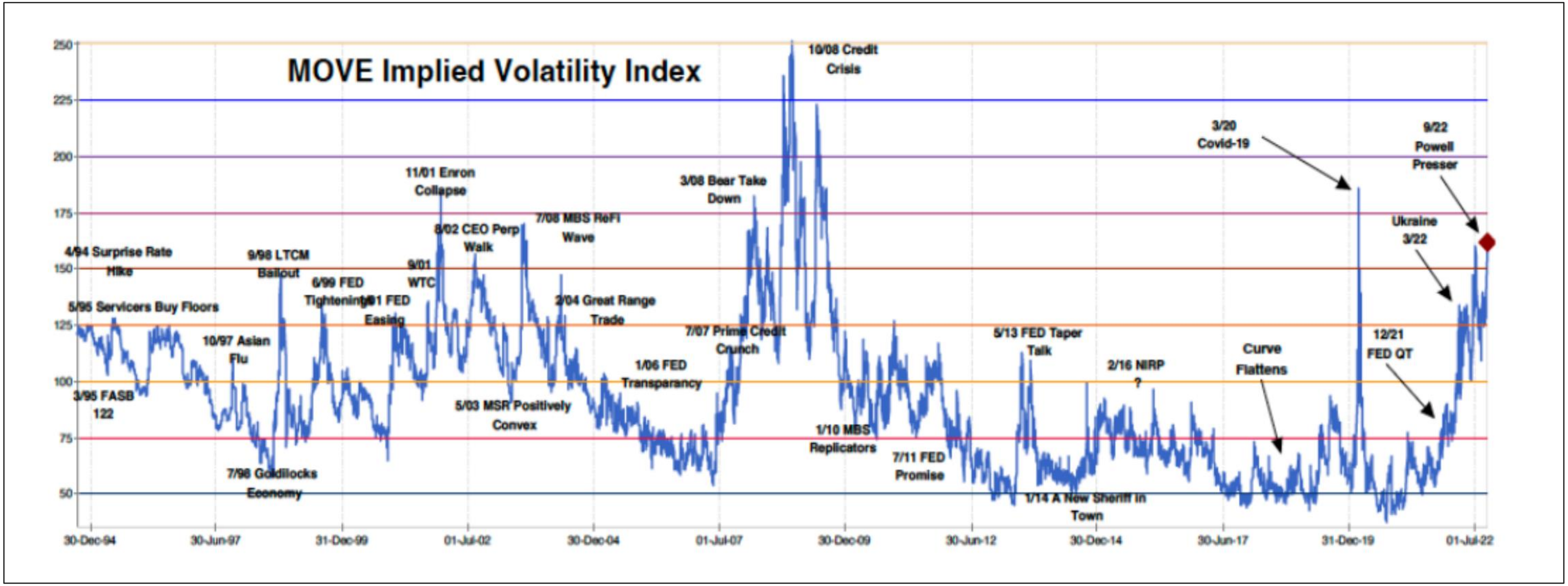
- Vision Fund posts $17.2 billion loss on Coupang, DoorDash
- Masayoshi Son's push into tech investments falters in downturn



2 minute read · October 13, 2022 9:37 AM GMT+5:30 · Last Updated a month ago

U.S. VC firms pull back from late-stage deals amid stormy markets, valuation concerns

MOVE Index is telling us Liquidity is shrinking rapidly..



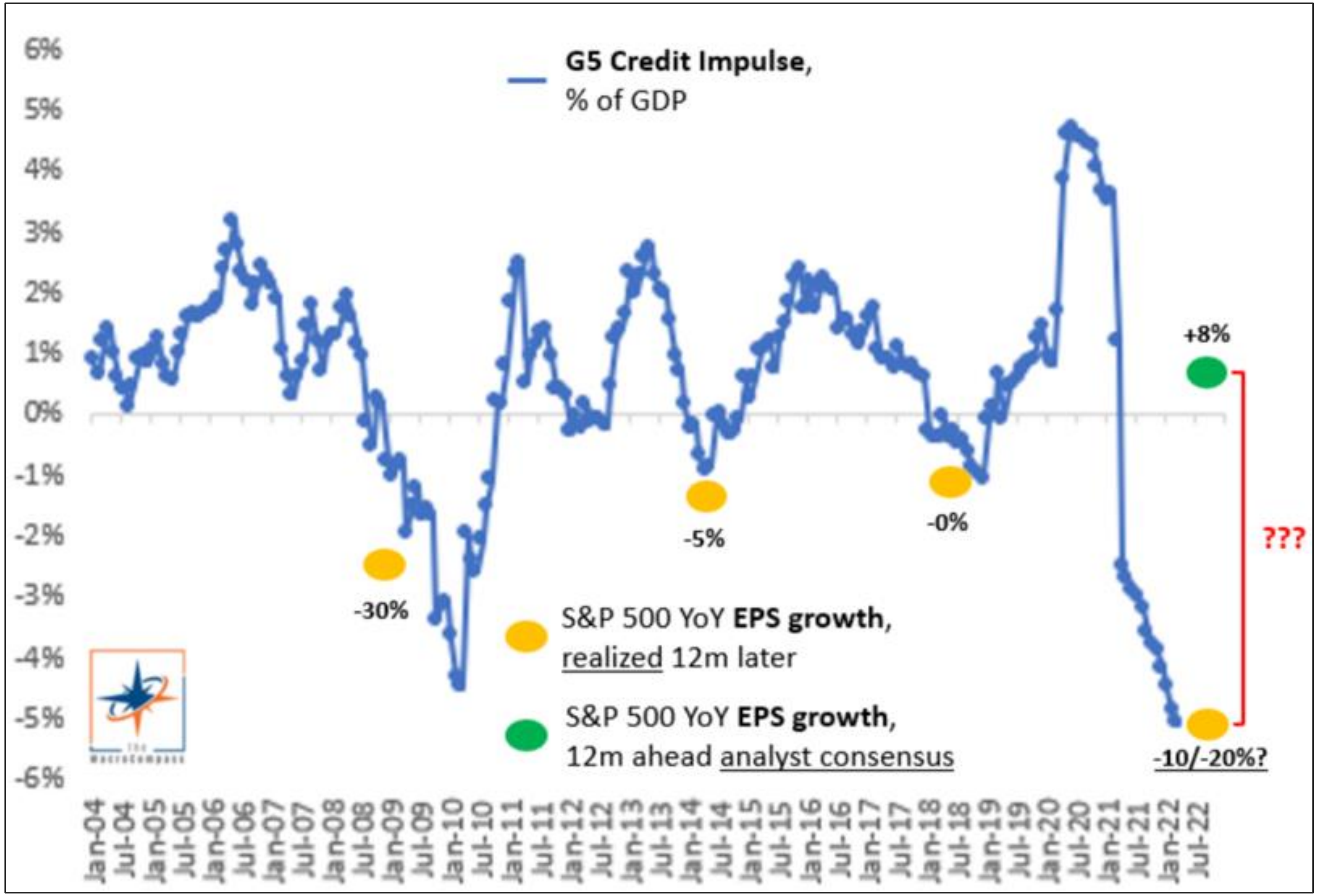
What do these number indicate?

A level near 50 can only occur when the FED actively constrains risk, while *a level near 150 occurs when the FED has lost control*.

The MOVE at 150 infers interest rate changes of about 9.5 bps per day, a *volatility that is unsustainable*

Shrinking liquidity leading to rising bond yields

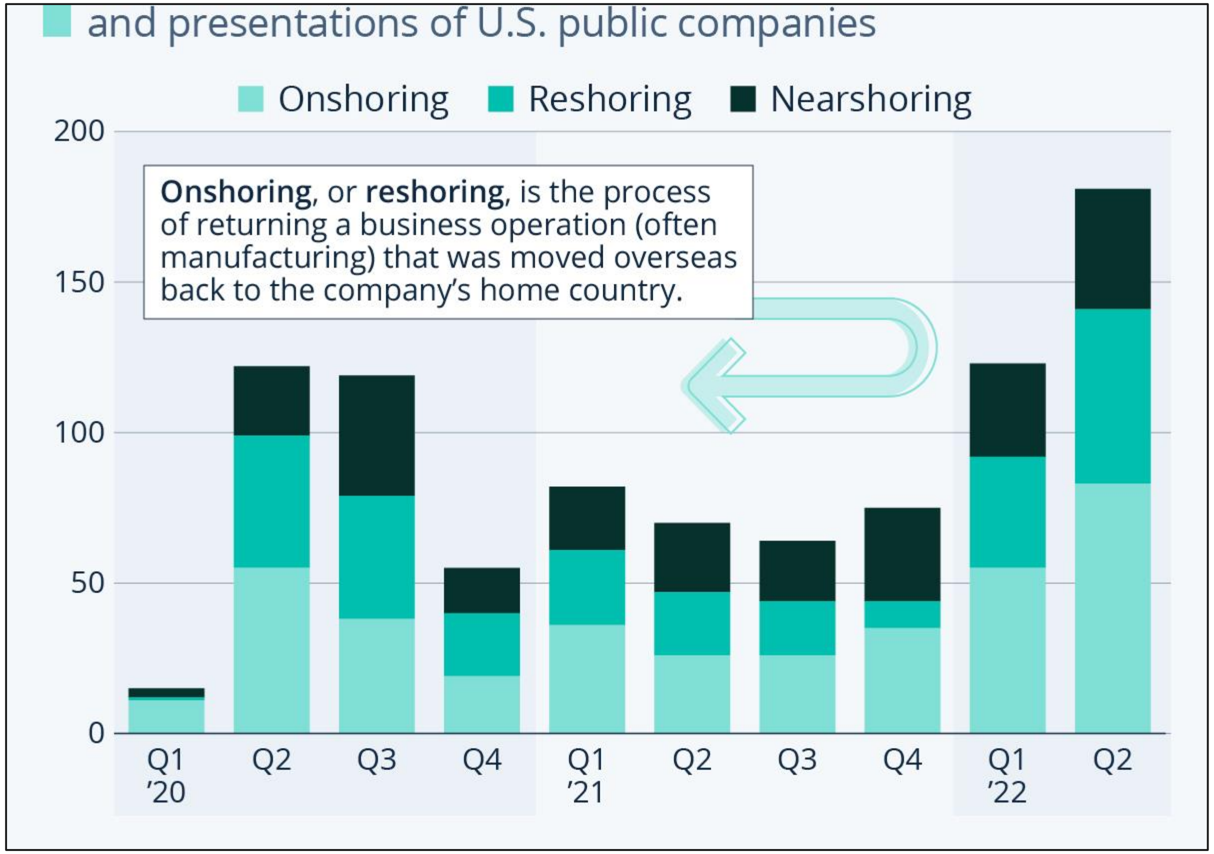
Also, leading to Headwind for Corporate Profitability

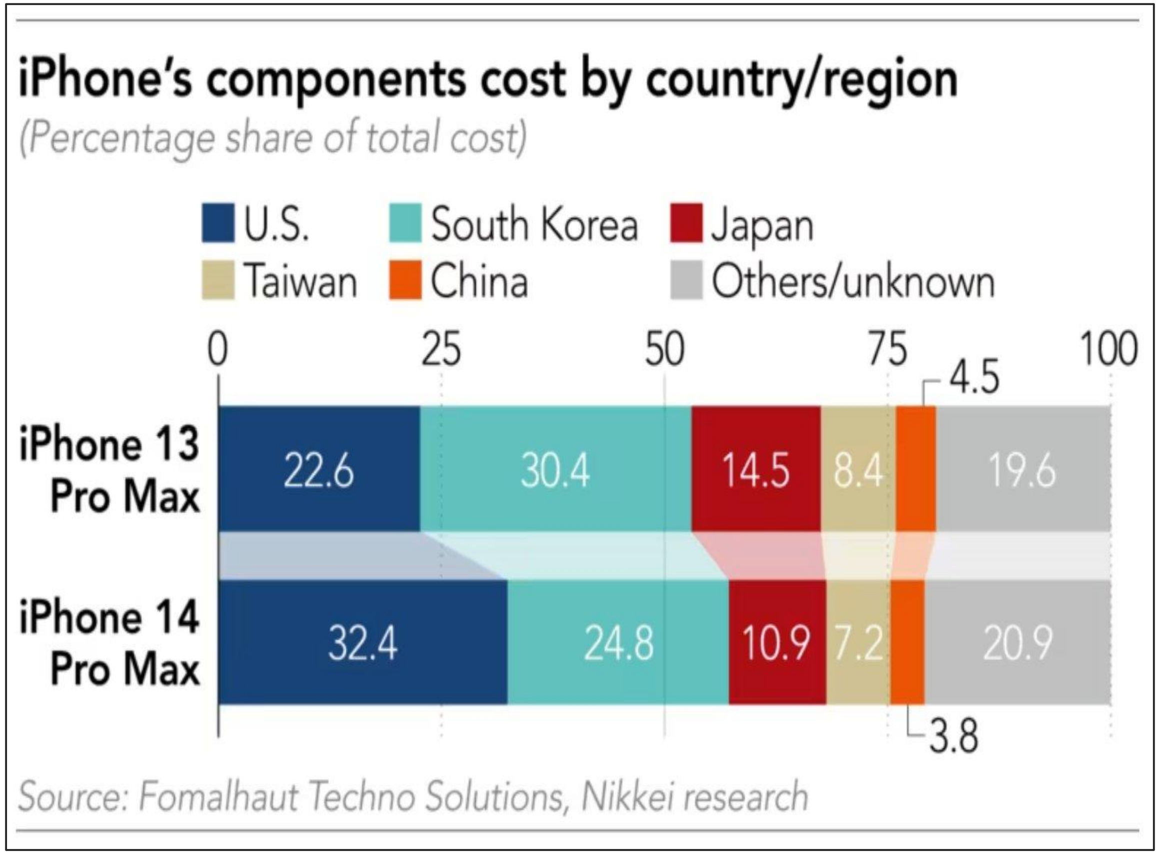


While analysts expect earnings to grow by 8% in 2023 (green dot) a drop in the Global Credit Impulse could lead to *EPS contraction in the double-digit area.*

The message seems consistent: going forward earnings are likely to disappoint. And disappoint very hard.

And…events that may add to these Headwinds…





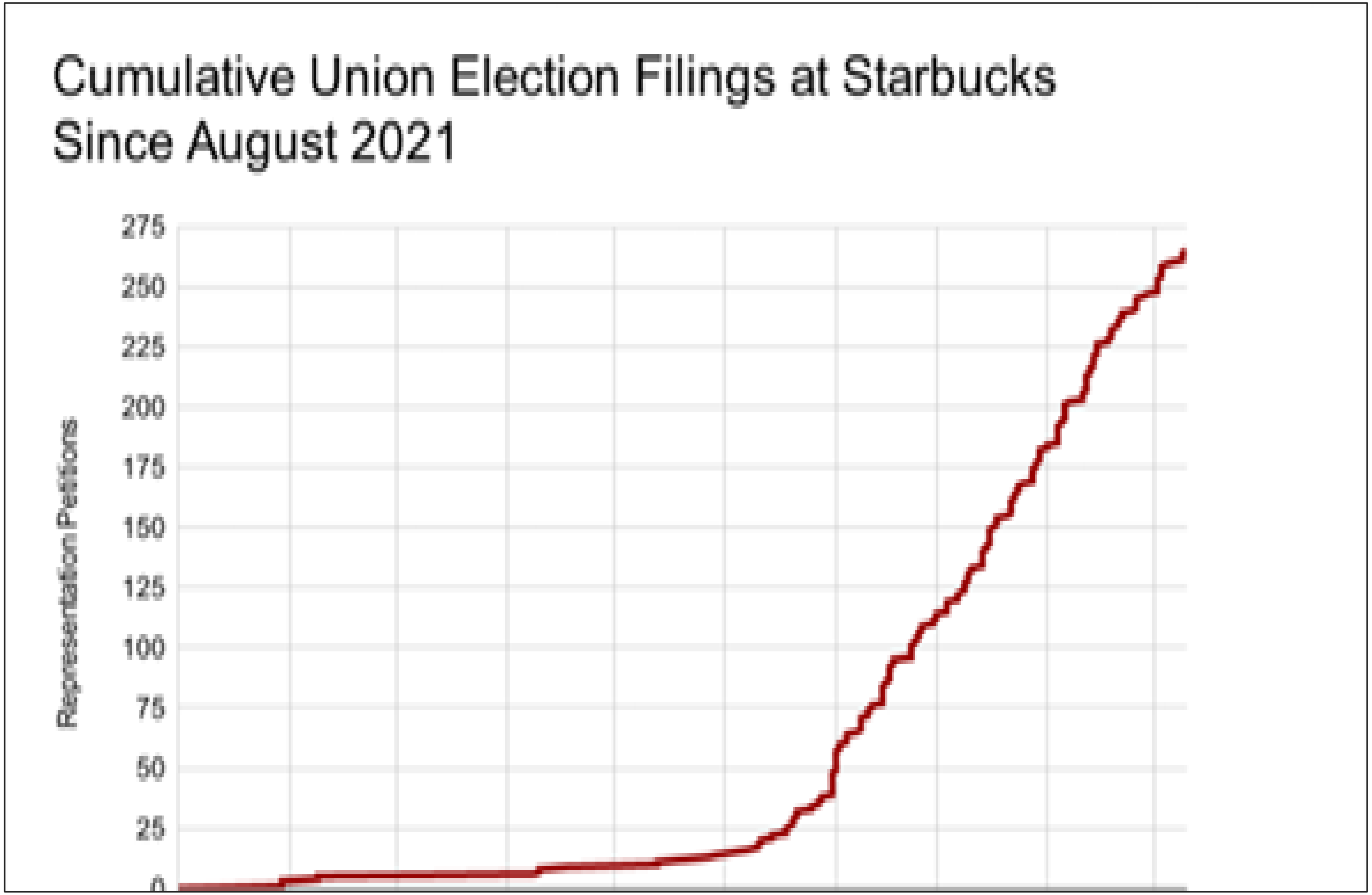
Onshoring/Friend-shoring/Reshoring…..is not cheap!!!!

Apple iPhone 14 production costs are now 20% higher

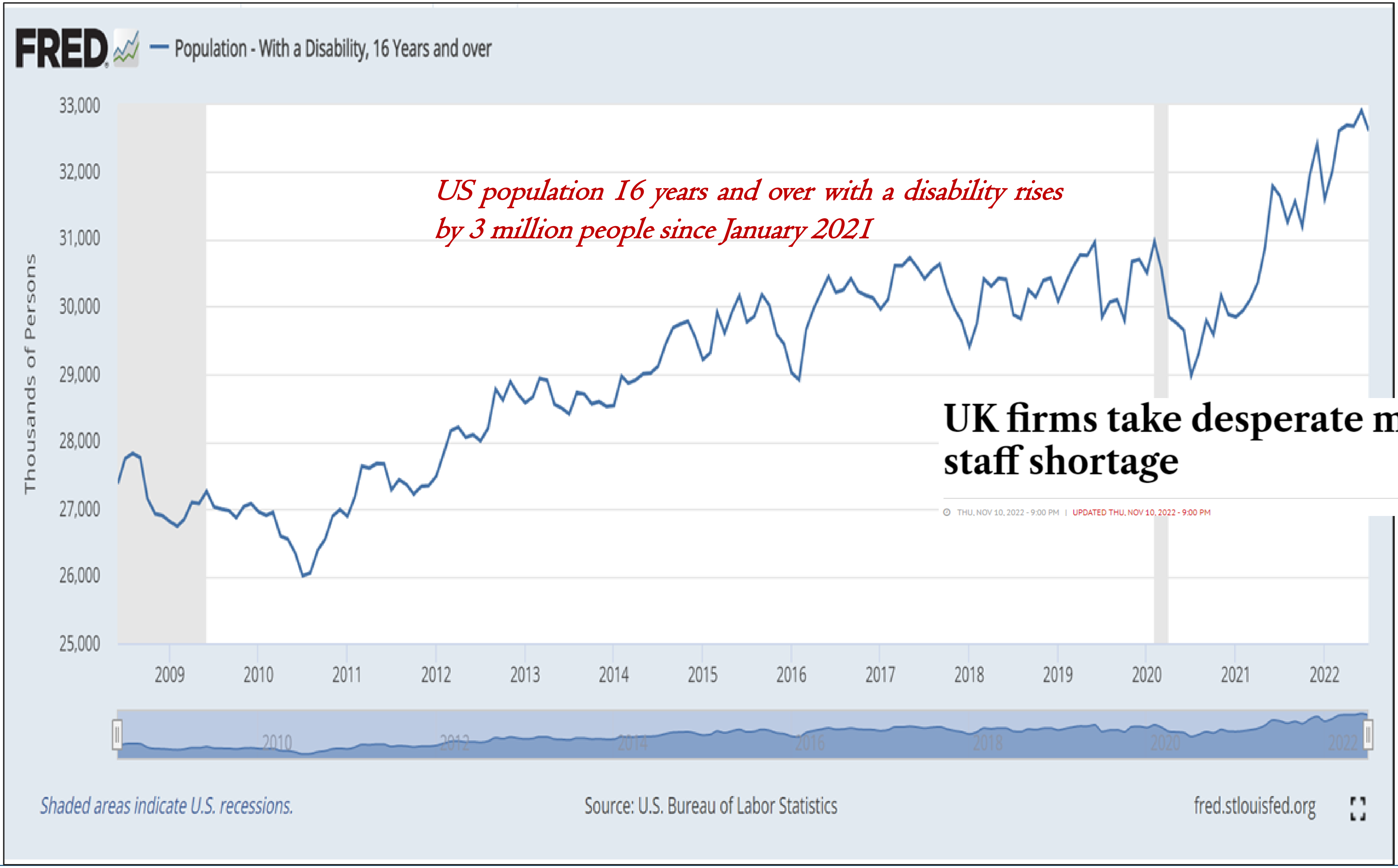
Geopolitics is inflationary - Sign of the times

Labour is also becoming powerful

Yes, Unionization is Back…



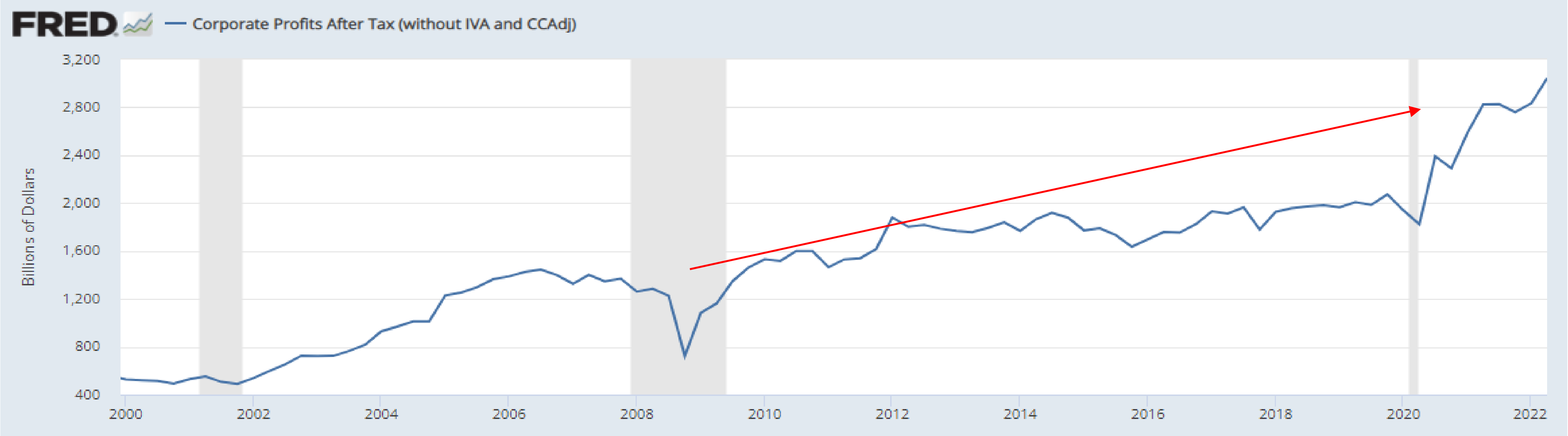
Rising Labour market issues…

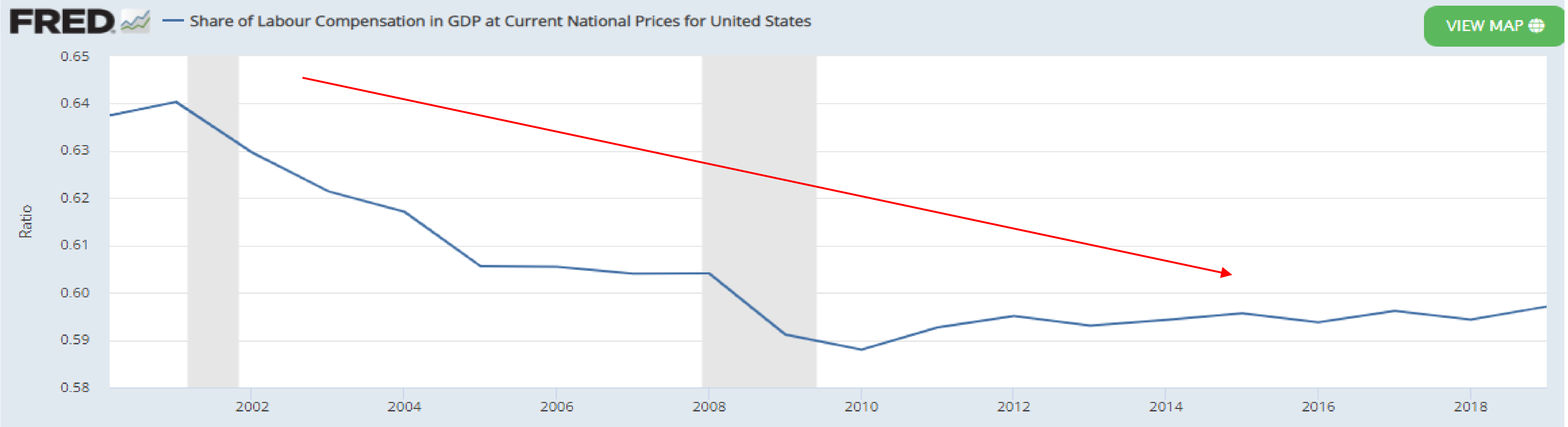


UK firms take desperate measures to tackle staff shortage

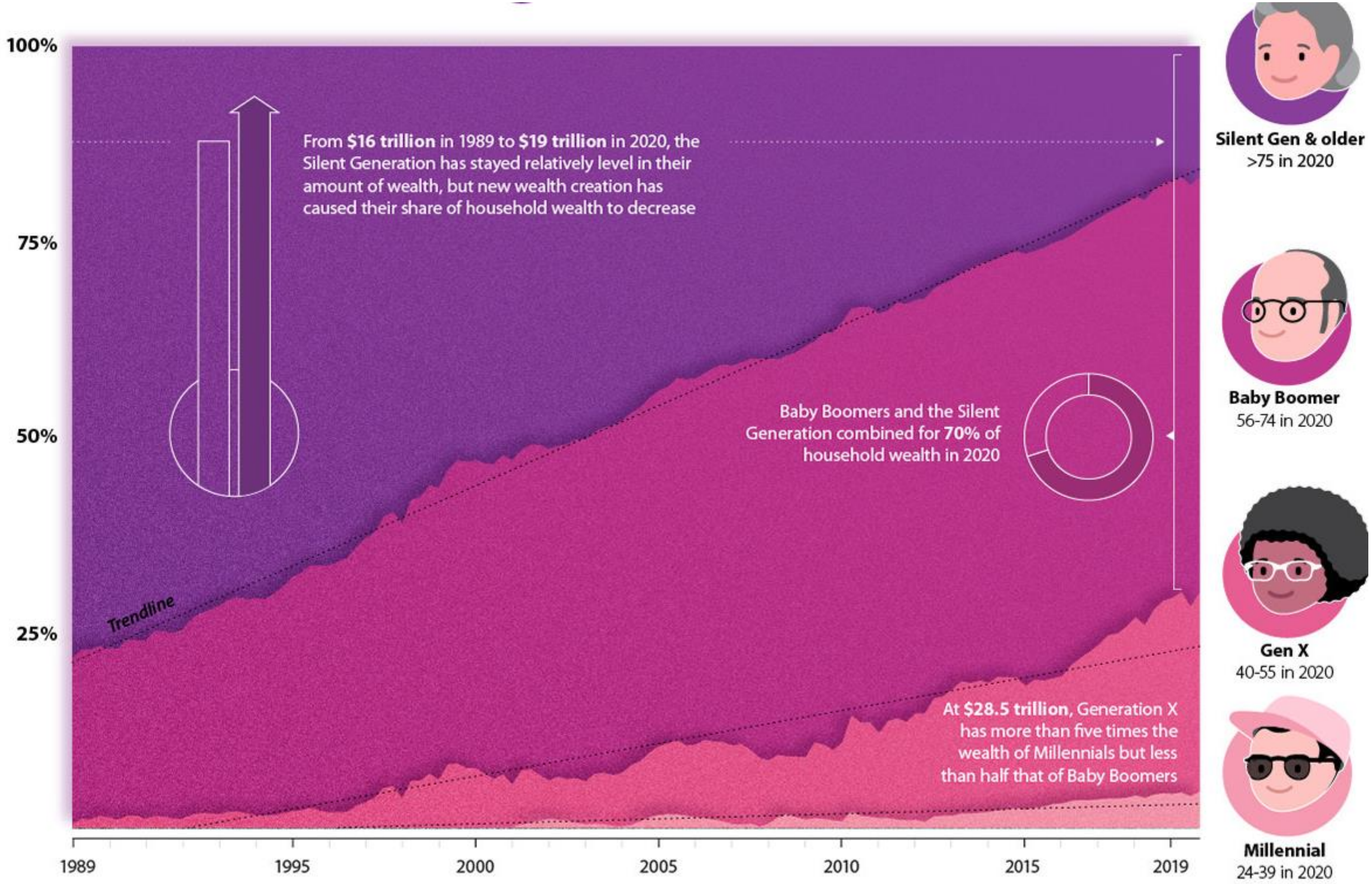
THU, NOV 10, 2022 - 9:00 PM | UPDATED THU, NOV 10, 2022 - 9:00 PM

…will lead to high wage inflation & lower corp profitability





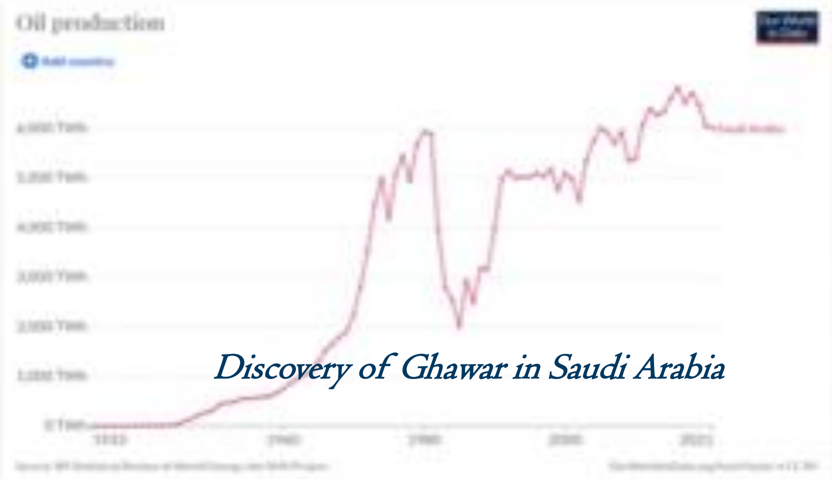
Why Wage Inflation is here to stay…

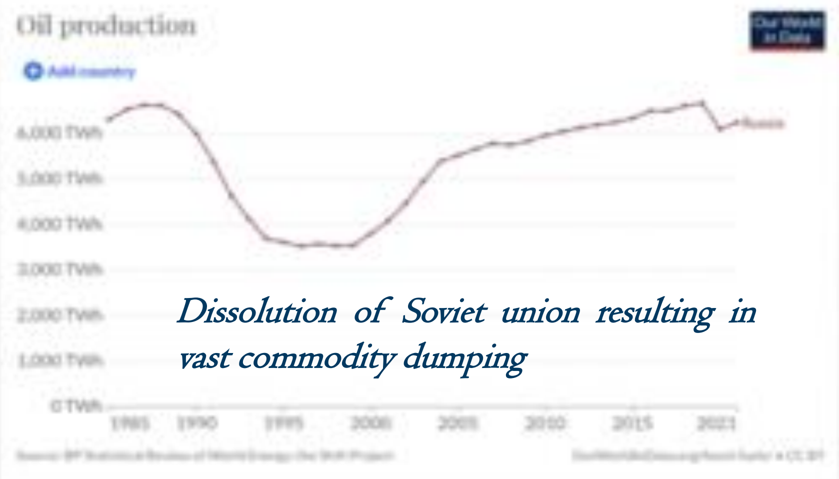


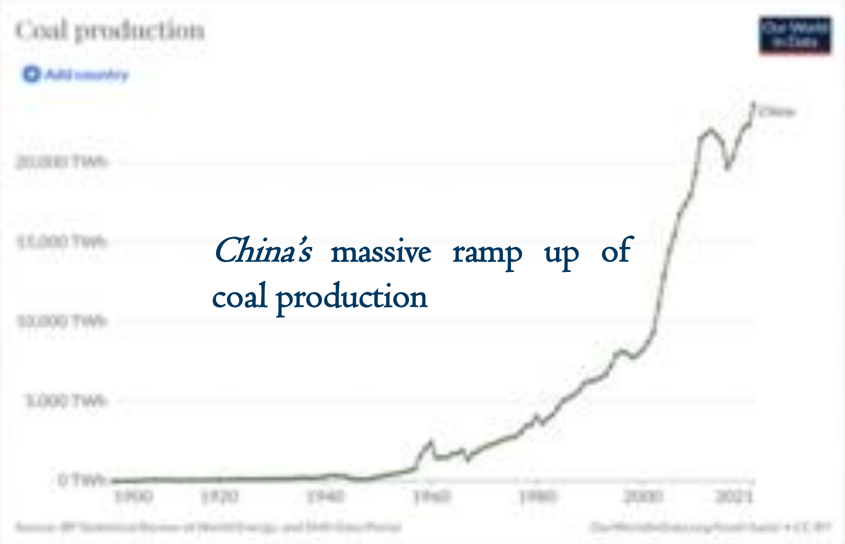
Since 1989, the net worth of young generations has dropped by almost 20%, while that of the old has almost doubled.

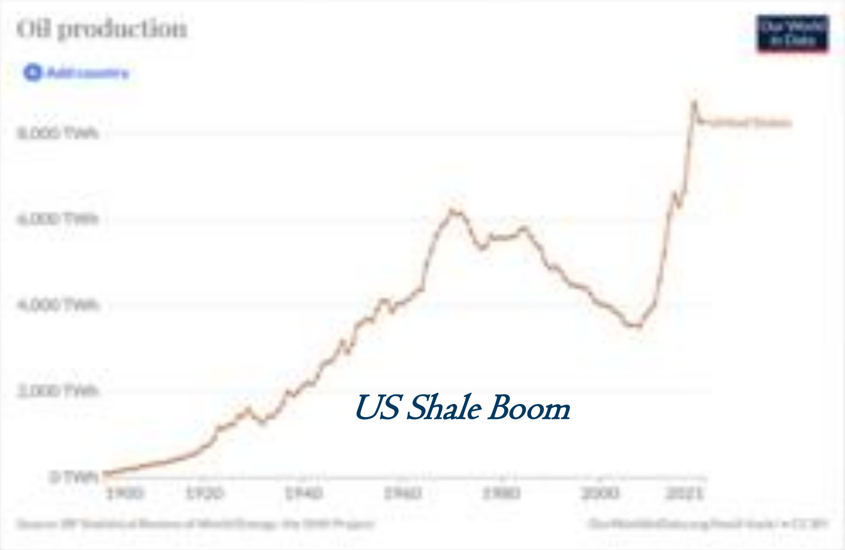
The value of assets, owned by the old, soared, while the price of labor provided by the young, stagnated.

Why did we see vast era of ‘Energy Deflation’



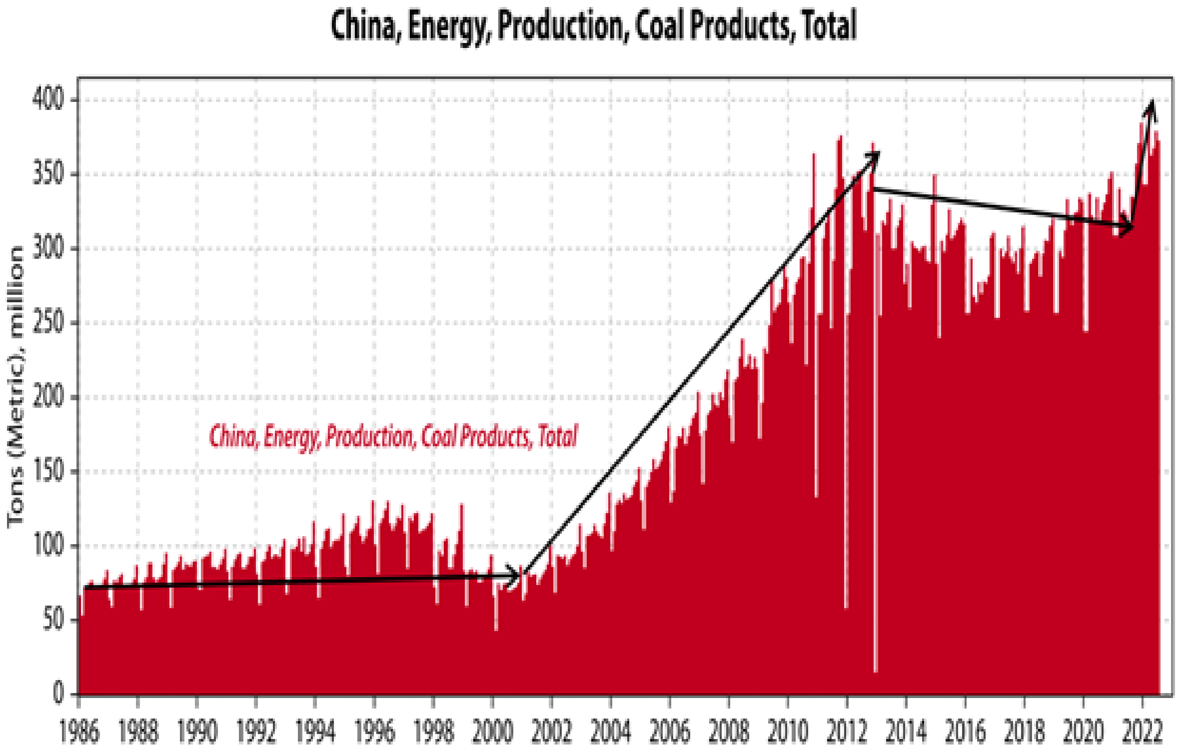




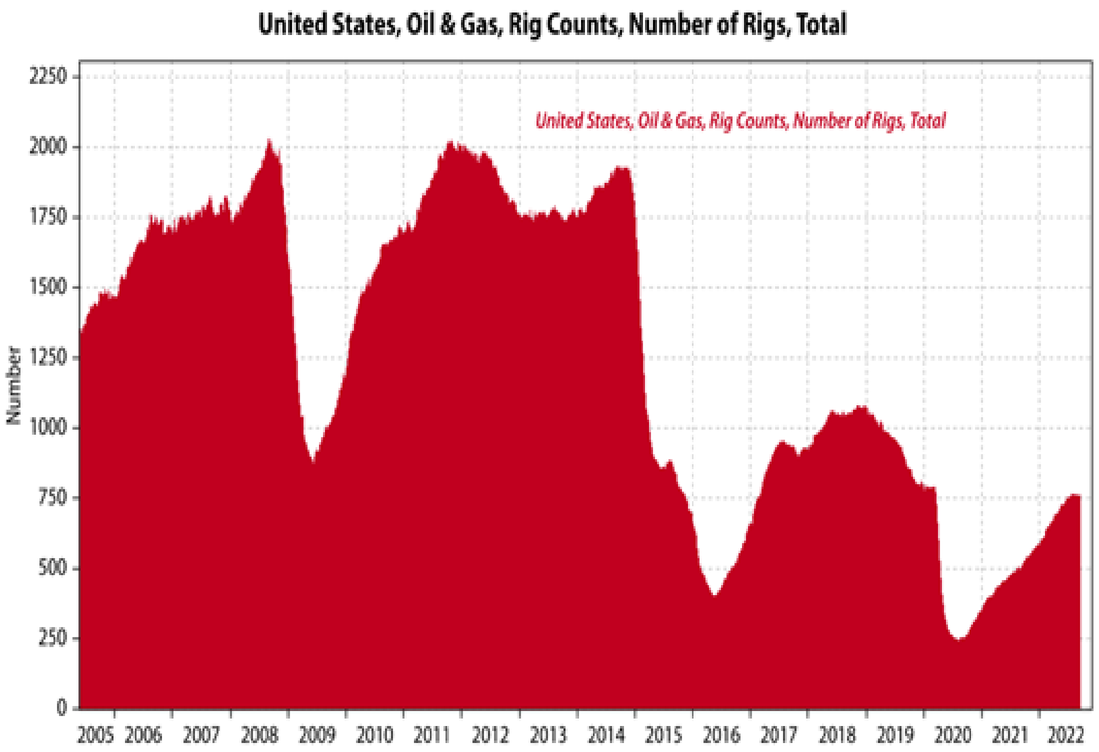


The Era of Cheap Energy is ‘Over’

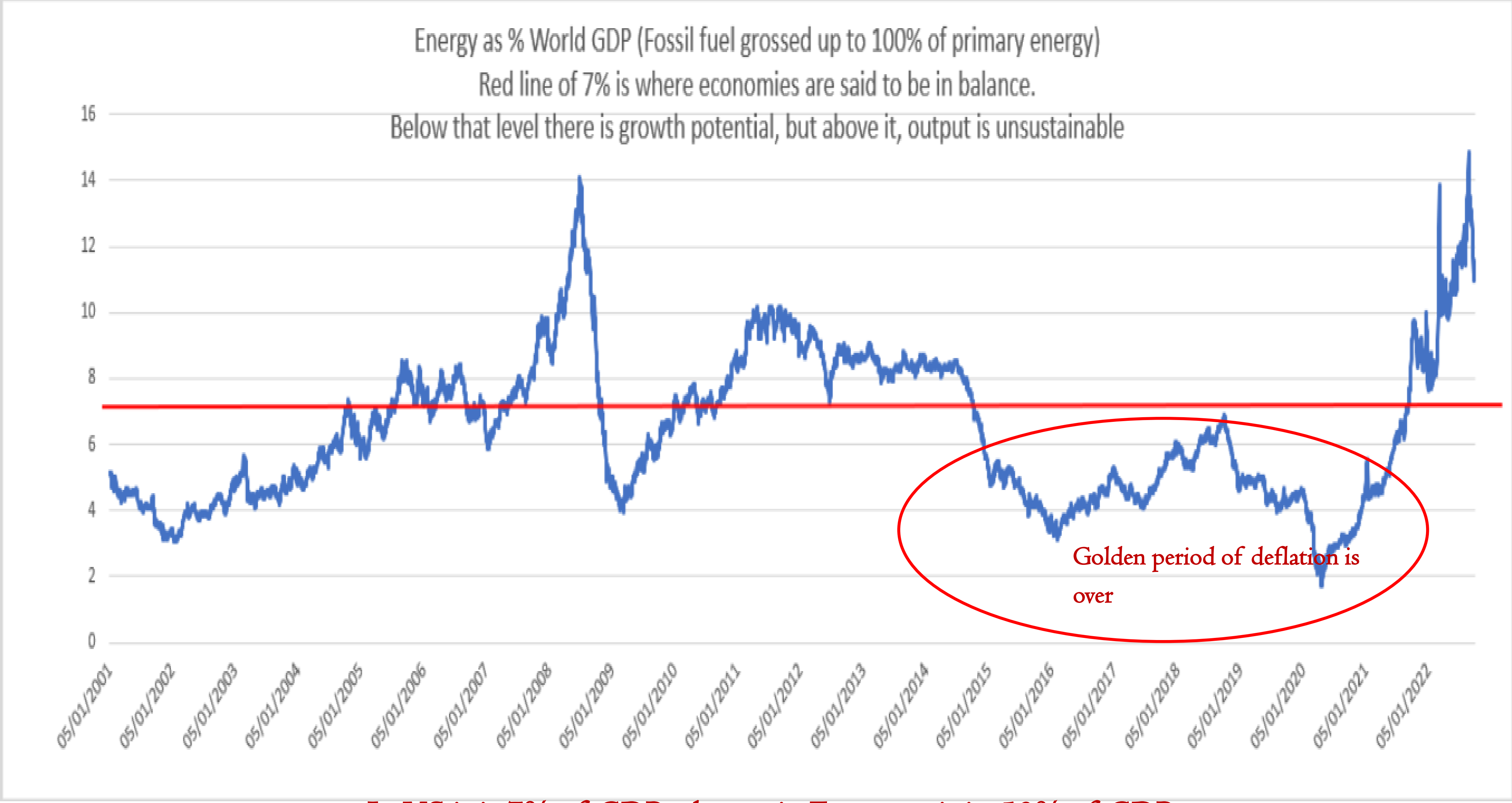
China’s economic miracle was a coal miracle



But shale revolution (aka energy capex orgy) is now over



When energy rises as % of GDP; world gets into trouble



In US it is 7% of GDP whereas in Eurozone it is 13% of GDP

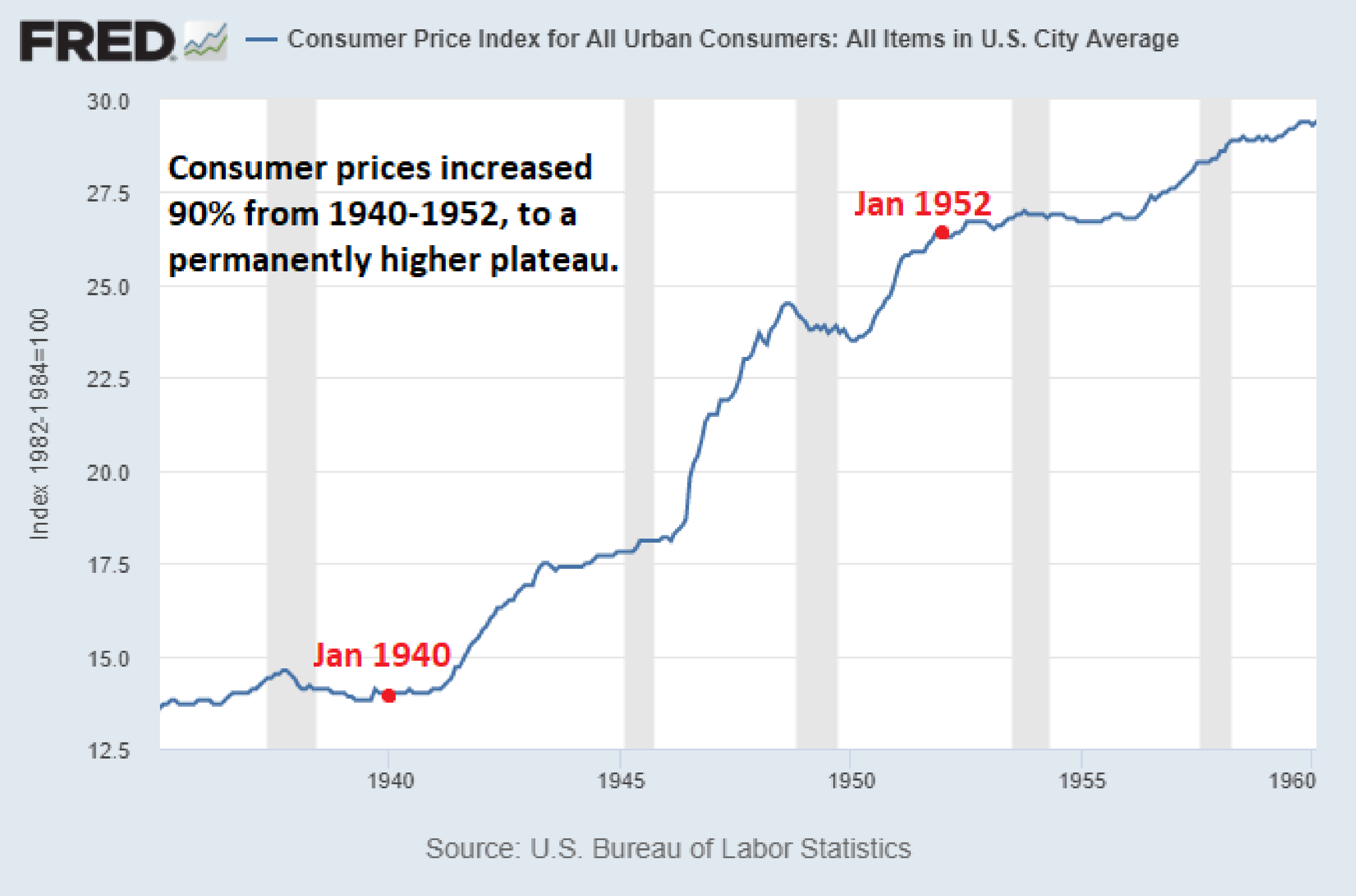
When Inflation hits 8% through history, what happens next?

'Historically, once inflation spikes above 8%, median inflation takes about two years to fall beneath 6% before settling around that level out to five years.

But, this time Inflation has entered a different league…

Economic war has broken out and wars are inflationary

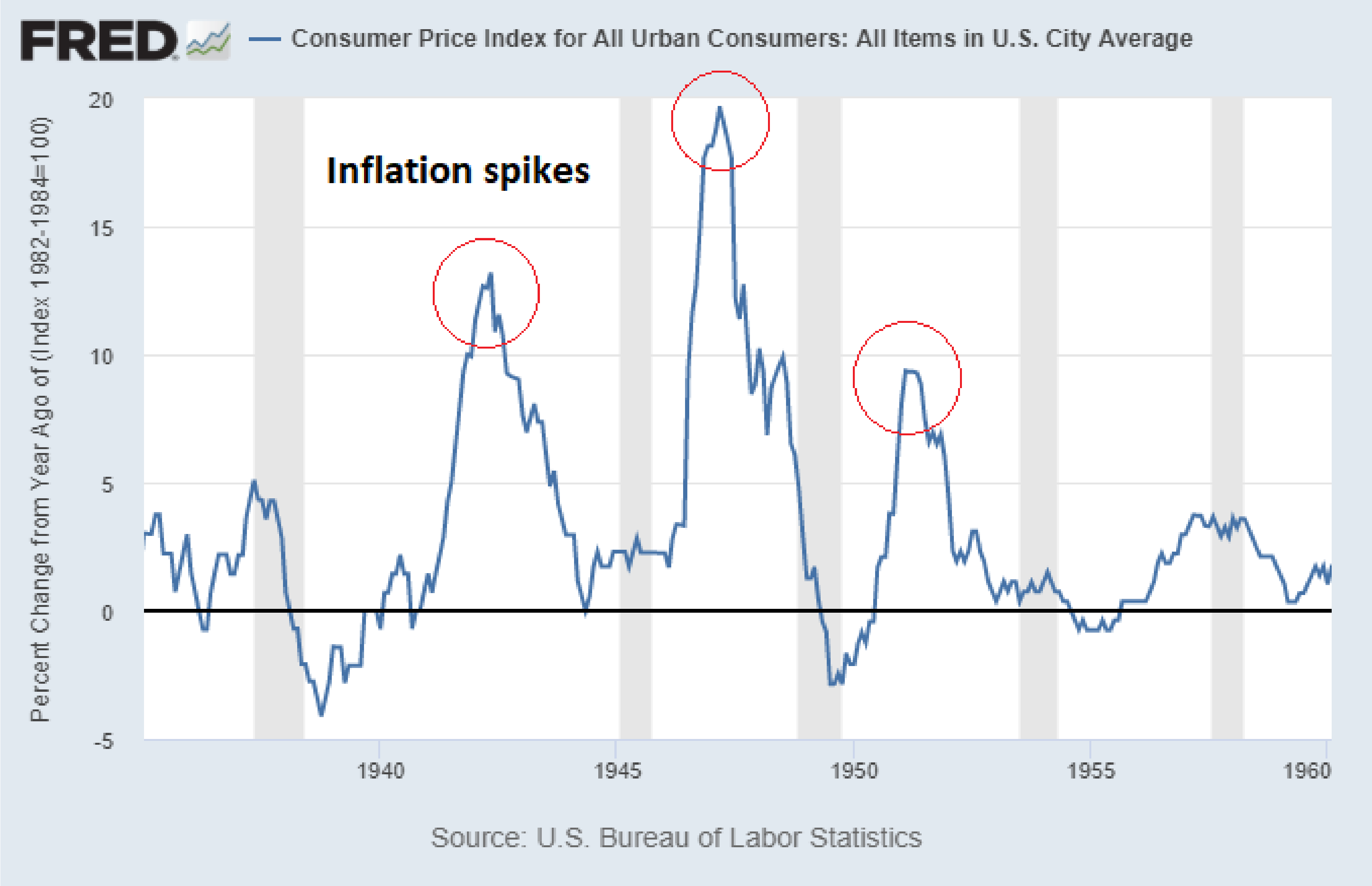
Fed may have to hike to 5% to 6% as Inflation is now structural



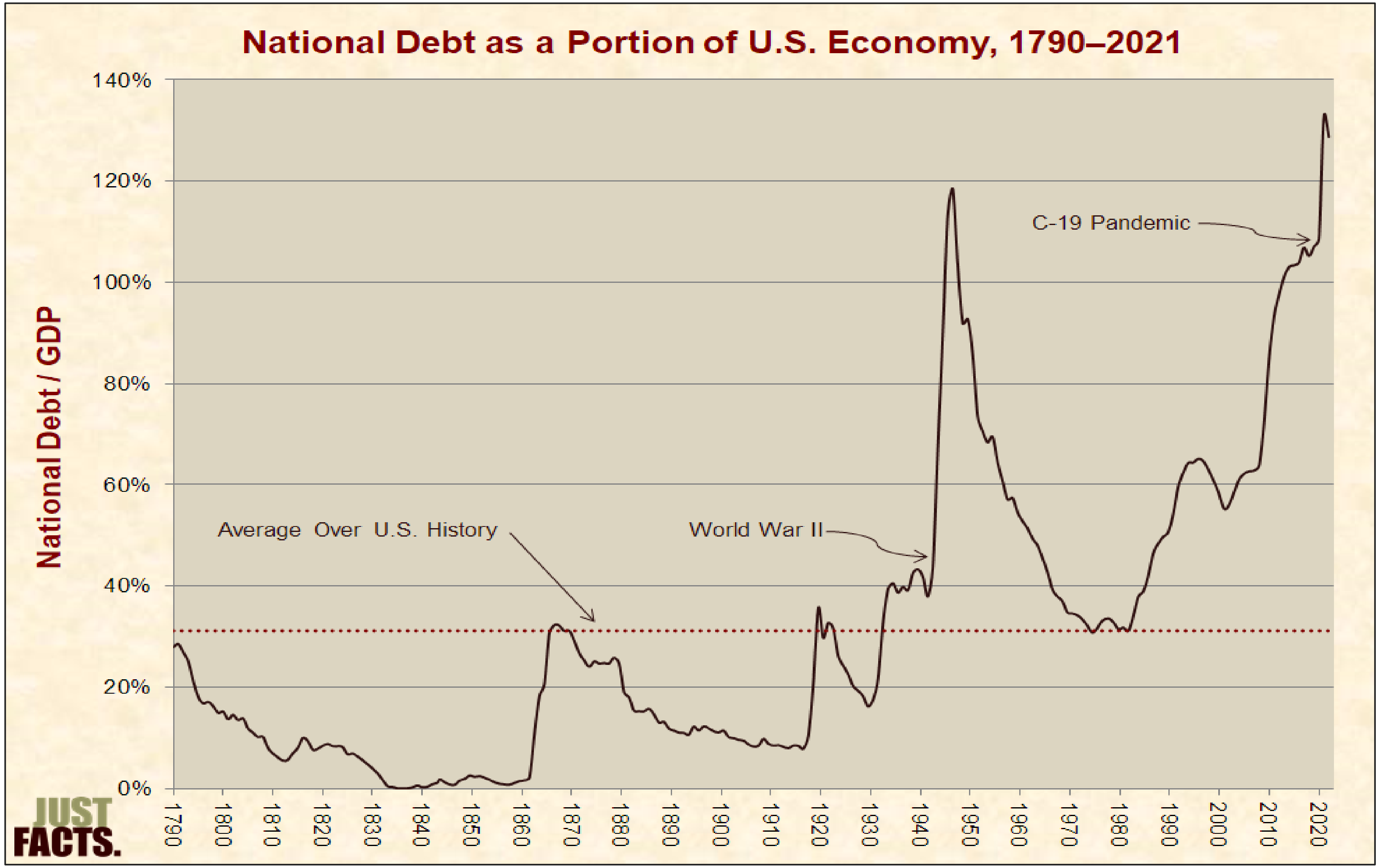
'Four Ds' of inflationary undercurrents:

De-carbonization + Demographic + De-globalization + Dominance of fiscal policy

Macro Backdrop : The opposite of “Transitory” is “Structural”



Because, Fed cannot raise the rate dramatically



U.S Debt/GDP is close to 130% levels; since 1800, 51 out of 52 countries with gross government debt > 130% have defaulted, either through restructuring, devaluation, high inflation or outright default - Hirshmann Capital

Since "age of weaponization" started, some dramatic shifts have occurred

- *Russia* has become 'un-investible'
- *China* is widely perceived to be 'un-investible' out of fears that China set to invade Taiwan (and US is only too happy to feed such fears, i.e., Pelosi visit)
- *Europe* is perceived to be 'un-investible' because of looming energy crisis

What will change the course of these markets?

- When the ***Fed eases***: This adds liquidity back into the market
  - ➢Tough Luck. Fed is doing QT, not QE
- When ***USD weakens*** : This allows foreign central banks to ease monetary policies aggressively
  - ➢Tough luck. USD has just risen had a two standard deviation move to the upside
- When ***energy prices collapse***: This adds liquidity back into the global markets
  - ➢Tough luck. World is paying the price of underinvestment in carbon energy extraction

….which leads us to the solution (Liquidity)

Yellen Worries Over Loss of 'Adequate Liquidity' in Treasuries

- Treasury secretary notes surge in supply of Treasuries
- Yellen flags that Fed's standing-repo facility could help

October 12 was the day the S&P 500 bottomed and thus far at least, it has yet to look back.

Perhaps markets are also taking the possibility of UST buybacks as a sign that a new liquidity injection is coming

How Liquidity effects Asset Prices

Inflation lower than expected

↓

Expectation of **less rate hike**/expectation of rate cuts

↓

Leads to **lower dollar**

↓

Lower dollar means **more dollar liquidity**

↓

More liquidity means **higher asset prices**

The Winners of future could be different..

The World's Top Ten Largest Companies by Market Capitalization (ex Aramco)				
1980: Peak Oil	1990: Japan will take over world	2000: TMT bubble	2010: China will take over world	2021: Only tech can deliver growth
Malthusian Bull	Ricardian Bull	Schumpeterian Bull	Malthusian/Ricardian Bull	Schumpeterian Bull
IBM	NTT	Microsoft	Exxon Mobil	Apple (US$ 2.43tr)
AT&T	Bank of Tokyo-Mitsubishi	General Electric	PetroChina	Microsoft (US$2.25tr)
Exxon	Industrial Bank of Japan	NTT DoCoMo	Apple Inc.	Alphabet/Google (US$1.88tr)
Standard Oil	Sumitomo Mitsui Banking	Cisco Systems	BHP Billiton	Amazon (US$ 1.73tr)
Schlumberger	Toyota Motors	Wal-Mart	Microsoft	Meta/Facebook (US$ 975bn)
Shell	Fuji Bank	Intel	ICBC	Tesla (US$745bn)
Mobil	Dai ilchi Kangyo Bank	NTT	Petrobras	Berkshire Hathaway (630bn)
Atlantic Richfield	IBM	Exxon Mobil	China Construction Bank	TSMC (US$602bn)
General Electric	UFJ Bank	Lucent Technologies	Royal Dutch Shell	Tencent Holdings (570bn)
Eastman Kodak	Exxon	Deutsche Telekom	Nestlé	Nvidia (562bn)

Every Decade new winners

Asset Allocation during 'Stagflation'

Global Asset Performance by Environment

	Sharpe Ratio			Excess Return (Ann)		
	Stagflation	Other Periods	All Periods	Stagflation	Other Periods	All Periods
Frequency of Environment	18%	82%	100%	18%	82%	100%
Assets						
Inflation-Linked Bonds	1.02	0.50	0.57	4.5%	2.2%	2.6%
Gold	0.67	0.10	0.23	17.6%	1.8%	4.5%
Broad Commodities	0.58	0.17	0.28	10.5%	2.4%	4.1%
Nominal Bonds	-0.20	0.63	0.44	-1.2%	3.5%	2.5%
Corporate Spreads	-0.66	0.33	0.18	-3.1%	1.8%	1.0%
Real Estate	-0.68	0.63	0.38	-13.8%	11.8%	7.3%
Global 60/40 Portfolio	-0.70	0.82	0.49	-6.6%	6.5%	4.1%
Equities	-0.72	0.67	0.39	-10.2%	8.6%	5.1%

'The odds of a global recession and a change in the macroeconomy are very high and severe not seen in decades. There's a high probability that markets at best will be flat for 10 years, sort of like 1966-1982 time period' – Stanley Druckenmiller

..In the interim 'Inflation' could slowdown..

Exhibit 4: If Inflation really is a monetary phenomenon, it's headed a lot lower next year

Source: Bloomberg, Morgan Stanley Research

…some emerging signs of inflation slowdown…

"USED CAR PRICES ARE ABOUT TO DEFLATE HARD,"

CHART: Used Car Prices – what if we held Sept prices flat, what does the Y/Y change in Used Car prices start to look like (a good thing obviously…for 'inflation')

				IF PRICES JUST STAYED FLAT WITH SEPTEMBER 2022								
Date	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Manheim Used Car Price Index	219.6	210.8	205.9	205.9	205.9	205.9	205.9	205.9	205.9	205.9	205.9	205.9
Y/Y Chg %	13%	8%	1%	(8%)	(11%)	(13%)	(13%)	(11%)	(8%)	(7%)	(8%)	(6%)

Source: Bloomberg, Excel.

Who will get the Global liquidity?

The one who maintains the value of currency

Global Central Bank Policy Rates						
Country	Rate	Central Bank Rate (Today)	CPI YOY	Real Central Bank Rate	Last Move	Last Move Month
Brazil	Target Rate	13.75%	7.20%	6.55%	Hike	Aug-22
China	Loan Prime Rate	3.65%	2.80%	0.85%	Cut	Aug-22
Mexico	Overnight	9.25%	8.70%	0.55%	Hike	Sep-22
India	Repo Rate	5.90%	7.40%	-1.50%	Hike	Sep-22
Switzerland	Target Rate	0.50%	3.30%	-2.80%	Hike	Sep-22
Japan	Policy Rate Bal	-0.10%	3.00%	-3.10%	Cut	Jan-16
Canada	Overnight	3.25%	6.90%	-3.65%	Hike	Sep-22
New Zealand	Cash Rate	3.50%	7.20%	-3.70%	Hike	Oct-22
Australia	Cash Rate	2.60%	6.80%	-4.20%	Hike	Oct-22
US	Fed Funds	3.13%	8.20%	-5.07%	Hike	Sep-22
Russia	Key Policy Rate	7.50%	13.70%	-6.20%	Cut	Sep-22
UK	Bank Rate	2.25%	10.10%	-7.85%	Hike	Sep-22
Argentina	Benchmark Rate	75.00%	82.90%	-7.90%	Hike	Sep-22
Eurozone	Deposit Rate	0.75%	9.90%	-9.15%	Hike	Sep-22

Total Reserves in Months of Imports

Source: World Bank, IMF, FFTT

Country	Total Reserves in Months of Imports
Austria	1
Belgium	1
China	12
Euro Area	2
France	3
Germany	2
Hong Kong	6
India	10
Israel	18
Italy	4
Japan	16
Korea	8
Netherlands	1
Norway	6
Russian Federation	15
Saudi Arabia	25
Switzerland	20
UK	2
US	2

"EM have become DM and DM have become EM"

Which is why this is… Brave New World

«We Will See the Return of Capital Investment on a Massive Scale»

Market strategist and historian Russell Napier warns of a 15- to 20-year phase of structurally elevated inflation and financial repression. He shares his views on how investors should prepare for this new world.

Mark Dittli
14.10.2022, 04.21 Uhr

Merken Drucken Teilen

Germany Allocates €38 Million For Morocco's First Green Hydrogen Plant

Morocco has the potential to produce one of the world's cheapest green hydrogen but the market remains in its infancy.

Souad Anouar Oct. 22, 2022 12:41 p.m.

Tesla May Open Factory in Mexico

By Joel Patel, Automotive Editor - October 26, 2022

TRADE | EUROPE

EU unveils €300 billion global infrastructure plan

Zinc and Copper Jump After LME Bans New Metal From Russian Firm

- Exchange restricts deliveries from Ural Mining & Metallurgical
- It's LME's most significant restriction on Russian supply yet

Breaking Market News ⚡ @financialjuice · 8h

FRANCE'S PRESIDENT MACRON: EUROPE HAS MADE A HISTORIC ERROR IN CRITICAL INFRASTRUCTURE.

188 482 2,560

China is no longer a low-cost labor country

Research by The Reshoring Institute shows the lowest-cost countries are now India, Mexico and Vietnam.

Twitter Facebook Linkedin

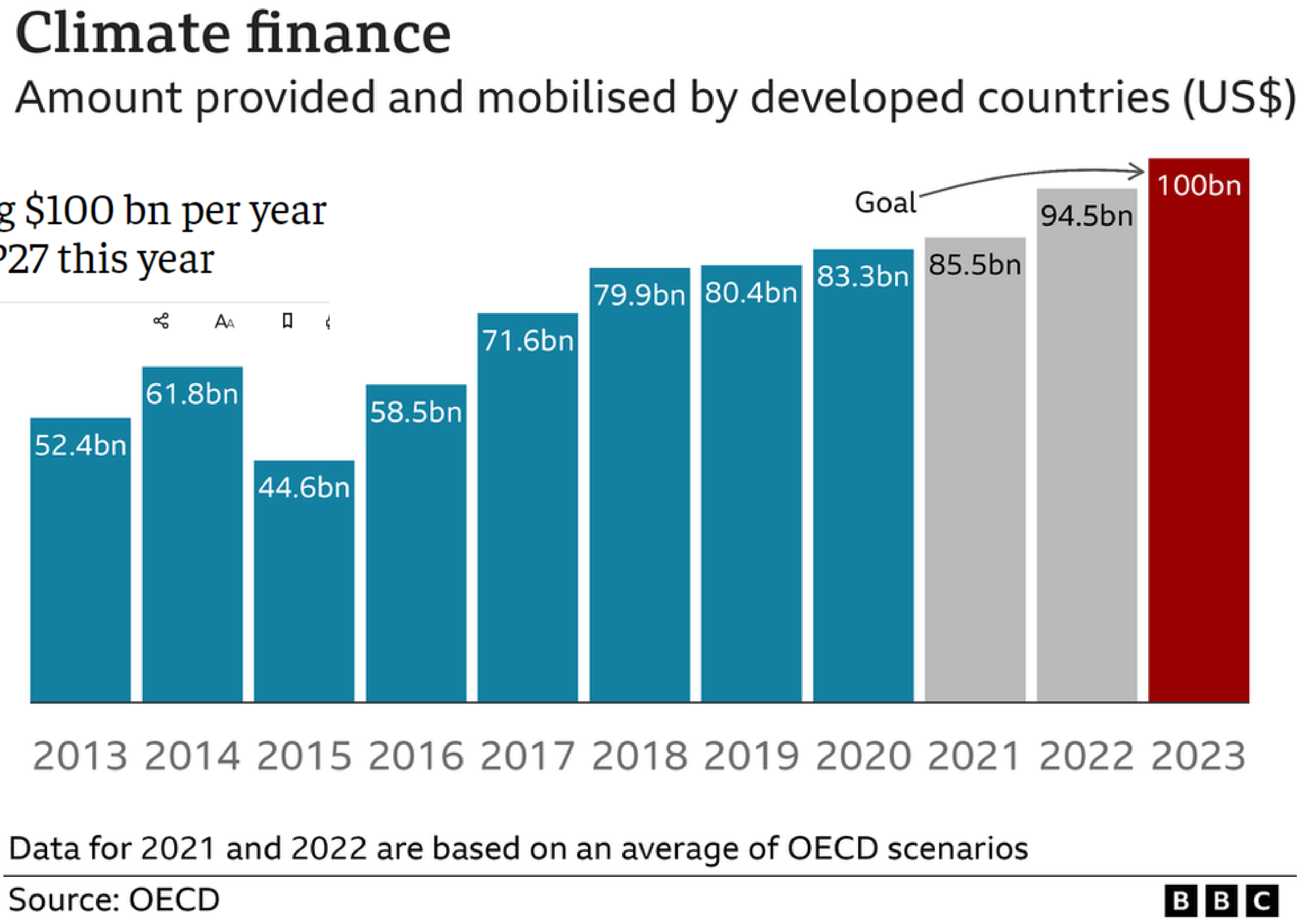
By SCMR Staff · October 20, 2022

Amidst unprecedented macro uncertainty, opportunities will arise

Cop27 – printing $1 trillion Platinum coin to fund climate

India to deliberate on achieving $100 bn per year climate financing in COP27 this year

Last Updated: Nov 04, 2022, 02:26 PM IST

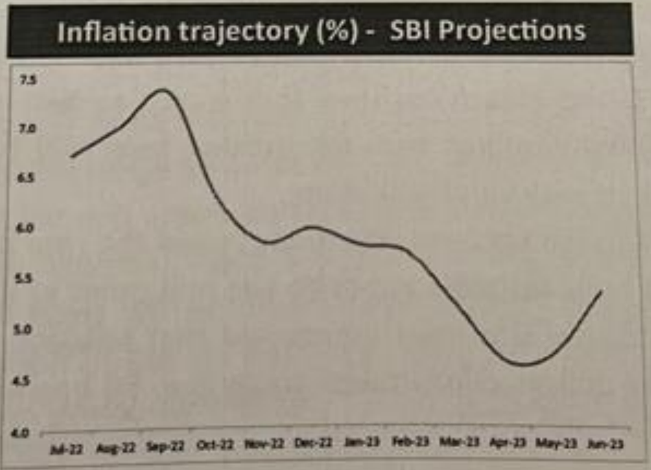


Ray of Sunshine?

SBI Research

RBI Growth & Inflation Outlook for India						
CPI Inflation (%)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	FY23	Q1 FY24
Aug'22	7.3*	7.1	6.4	5.8	6.7	5.0
Jun'22	7.5	7.4	6.2	5.8	6.7	
Apr'22	6.3	5.8	5.4	5.1	5.7	
Real GDP Growth (%)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	FY23	Q1 FY24
Aug'22	16.2	6.2	4.1	4.0	7.2	6.7
Jun'22	16.2	6.2	4.1	4.0	7.2	
Apr'22	16.2	6.2	4.1	4.0	7.2	

Source: RBI, SBI Research; *actual



Source: SBI Research

Fastest growing nominal GDP among major economies

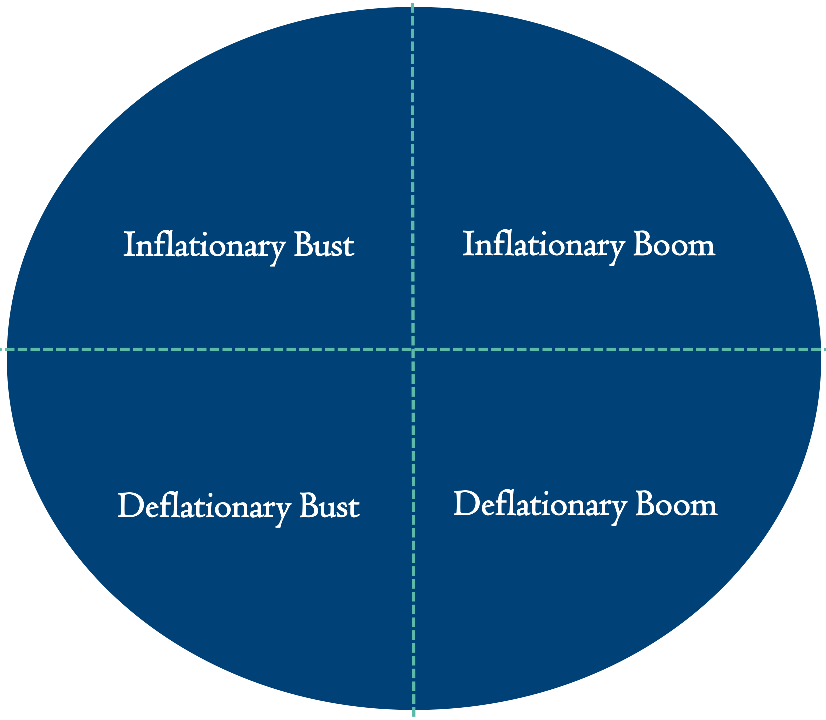
Investment Framework

PRIC
E

- Presence of excess credit while wages are rapidly increasing & inducing high inflation
- Long: Cash in reserve currency, commodities
- Short: Bonds, Financial Assets

- Easy credit, Increased flows to Emerging markets
- Long: Miners, Gold, Commodities, Emerging market stocks, Real Estate, Cyclical producers
- Short: US 10-year bonds, US dollar

ECONOMIC ACTIVITY



ECONOMIC ACTIVITY

- Credit Squeeze, Rising credit spread
- Long: US Dollar, DM Long bond & Gold
- Short: EM, Value & commodities, High yield Bonds

- Low credit creation, reduced flows to Emerging markets
- Long: US Dollar, High growth, DM bonds, Companies with Moats
- Short: Emerging markets and Value

Natural Tendency of Capitalist economic system

PRIC
E

We believe LIQUIDITY & capital flow (smart money) creates fundamentals & once you identify the quadrant you are in, it is easy to do an asset allocation

The Brave New World

"So maybe we have years of high and volatile inflation as the global economy deglobalizes, re-shoring production, which is by nature a process of increasing redundancy while losing efficiency. That will keep certain supplies relatively low, and demand for certain inputs high. **Whenever there is an economic slowdown, the government will borrow and spend more, putting labor to work on the numerous causes which we deem vital: climate, infrastructure, defense, strategic reshoring, inequality. And such capital allocation will be inefficient."**

"It's pretty easy to imagine the economy becoming rather dysfunctional if this is how it operates in the years ahead. The inefficiencies will drive continued inflation, which will hurt the baby boomers most, and this will narrow the inequality between young and old. It will hurt people with financial assets, narrowing inequality between rich and poor. And it will inflate away government debt and entitlements, which is far too high and requires a reboot similar to what we faced after the last world war. **All these things kind of seem inevitable."**

Outlook

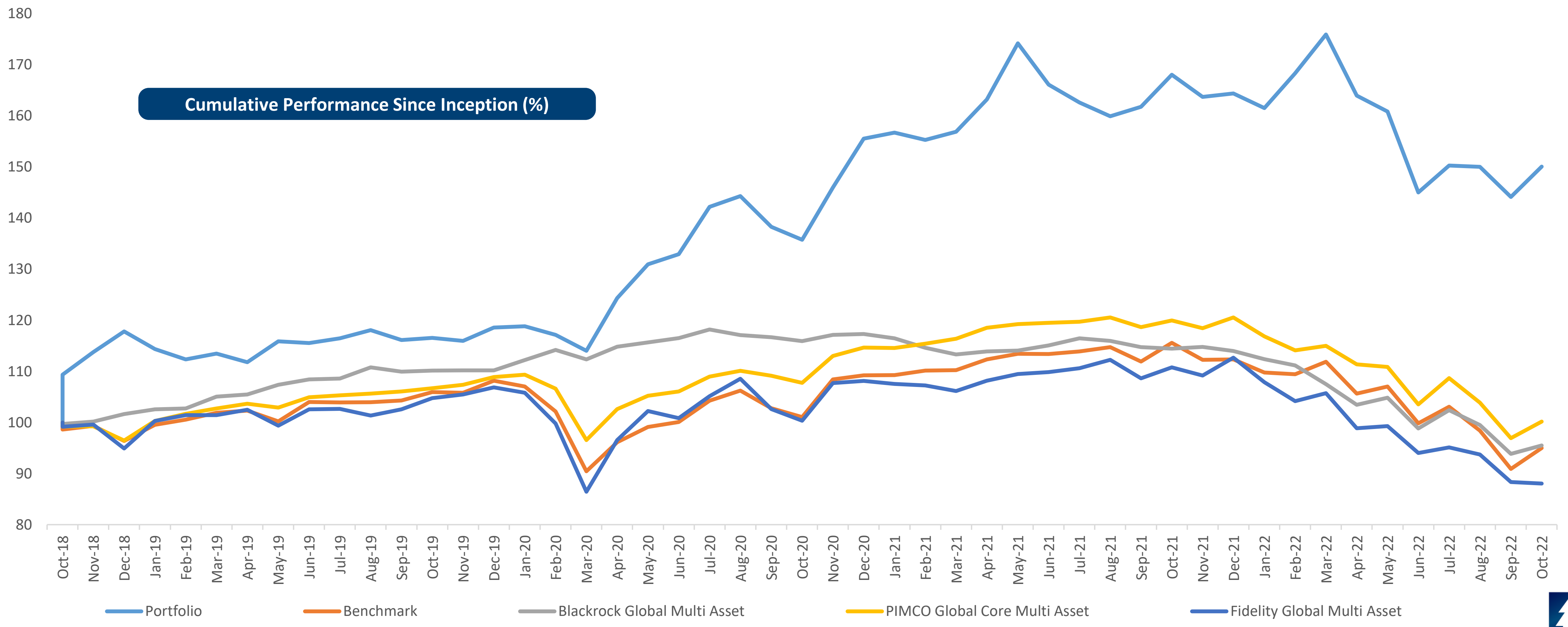
- Capital flows & Supply chains will move to countries with least negative real rates, young demographics, low household debt and secured energy supplies in a de-Globalized world.
- Get ready for a capex boom supported by govt guarantees
- In a volatile Macro world, active fund management will outperform passive investments reversing a 10 year trend.
- US bonds are attractively valued but lack enough capital flows to support the supply
- US has weaponized the "Dollar" and Russia has weaponized "Energy supplies" stay cautious and wait for the resolution.

Introducing the Liquidity Way of Investing

- Global Asset Allocation fund
- Absolute return strategy with focus on minimizing drawdown
- Focus on global *liquidity* flows
- Top-down/Macro driven strategy
- Using US listed ETFs/ETNs/Stocks as Investment vehicle
- Low volatility using cash opportunistically

Fund Statistics

Sharpe:	Annualized return Since Inception (Oct'2018): Prop + Fund	Benchmark return Since Inception (Oct'2018): Prop + Fund
0.96	10.53%	-1.31%



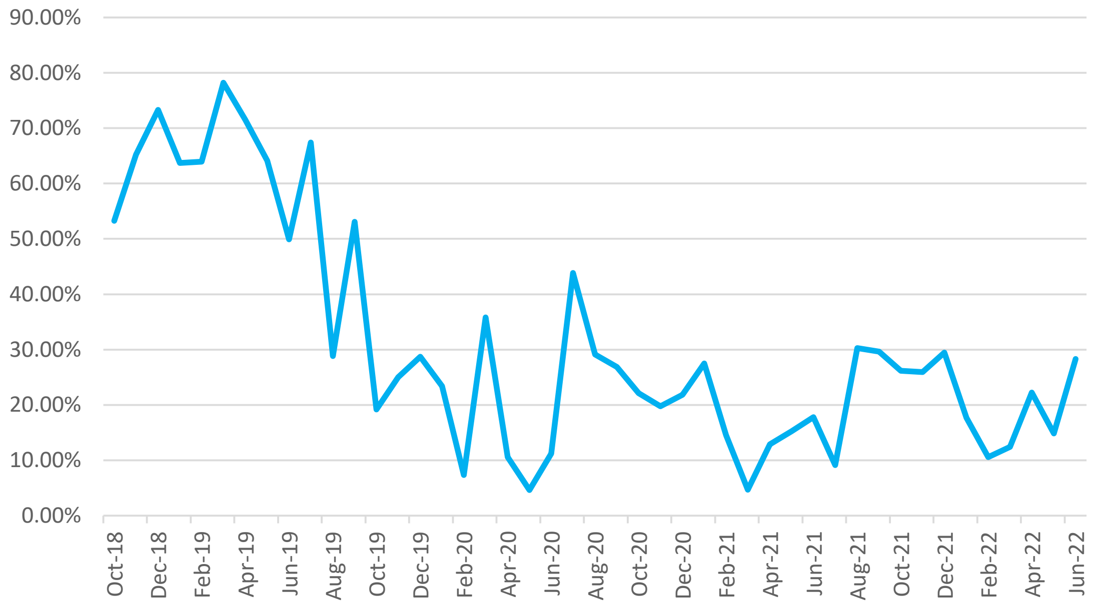
Portfolio performance is gross of fees till 31st October'2022; whereas, Benchmark & peer comparison is net of fees

Past 4 year analysis of 'Asset Allocation'

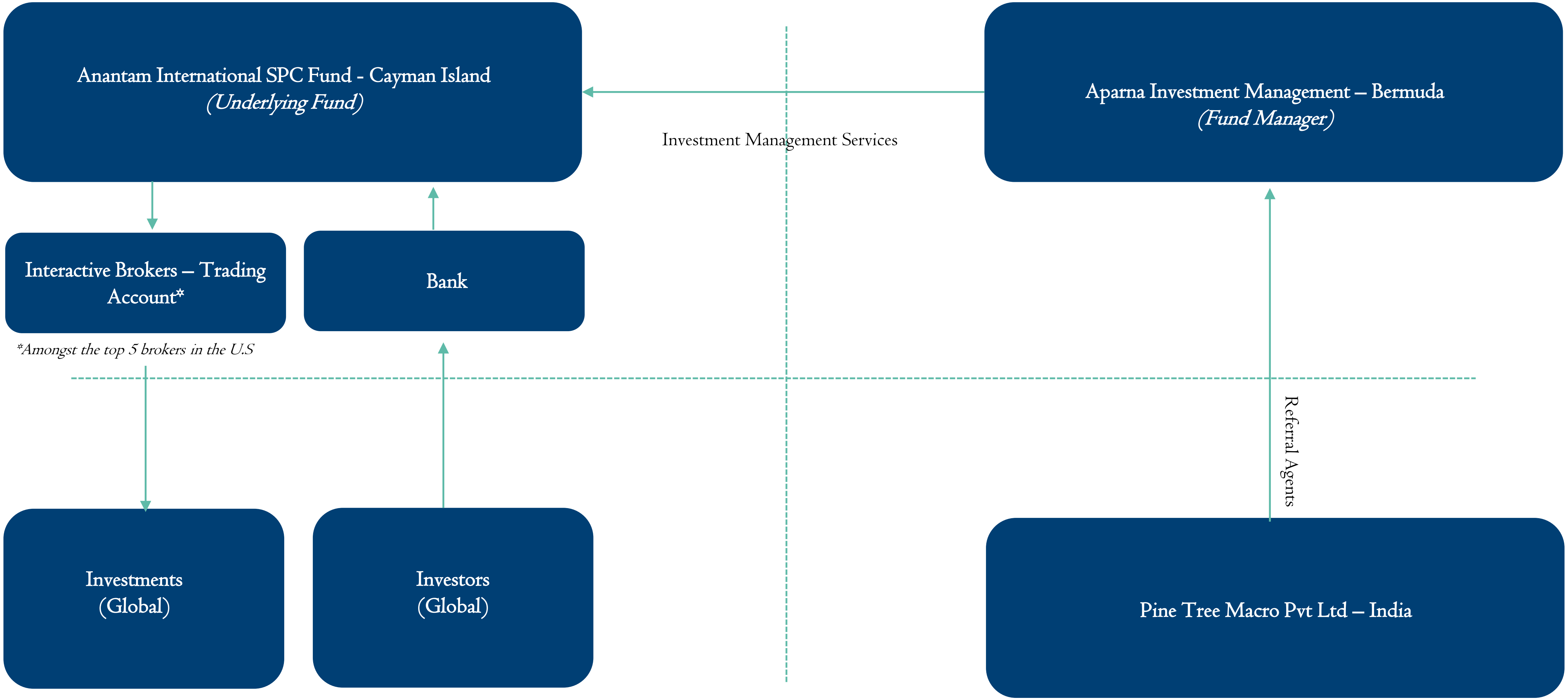
Top 5 holdings

Aug'2022	Sept'2022	Oct'2022
Uranium ETF	Uranium ETF	Uranium ETF
Berkshire Hathway	Agriculture ETF	Berkshire Hathway
Agriculture ETF	Mexico ETF	Japan ETF
Energy ETF	Berkshire Hathway	TIPS Bond ETF
US Cash Cows ETF	Vietnam ETF	Mexico ETF

Average Cash levels (%)



Fund Operating Structure



Please refer to fund's offering documents for a complete description

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Thank You!!!

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