



PINETREE MACRO

Time to be Cautious

Outlook - March'2022



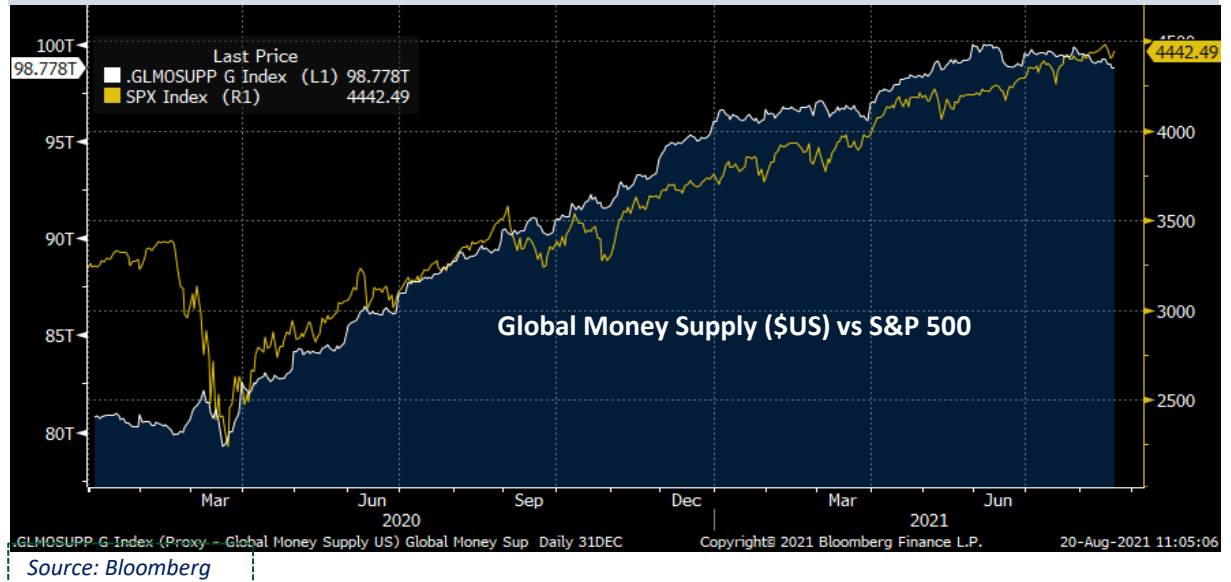
Shrinking Global Liquidity

- Many investors worry, what will happen when the Federal Reserve finally begins tapering. Tapering (silent) has been happening since the past few months.
- U.S. money supply – (bank deposits + money market funds = currency in circulation) – annualized growth has slowed to 4.71% after peaking at the start of the year.
- Resultant effect is that dollar is stronger & the 3-month annualized growth of the dollar value of world money supply is (-1.16%).

Rise in global liquidity by Central banks over the past 18 months, have found its way to risk assets like Equities.

As Fed draws down liquidity from the markets, will the impact of slowdown be reflective in the Asset prices?

Positive Correlation between Equity markets and Global Liquidity



So what happens when the Global liquidity starts shrinking?



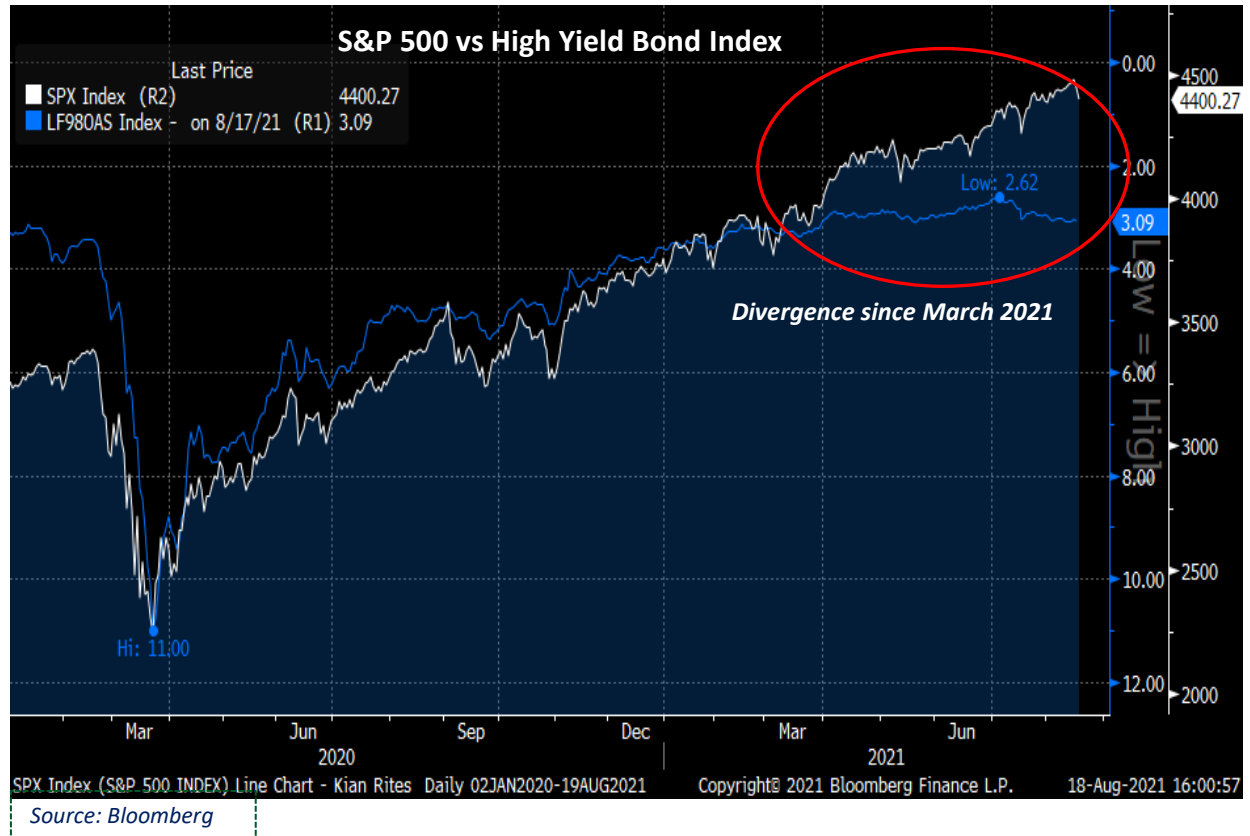
Are the recent divergence in Asset prices already reflecting this slowdown?

Total Losses at "All-Time-Highs"?

Slowdown in liquidity/currency in circulation has already started to impact multiple sectors -

- Micro Caps \$IWC -15%
- Amazon \$AMZN -16%
- Growth \$IWO -17%
- Airlines \$JETS -26%
- Energy \$XOP -29%
- Innovation \$ARKK -29%
- Gold Miners \$GDX -32%
- SPACs \$SPAK -38%
- Cannabis \$MSOS -42%
- Casinos \$WYNN -40%
- Clean Energy \$PBW -47%
- China Big Tech \$KWEB -58%

Junk yield bond spreads has started to diverge from S&P 500



Bond spreads are the first ones to reflect change in liquidity or macro trends, followed by Equity markets. Point to ponder here is are the rising Junk bond or High yields spreads indicating slowing growth, rising inflation and shrinking liquidity.

Bonds Spreads in nutshell are considered *canary in coal mine* for Risk assets like Equities.

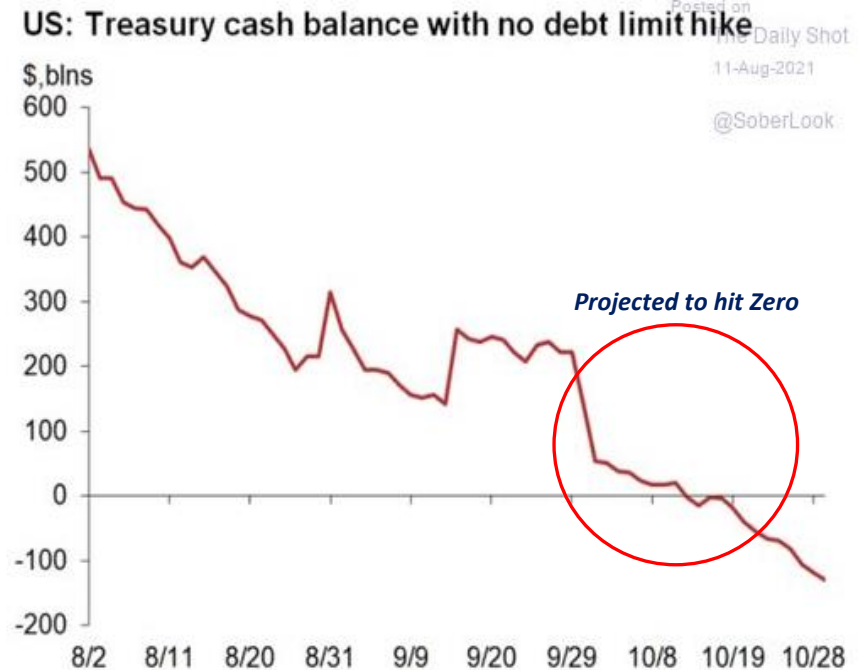


Coupled with shrinking cash balance with US Government

Current Cash balance with the US treasury (Government)



Ceteris Paribus projected cash balance with the exchequer



Source: Bloomberg, Oxford Economics, Haver Analytics, @SoberLook

Federal cash (*generated by a mix of revenue, borrowing & printing*) is financed for activities like social security, medicare, military salaries, tax refunds, protection programme etc. The debt limit ceiling restricts the maximum amount that can be borrowed to finance these obligations.

In absence of changes in Debt ceiling limits, **the US government will be running out of cash come September** and will be **forced to curtail its expenditures**. With massive spending and infrastructure bills on the table, will the debt ceiling wreak havoc on everything.

Note – Debt ceiling limit has been increased 100 times since WW2.



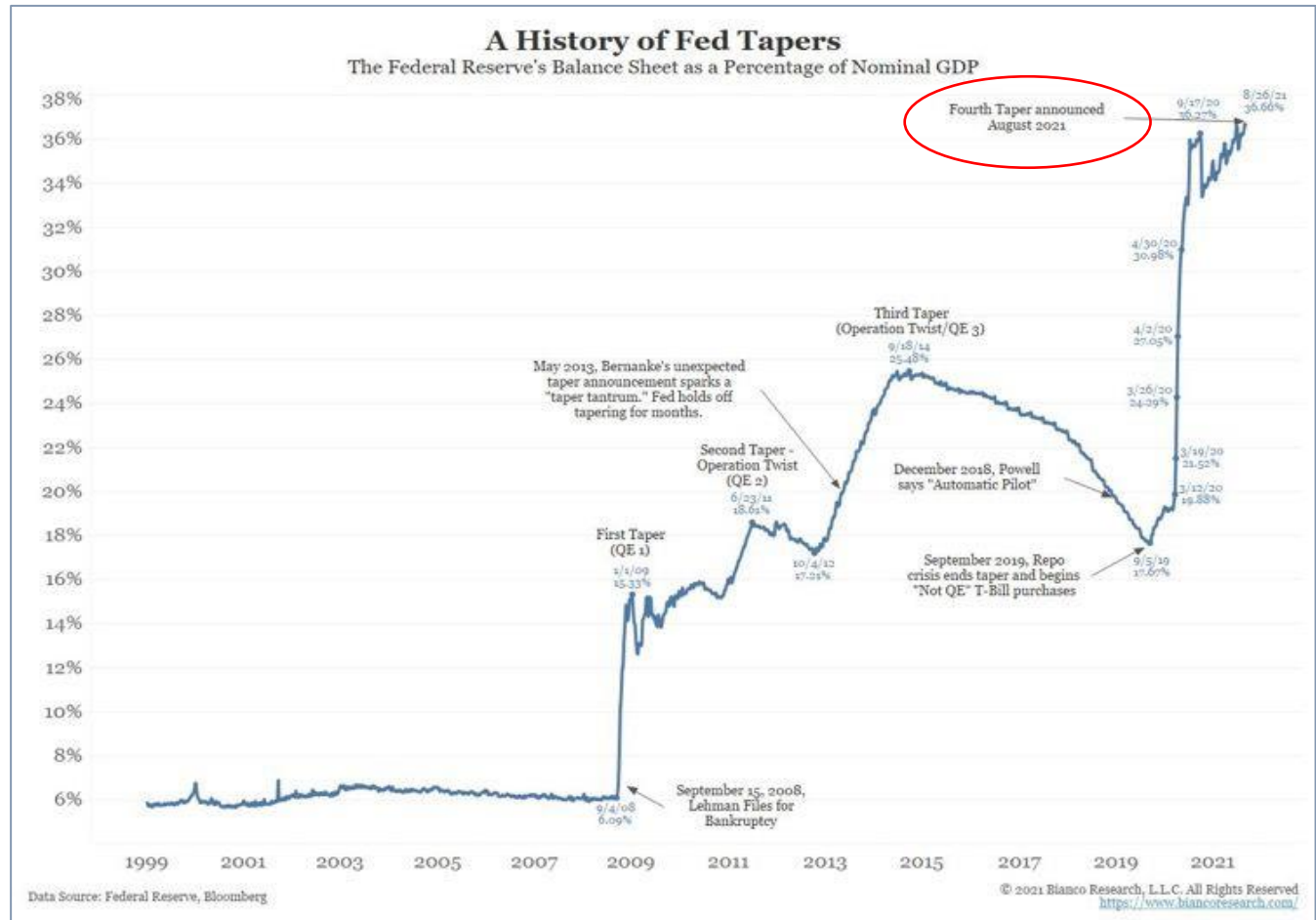
Some Taper, No Tantrum...yet

1st time since 2018 Fed is trying to do a 'Taper'/Fourth tapering attempt in last 13 years

All tapers end when -

- the economy weakens (2012 leading to Operation Twist) or
- markets turn wobbly (19% SPX correct after they tapered QE1 in 2010 and the repo market blowing up in September 2019, after tapering QE3).

Tapering is the gradual slowing of the pace of the Fed's large scale asset purchases



Is this just a short term cyclical move and will Fed turn the printing press on again should the circumstance so demand 'OR' Fed tapers until they go too far, something breaks and the printing presses are fired up again.



Ultimate last stroke – What if USD breaks out & strengthens from here

Dollar Index after finding support, has finally broken its resistance levels at 93-93.50



Source: Bloomberg, Oxford Economics, Haver Analytics, @SoberLook

Falling dollar is positive for risk assets as liquidity moves to better yielding (riskier) investments, as demonstrated by the superlative market performance since past year. Once USD begins to strengthen, this risk parity fails to hold and this trend reversal will increase the value of holding CASH.



Conclusion

Stay Cautious and increase the Cash levels in the portfolio

Asset class across spectrum with an exception of assets like Gold have exhibited a positive correlation with strong upward bias since the past year and half. Led by Fed, central bankers around the globe have let loose the monetary policy to address the issues perpetuating from the pandemic – economic growth, unemployment etc.

Destined to prop up consumption, this excess liquidity instead found its way to risk assets trumping up the valuation levels.

Evidence is piling up that the best of market returns could be behind us and the market has started to run out of fuel. Fourth attempt to Taper combined with the possibility of another wave of Covid and shrinking treasury liquidity could have determining impact on the USD (*Remember all asset class fundamentals are based on the direction of liquidity flow and USD determines this direction*)

Volatility will play a major comeback in the markets over the next few quarters as global economies manage to swim across the liquidity storm.

Our GLOBAL MACRO ETF has increased cash allocation from 10% to 25-30% of the portfolio to be redeployed opportunistically.



Team



Mr. Ritesh Jain
Director

Master of Business Economics (MBE)
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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