



## Macro Investment Views (MiViews): the valuation problem

GFAI, Geneva

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# Macro investment views

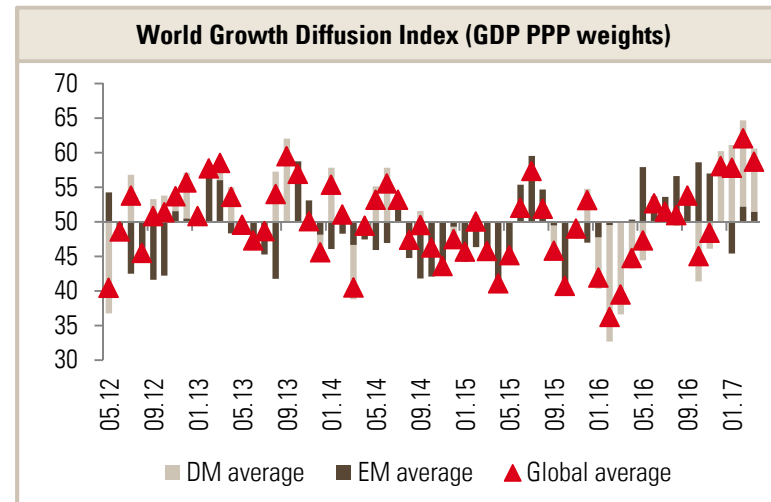
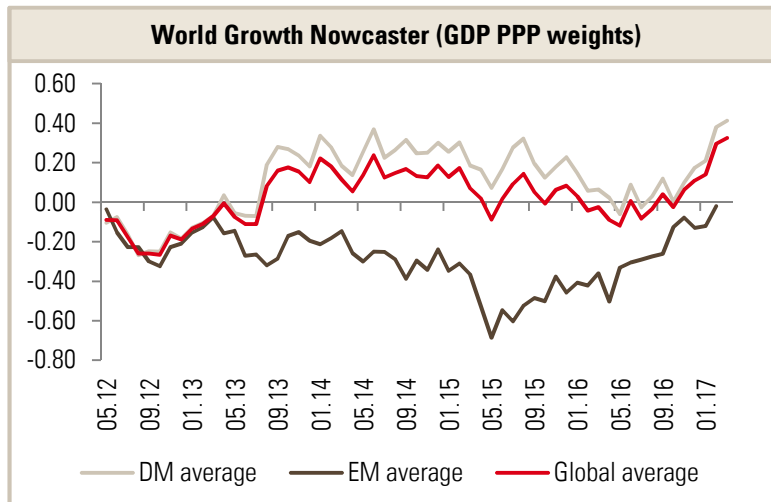


Themes	Fundamentals	Investments
<b>Growth is picking up</b>	Economic activity is improving and well synchronized in the key areas of the US and Europe. It is particularly strong in the US.	Long equities with a preference for Emerging, long HY spread.
<b>Reflation is coming</b>	Reflation should slowly mutate into inflation, as input price inflation will boost most DM consumer price indices.	Slight long Inflation Break-evens and commodities. Underweight IG and EM credit.
<b>Policy Mix is changing</b>	Central Banks' policies are slowly shifting; Fiscal policy should now become the new growth support. Alongside the process, rates should converge across countries, driving the US Dollar lower.	Underweight Government Bonds, Long yield curve steepeners (fiscal stimulus and QE exit).
<b>The valuation problem</b>	Markets have increasingly acknowledged the improvement in the growth and inflation situation: valuations are stretch with discrimination.	Increasing relative value at the expense of pure beta exposure.

# World growth nowcasters



An improving growth dynamics worldwide.



Reading notes. The Growth Nowcaster index is a real-time synthetic measure of the economic growth. It is computed as a proprietary normalized average of a broad spectrum of indicators spanning the different domains of the economy (production, consumption, employment, investment). The Growth Nowcaster takes positive or negative values. A reading above (resp. below) 0 of the Growth nowcaster expresses that the economy is growing at a higher (resp. lower) pace than the "normal" growth (also called potential growth). Based on the same set of indicators, the Diffusion index is computed as the proportion of increasing macroeconomic indicators, hence giving indication of the broadness of the economic expansion. The Diffusion index varies from 0 (all indicators are decreasing) to 100% (all indicators are increasing).

Source: Bloomberg, Unigestion's calculations

# World growth nowcasters



World growth is set on the right track.

		GROWTH NOWCASTERS													
		31.03.2016	30.04.2016	31.05.2016	30.06.2016	31.07.2016	31.08.2016	30.09.2016	31.10.2016	30.11.2016	31.12.2016	31.01.2017	28.02.2017	21.02.2017	06.03.2017
Developed Markets	US	0.07	0.01	-0.10	0.09	-0.09	-0.04	0.16	-0.04	0.03	0.14	0.18	0.46	0.36	0.51
	Canada	-0.52	-0.41	-0.40	-0.46	-0.27	-0.12	-0.10	-0.25	-0.08	0.02	-0.06	0.14	0.12	0.14
	Eurozone	0.07	0.05	0.03	0.15	0.12	0.18	0.07	0.12	0.27	0.26	0.31	0.25	0.34	0.29
	Japan	0.16	-0.06	-0.08	-0.09	0.00	0.04	0.13	-0.07	0.23	0.26	0.20	0.29	0.31	0.37
	UK	0.20	0.27	0.11	0.08	0.14	0.04	0.02	0.13	0.02	0.19	0.19	0.19	0.23	0.13
	Switzerland	0.22	0.29	0.23	0.27	0.27	0.25	0.06	0.18	0.30	0.24	0.37	0.34	0.35	0.27
	DM Total	0.06	0.02	-0.06	0.09	-0.03	0.03	0.12	0.00	0.10	0.17	0.21	0.38	0.34	0.42
Emerging Markets	China	-0.24	-0.50	-0.30	-0.37	-0.39	-0.41	-0.46	-0.12	-0.06	-0.16	-0.05	0.05	0.00	0.07
	Brazil	-0.69	-0.94	-0.69	-0.29	-0.38	-0.44	-0.18	-0.22	-0.27	-0.26	-0.27	-0.08	-0.24	-0.06
	India	-0.27	-0.16	-0.02	-0.11	-0.07	-0.04	0.10	-0.08	0.08	0.14	-0.18	0.10	0.10	0.12
	Russian Fed.	-0.71	-0.77	-0.51	-0.18	-0.17	-0.08	-0.08	-0.06	-0.01	0.03	-0.04	-0.04	-0.03	0.00
	South Africa	-0.33	-0.45	-0.43	-0.46	-0.19	-0.06	-0.12	-0.15	-0.14	-0.24	-0.09	-0.08	-0.10	-0.04
	Mexico	-0.32	-0.24	-0.15	-0.21	-0.19	-0.13	-0.14	-0.14	-0.15	-0.18	-0.34	-0.33	-0.34	-0.33
	EM Total	-0.36	-0.50	-0.33	-0.31	-0.29	-0.27	-0.26	-0.13	-0.08	-0.13	-0.12	-0.02	-0.06	0.00
<b>Total</b>	<b>-0.03</b>	<b>-0.09</b>	<b>-0.12</b>	<b>0.01</b>	<b>-0.08</b>	<b>-0.03</b>	<b>0.04</b>	<b>-0.02</b>	<b>0.06</b>	<b>0.11</b>	<b>0.14</b>	<b>0.30</b>	<b>0.26</b>	<b>0.33</b>	

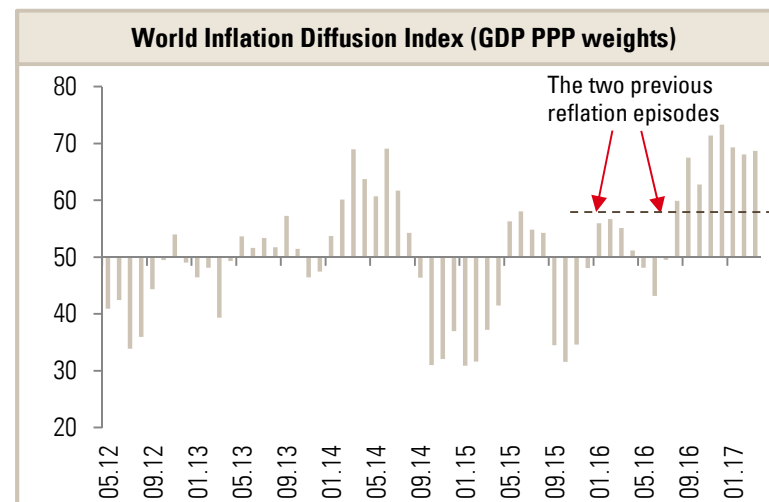
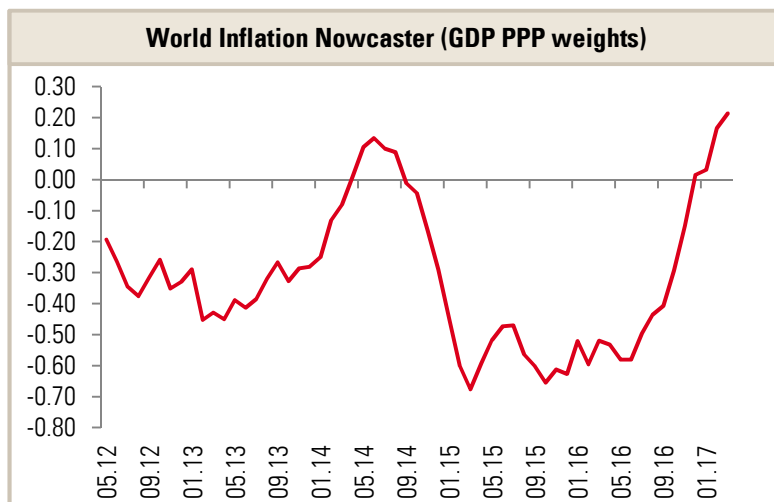
**Reading notes.** The Growth Nowcaster index is a real-time synthetic measure of the economic growth. It is computed as a proprietary normalized average of a broad spectrum of indicators spanning the different domains of the economy (production, consumption, employment, investment). The Growth Nowcaster takes positive or negative values. A reading above (resp. below) 0 of the Growth nowcaster expresses that the economy is growing at a higher (resp. lower) pace than the "normal" growth (also called potential growth). Based on the same set of indicators, the Diffusion index is computed as the proportion of increasing macroeconomic indicators, hence giving indication of the broadness of the economic expansion. The Diffusion index varies from 0 (all indicators are decreasing) to 100% (all indicators are increasing).

Source: Bloomberg, Unigestion's calculations

# World inflation nowcasters



This improvement on the inflation side is now obvious and is very different from the two previous episodes.



**Reading notes.** The Inflation Nowcaster index is a real-time synthetic measure of inflation surprises. It is computed as a proprietary normalized average of a broad spectrum of indicators spanning the different domains of the economy (imported inflation, production costs and expected inflation). The Inflation Nowcaster takes positive or negative values. A reading above (resp. below) 0 of the Inflation nowcaster expresses that the inflation is growing at a higher (resp. lower) pace than the “normal” inflation (also called potential inflation). Based on the same set of indicators, the Diffusion index is computed as the proportion of increasing macroeconomic indicators, hence giving indication of the broadness of inflation pressures. The Diffusion index varies from 0 (all indicators are decreasing) to 100% (all indicators are increasing).

Source: Bloomberg, Unigestion’s calculations

# World inflation nowcasters



So far the strongest inflation wave seen in 6 years.

		INFLATION NOWCASTERS													
		31.03.2016	30.04.2016	31.05.2016	30.06.2016	31.07.2016	31.08.2016	30.09.2016	31.10.2016	30.11.2016	31.12.2016	31.01.2017	28.02.2017	21.02.2017	06.03.2017
	US	-0.54	-0.57	-0.64	-0.72	-0.60	-0.49	-0.51	-0.35	-0.19	0.01	0.01	0.16	0.19	0.18
	Canada	-0.64	-0.67	-0.63	-0.63	-0.63	-0.67	-0.53	-0.45	-0.35	-0.19	0.04	0.12	0.11	0.13
	Eurozone	-0.38	-0.37	-0.41	-0.26	-0.25	-0.28	-0.15	-0.16	-0.02	0.09	0.08	0.19	0.16	0.29
Developed Markets	Japan	-0.86	-1.00	-0.97	-0.88	-0.76	-0.94	-0.87	-0.70	-0.64	-0.65	-0.26	-0.41	-0.26	-0.21
	UK	-0.58	-0.36	-0.30	-0.17	-0.18	-0.12	0.19	0.27	0.31	0.27	0.42	0.45	0.49	0.43
	Switzerland	-0.86	-0.67	-0.64	-0.46	-0.26	-0.27	-0.36	-0.22	-0.20	0.01	0.02	0.32	0.32	0.35
	DM Total	-0.52	-0.53	-0.58	-0.58	-0.50	-0.44	-0.41	-0.29	-0.15	0.02	0.03	0.17	0.18	0.20

**Reading notes.** The Inflation Nowcaster index is a real-time synthetic measure of inflation surprises. It is computed as a proprietary normalized average of a broad spectrum of indicators spanning the different domains of the economy (imported inflation, production costs and expected inflation). The Inflation Nowcaster takes positive or negative values. A reading above (resp. below) 0 of the Inflation nowcaster expresses that the inflation is growing at a higher (resp. lower) pace than the "normal" inflation (also called potential inflation). Based on the same set of indicators, the Diffusion index is computed as the proportion of increasing macroeconomic indicators, hence giving indication of the broadness of inflation pressures. The Diffusion index varies from 0 (all indicators are decreasing) to 100% (all indicators are increasing).

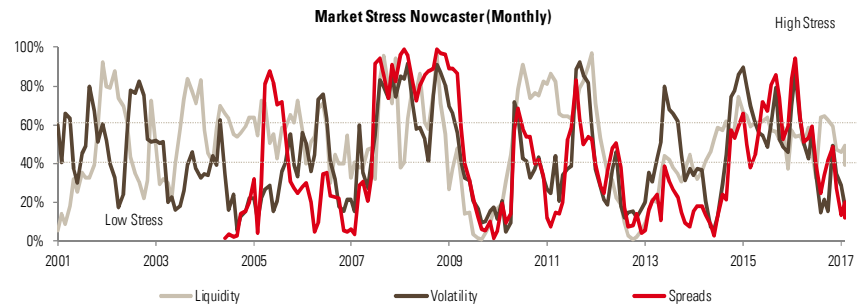
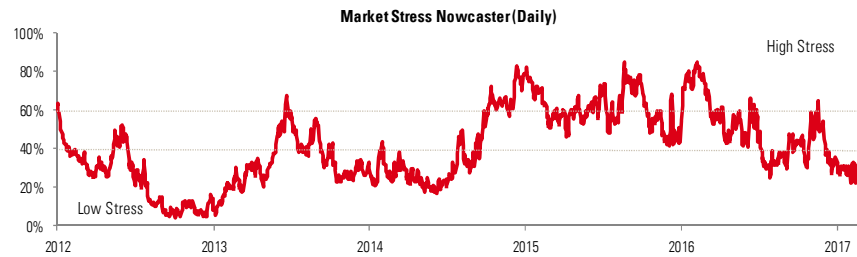
Source: Bloomberg, Unigestion's calculations

# Market stress nowcaster



Market stress still at low levels.

	03.03.2017	1W ago	1M ago
<b>MS Nowcaster</b>	<b>20.2%</b>	<b>33.2%</b>	<b>27.7%</b>
Liquidity	43.3%	58.5%	42.6%
Volatility	7.5%	16.3%	22.9%
Spreads	9.9%	24.9%	17.7%



Source: Bloomberg, Unigestion's calculations

# Macro risk factors monitoring



Inflation risk is now very high while recession risk is very low and market stress risk is low.

Macro Risk Factor	Very low	Low	Neutral	High	Very high	Monthly Change
<b>Recession risk</b>						↔
<b>Inflation risk</b>						↔
<b>Market Stress risk</b>						↔

Last week value (if there is a change)

Reading note: a range of systematic signals is used to identify probabilities of being in one of our core macro regimes: steady growth, recession, inflation surprise and market stress. The proprietary indicators used are (1) a growth nowcaster to measure the probability of currently being in a recession, (2) an inflation nowcaster to gauge the probability of seeing inflation surprises and a market stress nowcaster screens the level of market tension. The recession basket is made of Government bonds. The Inflation basket is made of Inflation Breakevens and Energy commodities. The Market stress basket is made of Government bonds and precious metals.

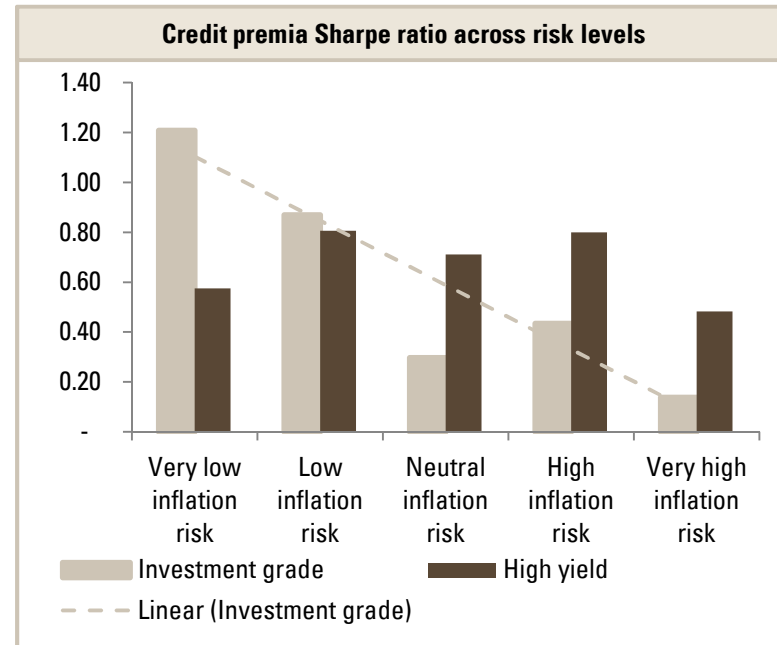
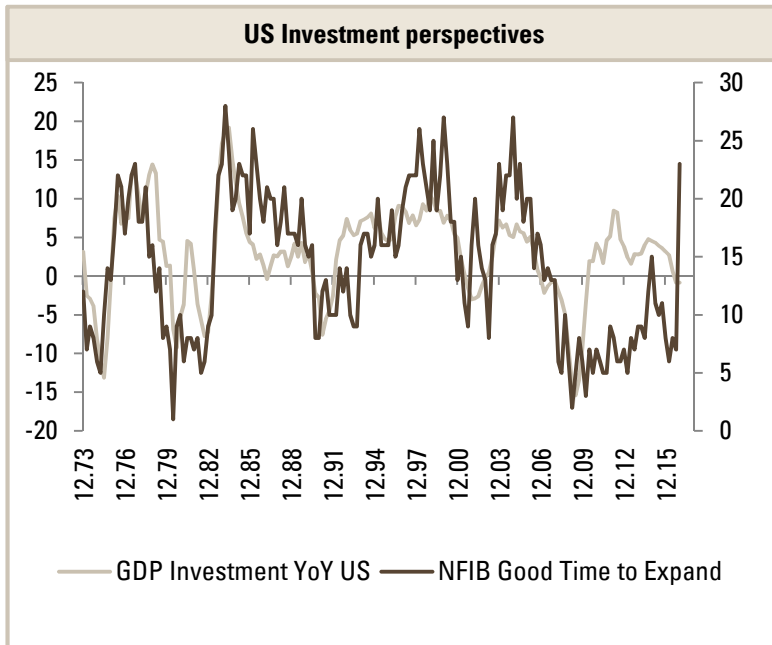
Source: Unigestion. As of the 13<sup>th</sup> of March.



# Growth and inflation on tracks. Watch your credit exposure.

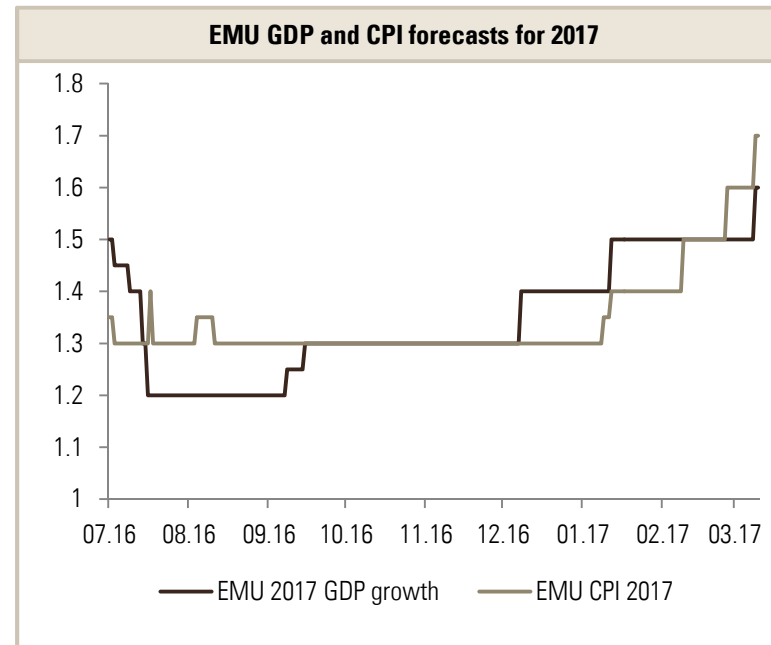
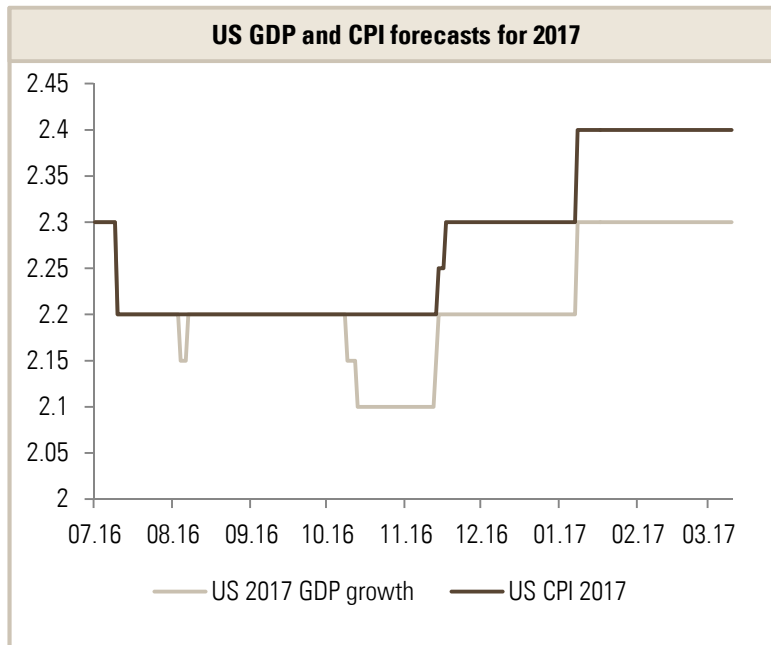


Investment should be the next growth driver. The inflation dynamics should weigh on investment grade's performance.



Source: Bloomberg, Unigestion's calculations.

# A lot of good news are already expected

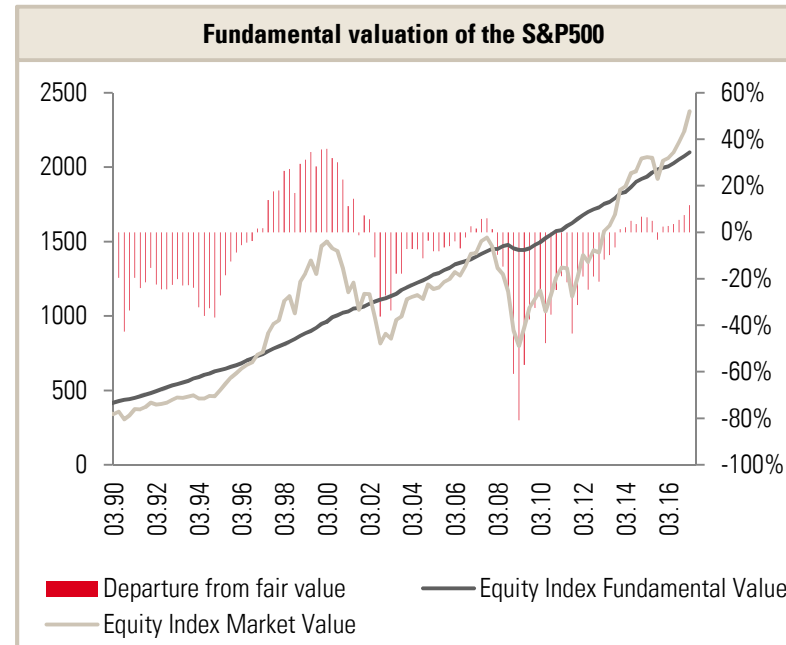
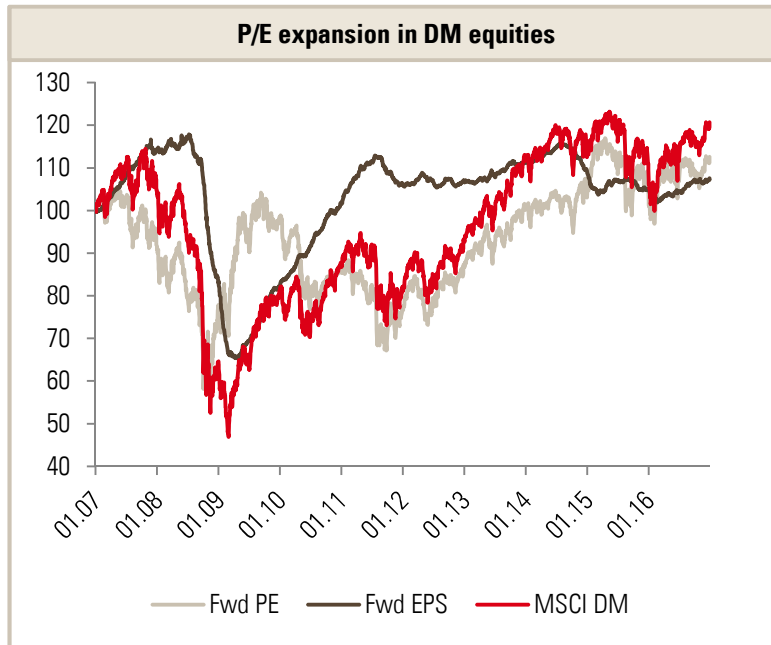


Source: Bloomberg.

# The valuation risk: equities



Markets are discounting a significant US tax cut – beyond the underlying growth story.

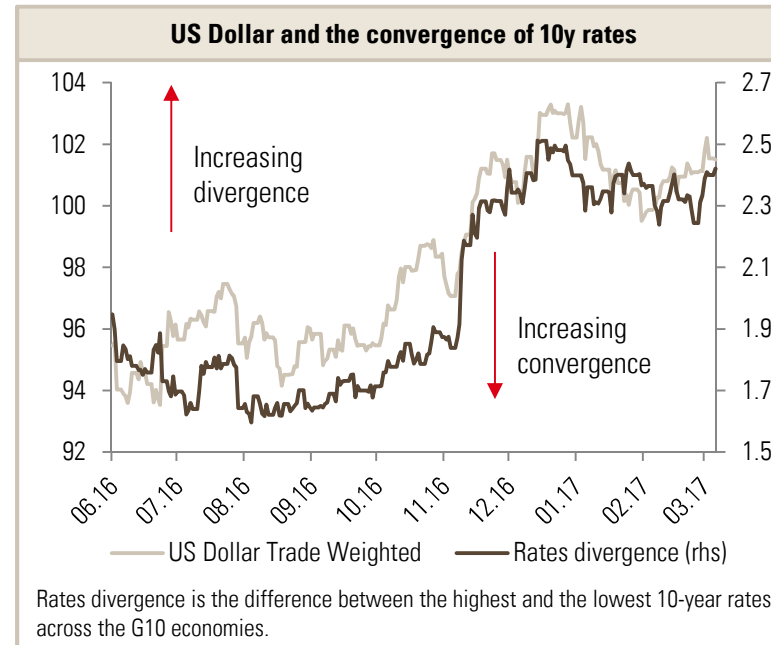
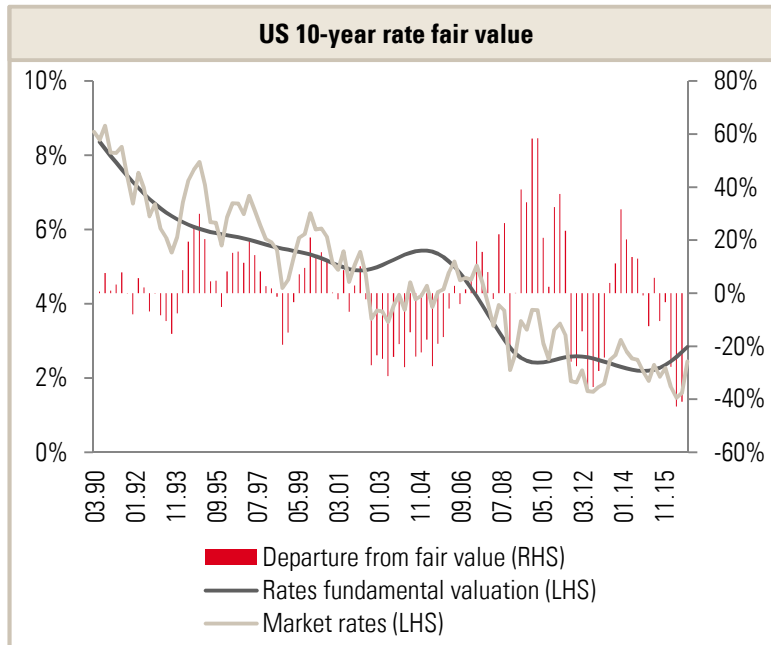


Source: Bloomberg, Unigestion's calculations. Fundamental valuation reflects the influence of nominal growth, rates and productivity.

# The valuation risk: government bonds' rates



The rates' correction is not done yet in the US – not to mention the rest of the world.

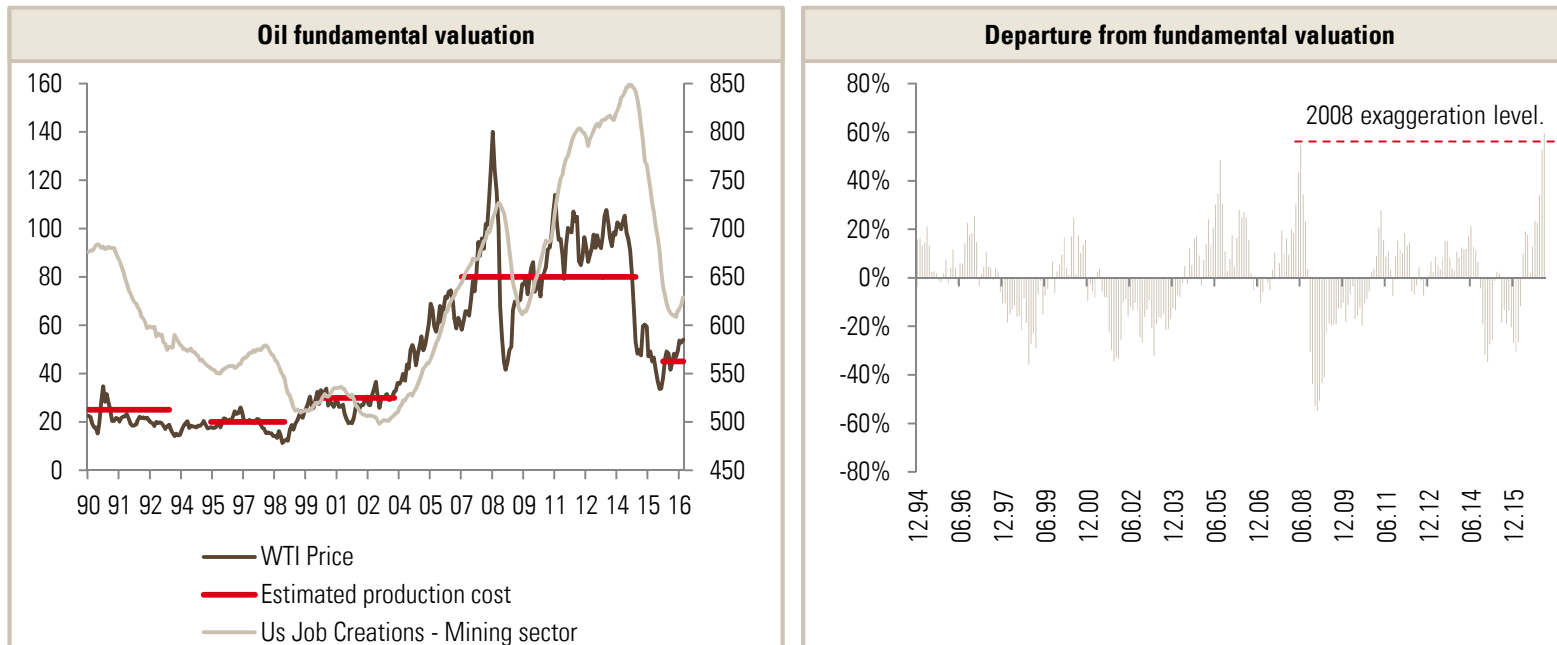


Source: Bloomberg, Unigestion's calculations. Rates fundamental valuations are obtained from potential growth and inflation as fundamentals.

# The valuation risk: oil prices



When factoring production costs, production and inventories, oil prices look extremely high



Source: Bloomberg, Unigestion's calculations. Fundamental valuation reflects the influence of costs, convenience yield, production and inventories.

## Conclusions



- ∟ The synchronicity of the growth and inflation dynamics around the world should make that both phenomenon are long lasting.
- ∟ A significant portion of this phenomenon has already been incorporated in market pricing.
- ∟ Still, discrepancies remain and can be profited from.
- ∟ There is room for relative value play across rates, equities and commodities.

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