

# Why Macro Matters

**Alejandra Grindal**

Senior International Economist

**Veneta Dimitrova**

Senior U.S. Economist

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Generate Alpha. Identify Risk.  
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# ALEJANDRA GRINDAL

## Senior International Economist

**Alejandra Grindal** is the Senior International Economist for Ned Davis Research Group. She is the primary person in charge of the firm's global economic outlook, and is responsible for identifying global economic trends and themes, particularly as they relate to developments in equity, fixed income, commodity, and currency markets. In recent years, Alejandra has been particularly focused on global demographics and labor force trends, China's economic transition, and Japan's lost decade. She joined Ned Davis Research Group in 2006.

Alejandra is a member of the National Association for Business Economics, where she is co-chair of the International Roundtable. She is a frequent speaker at professional and investment conferences and her work has been cited in the financial media.

Prior to joining Ned Davis Research Group, Alejandra taught Microeconomics and Macroeconomics at Florida State University during her graduate studies, and then worked as a full-time professor at Santa Fe College and Edison College. Alejandra also worked in British Parliament as a research assistant, where she participated in policy and constituent research and campaign marketing.

Alejandra received her Masters degree in Economics and a Bachelor of Science degree in Economics and International Affairs, with summa cum laude and Phi Beta Kappa distinction, from Florida State University.



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# VENETA DIMITROVA

## Senior U.S. Economist

**Veneta Dimitrova** is the Senior U.S. Economist for Ned Davis Research Group. She is the primary person responsible for formulating the U.S. economic outlook and identifying macroeconomic trends, particularly as they relate to developments in U.S. fixed income and equity markets. Veneta's focus in recent years has been on trends in the labor market, productivity growth, and income inequality.

Veneta is the author of several publications, including the *U.S. Daily Perspectives*, which analyzes daily economic reports and events and their impact on the macro environment; *U.S. Economic Focus*, a comprehensive monthly piece which summarizes our current stance on the economy and near-term outlook; and *U.S. Economic Comment*, an intra-month publication which adds perspective on the impact of specific events or macro developments. Veneta has also written several *Featured Report* publications, which give an in-depth analysis and discussion of a single economic topic of interest.

Prior to joining NDRG in 2009, Veneta was an operations research analyst at Miami-based Bayview Lending Group, which is a small-balance commercial real estate originator. She also worked as a research analyst for a global macro hedge fund at Nikko Securities Co. Int'l and for CDC Investment Management Co., both in New York City. Veneta also taught economics and assisted with research at the University of South Florida, while completing the coursework toward a Ph.D. in Economics.

Veneta is a member of the National Association for Business Economics. She received her Masters degree in Economics with honors from the University of South Florida in Tampa, FL, and a Bachelor of Arts degree in Economics and Mathematics from Eckerd College in St. Petersburg, FL.



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# ROBERT C. SCHUSTER, CFA, CMT

Vice President, Product Innovation

**Robert C. Schuster**, CFA, CMT, is the VP, Product Innovation. Robert is a member of the NDR and Euromoney Senior Management teams. Robert oversees new product innovation and strategy, as well as the quality and usability of NDR research publications and content across market segments. Robert leads the NDR product innovation program which develops new content and products; as well as improving the packaging and promotion of existing content and products. Robert works directly with NDR's clients and prospect pool to assess customer needs. Additional responsibilities include working directly with 3<sup>rd</sup> party partners for distribution of NDR research and model strategies.

Since joining the firm in 1989, Robert has held various positions including, Chief Product Officer (2018), Senior Director, Research Content and Investment Solutions (2017), Chief Operations Officer (2004-2016), Managing Director of Custom Research Solutions (1995-2004), and Research Analyst for the Bond/Economic and Custom Research Solutions Departments (1989-1995).

Robert Graduated with honors from the University of Illinois with a Bachelor of Science in Finance. Robert is a CFA charterholder and Chartered Market Technician. He is also a member of the CFA Institute, CFA Tampa Bay Society, Market Technicians Association (MTA), and American Association of Professional Technical Analysts (AAPTA). His paper on "S&P Group Lead Time Analysis" was published in the *Market Technicians Association Journal*.

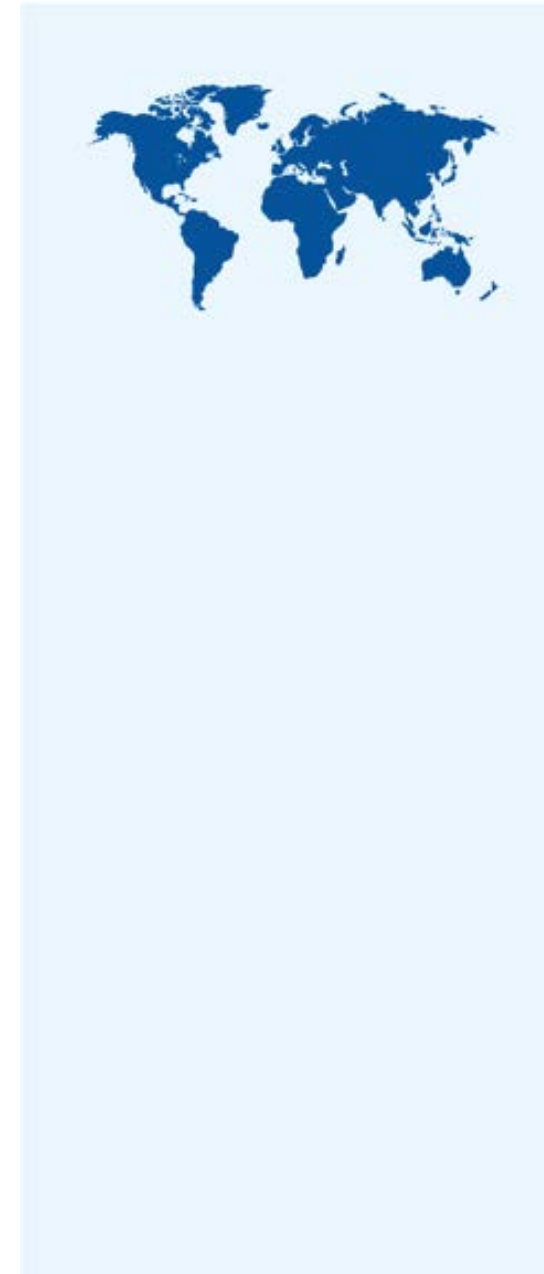


# About NDR

See the Signals. Avoid Mistakes.™

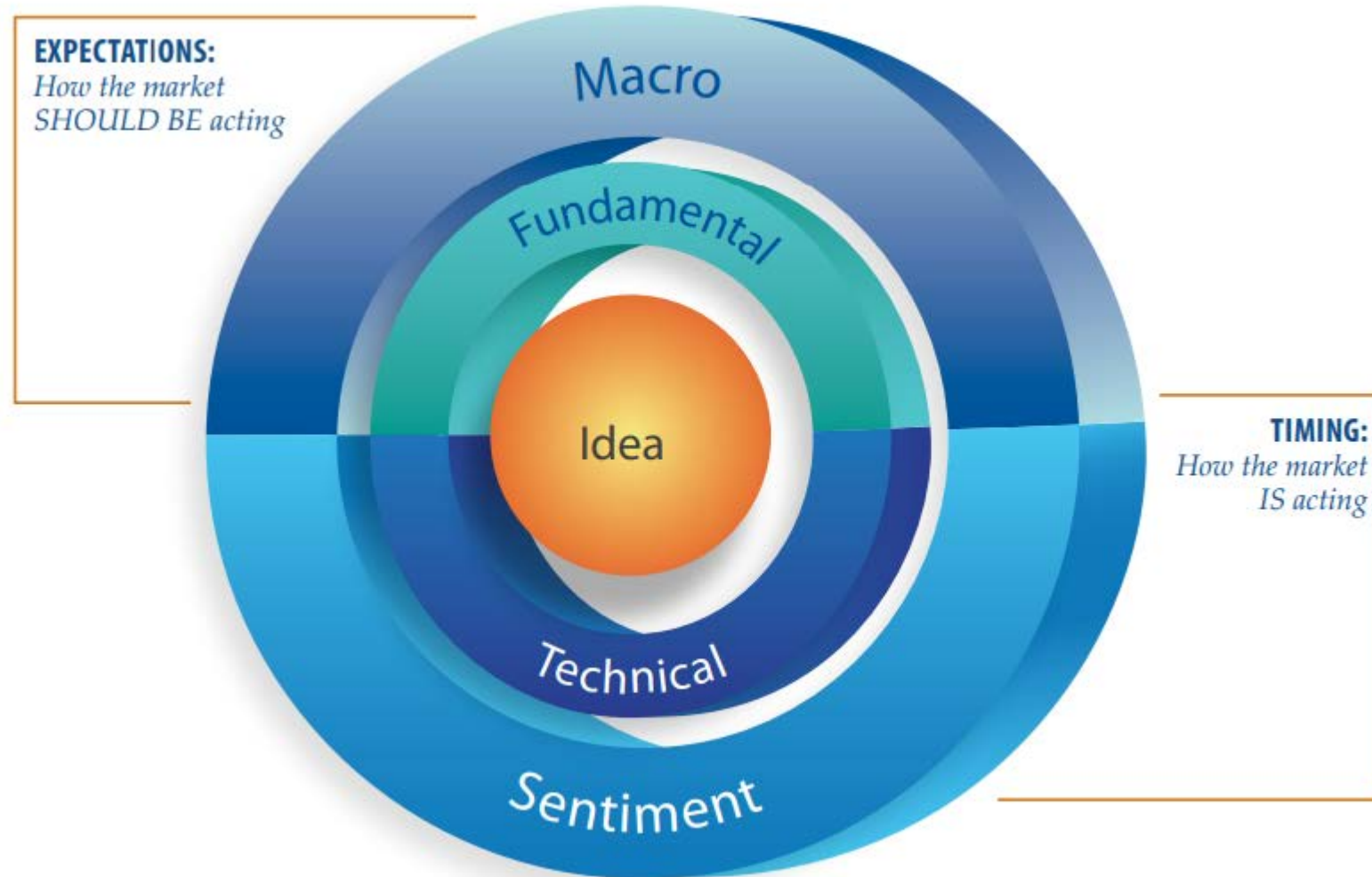
NDR uses the weight of the evidence and a 360° approach to build up to market insights and calm investors in a world full of bull/bear news hype and hysteria. When we say “evidence,” we mean data from more than 200 vendors, with some data series that go back over 100 years to fuel a historical perspective and build proprietary indicators and models. We believe that no client is too big or too small to benefit from NDR’s insights.

In 1980, Ned Davis founded a new investment research group based on his fundamental belief that making money was more important than being right. Today, we are widely recognized for concise commentary and unbiased views. NDR is headquartered in Venice, Florida, with offices in Atlanta, Boston, London, Hong Kong, and San Francisco.

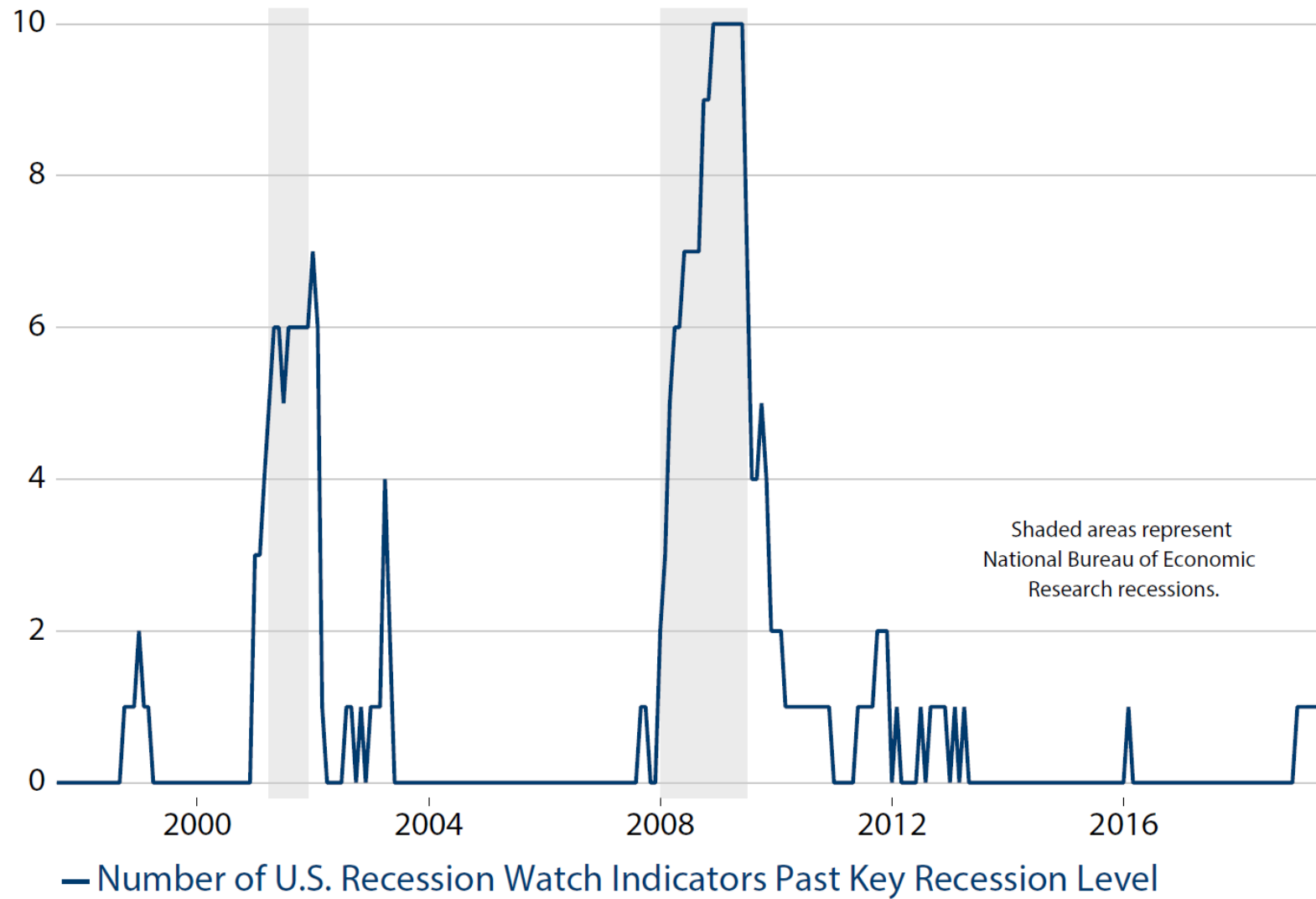


# The NDR Philosophy

A 360° approach



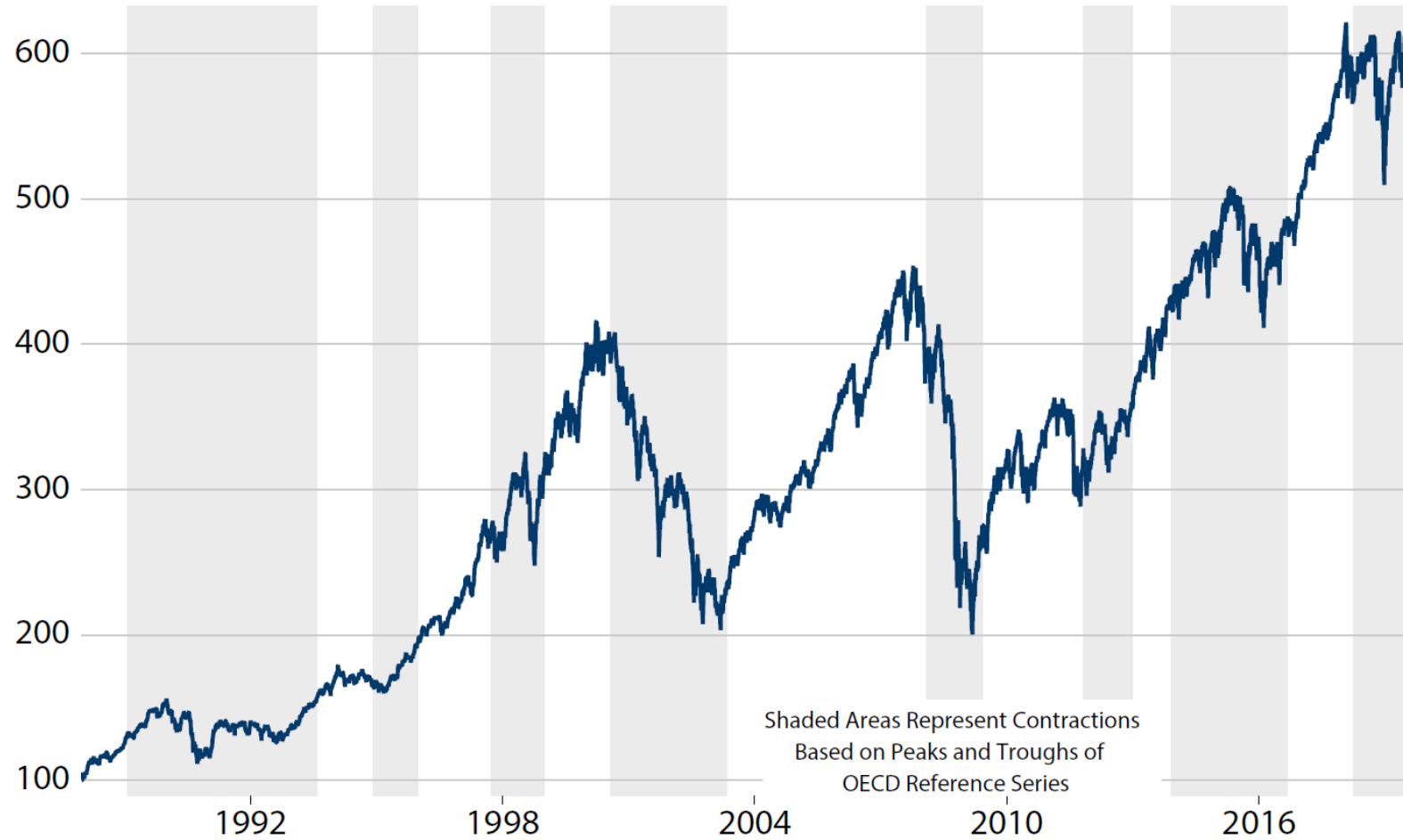
## Our Recession Watch Reports emphasize the weight of the evidence



Source: Ned Davis Research, Inc.

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## Larger drawdowns have occurred around global economic slowdowns



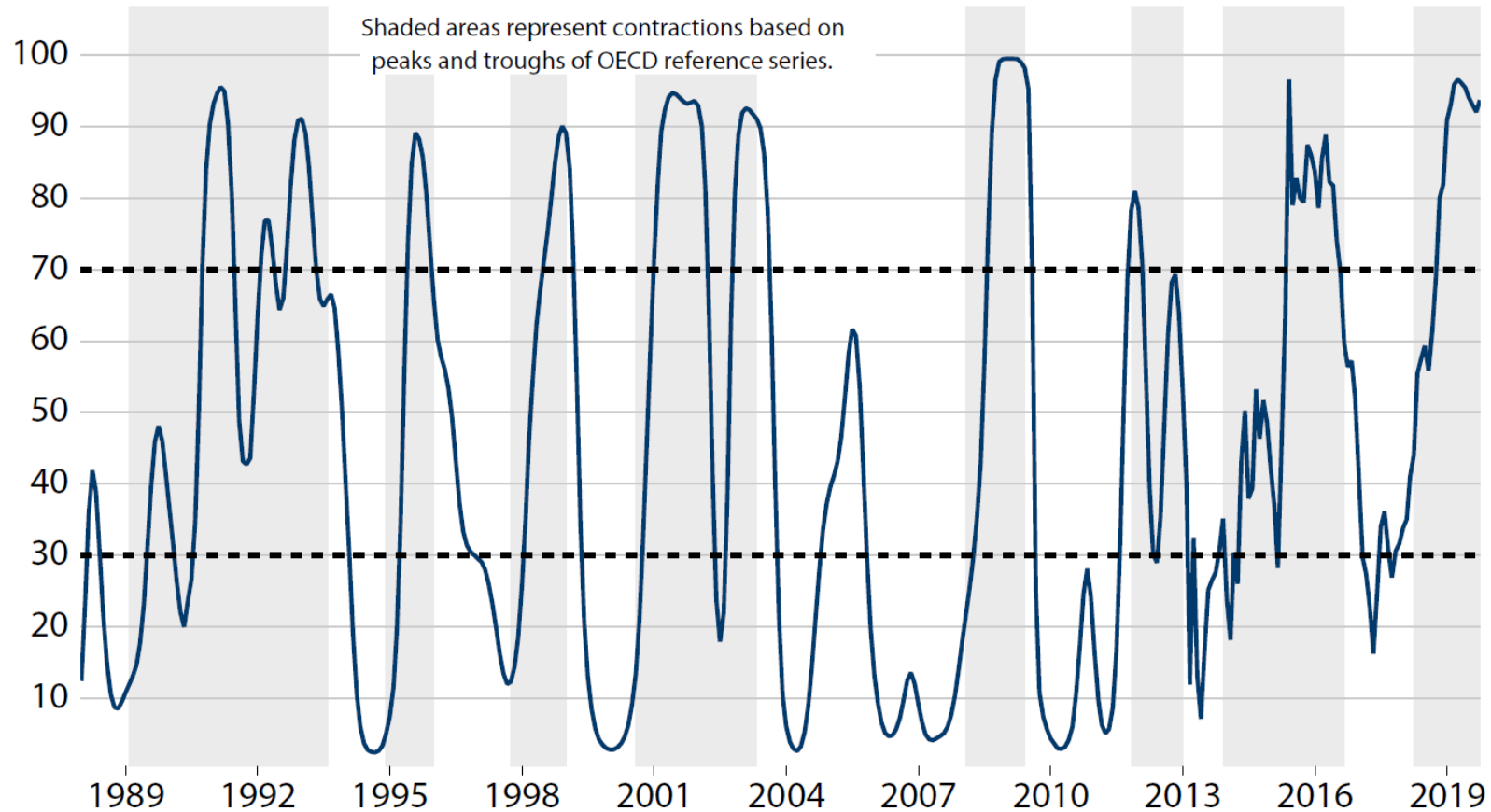
— MSCI All Country World Index

MSCI ACWI Gain/Annum: (1987-12-31 - 2019-09-24)	Global Slowdown	-0.7%
	No Global Slowdown	13.3%

Source: [MSCI](#)



# High recession risk can benefit equities after reaching an extreme

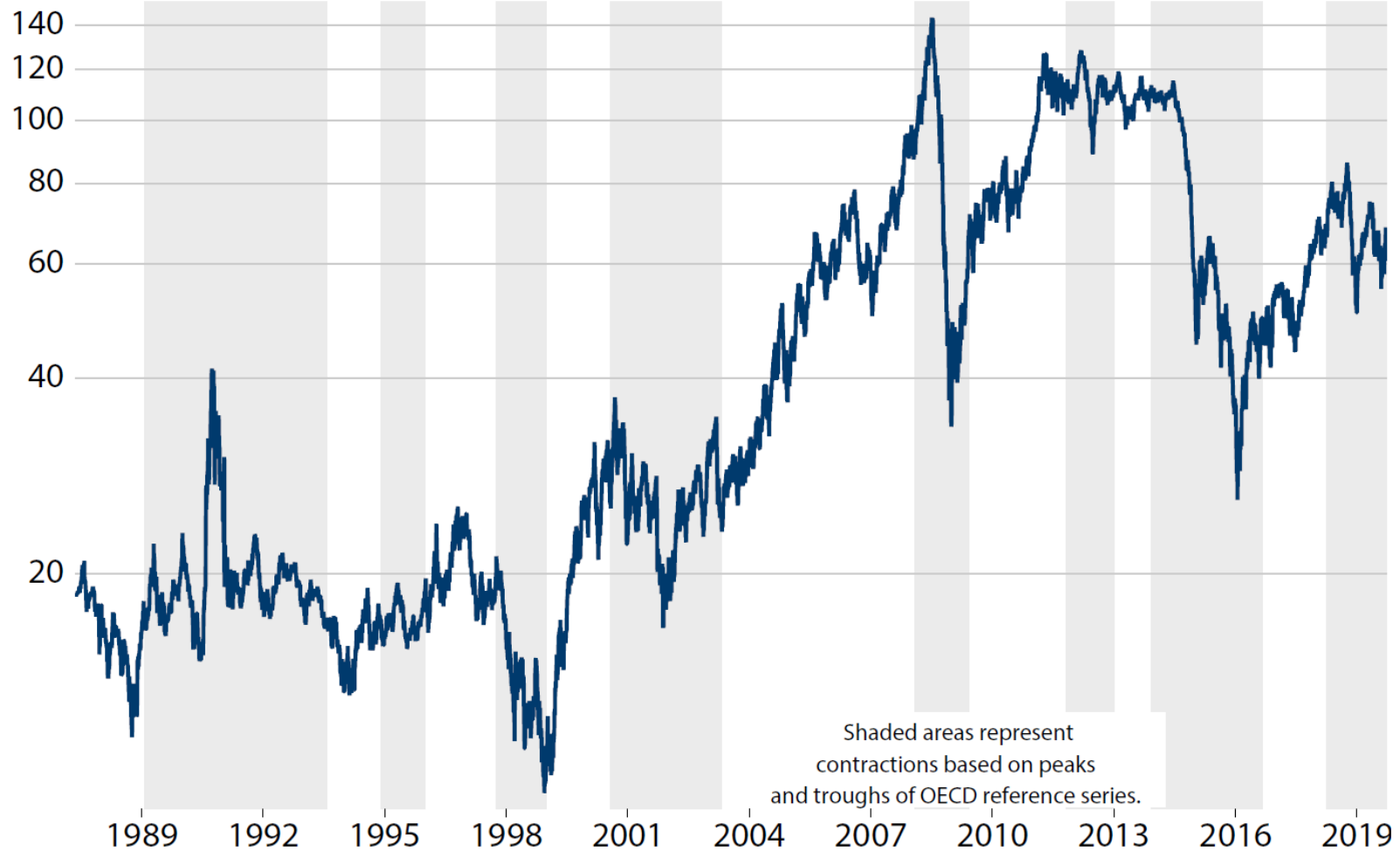


— NDR Global Recession Probability Model

MSCI ACWI Gain/Annum: (1988-03-31 - 2019-09-30)		All Periods	Model is Rising	Model is Falling
		Above 70	4.3%	-4.2%
30 - 70		4.6%	1.2%	8.7%
Below 30		7.1%	5.5%	8.1%

Model rising/falling is based on three-month change  
Source: Ned Davis Research, Inc.

# Oil slumps during global economic slowdowns



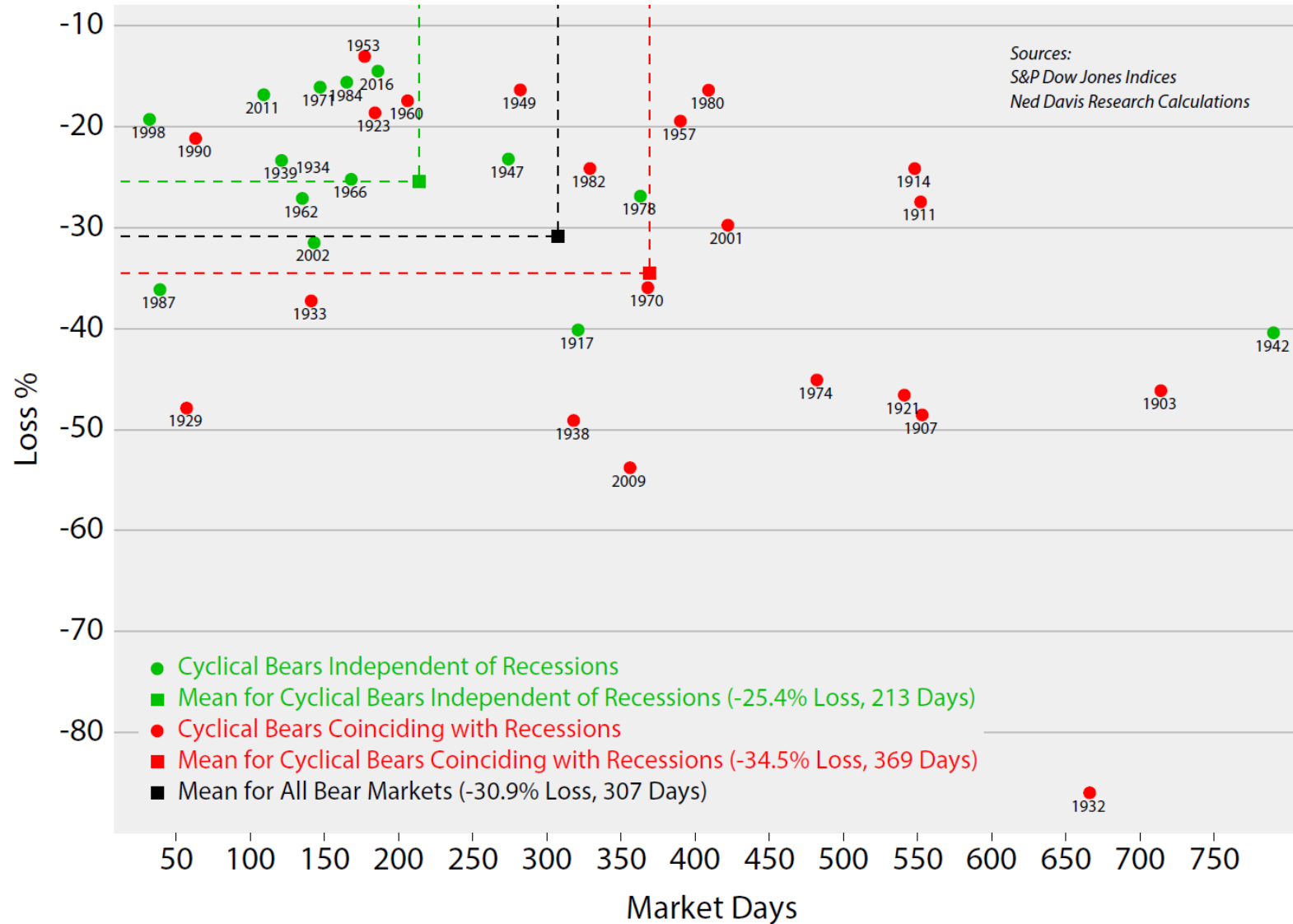
Shaded areas represent contractions based on peaks and troughs of OECD reference series.

— Brent Crude Spot Price

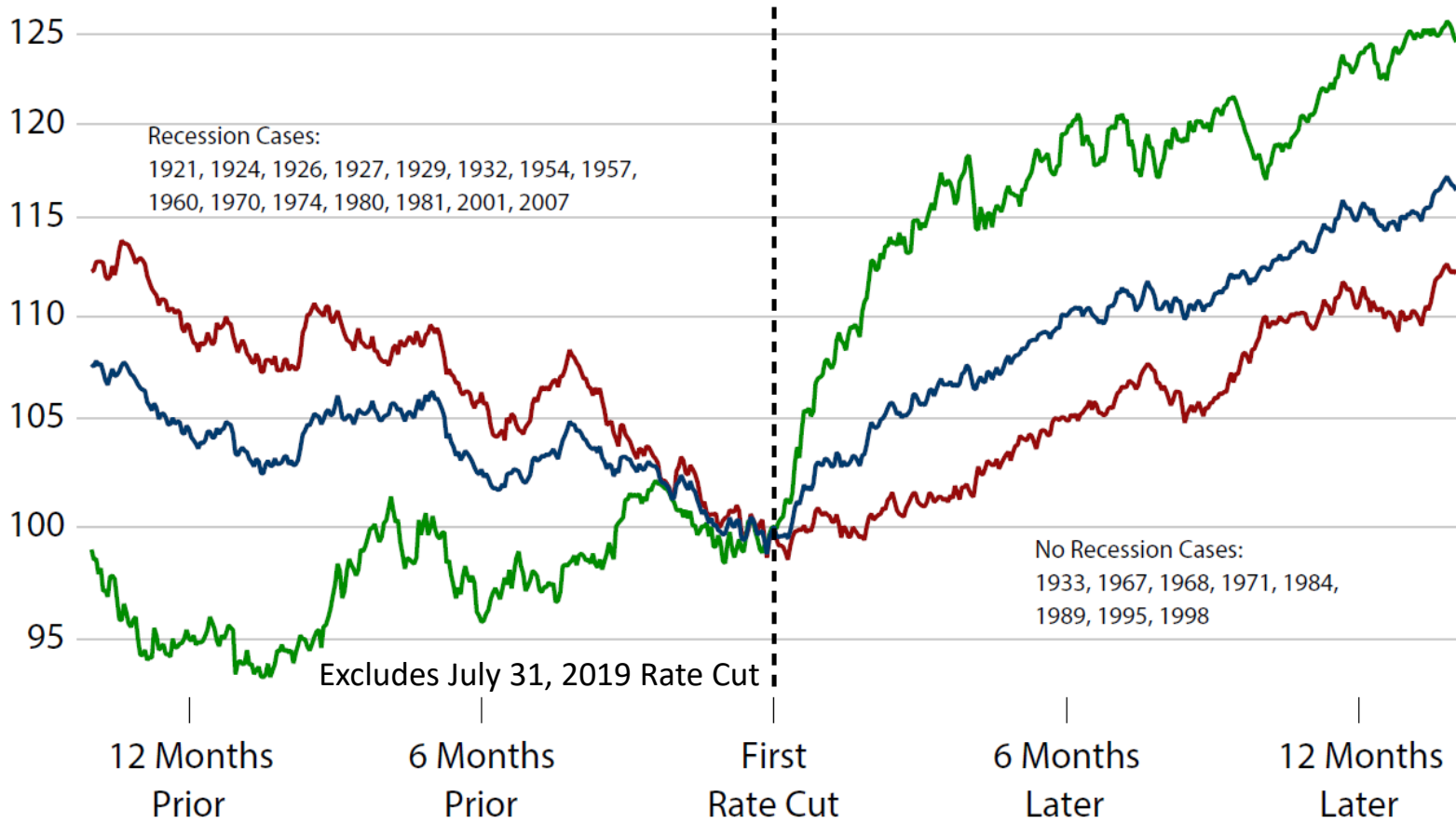
Brent Oil Gain/Annum: (1987-05-20 - 2019-09-24)	Global Slowdown	-10.5%
	No Global Slowdown	20.7%

Source: U.S. Energy Information Administration

# U.S. recessions have been associated with the worst cyclical bears



# Stock market reacts positively to Fed interest rate cuts

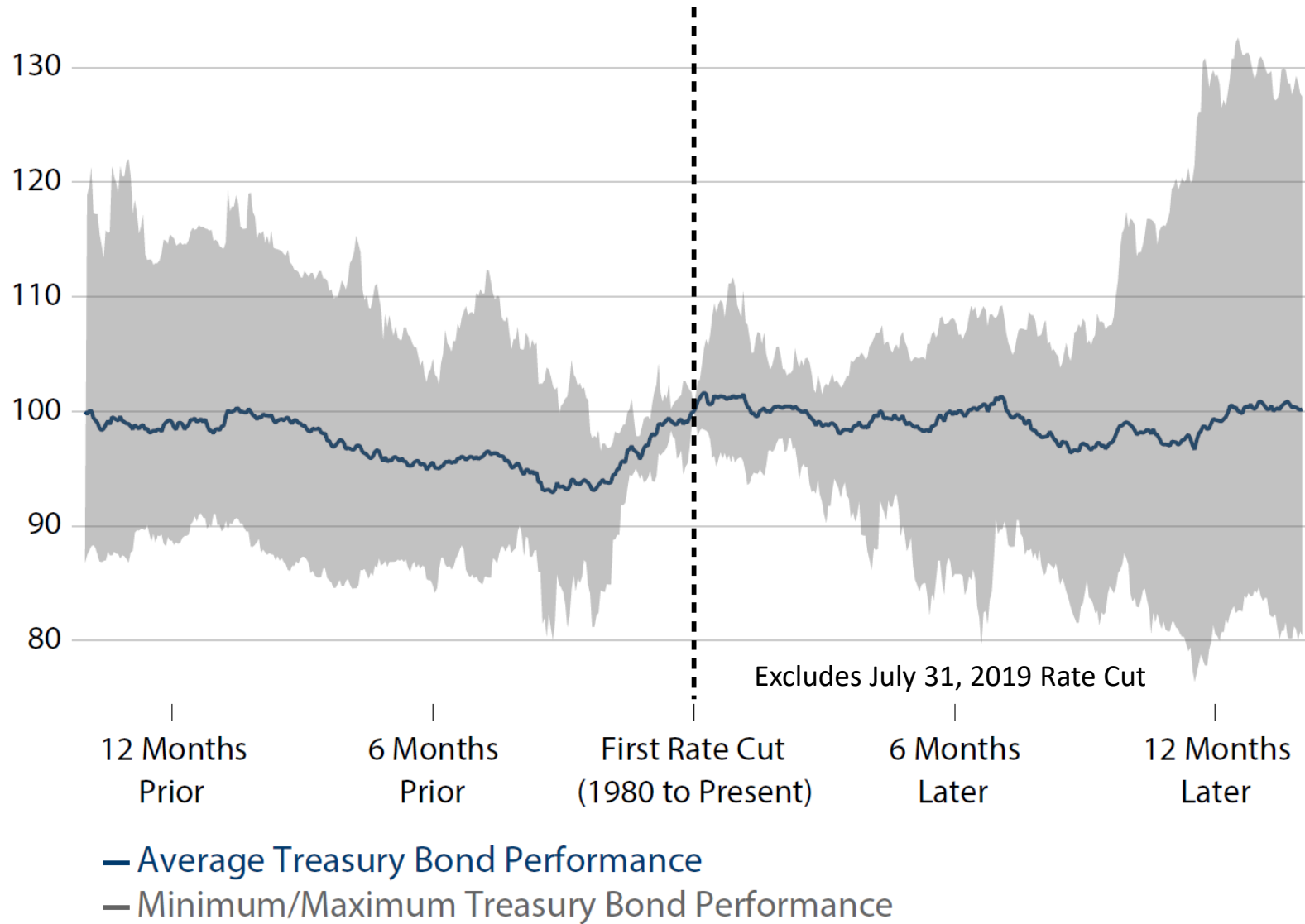


## Dow Jones Industrial Average Performance Around:

- First Cuts with Recession in Next Year
- First Cuts with No Recession in Next Year
- All First Rate Cuts

Source: S&P Dow Jones Indices

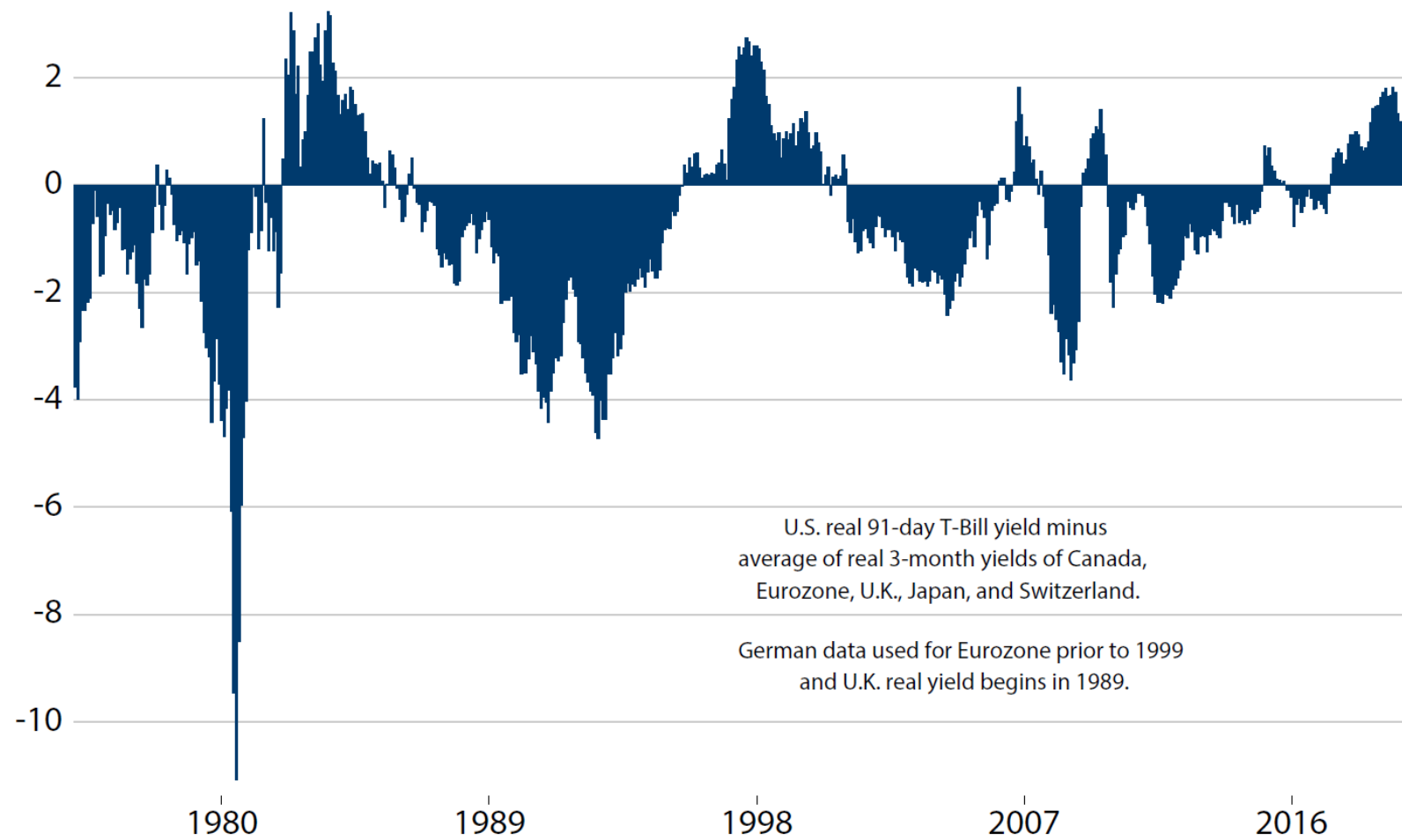
# Treasury bonds rally into the first Fed rate cut



Source: Bloomberg Barclays Indices

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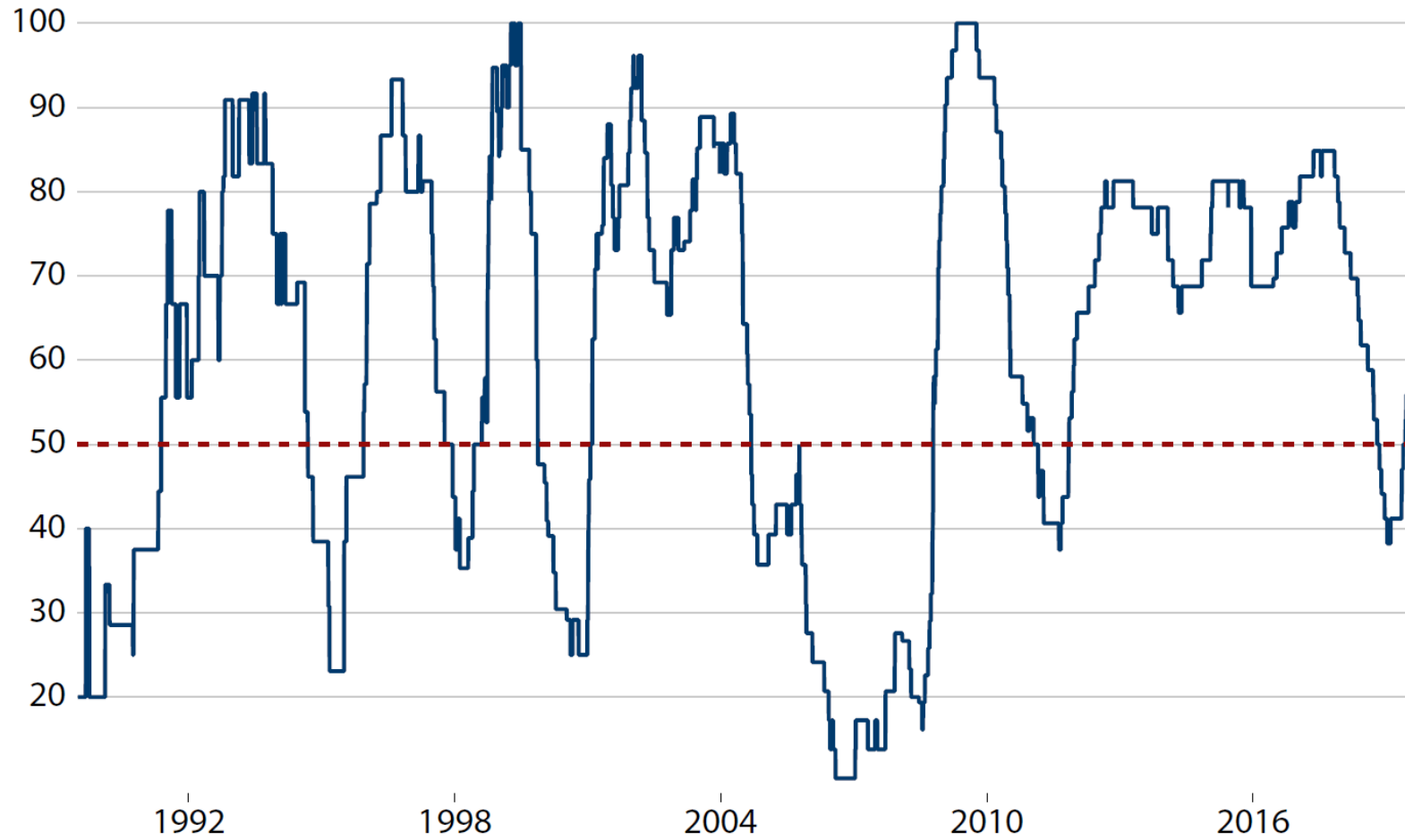
# Real yield differentials can impact the dollar



■ U.S. Minus Non-U.S. Real Interest Rates

U.S. Trade-Weighted Dollar Index Gain/Annum: (1975-01-31 - 2019-08-31)	Above 0	2.2%
	Below 0	-1.0%

# Equities benefit when the majority of central banks are easing



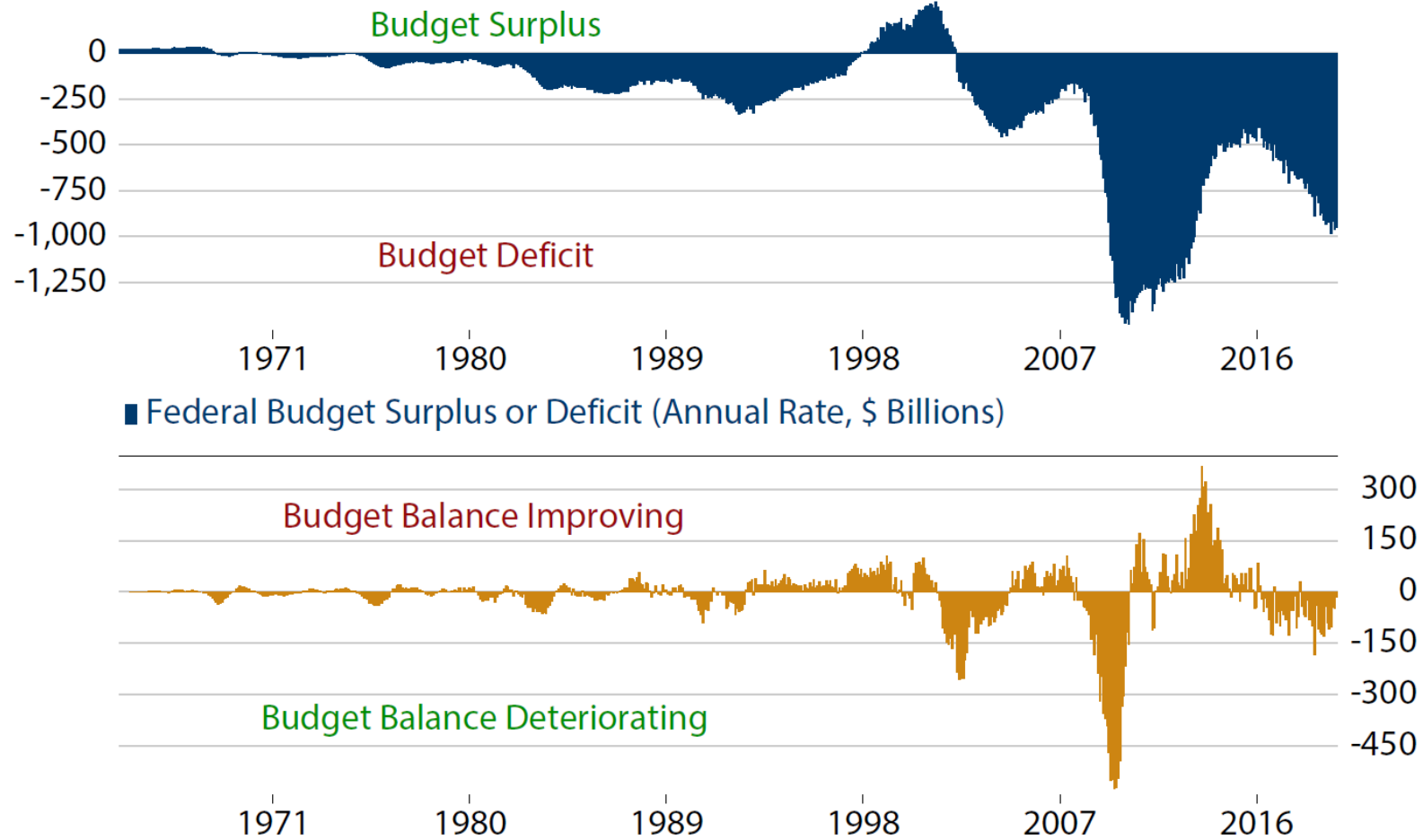
— Percent of Central Banks That Last Cut Rates

MSCI ACWI Gain/Annum: (1989-07-06 - 2019-09-24)	Above 50	8.0%
	Below 50	-0.3%

Source: Haver Analytics, Ned Davis Research, Inc.

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# The stock market likes fiscal stimulus

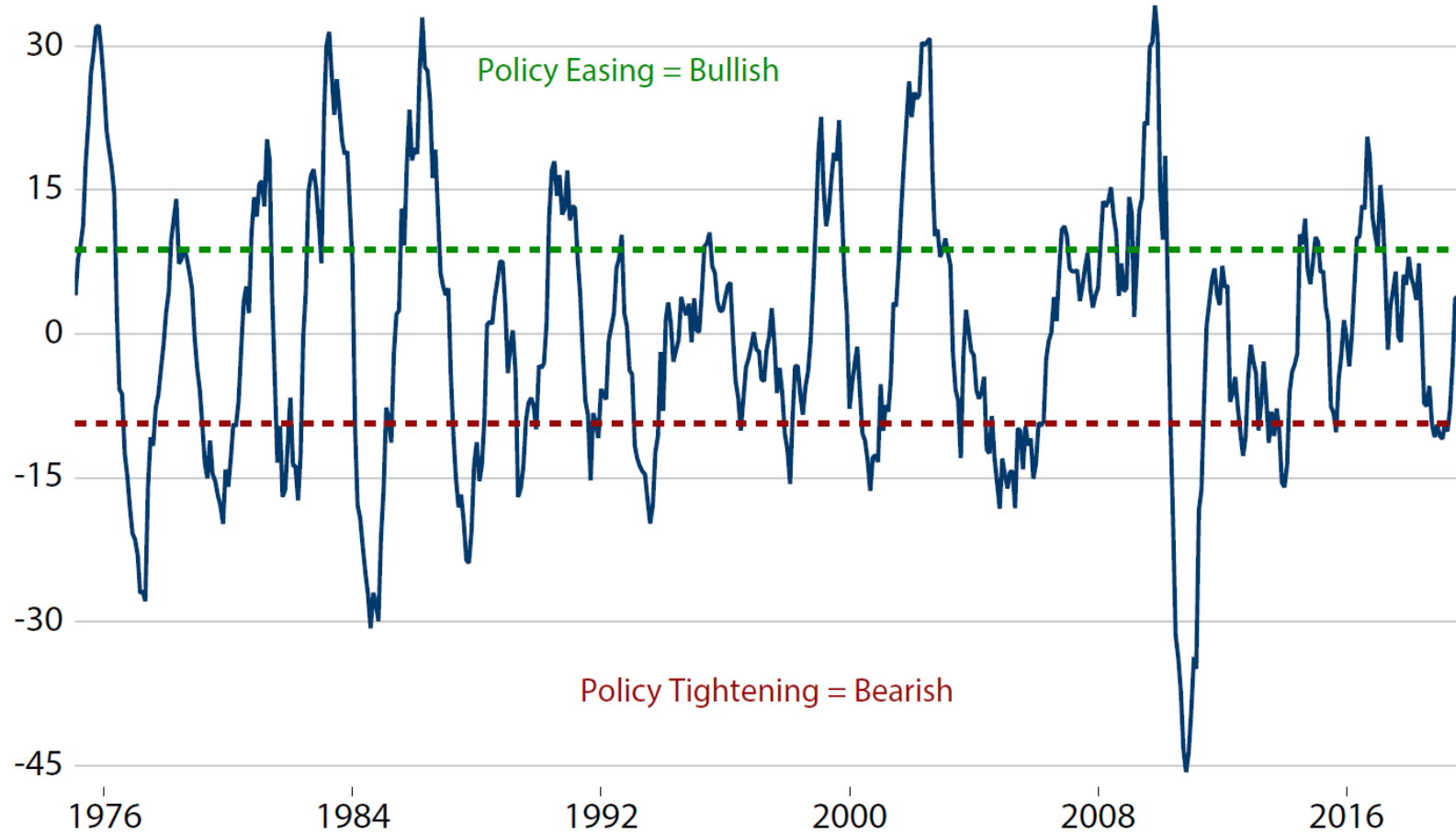


■ Six-Month Change of Surplus/Deficit (\$ Billions)

DJIA Gain/Annum: (1963-12-31 - 2019-08-31)	Budget Improving	4.5%
	Budget Deteriorating	8.7%



# Expansionary policies have been good for equities

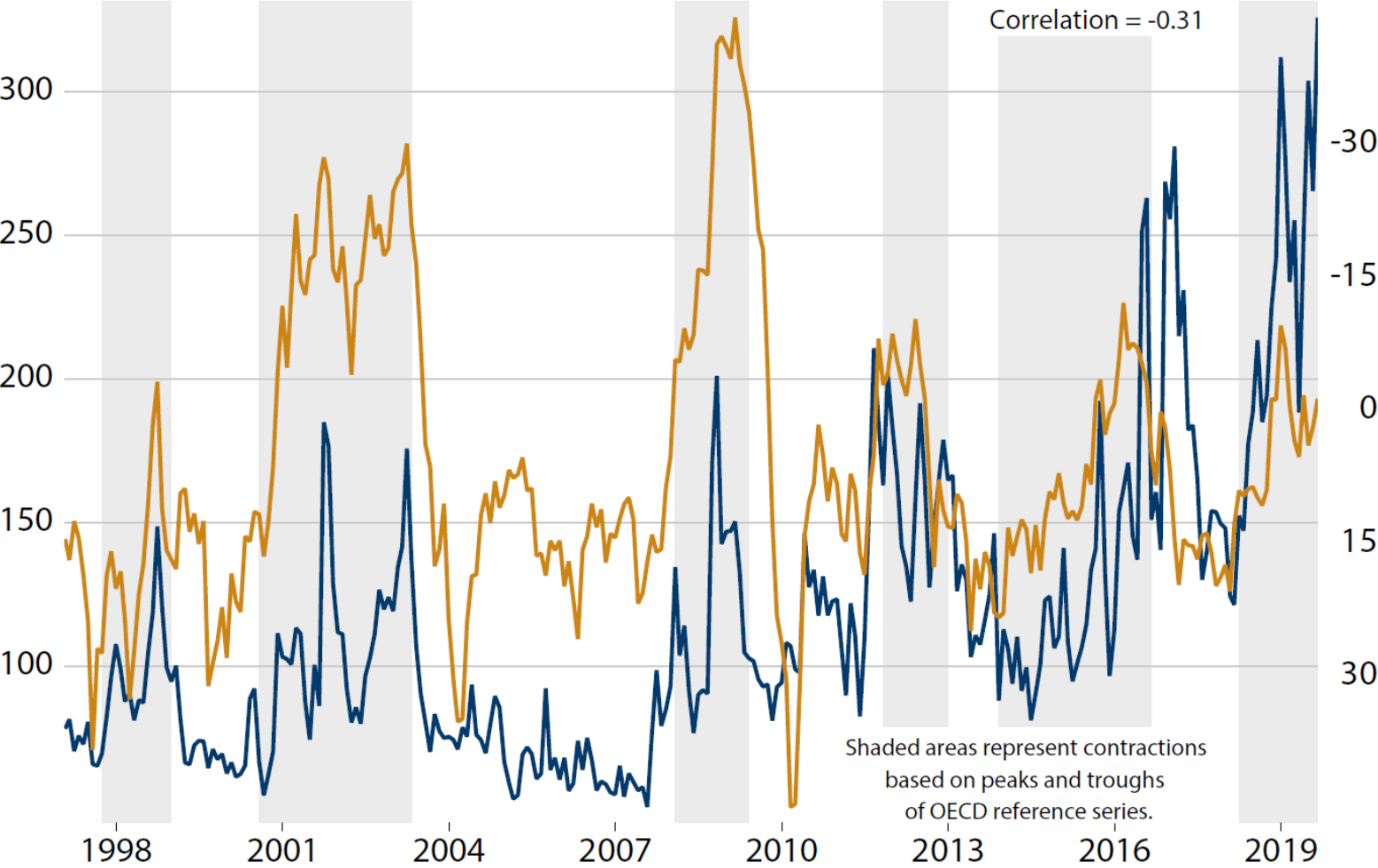


— 12-Month Change in NDR Policy Index\*

DJIA	Above 9	14.9%
Gain/Annum: (1975-01-31 - 2019-08-31)	-9 - 9	7.9%
	Below -9	3.4%

\* NDR Real Monetary, Fiscal, & Exchange Rate Policy Index  
Source: Ned Davis Research, Inc.

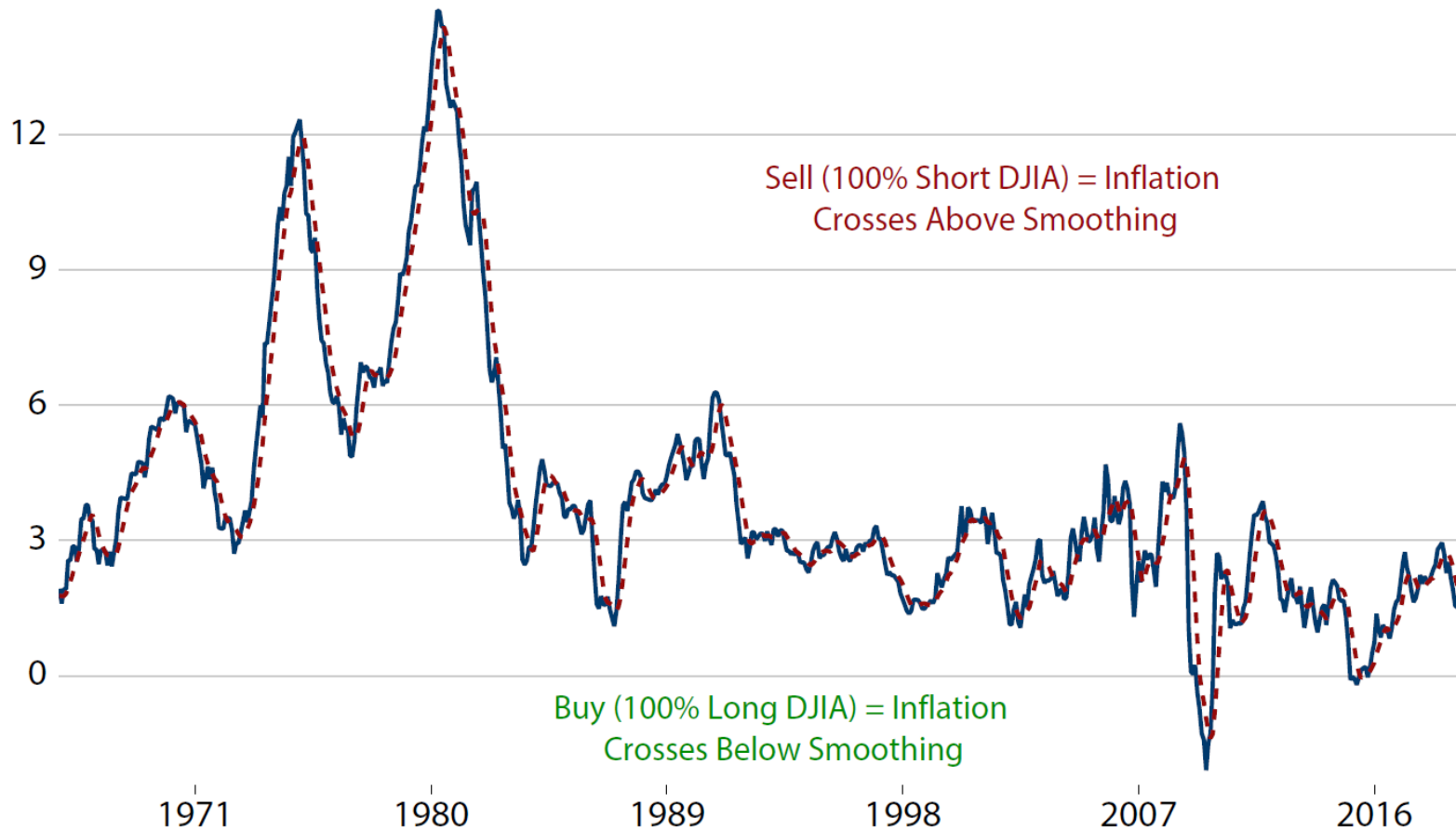
# Policy uncertainty hampers growth and equity performance



— Global Economic Policy Uncertainty Index (Left Scale)  
— MSCI ACWI Year-to-Year % Change (Scale Right, Inverted)

Source: [MSCI](#), [Haver Analytics](#)

# The stock market doesn't like rising inflation

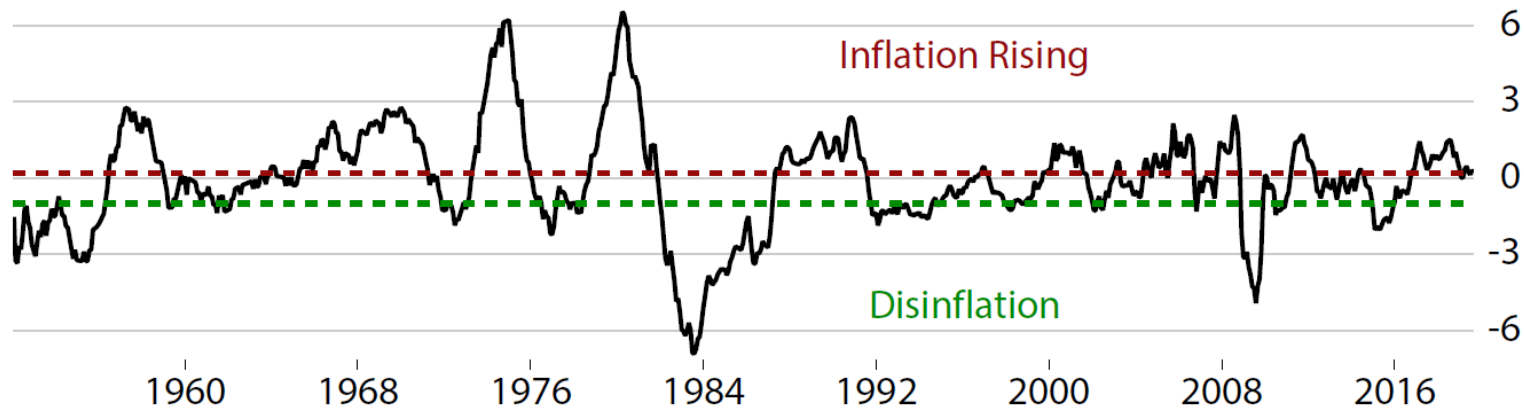
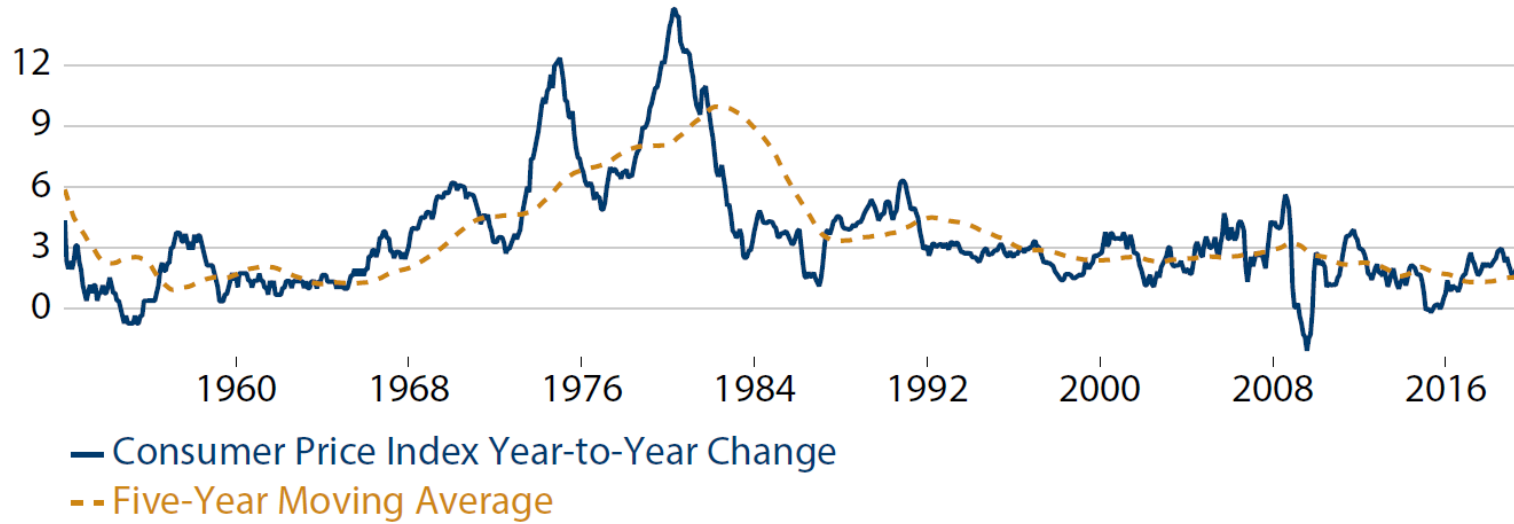


— Rate of Inflation (Annual % Change)  
 - - Six-Month Smoothing

Strategy Performance	Signals	% Gain Annum	% Profitable	Trades/Annum
Long/Short (1966-02-28 - 2019-08-31)	All	9.0	70.0	0.7
	Buy	10.3	85.0	0.4
	Sell	4.3	55.0	0.4
	Buy/Hold	6.4	--	--

Source: Bureau of Labor Statistics

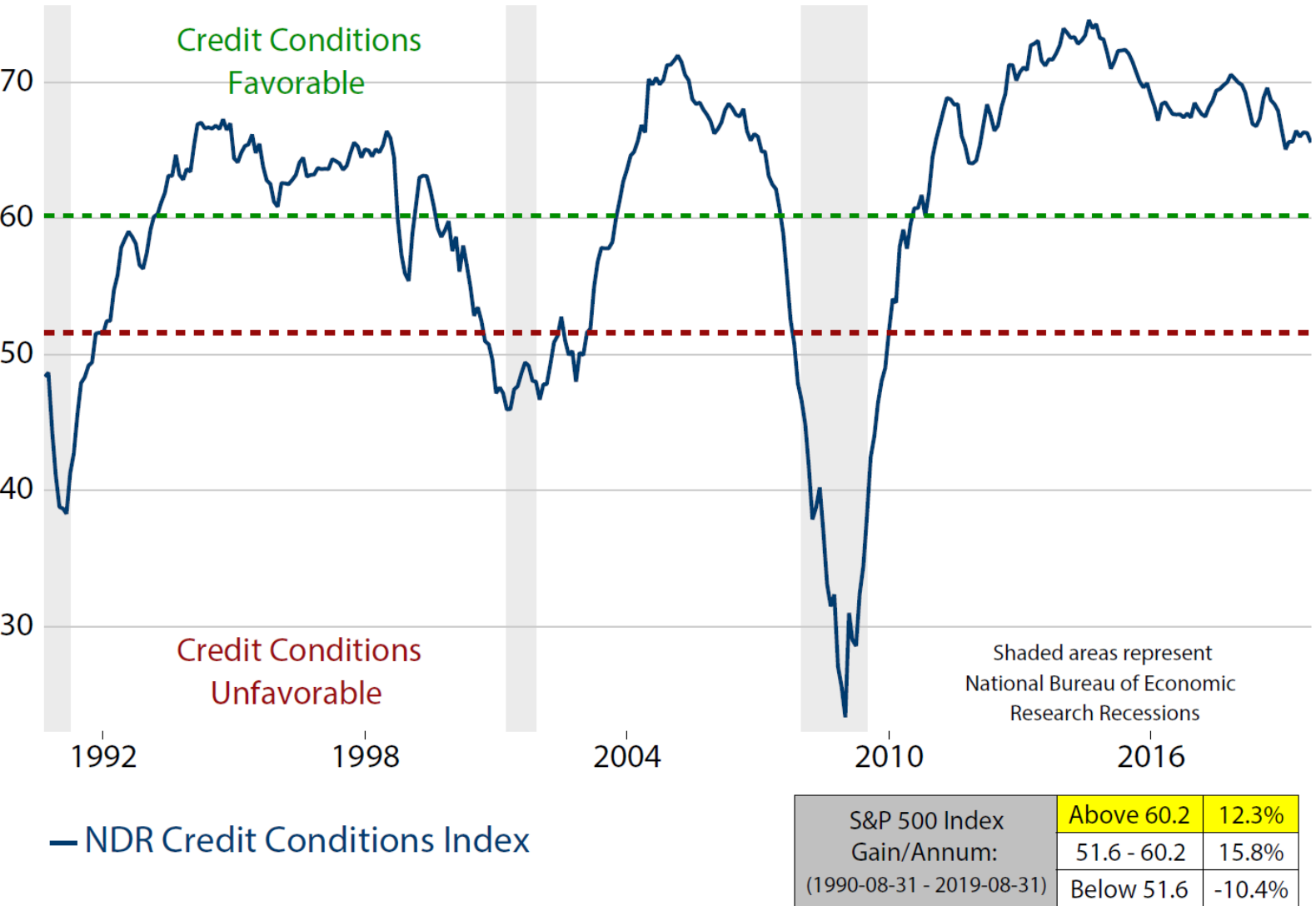
# Bond prices fall when inflation is rising



Barclays Long-Term Treasury Bond Index Gain/Annum: (1952-01-31 - 2019-08-31)	Above 0.2	-2.0%
	-1.0 - 0.2	-0.3%
	Below -1.0	1.3%

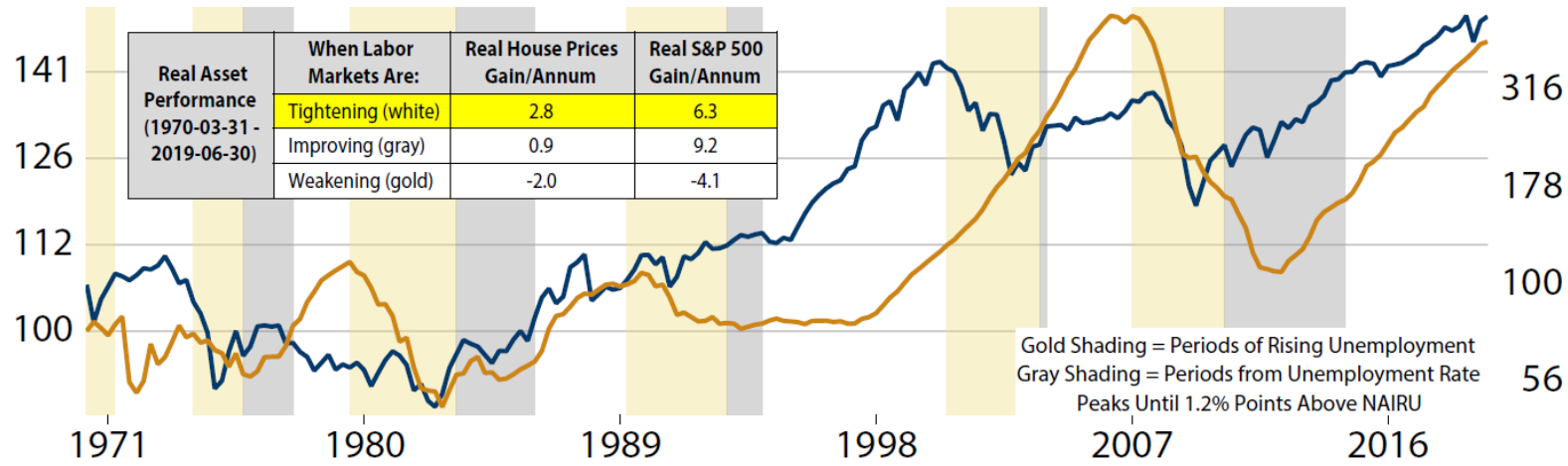
Source: Bureau of Labor Statistics

# Cyclical bear markets are associated with worsening credit conditions



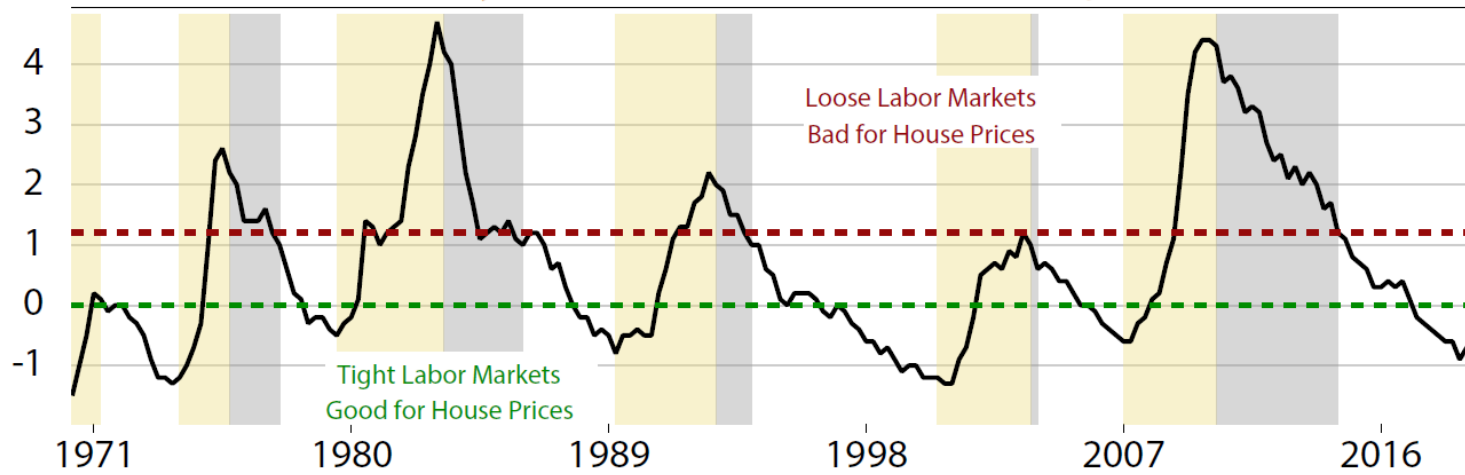
Source: Ned Davis Research, Inc.

# Tightening labor market benefits housing and stock markets



— S&P 500 Index (Inflation-Adjusted, Scale Right)

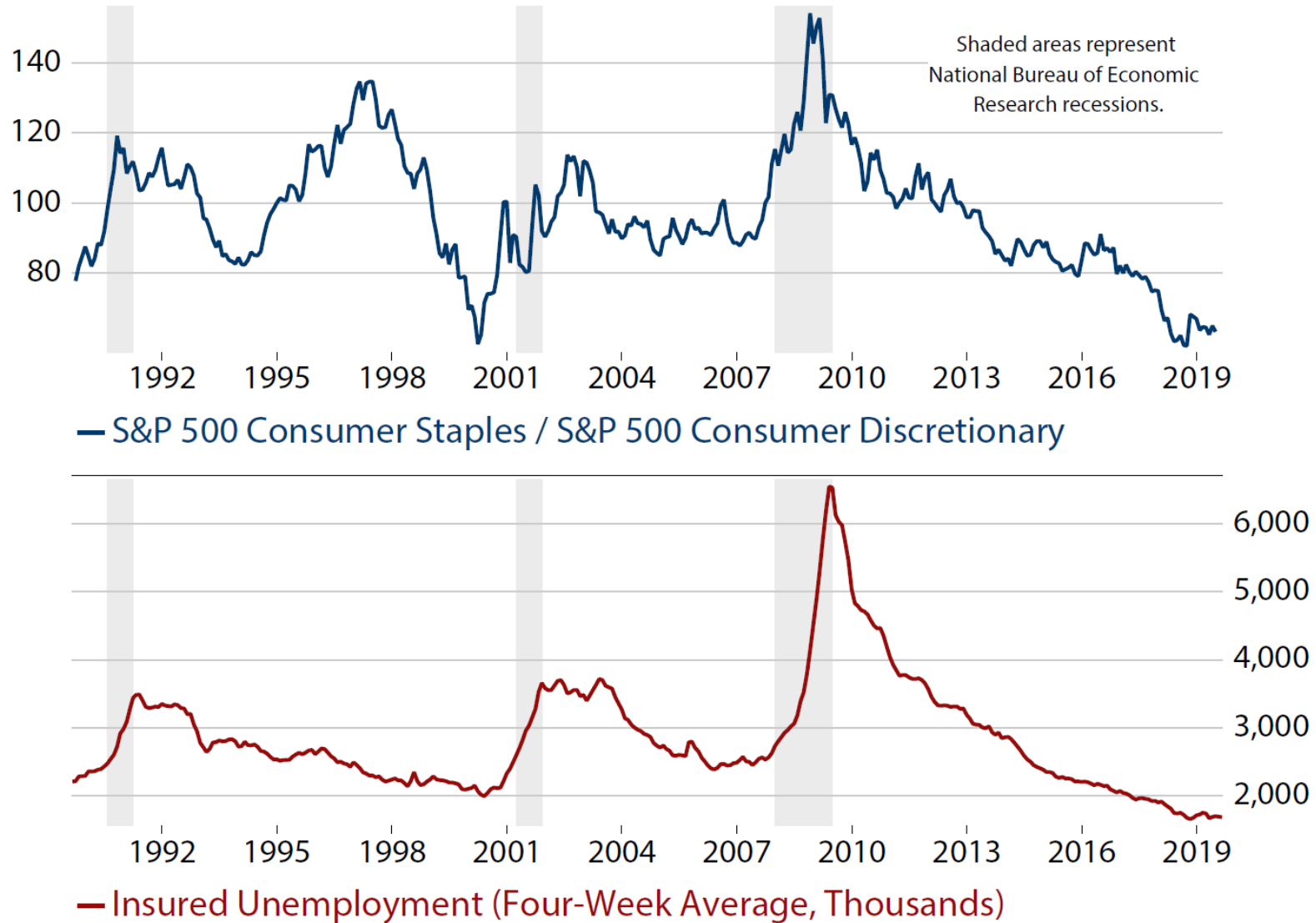
— FHFA Purchase-Only House Price Index (Inflation-Adjusted, Scale Left)



— Average Unemployment Rate Minus Full Employment Rate (NAIRU)

Source: Bureau of Labor Statistics, Congressional Budget Office (CBO), Federal Housing Finance Agency, S&P Dow Jones Indices

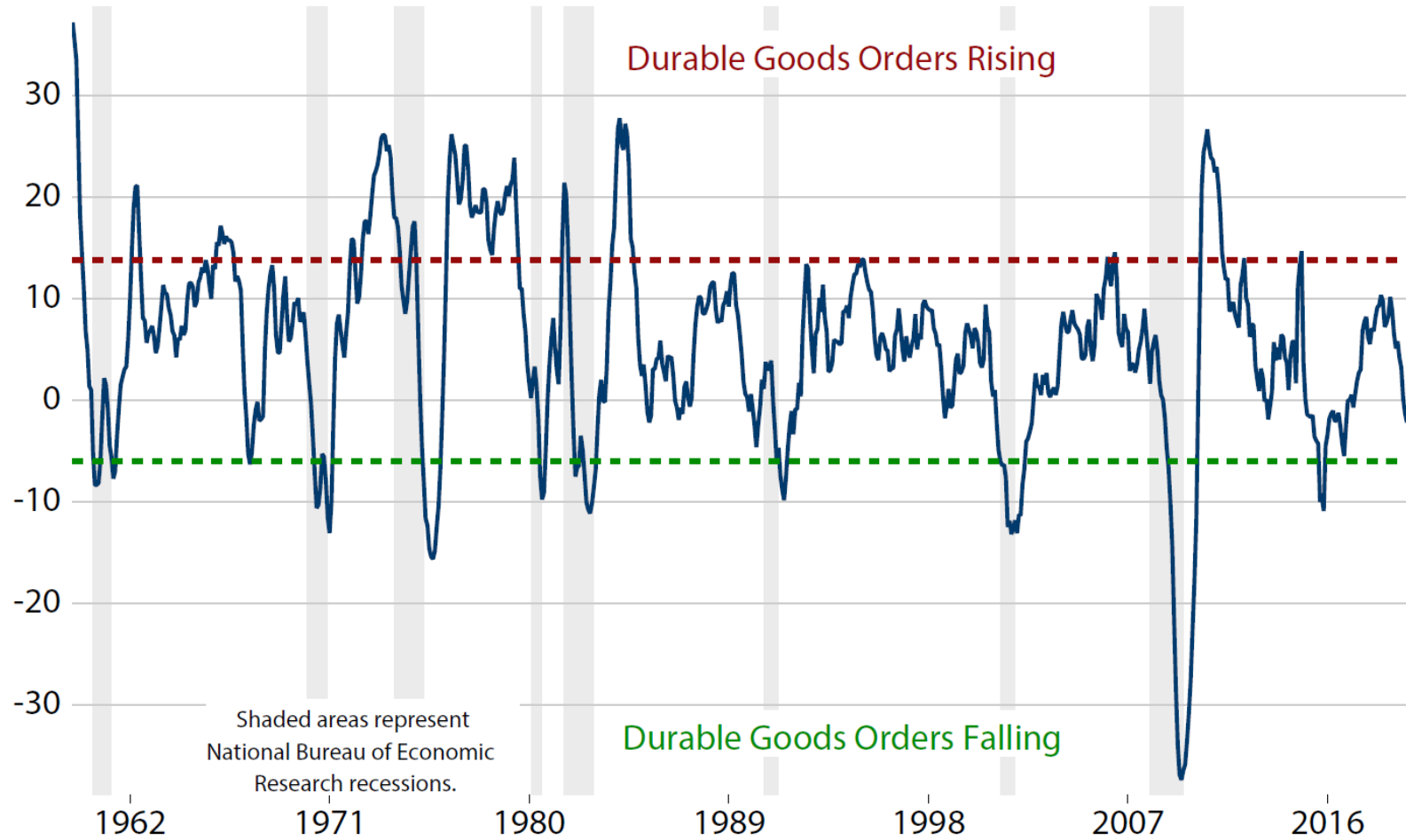
## When jobless claims spike, Staples beat Consumer Discretionary



Source: Bureau of Labor Statistics, S&P Dow Jones Indices

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# Investment growth moves with the cycle, but beware at extremes

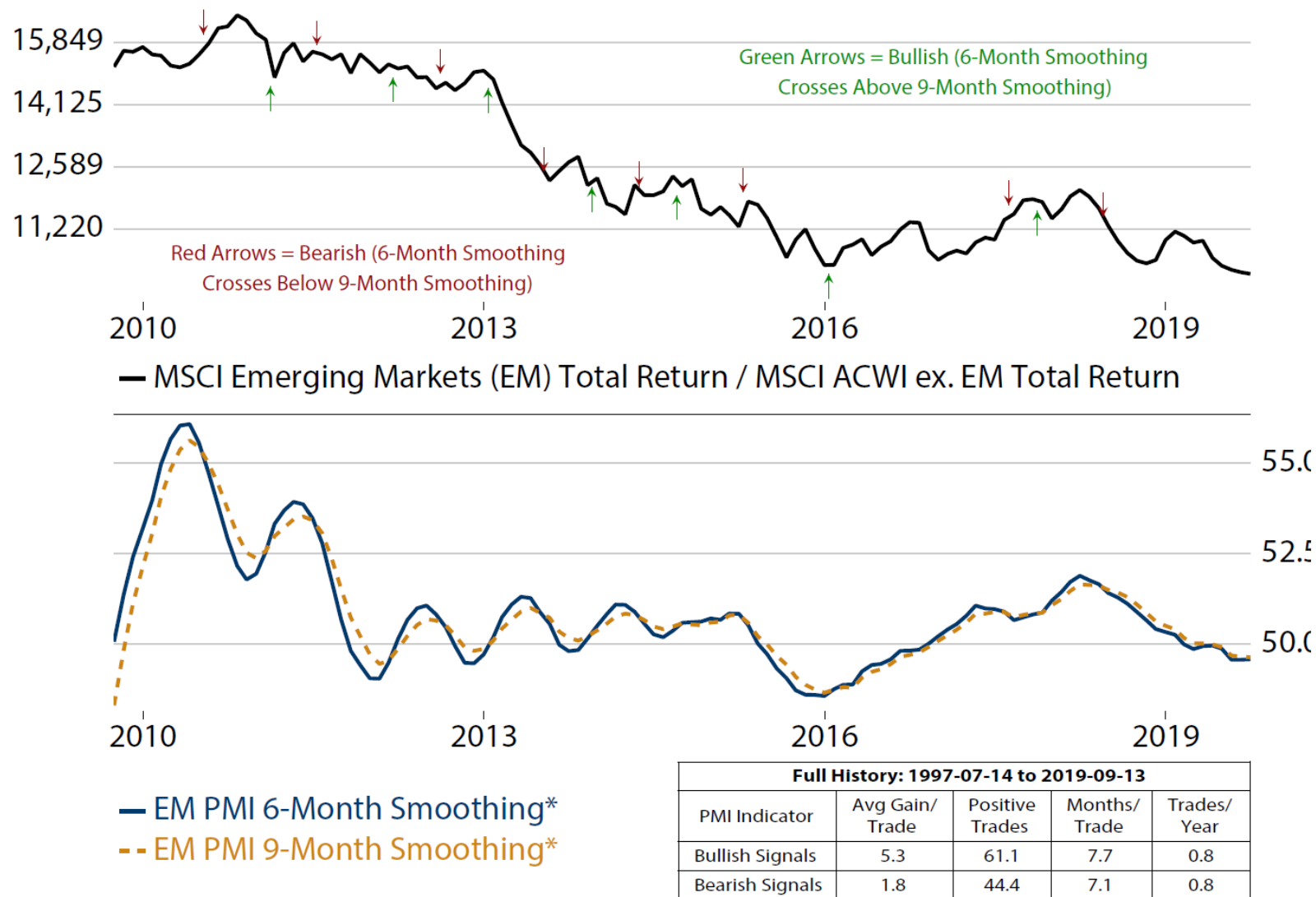


S&P 500 Index Gain/Annum: (1959-05-31 - 2019-08-31)	Above 13.8	-4.1%
	-6.0 - 13.8	8.2%
	Below -6.0	14.6%

\* Three-Month Smoothing with Data Moved Ahead by One-Month  
Source: US Census Bureau

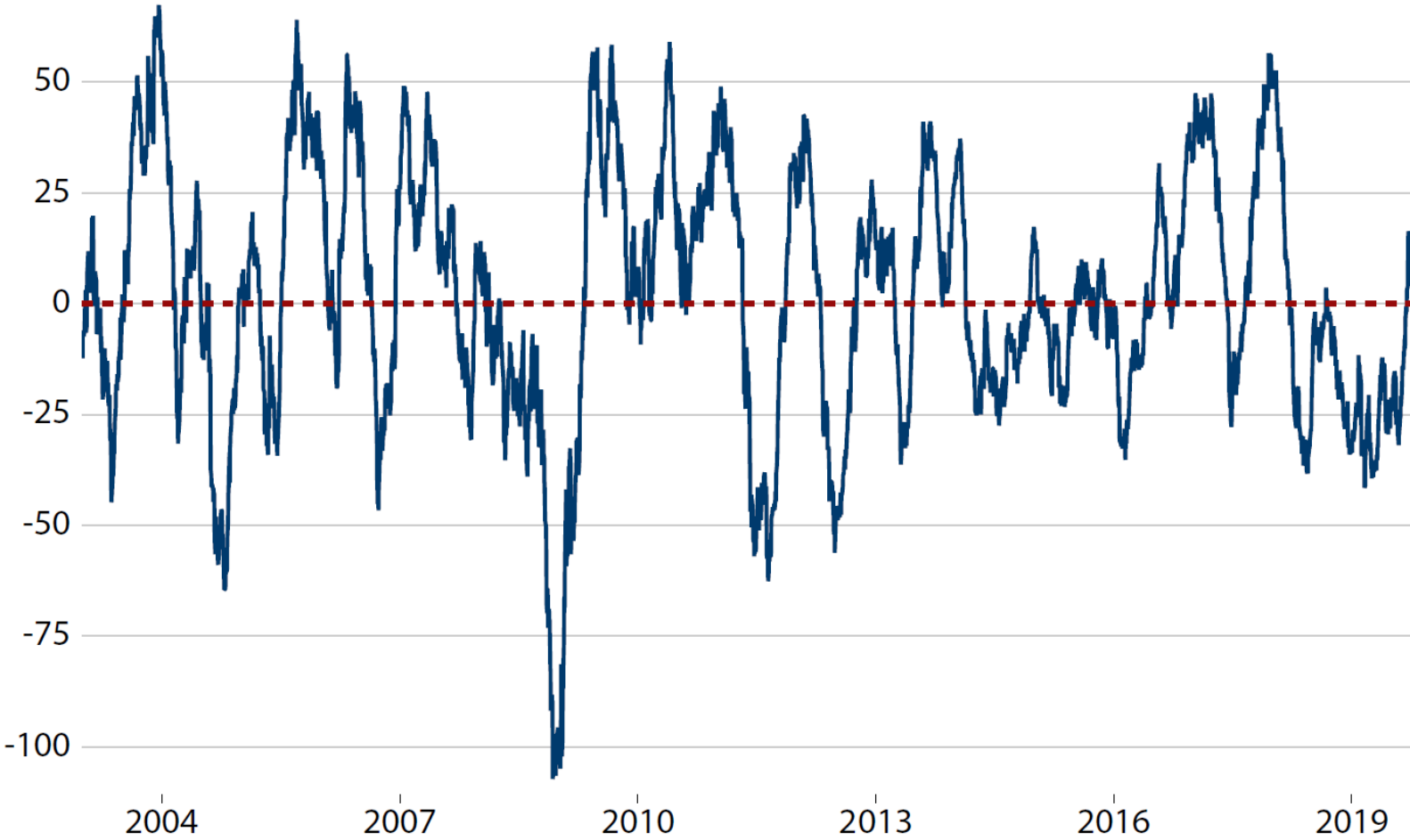


# When emerging economies are doing well EMs outperform



\* Front-Weighted Moving Average  
Source: MSCI, Ned Davis Research, Inc.

# Markets don't like negative economic surprises



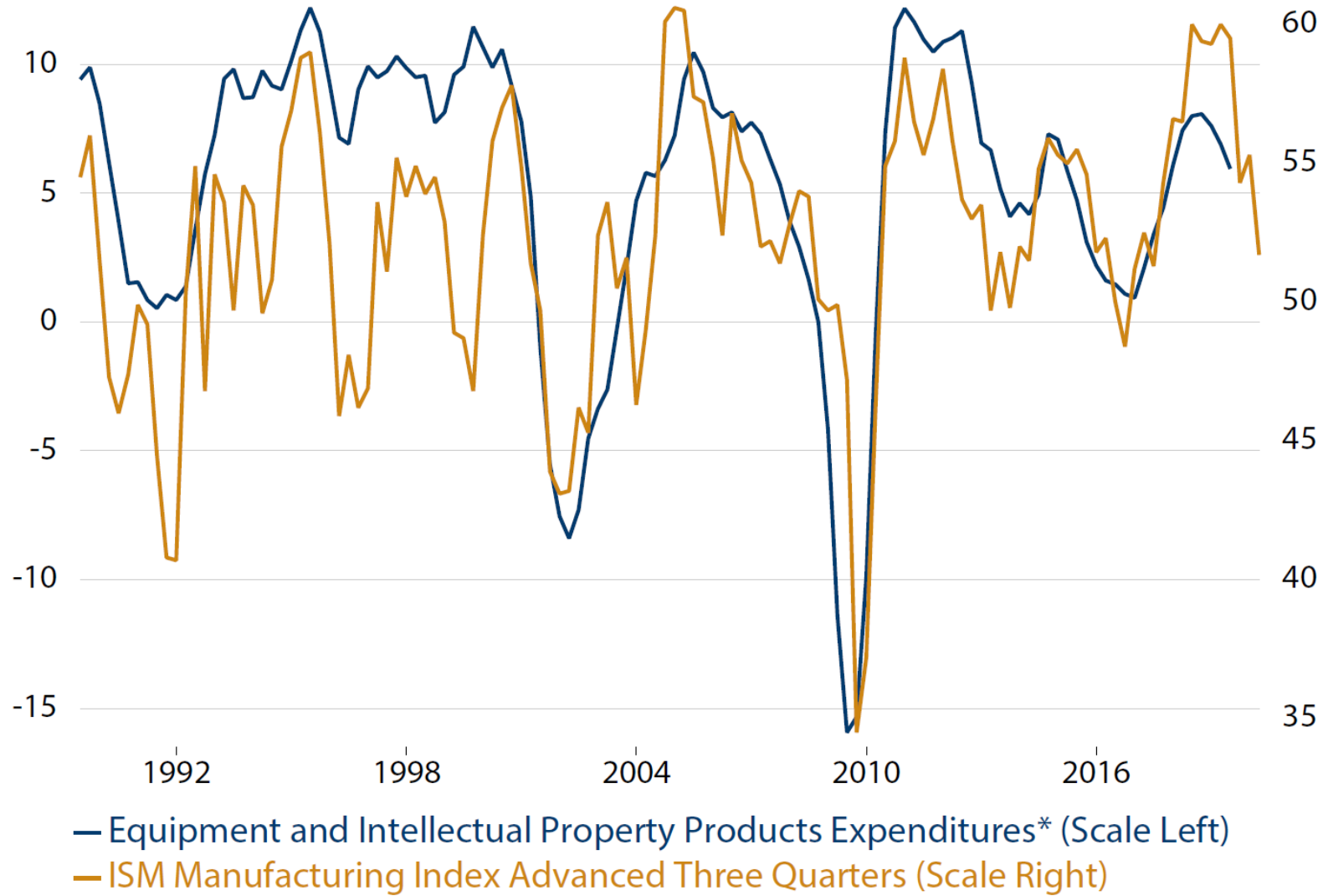
— Citigroup Economic Surprise Index

MSCI World Index Gain/Annum: (2003-01-01 - 2019-09-24)	Above 0	13.5%
	Below 0	-1.5%

Source: Haver Analytics

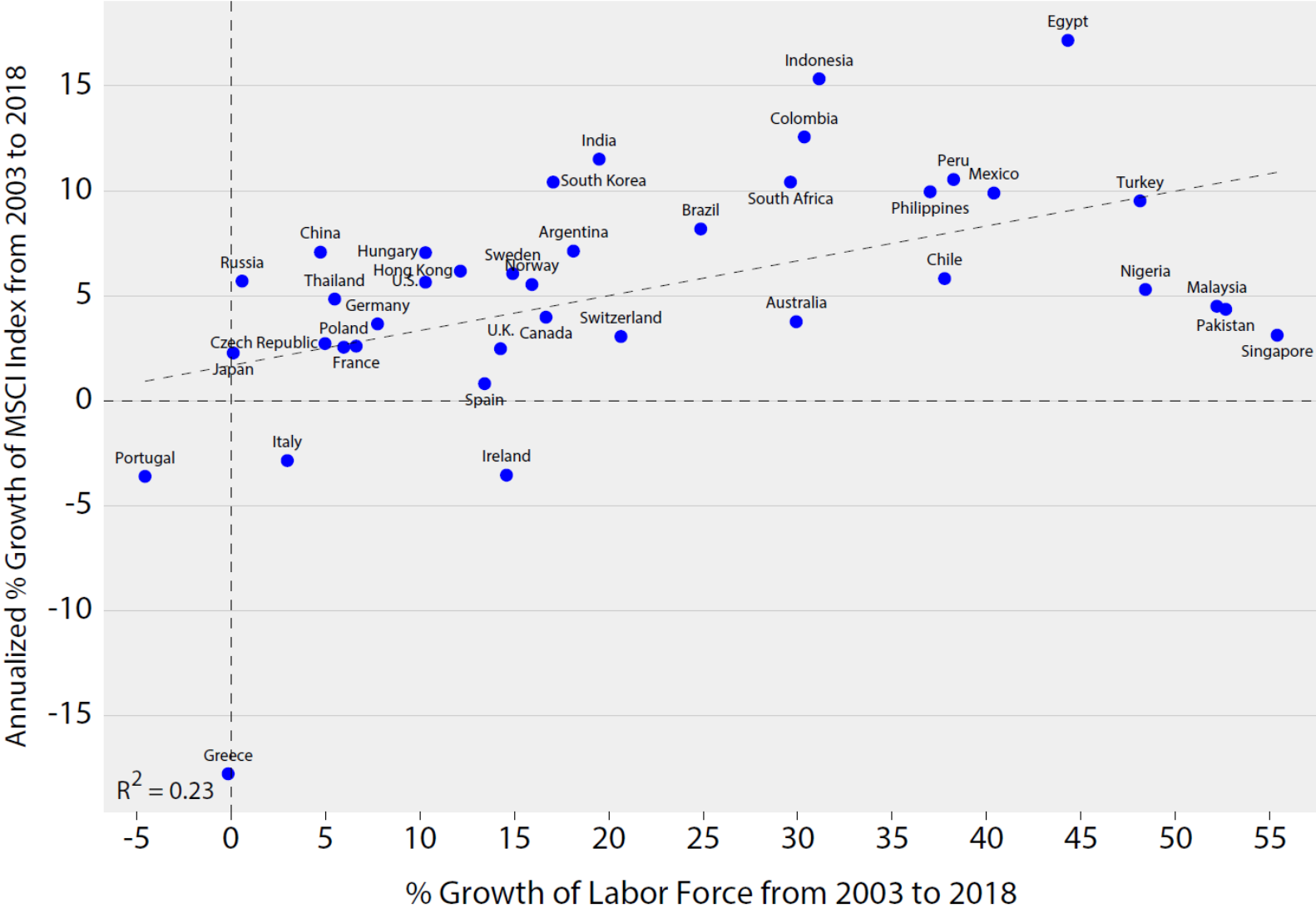
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## Sharp drops in ISM Index precede slower capex growth



\* Smoothed year-to-year change  
Source: Department of Commerce, Haver Analytics

# Stronger labor force growth tends to bolster equity performance



Source: MSCI, Copyright © International Labour Organization (ILO Department of Statistics, <https://laborsta.ilo.org/>)

# Key Takeaways

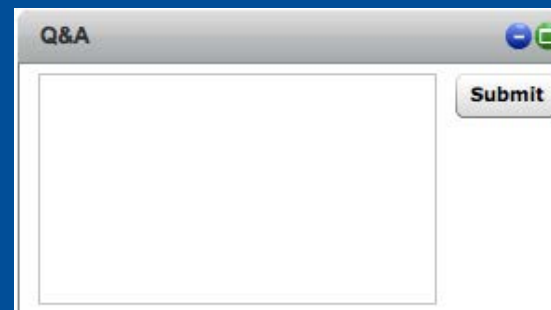
- NDR uses the **weight of the evidence** to objectively balance the risks. We rely on a library of macroeconomic indicators with long historical precedent that have had a consistent track record.
- Recession or expansion - the **business cycle is one of the most important drivers** of asset market returns.
- Both **monetary and fiscal stimulus**, have a **direct impact** on the business cycle and inflation, and investments.
- Economic **surprises** and/or outsized **changes in macroeconomic data** can give an **early signal** of a regime change in the macro and investment environment.
- Macroeconomic analysis also helps **identify important risk factors**, whether it's through signs of excess or policy uncertainty, and long-term hurdles to growth, including demographic and productivity trends.



Generate Alpha. Identify Risk.  
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# Q & A

Please submit your questions  
using the Q&A box.



A screenshot of a web browser window titled "Q&A". The window contains a large, empty text input field. To the right of the input field is a "Submit" button. The window has standard window control buttons (minimize, maximize, close) in the top right corner.

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