

The Importance of Cycles

My journey with the business cycle

MY MACRO FRAMEWORK

Understanding of **business cycles** and how they combine with **secular cycles**

SECULAR DRIVERS

DEMOGRAPHICS – DEBT – DEFLATION

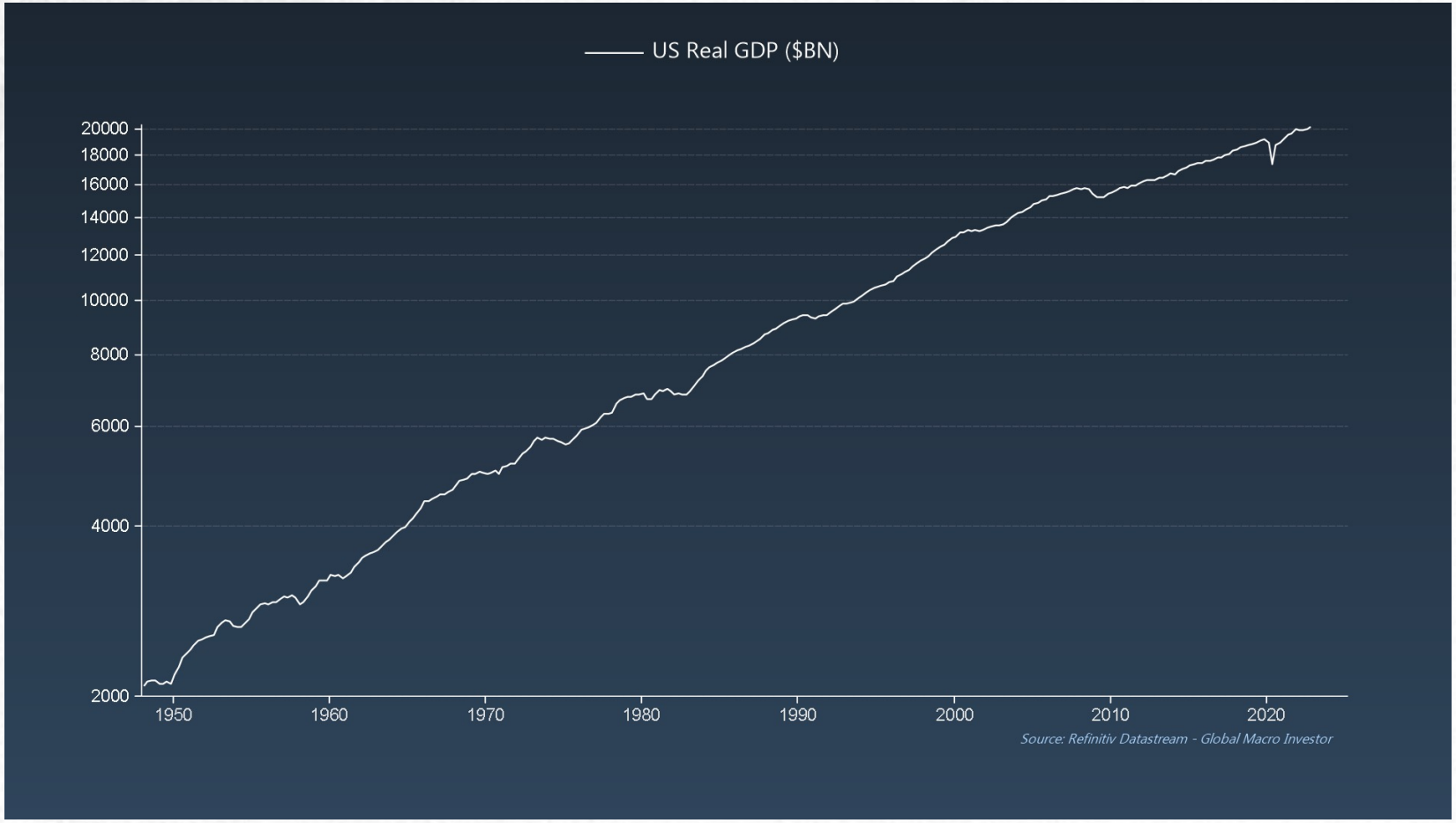
SECULAR THEMES

BONDS – MONSOON – USD – PENSION CRISIS – CRYPTO – TECH

HOW THE WORLD WORKS

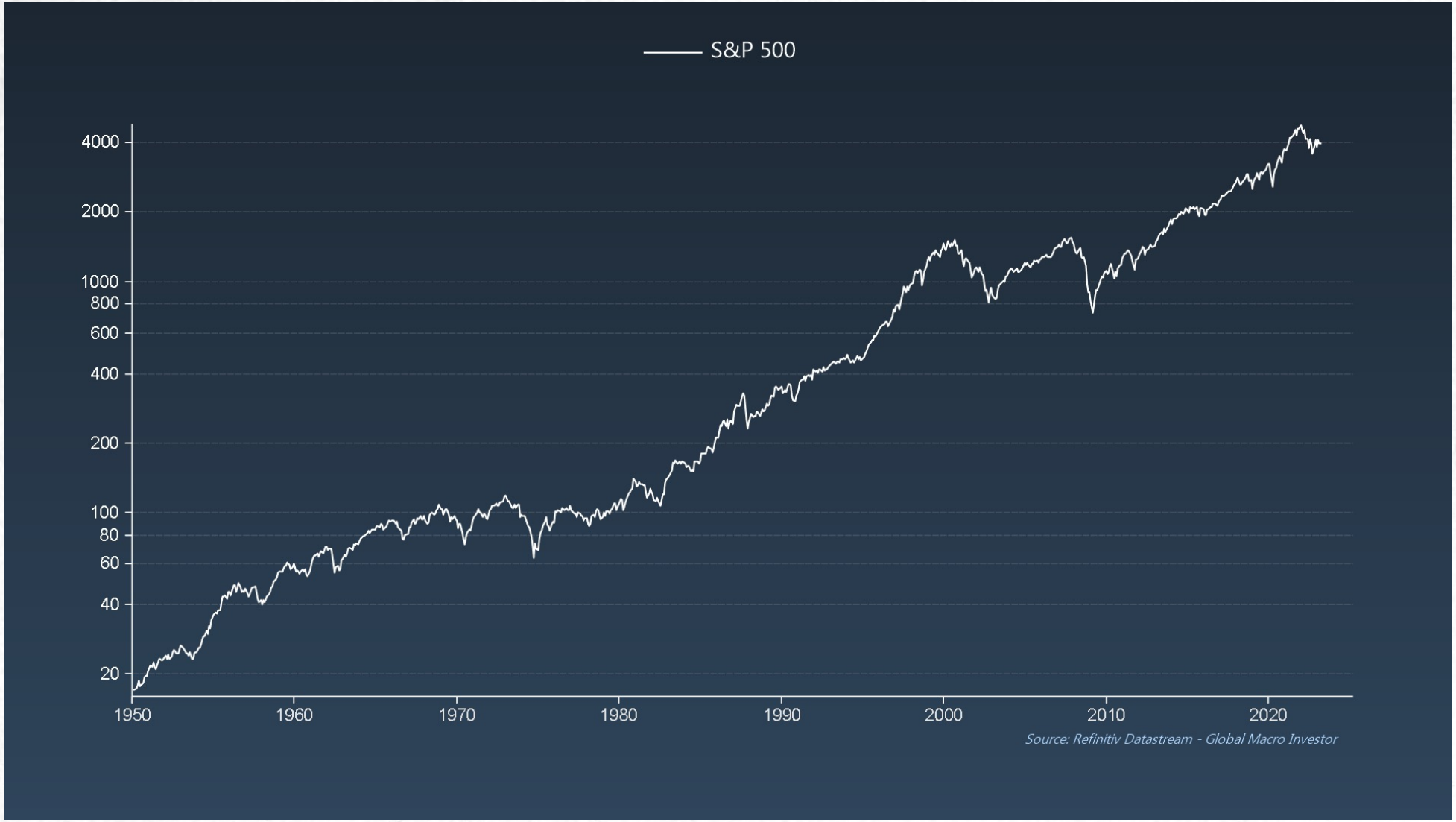
SECULAR GROWTH

Secular Economic Growth



Real GDP (not nominal) growth is the economic activity that creates cash flows that are invested, saved, or services debts at an economy-wide level.

Drives the Stock Market

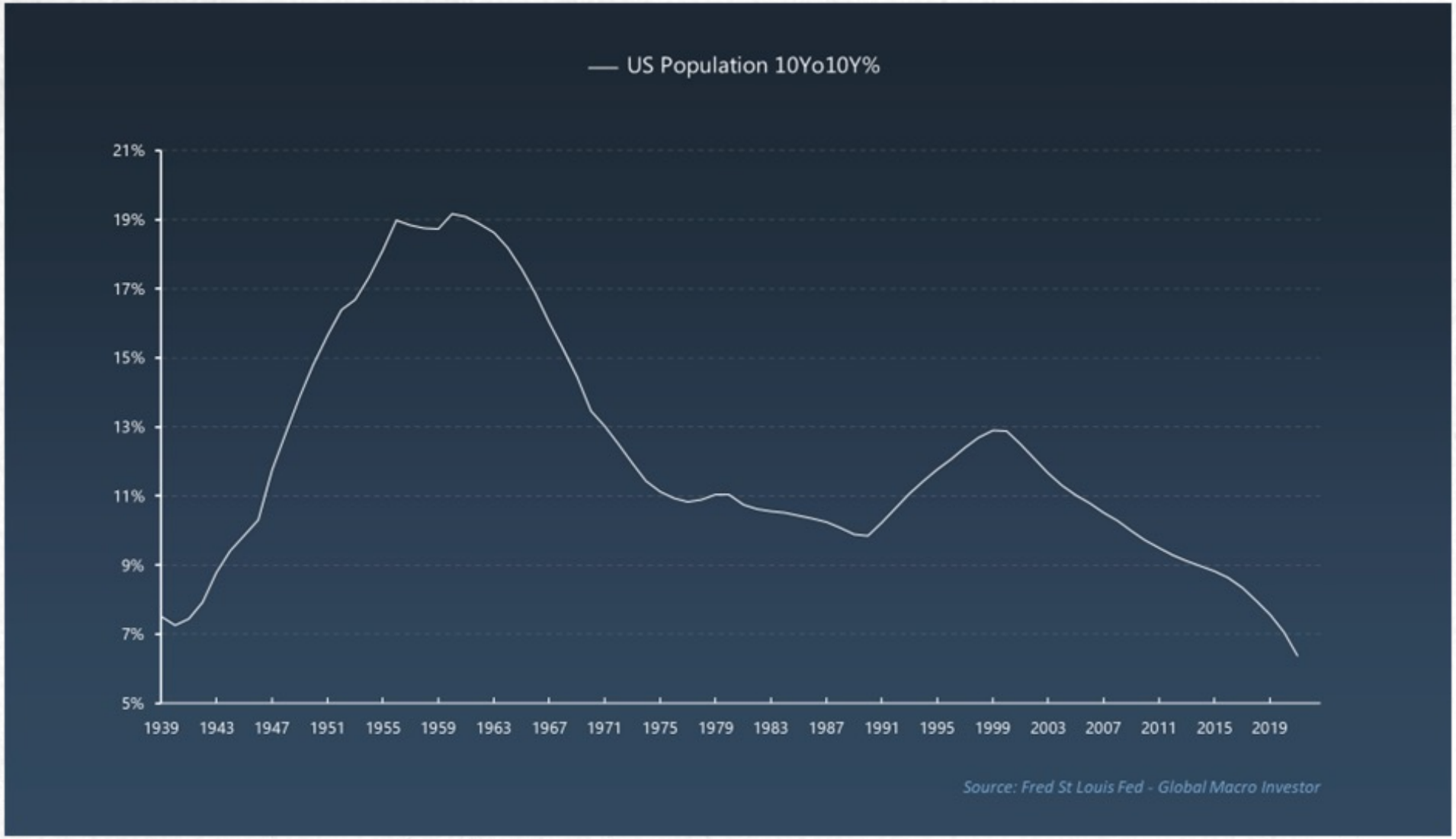


GDP GROWTH

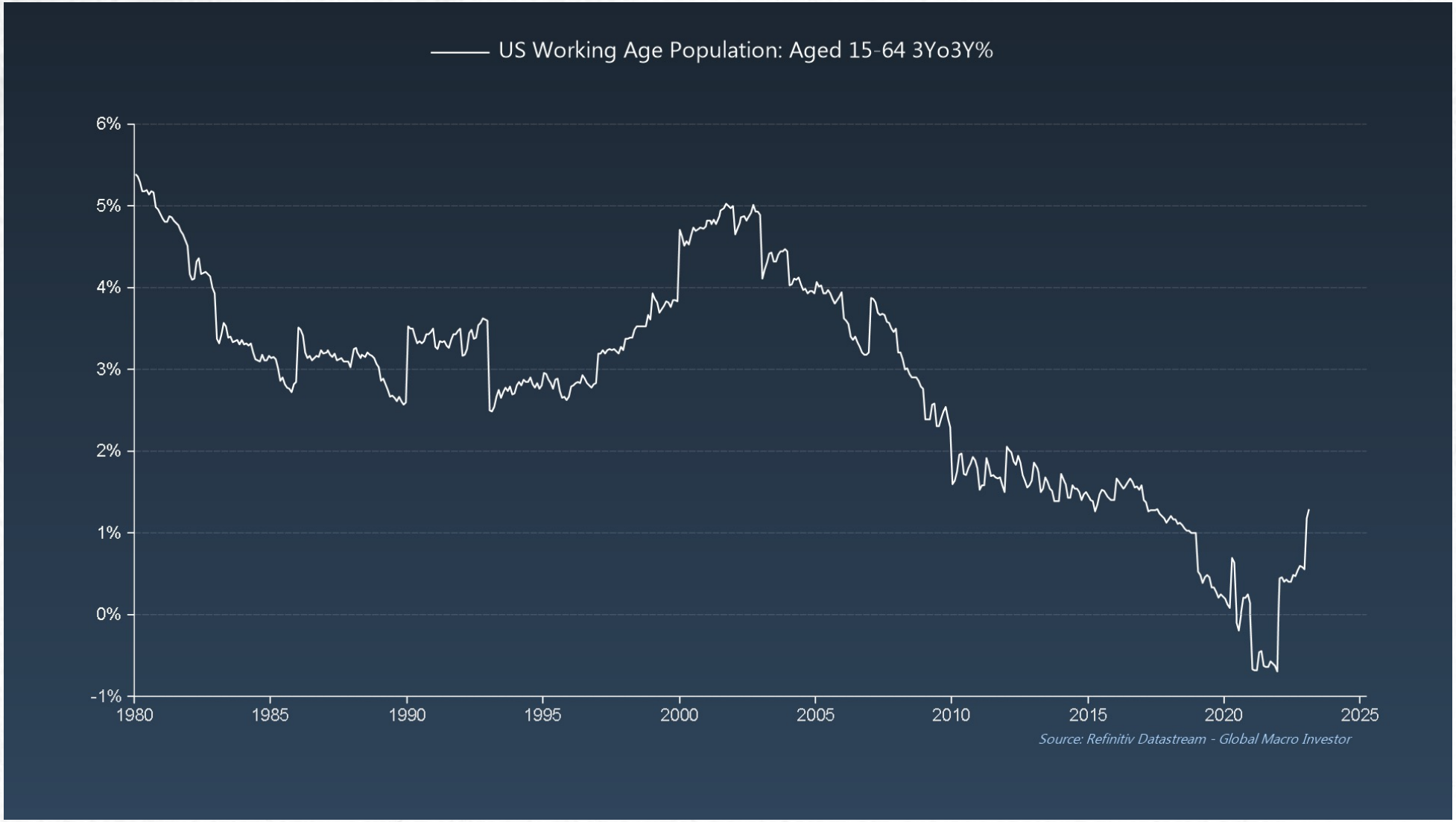
Population growth + Productivity + Debt growth

CASE STUDY
USA

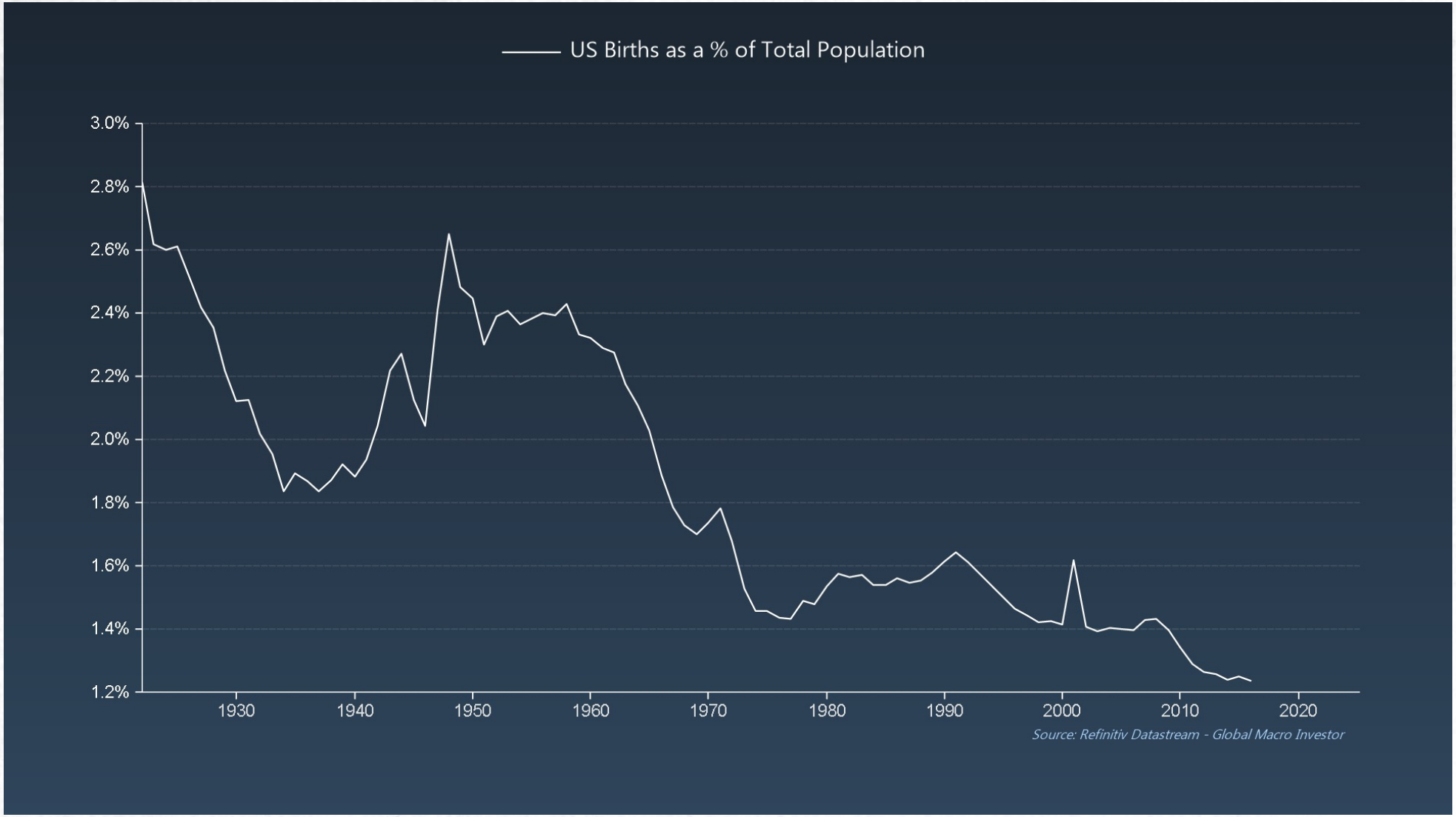
Population growth is slowing...



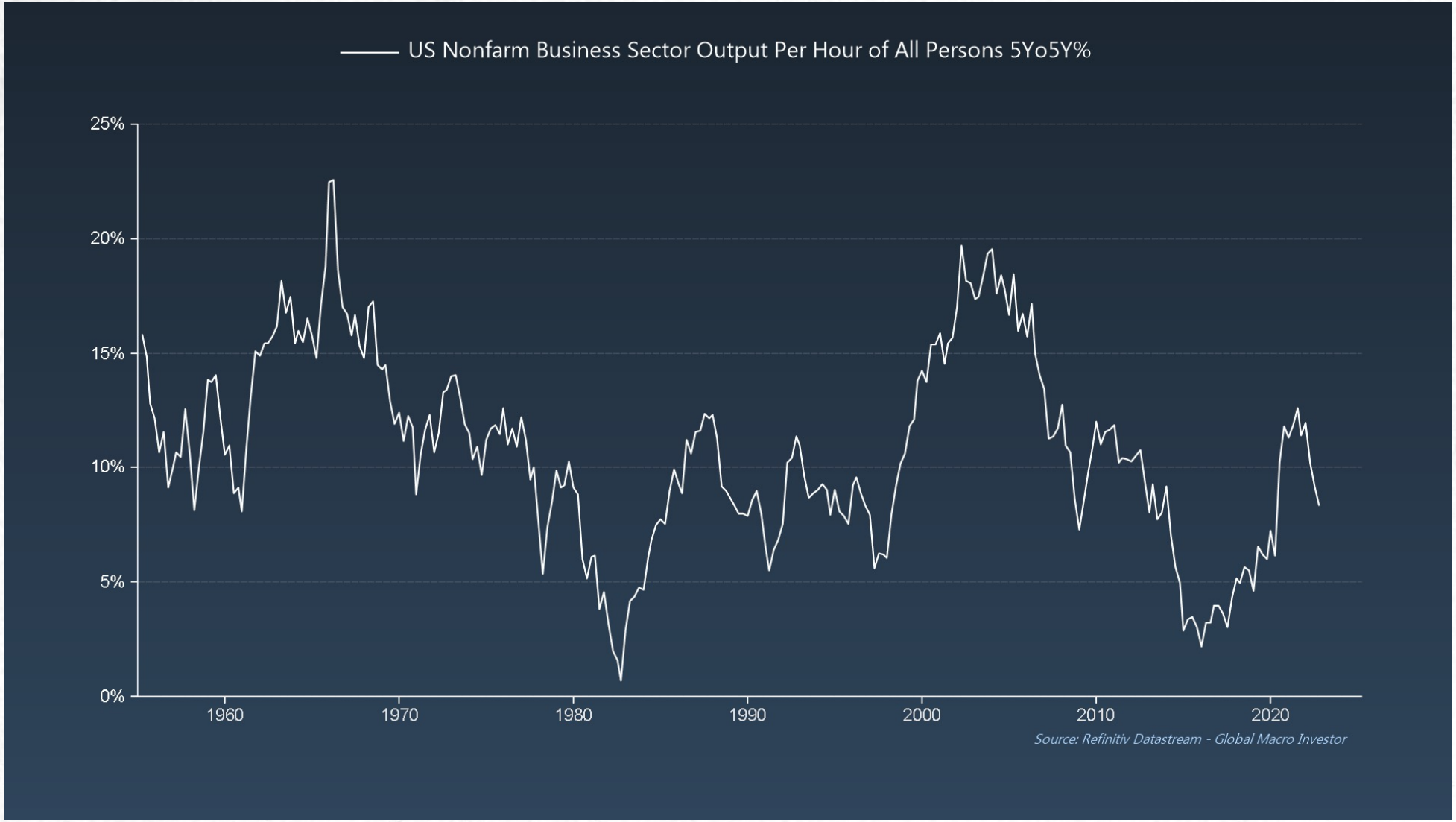
Working population “growth”



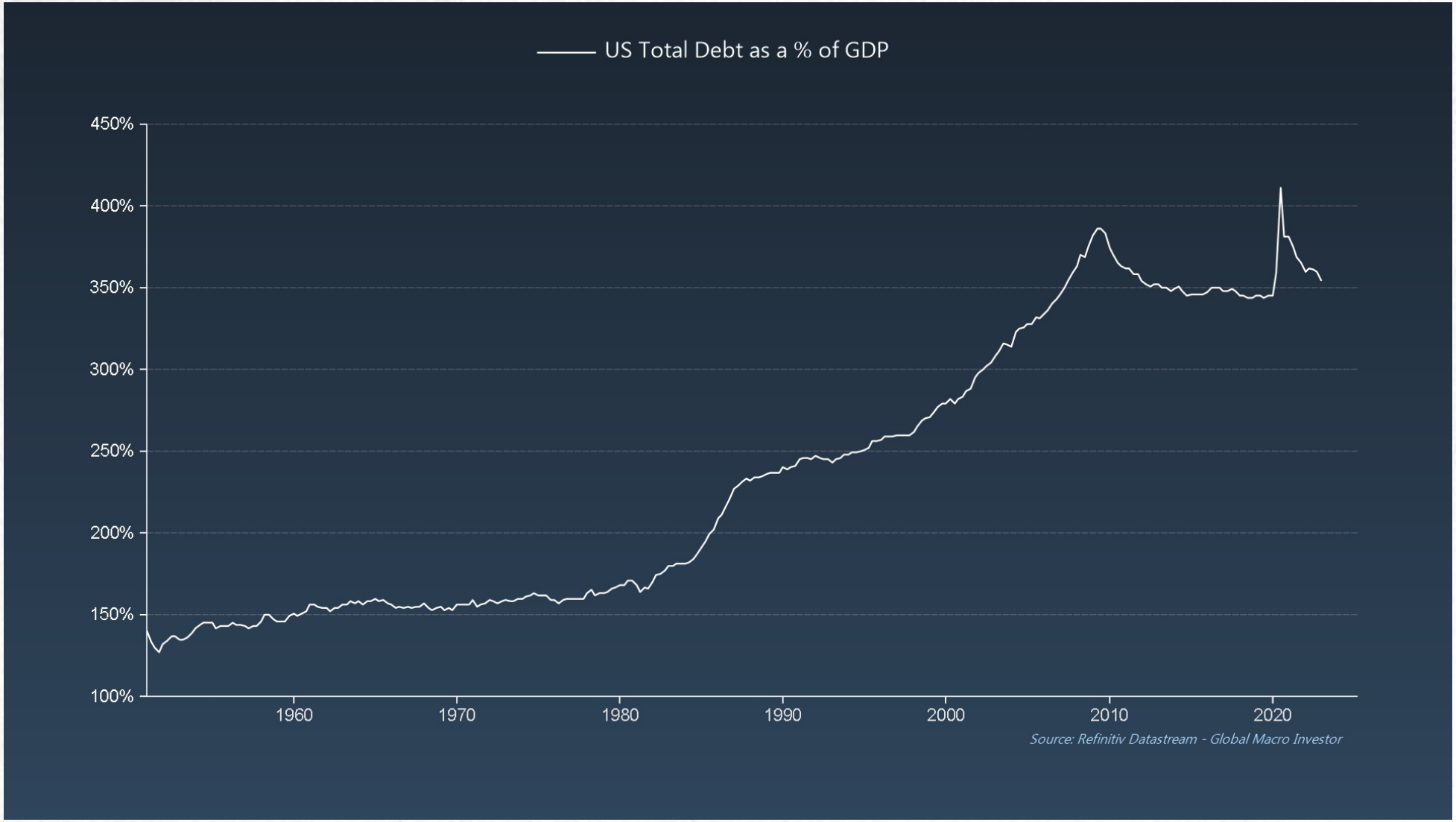
Births are slowing...



Productivity is stalling...

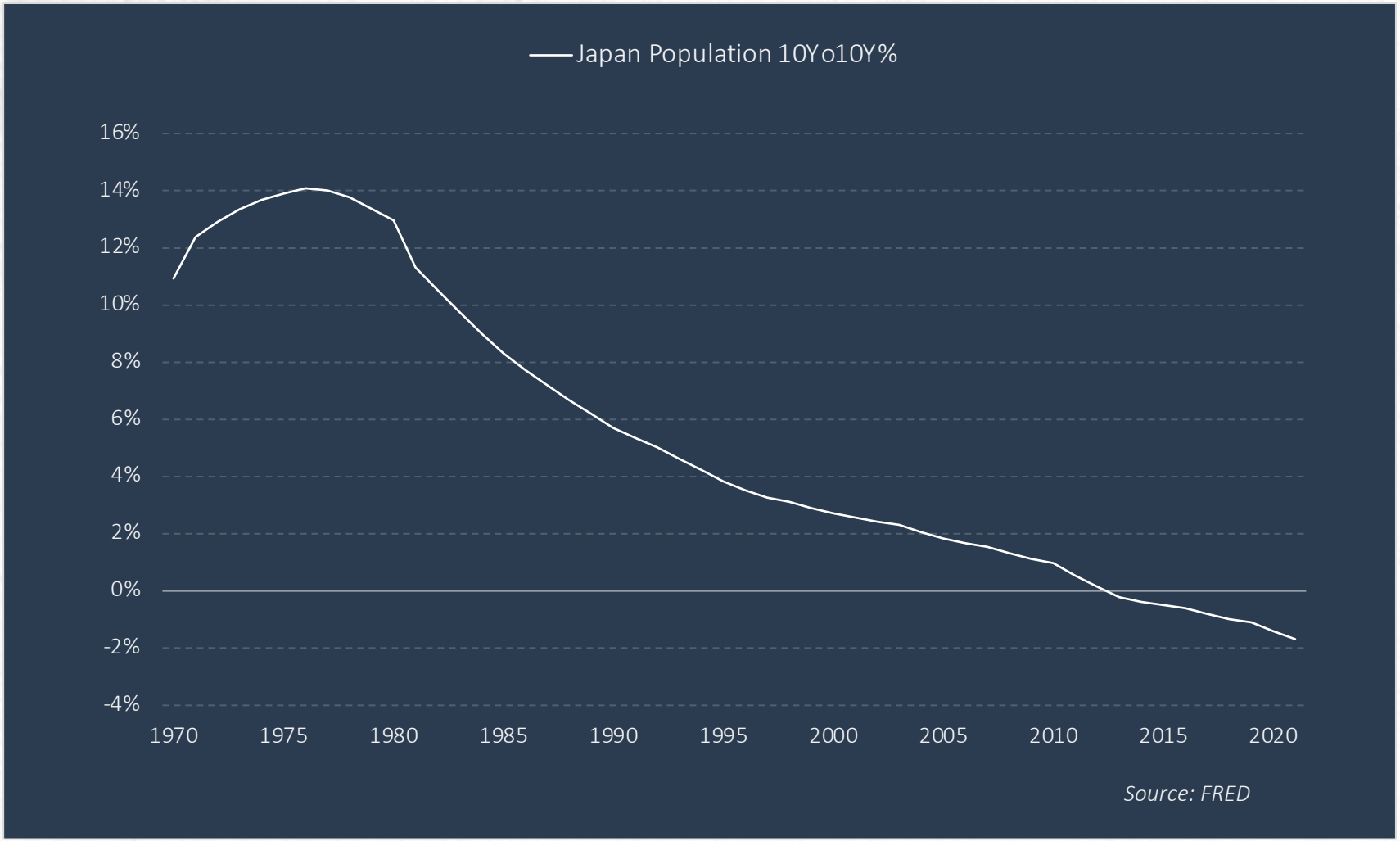


Debt has to compensate...



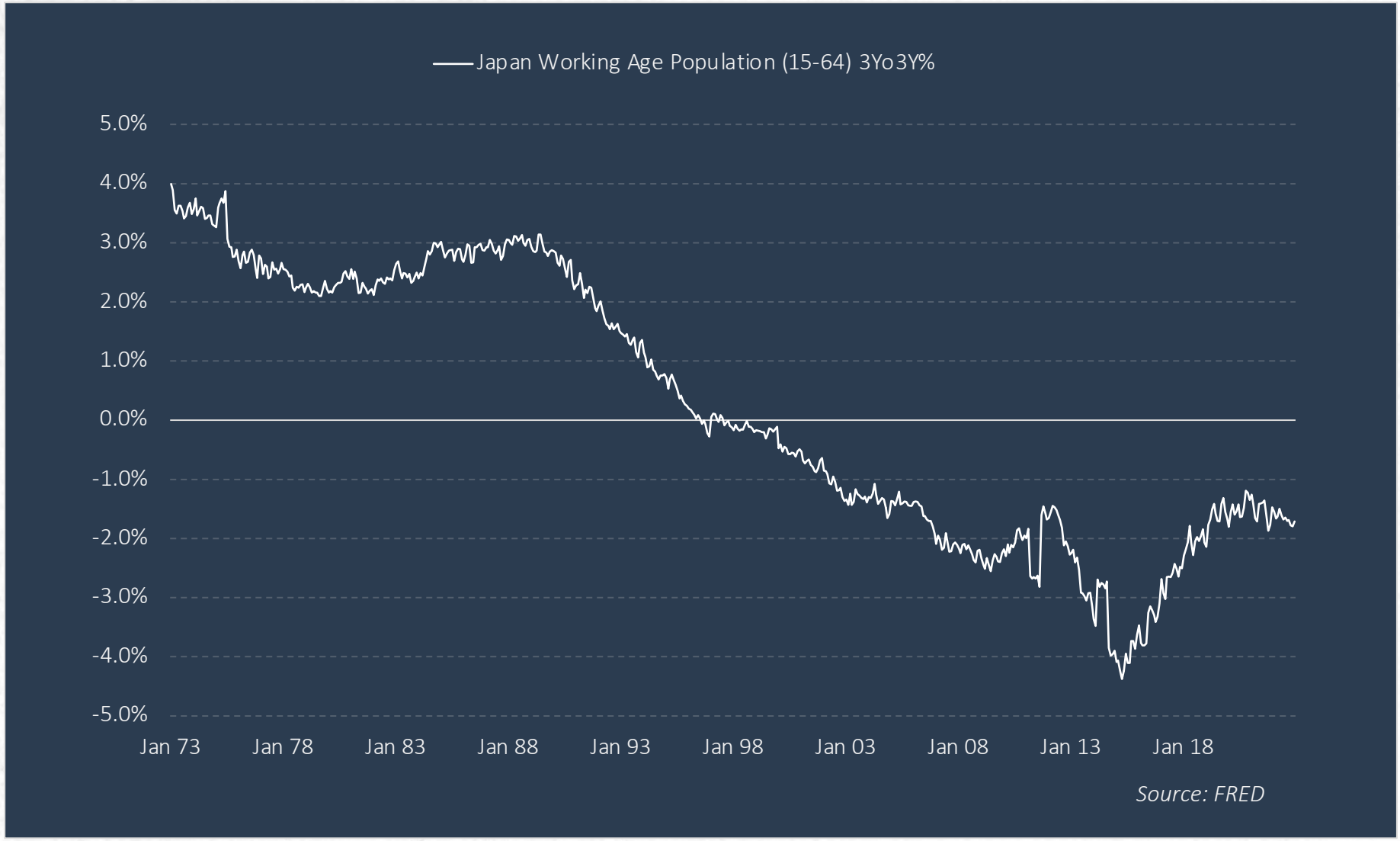
CASE STUDY
JAPAN

Population is shrinking...

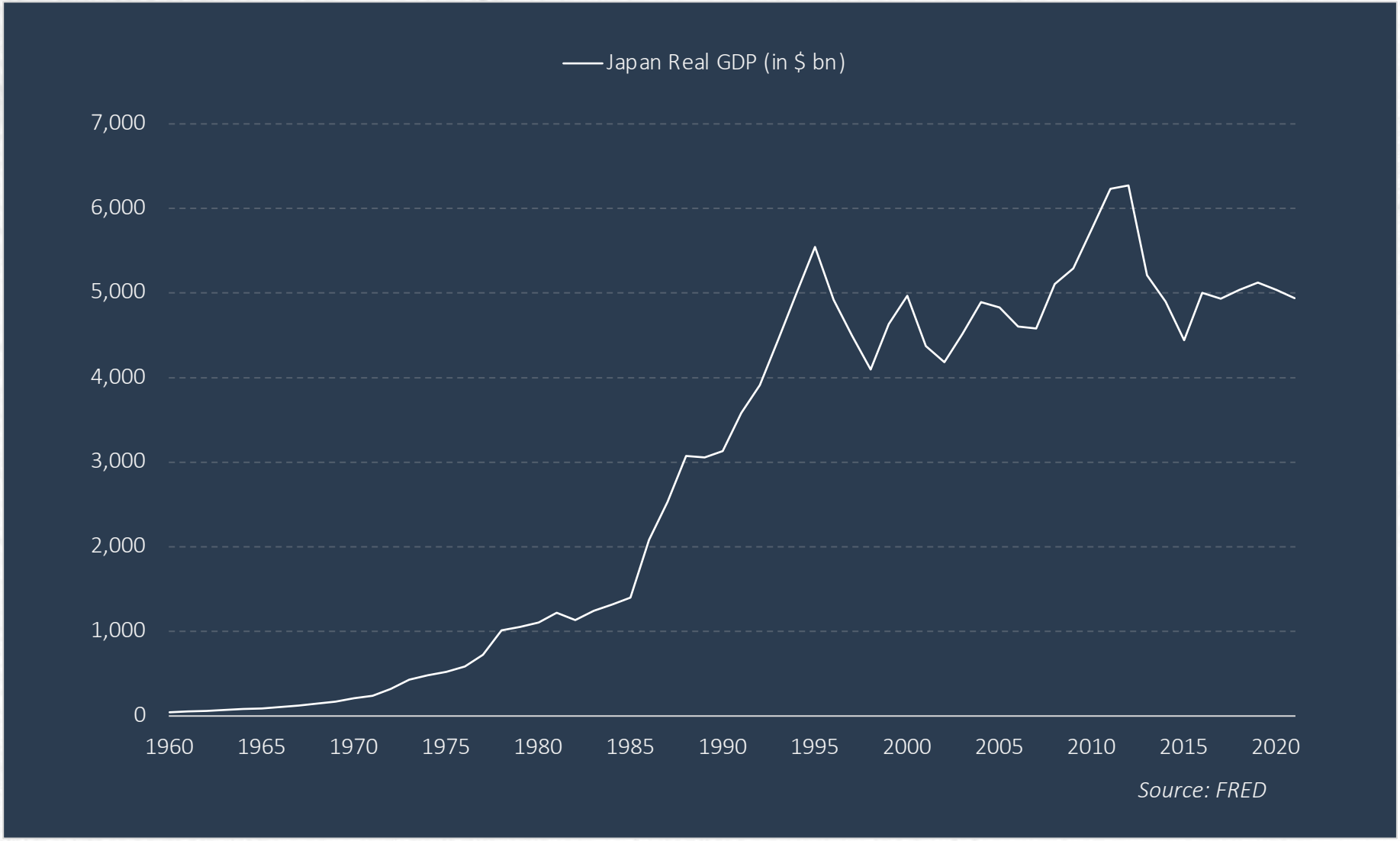


Deaths outpacing births = population shrinking

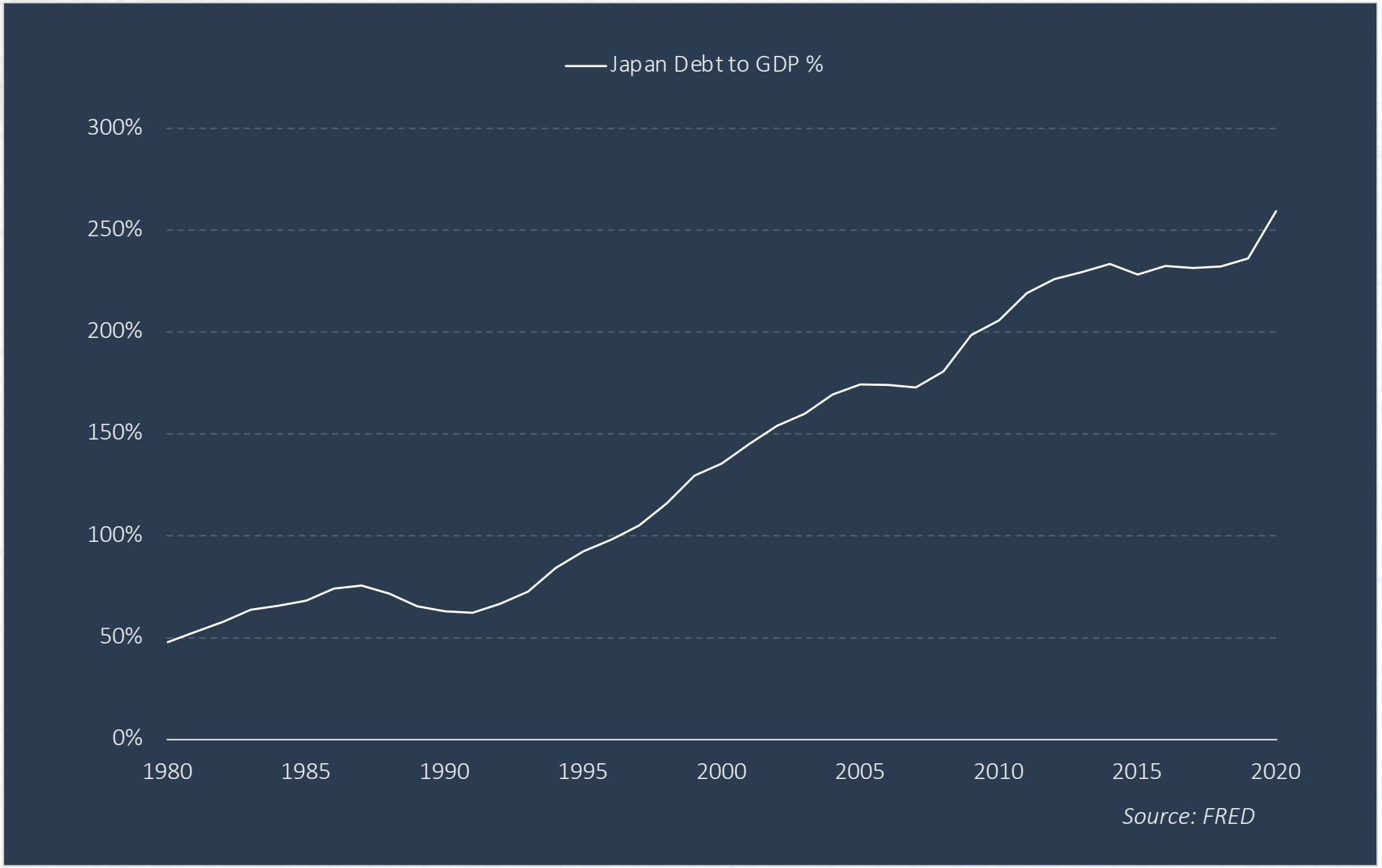
Working age cohort is collapsing



GDP is flat


Japan Real GDP (in $ bn)
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015
2020
Source: FRED

Debt has exploded to offset



SECULAR WINDS

Understanding the dynamics of **Demographics**, **Productivity** (including **Technology**) and **Debt** is essential for a longer-term understanding of how the world works.

These can provide a massive tailwind (or headwind) in your investing.

PRINCIPLE #1

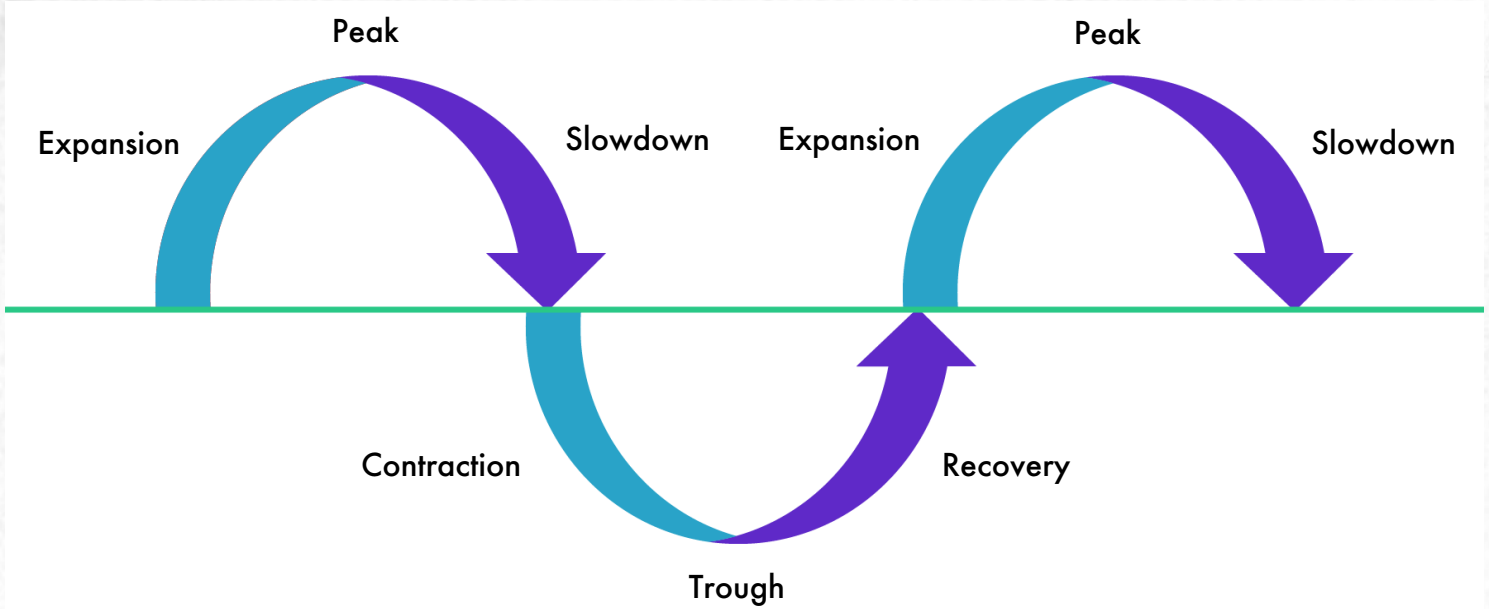
BUT

Economies don't move in a straight line.

They ebb and flow…over time.

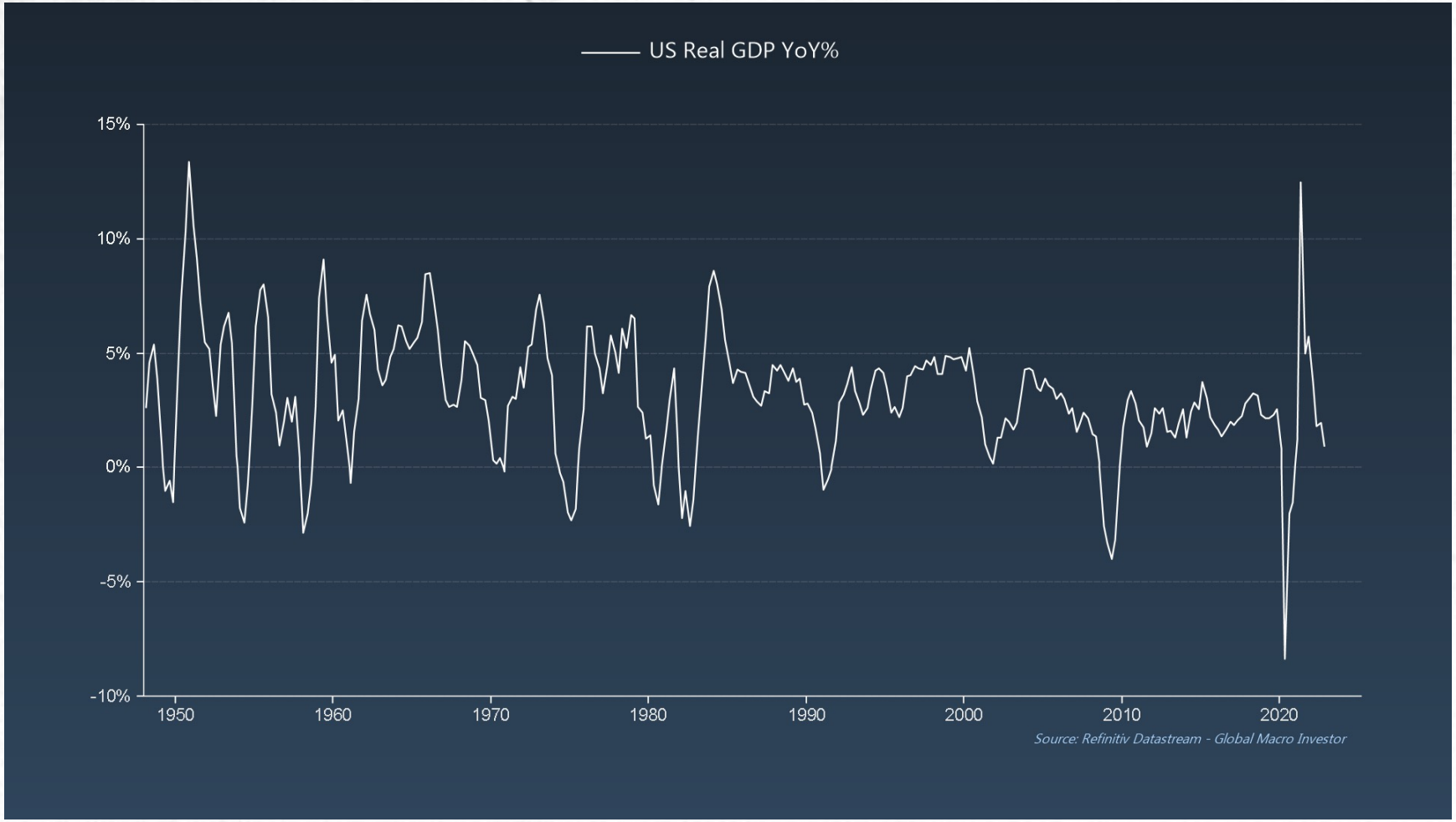
ENTER…THE BUSINESS CYCLE

The business cycle (simplified)



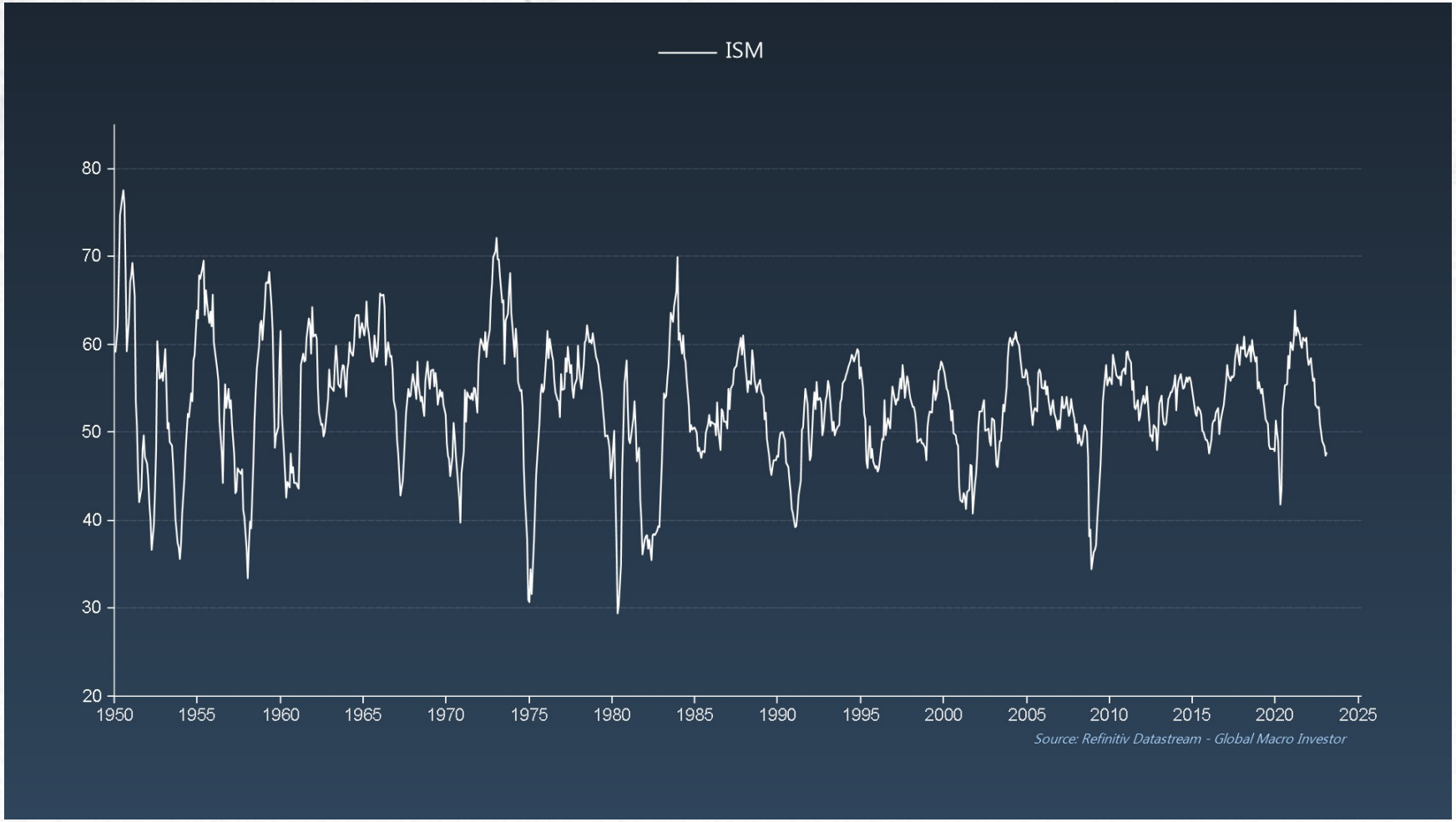
- **Recovery** – economic growth is recovering but remains below trend
- **Expansion** – economic growth is accelerating and above trend
- **Slowdown** – economic growth is above trend but slowing
- **Contraction** – economic growth is below trend and contracting

US GDP – yearly growth



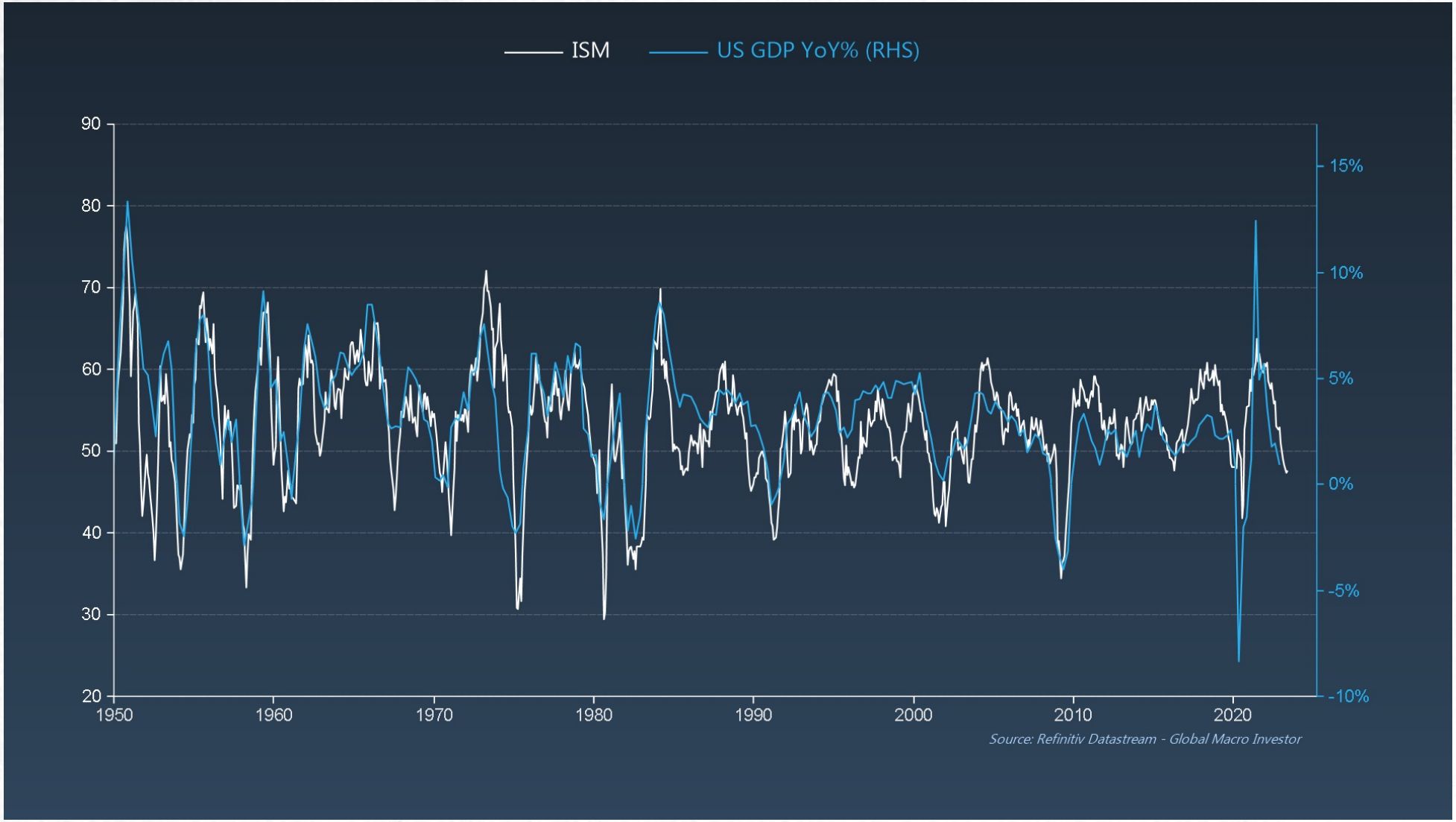
It **oscillates** up and down; it is **trending lower** over time; it exhibits **different regimes** (*Great Moderation*)

ISM PMI is the business cycle



The index is derived from a survey of purchasing managers from various manufacturing industries, who report on factors such as **new orders, production, employment, supplier deliveries, and inventory levels**.

ISM vs GDP

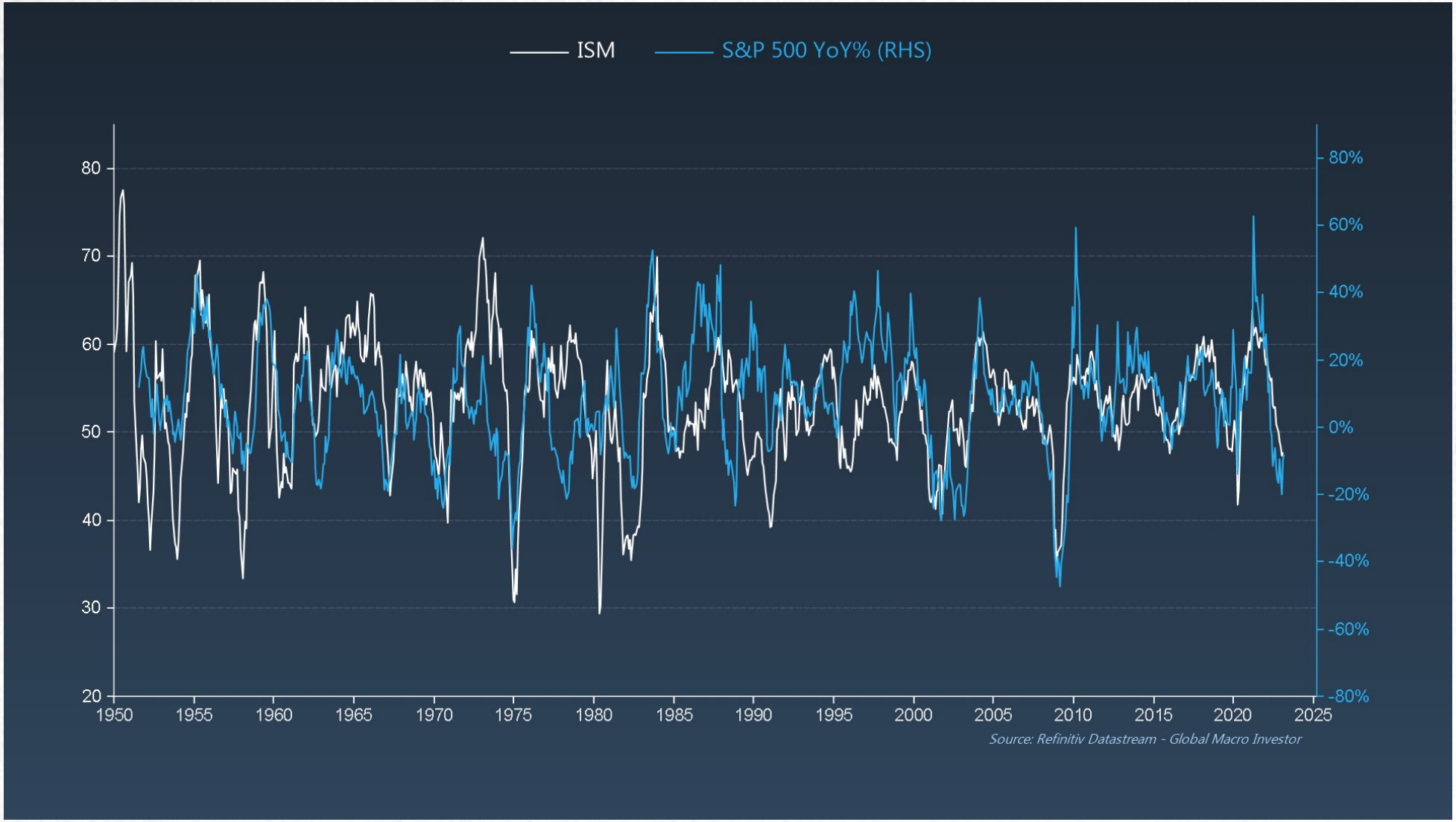

ISM
US GDP YoY% (RHS)
90
80
70
60
50
40
30
20
15%
10%
5%
0%
-5%
-10%
1950
1960
1970
1980
1990
2000
2010
2020
Source: Refinitiv Datastream - Global Macro Investor

THE BUSINESS CYCLE

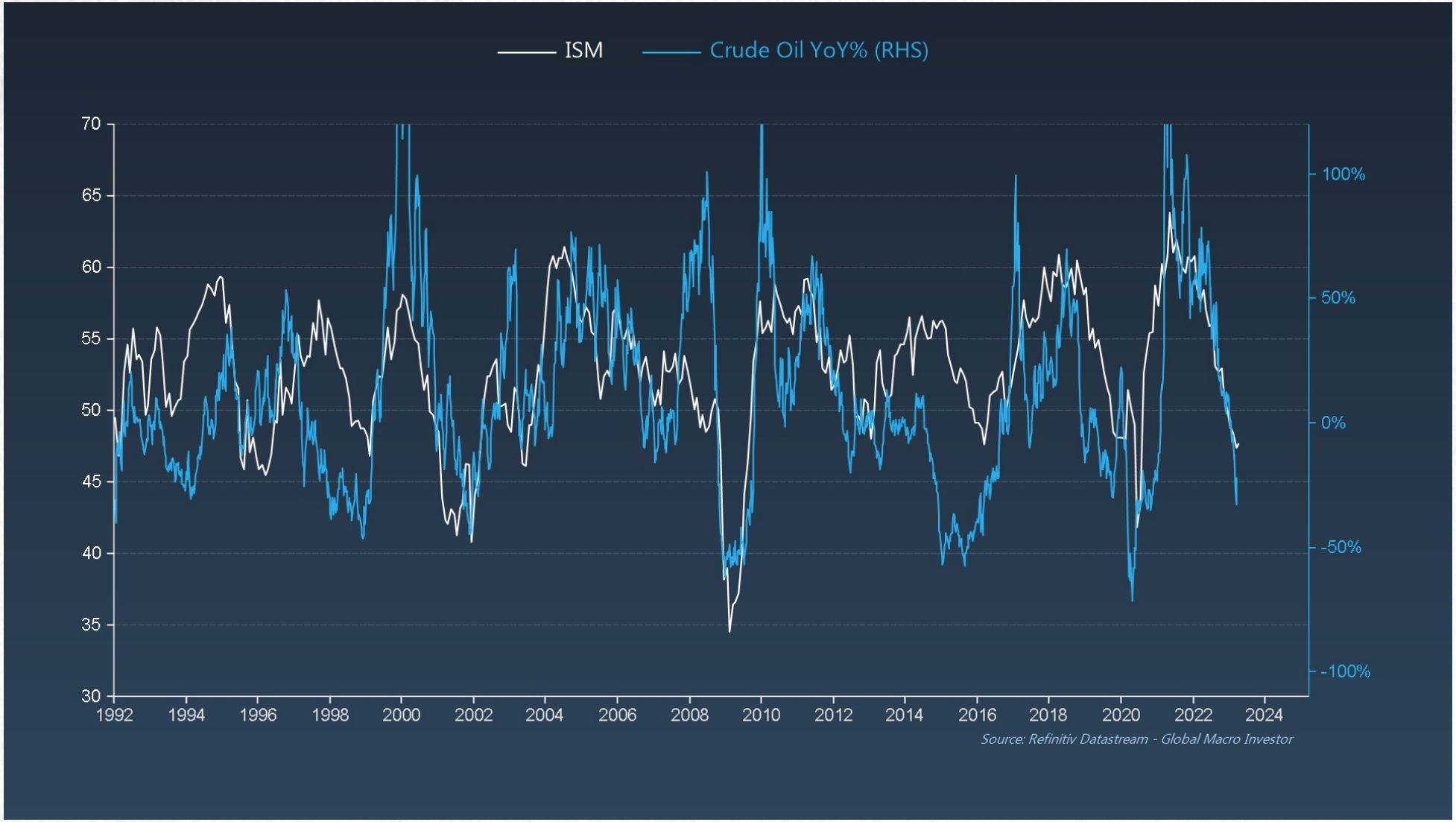
is what drives the ebb and flow of economic growth, but that is not all…

PRINCIPLE #2

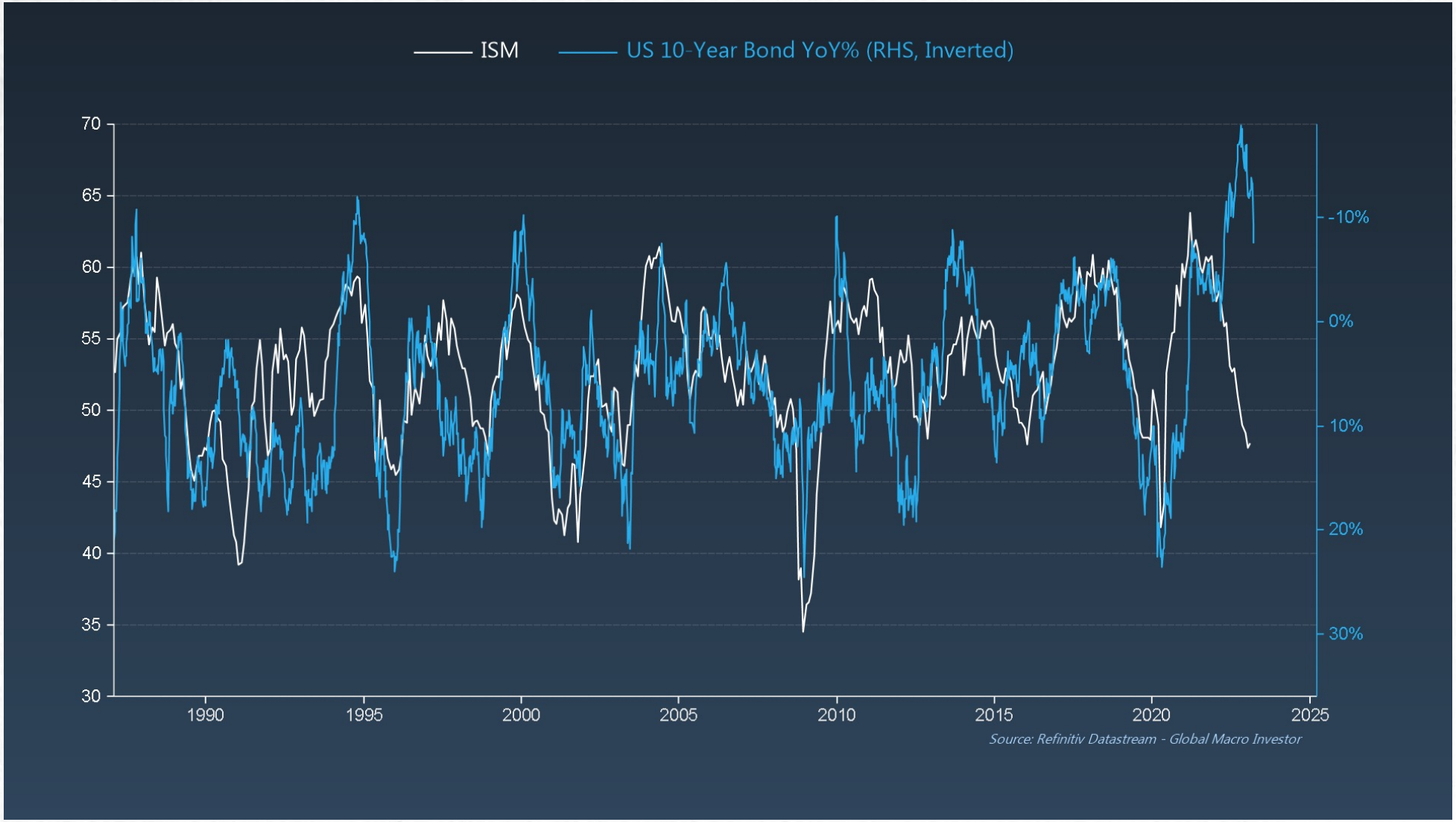
It also drives…**STOCKS**



It also drives…**OIL**



It also drives…**BONDS**



THE BUSINESS CYCLE

drives the performance of **ALL asset classes** in the medium term (6-18 months). This is essential to understand for **successful asset allocation and risk management**.

(We will dive deeper into all that later)

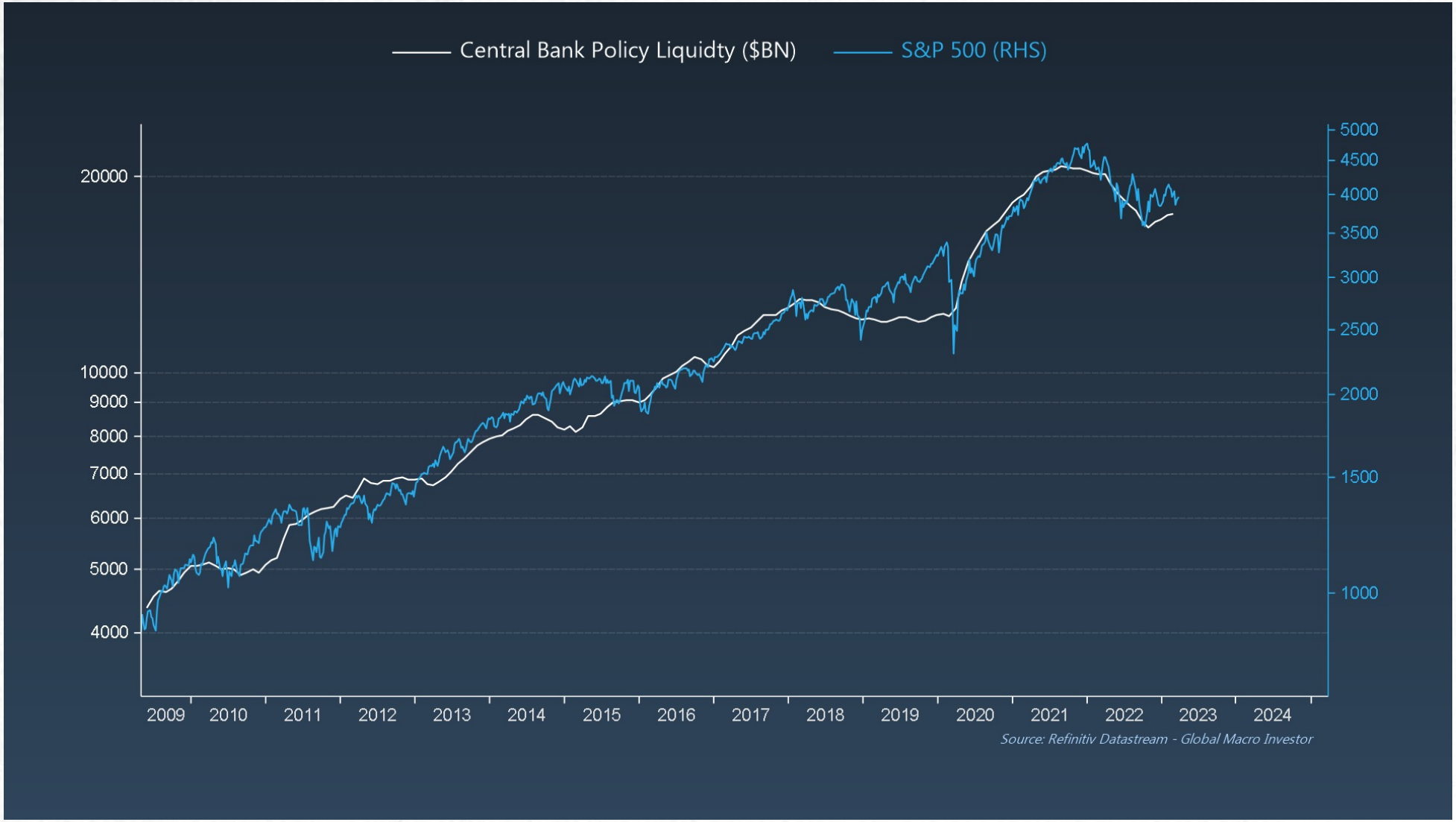
PRINCIPLE #3

EVERYTHING CHANGED IN 2008

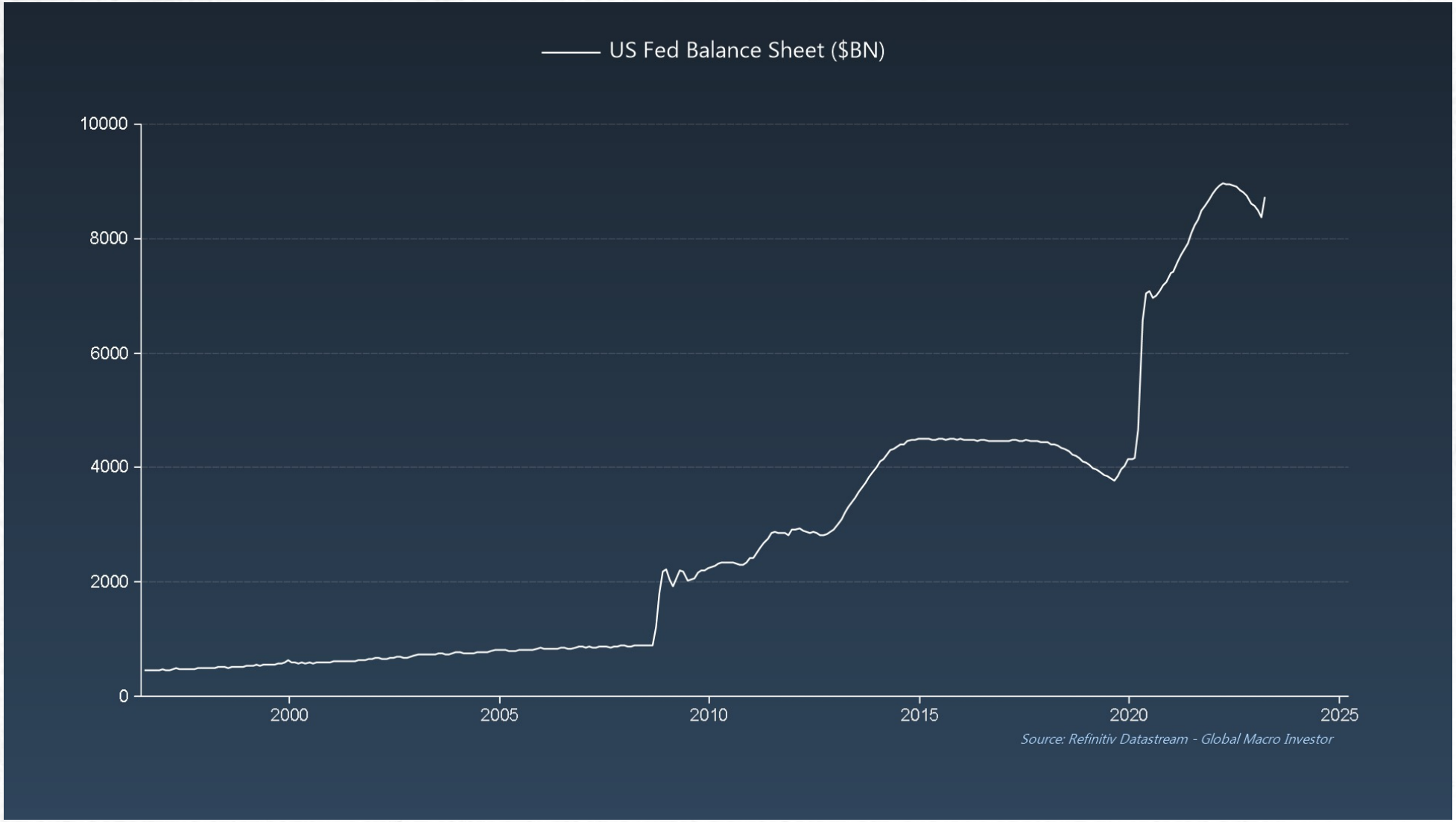
THE CYCLE IS CHANGING

The US (and global) economy is no longer a following a classic business cycle, but a **QE-driven credit cycle**…

G5 Liquidity is what matters

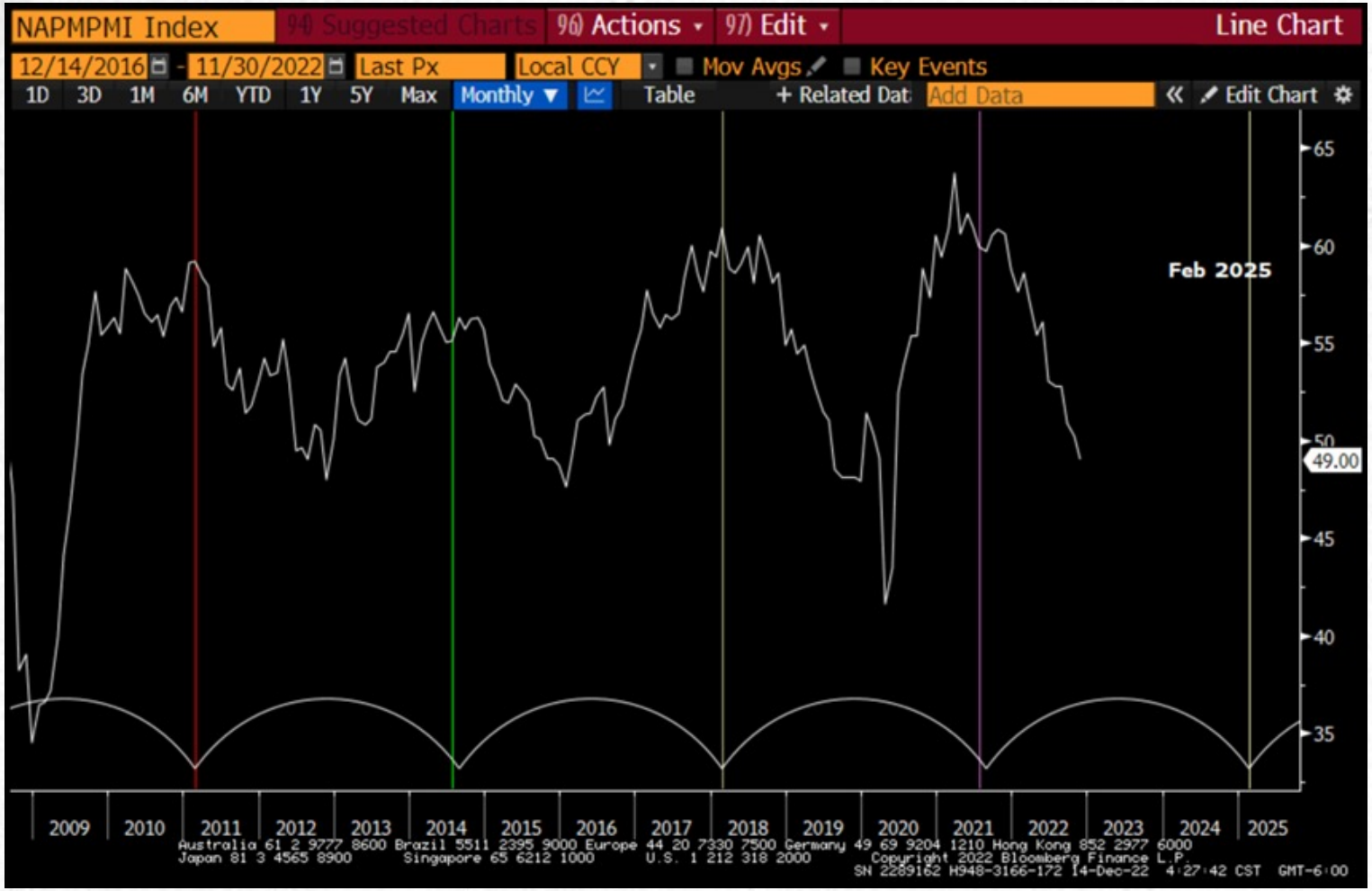


The Game change in 2008



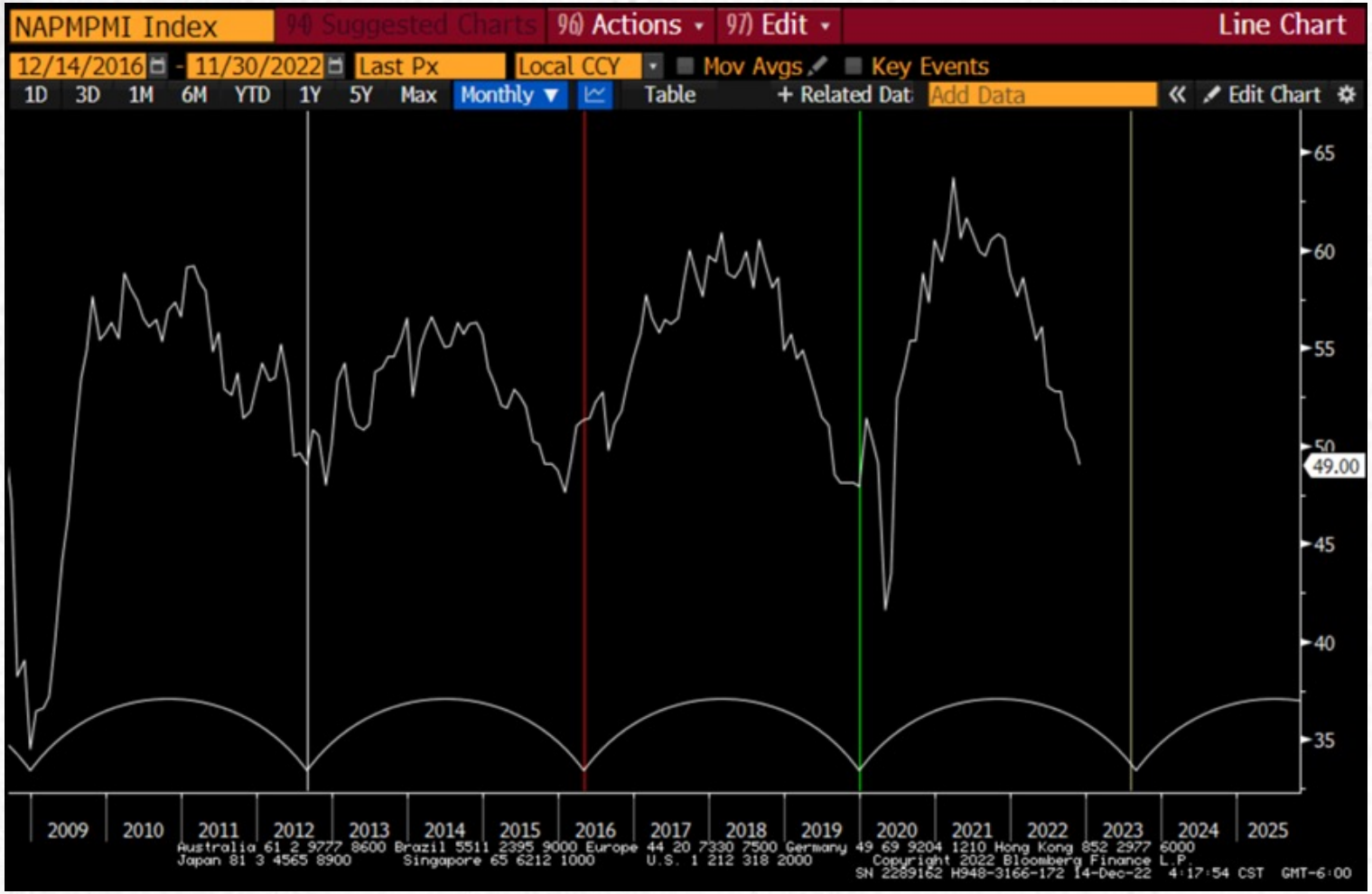
The 3.5-year cycle (1/2)

ISM Manufacturing PMI seems to top every 3.5 years since 2008…

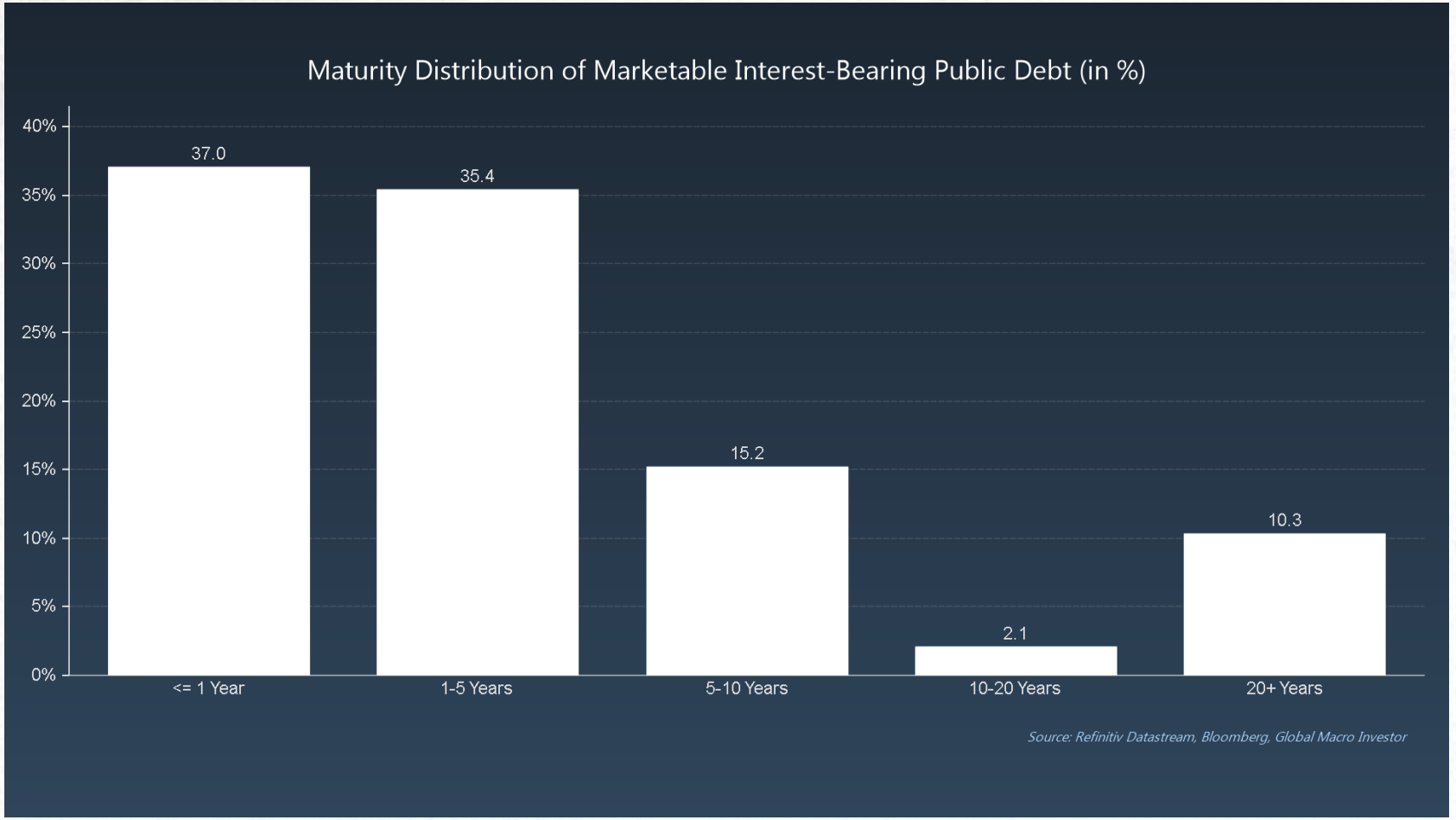


The 3.5-year cycle (2/2)

ISM Manufacturing PMI *also* seems to bottom every 3.5 years since 2008…

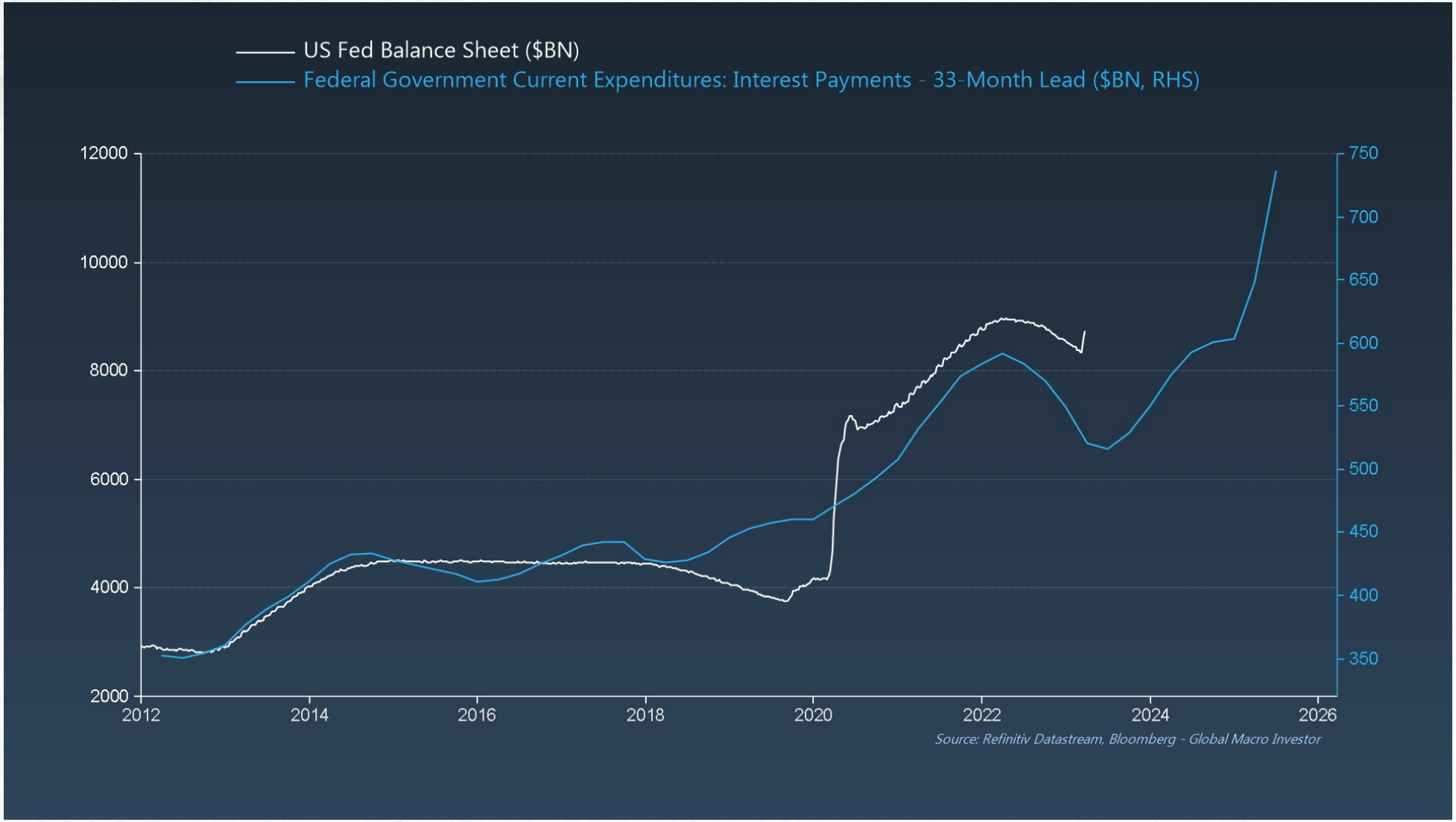


Govt. Debt Maturity



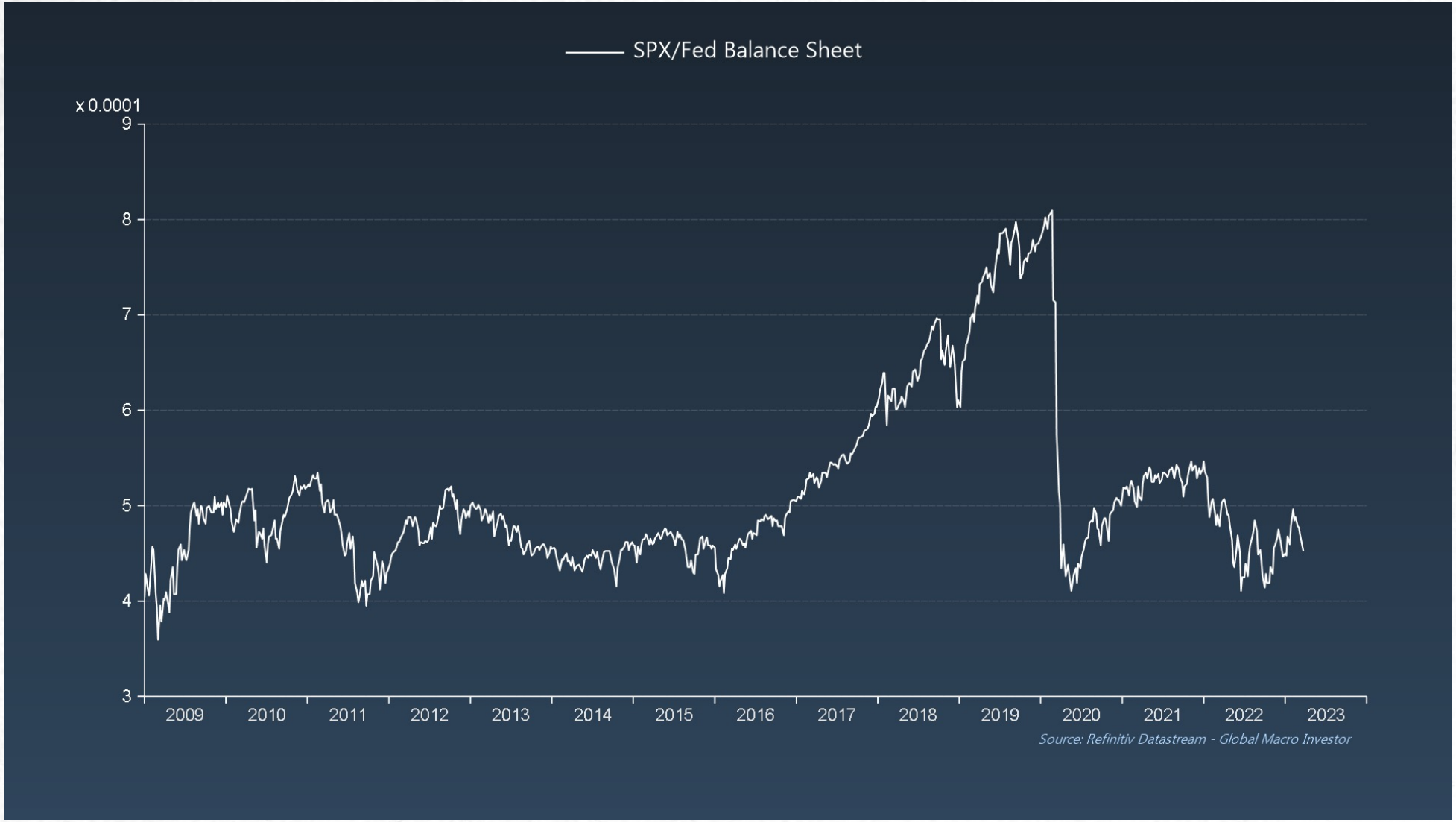
It seems to be driven by the average maturity of government debt, which is also around **3.5 years**…

Is QE Just Paying for Interest?



This changed the behaviour of assets

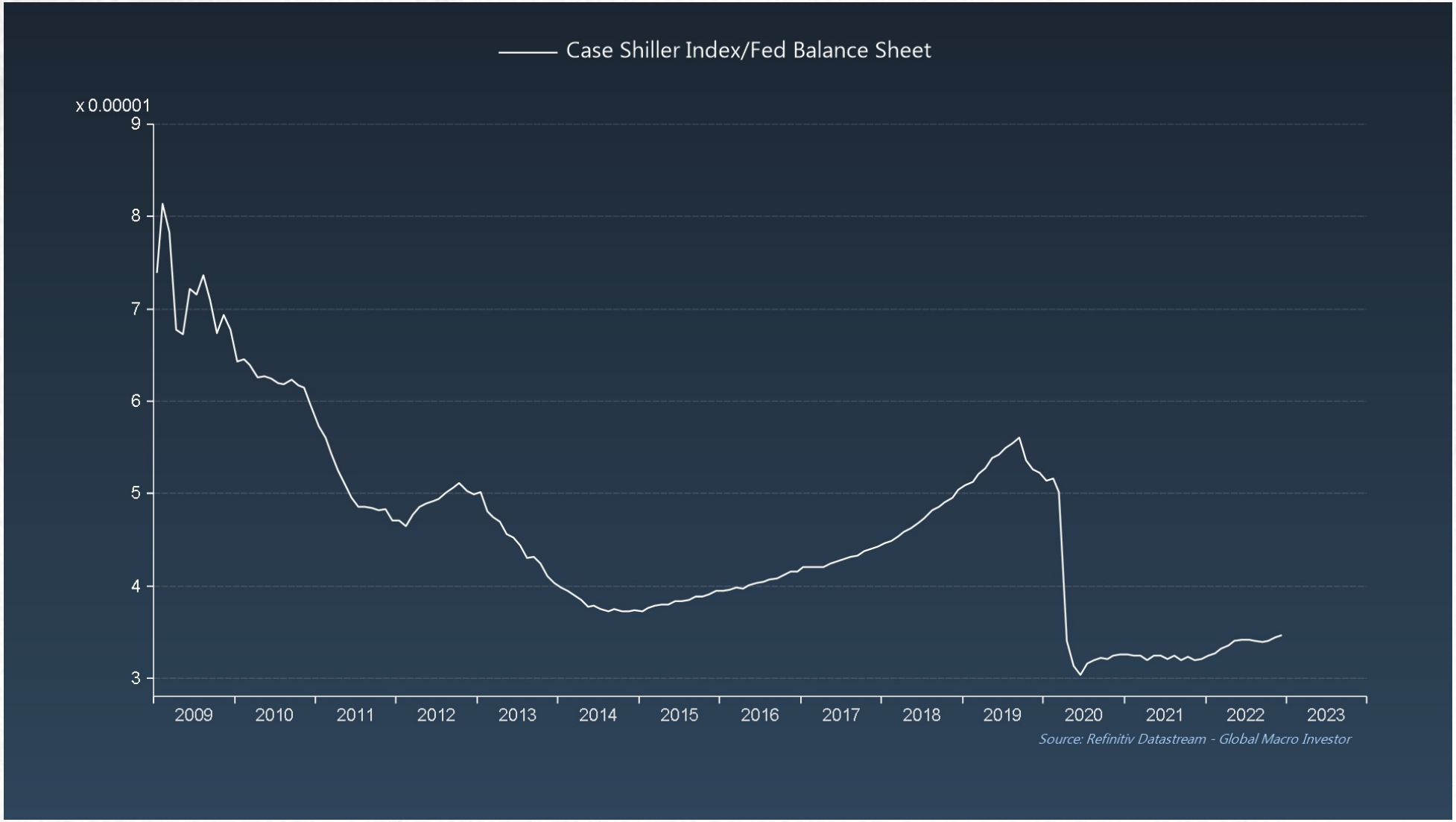
STOCKS


SPX/Fed Balance Sheet
x 0.0001
9
8
7
6
5
4
3
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
Source: Refinitiv Datastream - Global Macro Investor

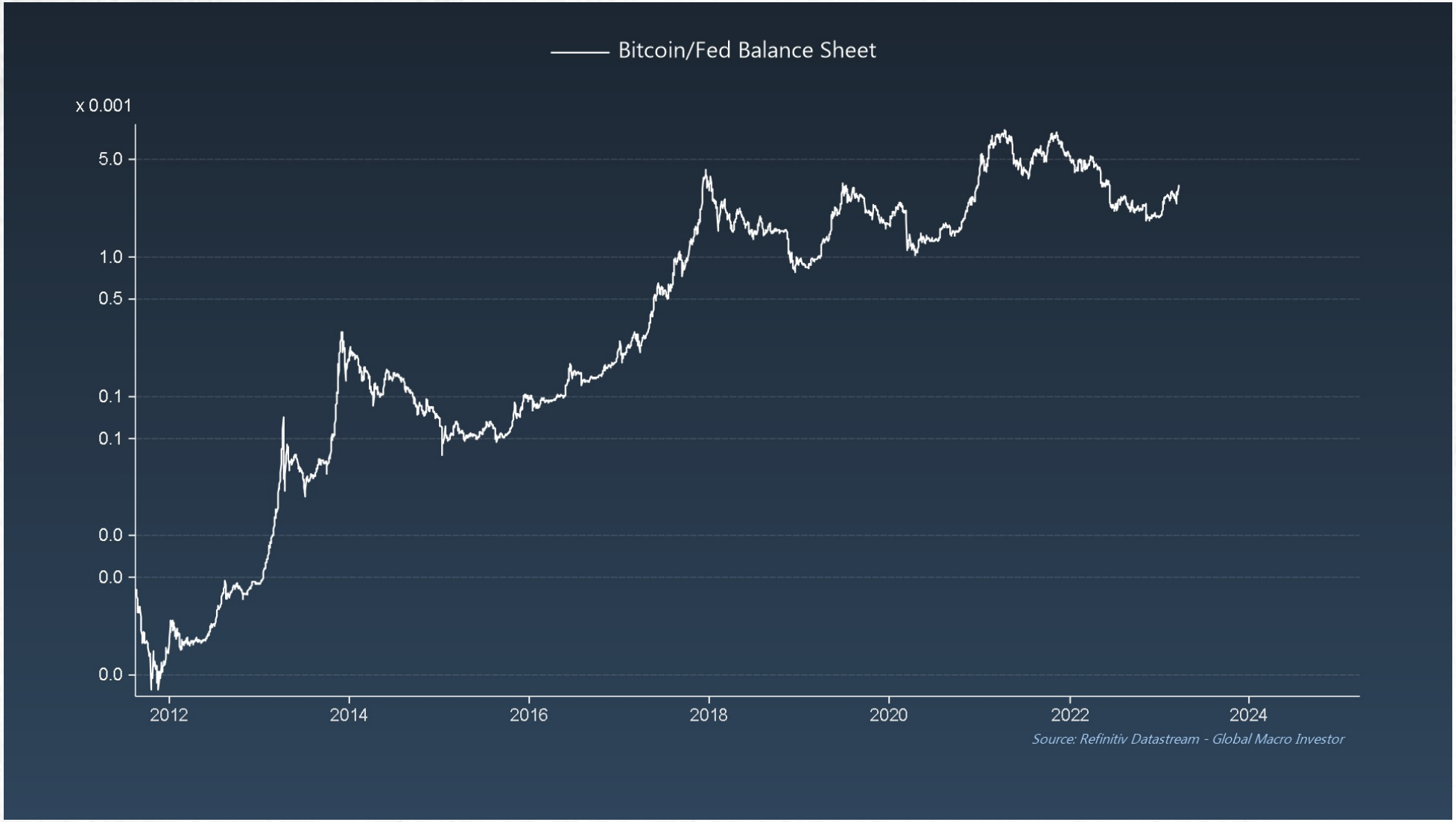
GOLD


Gold/Fed Balance Sheet
x 0.0001
7
6
5
4
3
2
1
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
Source: Refinitiv Datastream - Global Macro Investor

HOUSE PRICES

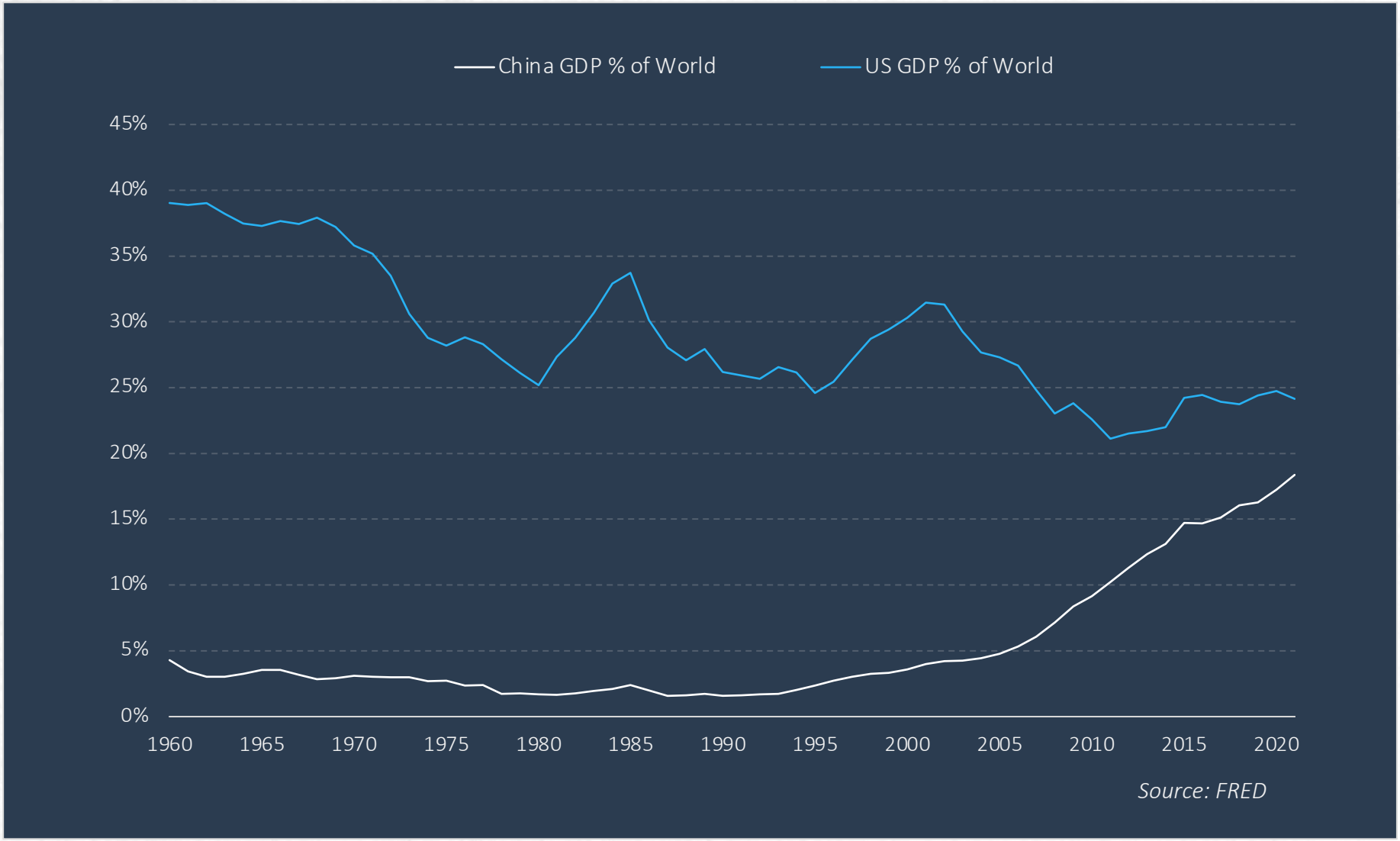


BITCOIN

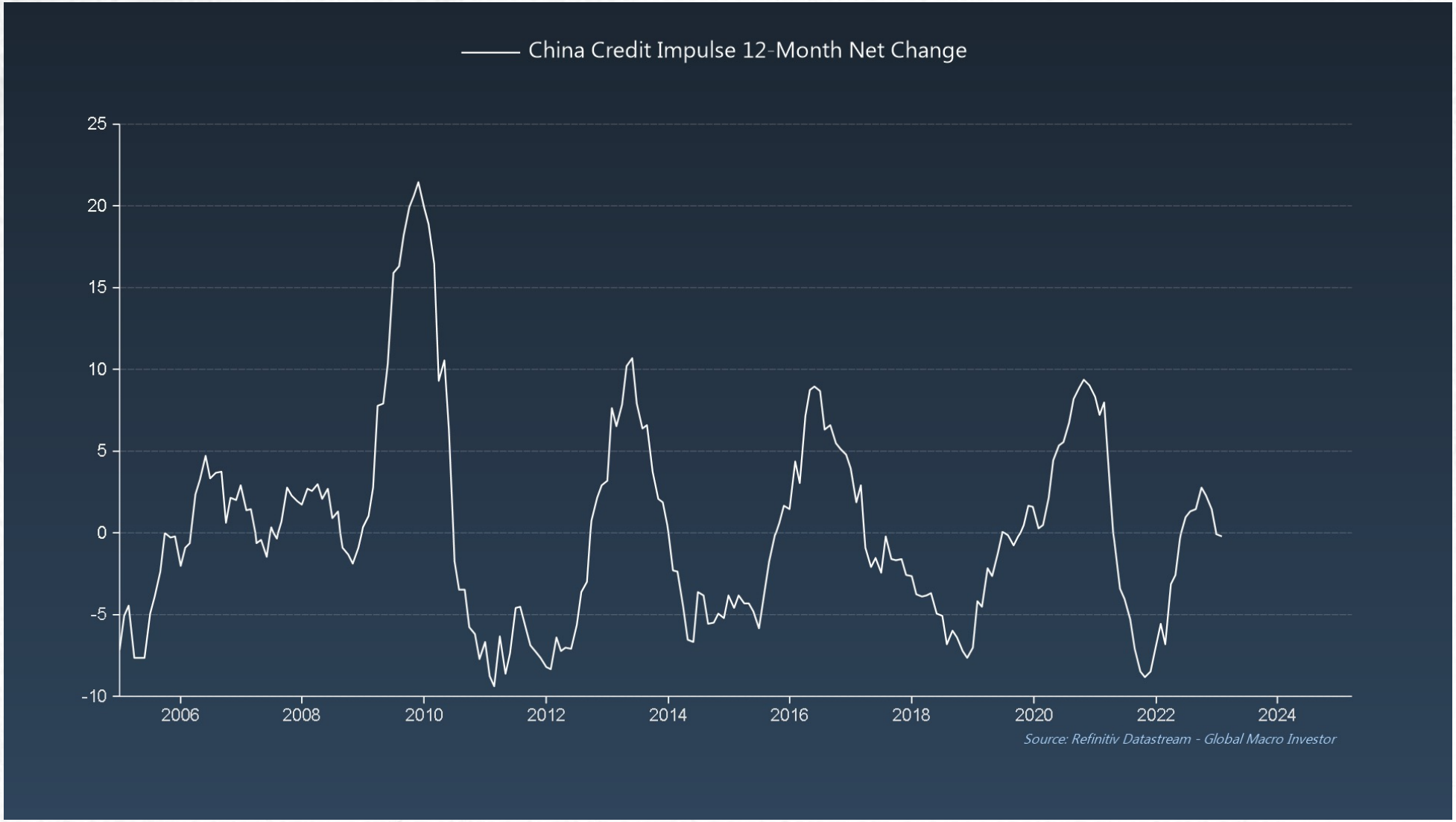

Bitcoin/Fed Balance Sheet
x 0.001
5.0
1.0
0.5
0.1
0.1
0.0
0.0
0.0
2012
2014
2016
2018
2020
2022
2024
Source: Refinitiv Datastream - Global Macro Investor

USA IS NO LONGER THE ONLY KEY PLAYER

Share of World GDP...



China liquidity matters



Q&A