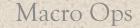


# Market SitRep Pushing On A String





### Topics

- Macro Summary
- Super Mario
- U.S. Recession
- Price Charts



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## Macro Summary

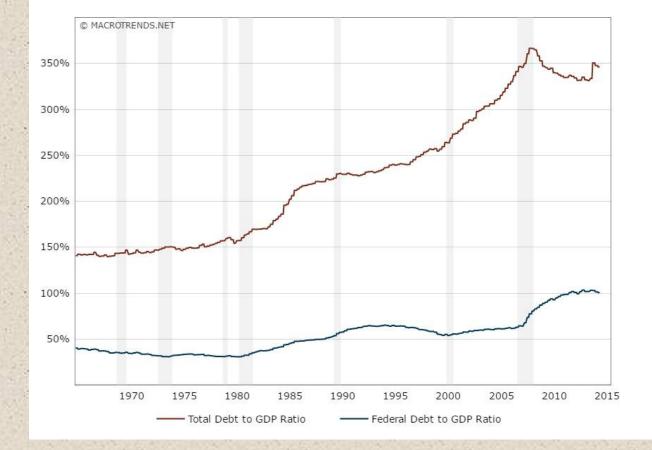


#### Current Global Environment

All developed markets are in the early stages of a deleveraging as part of the long term debt cycle.
U.S. has increased official credit outstanding by 58 fold since the 1970s.



#### U.S. Debt To GDP





#### Current Global Environment

• Emerging markets are at the beginning stages of a cyclical short-term deleveraging.



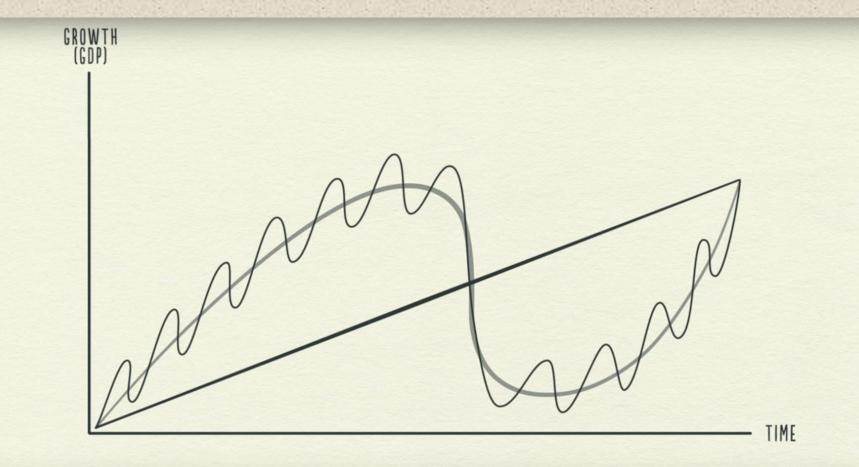
#### Current Global Environment

- China is somewhere in between the developed markets and the emerging markets.
- China is beginning a deleveraging from a very overleveraged point in which massive amounts of debt was accumulated in a very short time.



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#### Where We Are





• Japan, Europe, and the US through monetary policy (interest rates + QE) have reduced the spread between cash and financial assets to the point where it can't effectively be narrowed further.



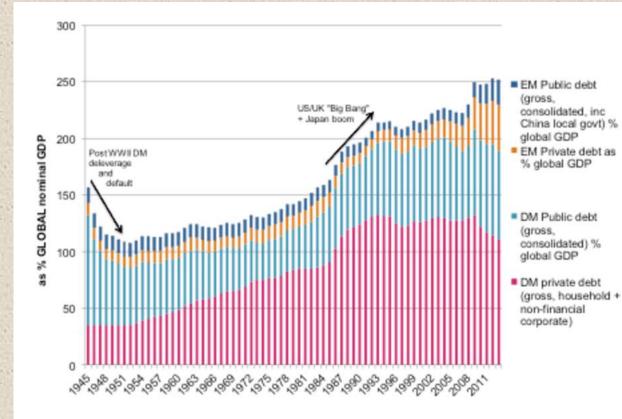
• Negative rates, additional QE, and other monetary policies aimed at investors have lost their efficacy.



• Debts to incomes are simply too high and they need to rebalance.

#### Global Debt



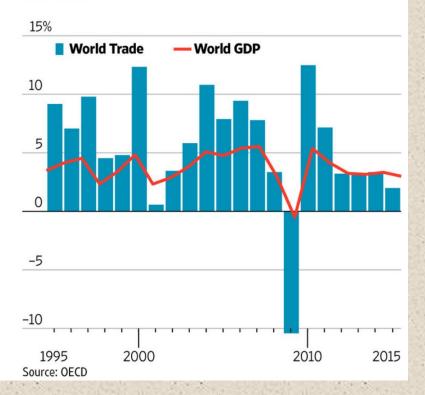




### Global Slowdown

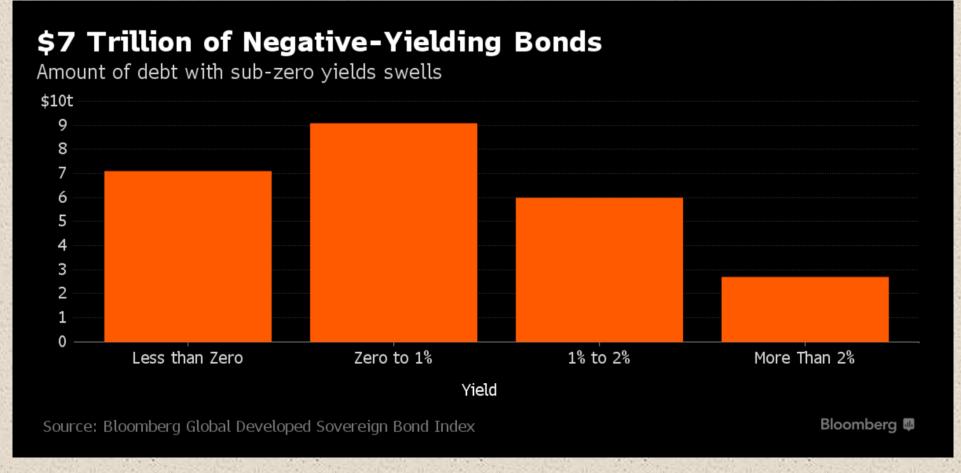
#### Less Trade, Slower Growth

Annual percentage growth in world trade and world GDP, 1995-2016



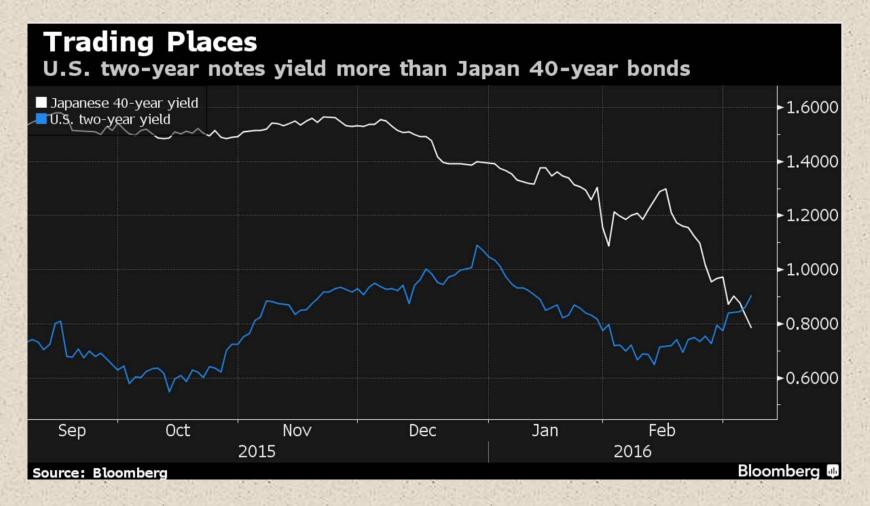


#### Negative Rates=Bad





#### Sad Times For Japan





### Why Do We Care?

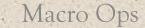
- It's important to understand that high debt loads are very dangerous now.
- Debt servicing costs can become unbearable and there is very little room to lower the cost of debt again.

#### Fix This Scale

S. 2. 3









1. 2. 2



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## Super Mario



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#### Super Mario Still Trying





### ECB Update

- Latest meeting was on March 10th
  QE expanded from 60 billion a month to 80 billion a month.
- They expanded into buying corporate debt.



### ECB Update

- ECB went more negative on deposit rate down to negative 0.4%
- Benchmark rate was lowered to 0%



### But Market Don't Give A Shit

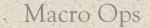




We saw it with Kuroda after Japan went NIRP and now we seeing it again with Draghi.
Further easing is no longer effective.



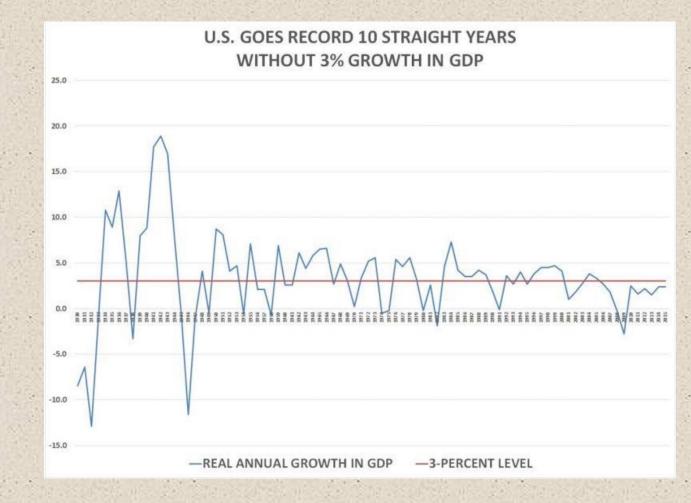
## U.S. Recession?







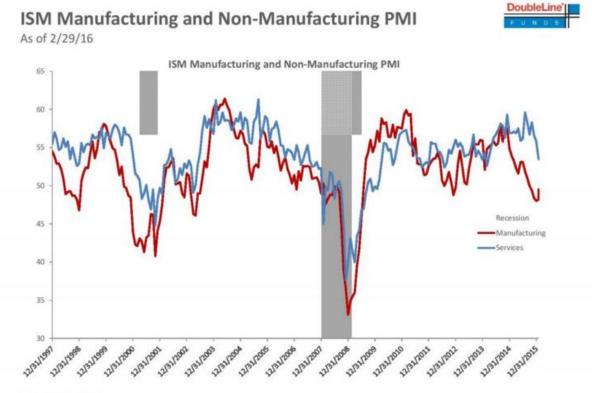
#### Growth Is Meager





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#### ISM Still Horrible



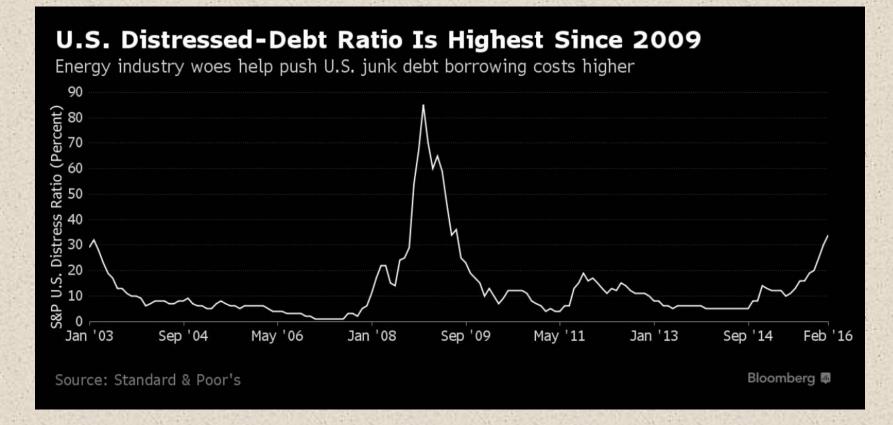
#### Source: Bloomberg, DoubleLine

ISM Manufacturing index is based on surveys of more than 300 manufacturing firms by the institute of Supply Management. ISM Non-Manufacturing is an index of more than 400 non-manufacturing firms' purchasing and supply executives within 60 sectors across the nation. Survey conducted by the institute of Supply & Management (ISM). Non-Manufacturing PMI = A composite index calculated as an indicator of the overall economic condition for the non-manufacturing sector of the U.S. economy. PMI = Purchasing Management (ISM). Non-Manufacturing the sectors directly in an index. 12

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#### Distressed Debt





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#### One Will Meet The Other



#### Source: Bloomberg

SPX = SBP 500 Index is comprised of capitalized-weighted index of 500 stocks. JOM0 = BofA/Merrill Lynch US Cash Pay High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt, currently in a coupon paying period, that is publicly issued in the US domestic market. H0A3 = BofA/ Merrill Lynch US High Yield Index tracks performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. H0A3 = BofA/ Merrill Lynch US High Yield Index tracks performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market CCC and lower. You cannot invest directly in an index.

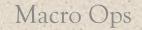
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#### Conclusion

# • Lots of downside risk with little to get excited about on the upside for equities.

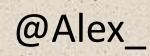




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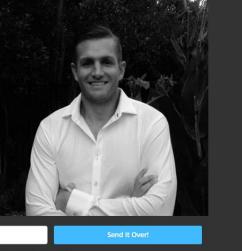
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