Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
David Gitlitz, Chief Economist
Thomas Demas, Managing Director

Investment Strategy Dashboard

Monday, April 6, 2009

Market	Strategic view	Updated
GOLD [history]	The uptrend in gold from its October 2008 bottom has been broken, as we expected it would be, on the catalyst of potential large sales from the IMF's reserves. Like other deflationary moves we have seen during the present crisis -- that is, distressed exchanges of tangible assets for money -- we expect this one will be met by accommodation by the Fed and other central banks. As long as such inflationary response functions continue to come into play, we expect that after some retrenchment gold will ultimately move to new all-time highs.	4/2/2009 [full report]
GOLD [history]	We often hear that gold, as a bet on inflation, is a "consensus trade." Yet we see no consensus that inflation is even likely, because of the widespread belief that the "transmission mechanism" of inflation can't operate in a sluggish and credit-constrained economy. This is a myth -- inflation can take hold even in a weak economy if money supply far outpaces money demand. We see that dynamic already starting to play out, and continue to believe that, after the present retrenchment, gold will ultimately move to new highs.	3/31/2009 [full report]

Continuing strategic views

Market	Strategic view	Updated
Macroeconomy		
US MACRO [history]	The Fed's enlistment in the Treasury's toxic asset relief plan compounds the sizeable inflation risks already being courted in the present regime of extreme monetary ease, making the Fed's already enormous balance sheet more difficult to shrink as the economy recovers.	3/27/2009 [full report]
EMERGING MARKETS MACRO [history]	The unfreezing of short-term dollar markets should continue to feed into a shift in the emerging markets, as a posture of all-out risk abhorrence continues to ease. To the extent the worst-case default scenario of is being taken off the table, spreads are likely to continue to move back in the direction of normal. The emerging market economies are not out of the woods yet -- governments may yet have to intervene to stave off debt problems, and at the end of the day, inflation will resurface as a growth-limiting concern.	11/4/2008 [full report]

http://www.trendmacro.com
don@trendmacro.com
dgitlitz@trendmacro.com
tdemas@trendmacro.com

Offices:
Menlo Park CA
Parsippany NJ
Charlotte NC

Phone:
650 429 2112
973 335 5079
704 552 3625

Equity markets		
US FINANCIAL STOCKS [history]	PPPIP is an upside surprise in that it follows the subsidy-driven, non-punitive and non-dilutive bank rescue template put in place under Henry Paulson. It demonstrates that Tim Geithner is, after all, an agent of policy continuity, and that the Obama administration is capable of delivering capital-friendly policy. Up almost 60% in three weeks, the "easy money" is out of financial stocks. From here we must assess the extent to which PPPIP will really benefit the banks, and see how the Obama administration handles the witch-hunt over bank compensation..	3/24/2009 [full report]
US STOCKS [history]	The "tradable rally" we expected is well underway. With stocks already in the second worst bear market since 1900, out of all proportion to conditions on the ground, there is no reason *not* to believe that the S&P 500 low at 666 will last. But while there is plenty of room for a continuing rally driven by sheer exhaustion of negative sentiment, we are concerned that the upside is ultimately limited by the sheer size and speed of the destabilizing agenda of "change" -- most of it anti-growth -- coming from the Obama administration and the Congress.	3/18/2009 [full report]
US RESOURCE STOCKS [history]	With Treasury's new initiative to inject $250 billion capital into nine banks, the message is: *no more Saturday night massacres*. More important than liquefying the banking system, this could end the vicious cycle of speculation and liquidation that was set in motion by the overhanging threat of *ad hoc* punitive nationalization of troubled but viable firms. If Treasury follows through, then Friday's lows will be a durable bottom for stocks. Beneficiaries are likely to be cyclical sectors such as energy, industrials and basic materials that have been crushed in the last several month's headlong rush for liquidity, and the sharp retrenchment of global growth expectations.	10/14/2008 [full report]
US TELECOM STOCKS [history]	With the Democratic-controlled congress on hold, our outlook for these sectors shifts to neutral.	5/10/2007 [full report]
US SMALL STOCKS [history]	If the Fed can regain its inflation-fighting footing, then we expect another leg down in the small stock premium (though not in the absolute value of small stock indices). For the moment, a vacillating Fed has given the small stock premium a new lease on life.	7/11/2006 [full report]
Fixed income markets		
US BONDS [history]	With the possibility of Fed intervention still in play, it remains too early to sell long Treasuries. But eventually the triple-threat of excessive issuance, exit by foreign buyers, and monetary inflation will trigger a savage bear market.	3/17/2009 [full report]
FED FUNDS [history]	Tomorrow afternoon's likely announcement of a 1/2% funds rate will garner much media attention as an historic low for the overnight rate target, but will have little practical meaning. The Fed is now in a quantitative easing regime -- but it is unlikely to reveal many details about its operating parameters tomorrow.	12/15/2008 [full report]
EMERGING MARKETS BONDS [history]	The unfreezing of short-term dollar markets should continue to feed into a shift in the emerging markets, as a posture of all-out risk abhorrence continues to ease. To the extent the worst-case default scenario of is being taken off the table, spreads are likely to continue to move back in the direction of normal. The emerging market economies are not out of the woods yet -- governments may yet have to intervene	11/4/2008 [full report]

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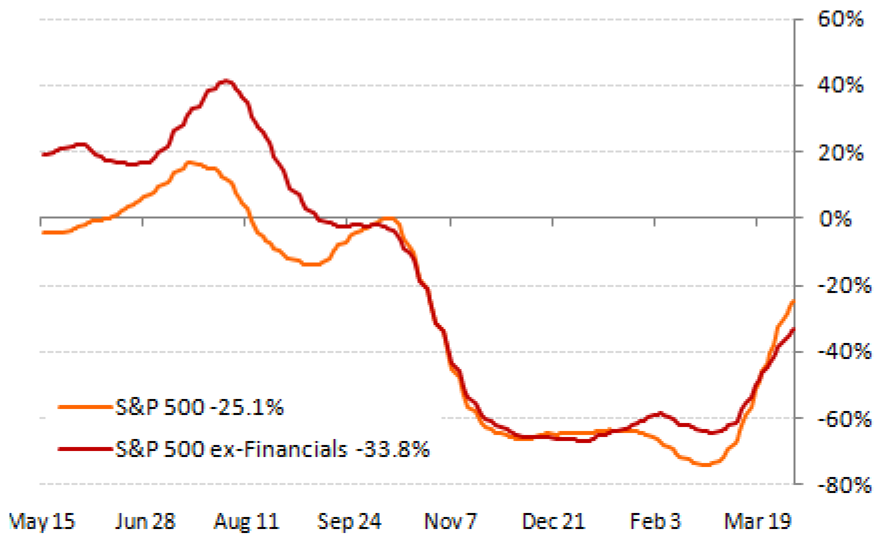
Other markets		
US DOLLAR [history]	The dollar's strength on forex markets is an illusion. Declining sharply in real terms as measured against gold, the dollar is merely less weak than most other currencies.	2/5/2009 [full report]
OIL [history] **COMMODITIES** [history]	Oil deserved to get whacked after the speculative frenzy of recent months, but it has unreasonably dragged other "inflation plays" down with it. Underlying inflation trends are worsening, not improving -- and resource stocks are now among the best bargains in the stock market.	8/13/2008 [full report]

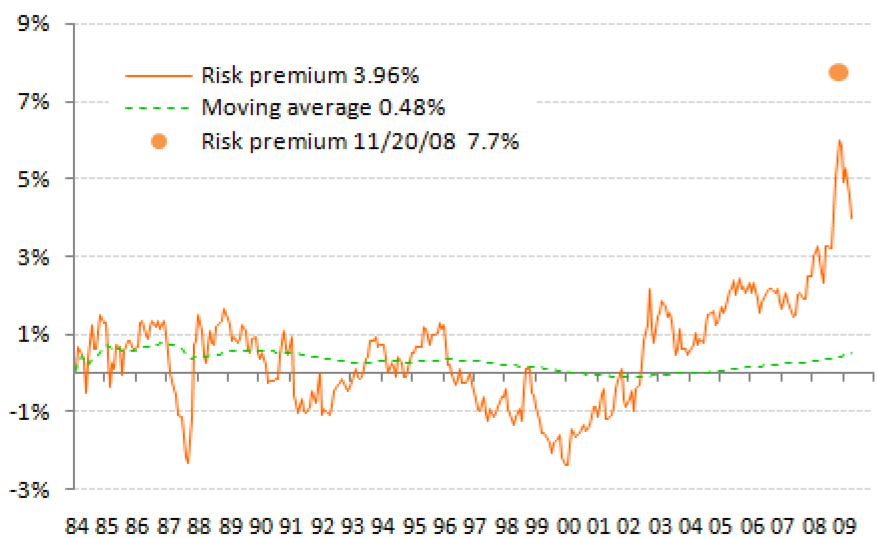
Equity risk premium update

S&P 500 forward earnings revisions, monthly annualized rate



Annualized earnings revision rate	
Consumer Discretionary	-76.3%
Consumer Staples	-9.3%
Energy	-62.8%
Financial	73.8%
Health Care	-0.1%
Industrials	-47.2%
Information Technology	-19.6%
Materials	-50.0%
Telecommunications	-23.2%
Utilities	-11.5%

S&P 500 earnings yield versus 30-year Treasury bond yield



S&P 500		
Earnings yield	7.66%	
30-year Treasury	3.70%	
Risk premium	**3.96%**	
Observations >=	*4*	*out of 300*
Sensitivities		
	Change	*S&P 500*
Market cap	83.2%	1,543
	From	*To*
Earnings growth	-2.8%	-46.9%
	Change	*To*
Treasury yield	3.48%	7.18%